

PERSPECTIVE

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President Xi Jinping’s Visit to Brunei Highlights Progress and Problems in Bilateral Relations

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EXECUTIVE SUMMARY

- Chinese President Xi Jinping’s state visit to Brunei in November 2018 was designed to highlight progress in the bilateral relationship over the past decade.
- China has participated in all of Brunei’s recent large-scale infrastructure projects, and has become its largest trade partner and foreign investor, and a major source of tourists. But Brunei’s trade deficit with China has rapidly increased.
- Brunei has linked plans to diversify its economy and reduce the country’s dependence on fossil fuels with China’s Belt and Road Initiative (BRI).
- Beijing has, however, failed to persuade the Sultanate to move forward with joint development of resources in disputed waters in the South China Sea.

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INTRODUCTION

Chinese President Xi Jinping paid a state visit to Brunei from 18 to 20 November 2018. Unusually for one of Xi's overseas forays, no major agreements were signed and the visit did not coincide with a multilateral forum meeting in Brunei, nor a significant anniversary in bilateral relations. Brunei may have presented President Xi with a convenient stopping-off destination between his attendance at the APEC Summit in Papua New Guinea and his visit to the Philippines. Be that as it may, it was President Xi's first visit to Brunei and the two sides used it to highlight progress in the development of bilateral relations over the past decade.

On the surface, Sino-Brunei ties appear to be in good shape. In a relatively short period of time, China has become Brunei's largest trade partner, foreign investor and a major source of tourists. And at a time when some Southeast Asian countries have pushed back against Xi's signature Belt and Road Initiative (BRI), Brunei remains an enthusiastic supporter. However, Brunei's trade deficit with China has ballooned, Chinese-invested infrastructure projects are opaque, and the Sultanate has resisted attempts by Beijing to persuade it to jointly develop energy resources in disputed waters in the South China Sea.

DEVELOPMENT OF SINO-BRUNEI TIES, 1984-2018

Relations between Brunei and China have developed slowly and cautiously over the past three decades. Although Beijing recognized Brunei's independence from the UK in January 1984, it was not until seven years later that the Sultanate established diplomatic ties with China. In the immediate post-independence years, Brunei had limited diplomatic staff and its priorities were to establish closer relations with the ASEAN states (Brunei became the 6th member of ASEAN in 1984), fellow Muslim countries in the Middle East, and major trade partners such as the UK, US, Japan and Australia. Moreover, Brunei still had residual security concerns over Beijing's support for regional communist parties in Southeast Asia during the Cold War, and preferred to keep China at arm's length until that conflict was over.¹ On 30 September 1991, Brunei became the last of the original six ASEAN members (and the last of the ten Southeast Asian states) to open formal diplomatic relations with China.

Since the establishment of diplomatic ties, the two countries have regularly exchanged high-level visits, though these have often coincided with ASEAN meetings or APEC summits. In 1993, Sultan Hassanal Bolkiaah became the first Bruneian head of state to travel to China and since then he has made a further ten trips to the country, including two state visits in 2013 and 2017. In 2000, President Jiang Zemin became the first Chinese head of state to visit Brunei and in 2005 his successor, Hu Jintao, paid a state visit to the Sultanate. During the Sultan's visit in April 2013, the two sides agreed to establish a Strategic Cooperative Relationship. This was upgraded to a Strategic Cooperative Partnership when President Xi visited Brunei in November 2018.² It is unclear, however, if there is a substantive difference between a cooperative relationship and a cooperative partnership.

Since 1991, trade between the two countries has fluctuated widely. In the 1990s, the value of two-way trade was only US\$20-30 million per year. In 2004, the two countries set an annual

target of US\$1 billion by 2010. This goal was almost reached in 2010, but between 2011 and 2015 the value of bilateral trade dropped from US\$789 million to US\$474 million (see Table 1). Moreover, since 2012, Brunei has consistently run a large trade deficit with China. While China’s media has repeatedly emphasized the growth in bilateral trade over the past several years, it has failed to mention that this growth has been entirely in China’s favour. Between 2015 and 2017, Brunei’s trade deficit with China increased from US\$280 million to US\$374 million. The situation worsened in 2017-18. According to the Brunei government, in September 2017 the country’s exports to China amounted to US\$32.9 million, but in September 2018 that figure had fallen to a mere US\$4.5 million, a year-on-year decrease of 86.5 per cent. Meanwhile, Brunei imported US\$60.4 million worth of goods from China in September 2017, rising to US\$178.4 million in September 2018, a year-on-year increase of 195 per cent.³

Table 1
Brunei’s Growing Trade Deficit with China (US\$ millions)

Year	Exports to China	Imports from China	Total Trade	Balance of Trade
2011	486.26	302.64	788.90	+183.62
2012	318.03	371.12	515.15	-53.09
2013	144.36	371.39	515.75	-227.03
2014	93.53	330.91	424.44	-237.38
2015	96.64	377.59	474.23	-280.95
2016	229.51	351.28	580.79	-121.77
2017	272.10	646.71	918.81	-374.61

Source: *Brunei Darussalam Key Indicators 2017* (Bandar Seri Begawan: Department of Statistics, Department of Economic Planning and Development and Prime Minister’s Office, 2018), available at http://www.depd.gov.bn/DEPD%20Documents%20Library/DOS/BDKI/BDKI_2017.pdf

The primary reason for the widening trade deficit is that while Brunei buys a lot of manufactured goods from China, China buys very little of Brunei’s principal export: crude oil and liquefied natural gas (LNG). In 2017, the oil and gas sector accounted for 58 per cent of Brunei’s Gross Domestic Product and 89.6 per cent of the value of the country’s exports.⁴ Yet from 2015 to 2017, China was not in Brunei’s top nine export destinations for its crude oil nor its top four export destinations for LNG.⁵ In 2017, Thailand was the number one buyer of Brunei’s crude oil (followed by India) while Japan bought the lion’s share of the country’s LNG (followed by South Korea). Brunei’s trade deficit with China looks set to continue for the foreseeable future.

CHINA’S ROLE IN BRUNEI’S INFRASTRUCTURE DEVELOPMENT

Brunei’s oil and gas reserves are expected to be depleted within the next 20 to 30 years. To address this looming crisis, in 2007 the government introduced Brunei Vision 2035, a long-term strategic plan aimed at diversifying the economy and reducing the country’s dependence on fossil fuels. The dramatic plunge in oil prices in 2014 (which recovered slightly in 2017-18), and a simultaneous sharp decline in foreign direct investment from traditional sources such as the European Union, the United States and Japan, hit the Brunei economy hard and gave new impetus to Brunei Vision 2035. In particular, Brunei sought to improve the country’s transport and industrial infrastructure and elicit investment from non-traditional sources. China has played a critical role in both spheres

Since 2010, Chinese companies, both state owned and private, have participated in all Brunei's large-scale infrastructure projects. In 2010, the China Construction Company won a US\$123 million tender to construct the Telisai-Lumut Highway, and in the same year state-owned Sinohydro was awarded a US\$85 million contract to build the Ulu Tutong Dam, the country's largest water project. The highway opened in 2016 and the dam began operations in 2017. In 2014, a consortium of South Korean and Chinese companies began work on the US\$1.2 billion Temburong Bridge, a 30km viaduct linking mainland Brunei with the Temburong exclave which is separated by the Malaysian territory of Limbang and the Brunei Bay in the South China Sea. The bridge is expected to open in 2019.

China is the lead investor in Brunei's two largest infrastructure projects, the country's port and petrochemical refinery. In 2014, Brunei signed an agreement with the Guangxi Zhuang Autonomous Region in south-central China to establish the Brunei-Guangxi Economic Corridor. The initiative includes a joint venture between the Brunei government and the Guangxi Beibu Gulf Group to take over management of the Muara Container Terminal and increase the port's handling capacity from 220,000 to 1 million containers by 2021 and build an adjacent industrial park. Other projects in the Brunei-Guangxi Economic Corridor include the Nanning-Brunei agricultural park and the Yulin-Brunei medicine park.

In 2017, the Chinese private company Zhejiang Hengyi Group agreed to invest US\$4 billion in Phase 1 of the Pulau Muara Besar (PMB) petrochemical complex.⁶ The project was due to begin operations in November 2018 but this has been delayed until the first quarter of 2019. The Hengyi Group has pledged to invest a further US\$12 billion in Phase 2 of PMB which is scheduled for completion in 2022. The refinery is linked to mainland Brunei by a bridge which opened in May 2018 and was constructed by a Chinese company.

As a result of these projects, China has become Brunei's largest source of foreign investment. Chinese-invested projects have become subsumed into China's BRI which President Xi unveiled in 2013 and for which the Sultanate has since become an enthusiastic supporter. During the Sultan's state visit to China in September 2017, and Xi's visit to Brunei in November 2018, the two countries signed memorandums of understanding (MOUs) on promoting cooperation on BRI. President Xi noted Brunei's strong support for BRI in a newspaper opinion piece published before he visited the country, and how the synergies between BRI and Brunei Vision 2035 would give "fresh impetus" to the bilateral relationship.⁷ Shortly after Xi's visit, a Brunei-China One Belt One Road Association was established to facilitate business ties between the two countries.⁸ Unlike in other Southeast Asian countries such as Thailand, Myanmar and Malaysia, where BRI projects have been criticized, renegotiated or even cancelled due to concerns over excessive costs and debt liability, BRI-linked projects in Brunei have not aroused similar controversy, at least so far. However, the financing details of some of the projects are opaque and there are few opportunities for Bruneians to openly express their opinions on China's growing role in the country's economy.

To facilitate business and tourism between the two countries, air links between Brunei and China have greatly expanded over the past few years. Royal Brunei Airlines used to have links only to Shanghai and Hong Kong, but now flies to Haikou, Changsha, Hangzhou and Nanning as well, and is planning to resume flights to Beijing. The Chinese budget carrier Lucky Air operates flights from Kunming and Nanning to Brunei. Expanded air links have

led to a massive growth in tourism from China. In 2016 and 2017, China was the second largest source of visitors to Brunei after Malaysia, and the largest source of holidaymakers.⁹

BRUNEI, CHINA AND THE SOUTH CHINA SEA DISPUTE

Brunei and China are rival claimants in the South China Sea. However, among all the claimant countries, Brunei has always been the least vocal—verging on silent—and the territorial and maritime boundary dispute has barely been an issue in Sino-Brunei relations. China has gently pushed for a joint development agreement with Brunei, but so far the Sultanate has resisted.

There are two aspects of the China-Brunei dispute in the South China Sea. The first concerns disputed maritime boundaries. China's expansive nine-dash line cuts into a huge swathe of Brunei's rectangular 200 nautical mile (nm) exclusive economic zone (EEZ): if the fifth and sixth dashes are joined together, the line comes within approximately 35 nm of Brunei's coast where most of the country's vital offshore energy industry is located. Unlike the other Southeast Asian claimants—the Philippines, Vietnam, Malaysia and Indonesia—Brunei has not publicly repudiated the nine-dash line as incompatible with the 1982 United Nations Convention on the Law of the Sea (UNCLOS). However, given that Brunei has always scrupulously adhered to UNCLOS, it is highly doubtful government legal experts accept the basis of China's maritime jurisdictional claims and which a UN-backed arbitral tribunal rejected in July 2016.

The second aspect of the dispute concerns maritime features. Within Brunei's EEZ lie two geographical features: Louisa Reef (a low-tide elevation) and Riflemen Bank (a submerged feature). Under international law, neither is open to a sovereignty claim nor entitled to a maritime zone (such as a 12 nm territorial sea or 200 nm EEZ). Brunei has never formally claimed ownership of either Louisa Reef or Rifleman Bank though it appears to claim the latter as part of its extended continental shelf.¹⁰ The two features are considered part of the Spratly Islands over which China (and Taiwan) and Vietnam claim sovereignty. Malaysia used to claim ownership of Louisa Reef but abandoned its claim in 2009 through an Exchange of Letters (EoL) with Brunei. Although the EoL is not in the public domain, various press releases and government statements suggest that in return for Brunei dropping its territorial claim to Limbang in Sarawak, Malaysia recognized Brunei's EEZ. In addition, both countries agreed to jointly develop maritime resources in certain areas of Brunei's EEZ which had formally been claimed by Malaysia.¹¹

China's preferred method of resolving the South China Sea dispute is bilateral negotiations leading to the joint development of maritime resources. For more than a decade, Beijing has tried to persuade Brunei of the merits of this approach, seemingly with little success. During his visit to the Sultanate in 2005, President Hu suggested the joint development model as a way of resolving their dispute, as did Premier Wen Jiabao in 2006.¹² There appeared to be some progress in November 2011 when China and Brunei signed two MOUs: one on energy cooperation, and one on commercial cooperation between their state-owned energy companies, the China National Offshore Oil Corporation (CNOOC) and Brunei National Petroleum (PetroleumBRUNEI).¹³ When the Sultan visited China in April 2013, the two sides issued a joint statement which reiterated their support for "relevant enterprises of the

two countries to carry out joint exploration and exploitation of maritime oil and gas resources following the principle of mutual respect, equality and mutual benefit”.¹⁴ In the joint statement issued following President Xi’s visit to Brunei in November 2018, this commitment was repeated almost word for word: China and Brunei “agreed to continue to support relevant enterprises of the two countries to cooperate in the areas of maritime oil and gas resources, in accordance with the principles of international law and following the principle of mutual respect, equality and mutual benefit”.¹⁵ Accordingly, it can be concluded that China and Brunei made no progress over the issue of joint development between 2011 and 2018. In contrast, the Philippines and China have been discussing joint development for nearly two years. Following his visit to Brunei, President Xi travelled to Manila where the two sides signed an MOU to establish an inter-governmental steering committee and joint working groups to draw up a joint exploration agreement for disputed waters in the South China Sea within 12 months.¹⁶ China hopes that the agreement with the Philippines will serve as a template for the other Southeast Asian claimants to follow, including Brunei, and especially Vietnam. However, despite paying lip-service to the idea of joint development, Brunei has remained resistant, presumably because it rejects the idea that China’s nine-dash line entitles it to sovereign rights in the country’s EEZ.

In the absence of any progress on joint development, during President Xi’s November visit to Brunei, the two countries pledged to maintain peace and stability in the South China Sea, resolve disputes peacefully and in accordance with international law, and work towards the full implementation of the 2002 ASEAN-China Declaration on the Conduct of Parties in the South China Sea and the early conclusion of a Code of Conduct.¹⁷

CONCLUSION

President Xi Jinping’s visit to Brunei lacked substance but was primarily designed to accentuate the positives in bilateral relations. China has been particularly appreciative of Brunei’s support for BRI which came under increasing criticism around the world in 2018. Over the past decade, China has become a significant player in Brunei’s economy, producing mixed results for the Sultanate: Brunei welcomes Chinese investment but the country’s growing trade deficit with China is a source of concern. On the South China Sea, Brunei has resisted China’s attempts to persuade it that joint development of resources is the solution to their dispute.

¹ See “Brunei and China: distant relations” in Ian Storey, *Southeast Asia and the Rise of China: The Search for Security* (Abingdon, UK: Routledge, 2011), pp. 268-273.

² “Full Text of China-Brunei joint statement”, Xinhua, 19 November 2018.

³ *Brunei Darussalam International Merchandise Trade Statistics September 2018* (Bandar Seri Begawan: Department of Economic Planning and Development and Ministry of Finance and Economy, 2018), http://www.depd.gov.bn/DEPD%20Documents%20Library/DOS/IMTS/2018/IMTS_Sep2018.pdf

⁴ *Brunei Darussalam Key Indicators 2017* (Bandar Seri Begawan: Department of Statistics, Department of Economic Planning and Development and Prime Minister's Office, 2018), http://www.depd.gov.bn/DEPD%20Documents%20Library/DOS/BDKI/BDKI_2017.pdf

⁵ *Ibid.*, p. 28.

⁶ “A look at Hengyi's Pulau Muara Besar project”, *Borneo Bulletin*, 3 April 2017, <https://borneobulletin.com.bn/look-hengyi-pulau-muara-besar-project/>

⁷ Xi Jinping, “Jointly write a new chapter of China-Brunei relations”, *Borneo Bulletin*, 17 November 2018, <https://borneobulletin.com.bn/jointly-write-a-new-chapter-of-china-brunei-relations/>

⁸ “Opportunity to further Brunei-China economic cooperation”, *Borneo Bulletin*, 19 December 2018, <https://borneobulletin.com.bn/opportunity-to-further-brunei-china-economic-cooperation/>

⁹ “MPRT's tourism statistics for 2017”, *The Bruneian*, 7 April 2017, <https://www.thebruneian.news/mprts-tourism-statistics-for-2017/>

¹⁰ In 2009 Brunei made a preliminary submission to the United Nations Commission on the Limits of the Continental Shelf (CLCS). However, it has yet to make a full submission to the CLCS to clarify its position regarding Rifleman Bank.

¹¹ For a full account of the 2009 Exchange of Letters see Ian Storey, “Brunei's Contested Sea Border with China” in Bruce Elleman, Stephen Kotkin and Clive Schofield (eds.), *China and its Borders: Twenty Neighbors in Asia* (New York: M.E. Sharpe, 2012), pp. 39-41.

¹² “President's first leg of trip fruitful”, *China Daily*, 20 April 2005; “Brunei, China eye trade boost”, *Borneo Bulletin*, 1 November 2006.

¹³ Neither of these MOUs are in the public domain, but both are referred to in the April 2013 joint statement. See Joint Statement Between the People's Republic of China and Brunei Darussalam, 5 April 2013, <http://www.china-embassy.org/eng/zgyw/t1029400.htm>

¹⁴ *Ibid.*

¹⁵ “Full Text of China-Brunei joint statement”, Xinhua, 19 November 2018.

¹⁶ Jake Maxwell Watts, “Philippines-China Energy Deal Short on Fuel From Summit”, *Wall Street Journal*, 22 November 2018.

¹⁷ “Full Text of China-Brunei joint statement”, Xinhua, 19 November 2018.

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