

Brunei Darussalam: Asia's next leading location for Regional Treasury Centres?

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Brunei Darussalam

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Abstract: The paper investigates the location criteria (LC) considered when establishing regional treasury centres (RTCs) across three countries Brunei, Singapore and Hong Kong. LC are the important factors that is compulsory for MNCs to examine before setting up RTCs in another region other than where their headquarters are. Comparing Brunei to Asia's leading international financial centre and location for RTCs i.e. Singapore and Hong Kong would assist in identifying whether Brunei can host RTCs. The study contributes to the understanding of LC assessment before establishing a RTC in any location. A similar investigation method were conducted previously applied to European countries is duplicated and applied to the three Asian countries. The results found that compared to Singapore and Hong Kong, Brunei is lacking in terms of the examined LC. Brunei needs to improve these LC to catch up to the same level as Singapore and Hong Kong.

Key words: Brunei, Hong Kong, Singapore, South-East Asia, cash management, regional treasury centre, financial centre.

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1. Introduction

Giegerich et al. (2002) and Treasury Today: European Cash Management – a practical guide (2007) defines TC as a “centralized treasury management function which is legally structured as a separated group or as a branch and is normally located in a tax efficient environment”. “Tax efficient” basically means a location that offers beneficial tax regimes (e.g. low percentage tax incurred to MNCs) compared to another location. Blair (1999) reaffirms the importance of tax system; when Nokia faced the apparent need to be close to its international operation in Singapore, it considered setting up a RTC in Singapore, Hong Kong, Malaysia and Australia (Giumarra 2001). Due to unattractive tax systems offered by Hong Kong, Malaysia and Australia, Singapore was chosen. Furthermore, Murphy (2000a) points out that RTCs or International TCs are primarily tax driven where tax on profits generated is at a favourable rate. The world's largest package and document delivery company UPS considered Singapore and The Philippines to locate their RTC as these two countries offered some of the lowest tax rates in Asia. UPS decided on Singapore (Chang). Zink et al. (1995) states that

TCs are primarily driven by tax savings and also other factors such as reduced interest expense, elimination of idle cash and lower bank and foreign exchange transaction costs.

1.1. Functions of Treasury Centres

The functions of TC, as defined by Potty et al. (2004) are three fold asset and liability management, sales and trading of currency, credit and derivatives products in capital markets, and financial risk management. Fundamentally, TCs provide financial management and transaction services for the other group entities (Geigerich, 2002), that is the group of subsidiaries located at a different region to the headquarters. Mulligan (2001) explains four elements of treasury management which comprise the main categories of the functions of TCs: currency risk management (market and credit risk management), funds management, cash management and banking relationships. These are a few of the main functions of treasury centres.

1.2. Treasury Centre Organisation: Structures and Models

The organization of TCs depends on the extent of treasury functions and management the treasurer may choose. The Treasurer may choose to manage practical treasury functions such as liquidity support only or simply direct the full range of functions to make treasury as the main body of organizational process hence take on the full range of treasury services discussed Potty et al. (2004). Geigerich (2002) developed two base models to describe treasury management organisation. The first model, TC represents and operates all transactions for the group companies and in the other model it acts as the group's central in-house clearing bank. Mulligan (2001) describes treasury management organisation as two extremes; centralised and

decentralised. The performance of centralised and decentralised treasury managements has a statistically significant difference raising the efficiency of regional treasury centres (RTCs) (Mulligan, 2001).

Murphy (2000a) simplifies TC organization structure as one US headquarters with one or more RTCs under its control. RTCs provide services under the group policy to the group entities located in their region (Murphy, 2000a). TC organisation is structured according to the requirements of underlying business operations. Basically, the extent of functions and services of TC depends on the business operations.

As more and more companies expand operations across international borders, international financial market erratic behaviour entails standardization of international payments to simplify fund movements becomes extended challenges for corporate treasury (Giegerich, 2002). Corporate treasury is required to be more aware of the volatility of the international financial market and conversant with current payment standards practised by other corporate treasuries in order to keep up with international trends. These challenges are key influencers of corporate treasury to the extent of provision of functions and practicality of management organization.

Corporate treasuries face problems with treasury functions to undertake and degree of management to organise i.e. degree of centralisation and decentralisation, and decision making here is greatly influenced by these associated challenges. The complexities of TC organisations are of crucial importance for understanding different structures and models developed by other studies based on common practice by MNCs. Potty et al. (2004) suggested four models relating to the range of functions and degree of centralisation and decentralisation of management.

1.3. Criteria influencing location of RTCs: Location Criteria (LC)

As mentioned previously, perhaps the most important factor or criterion when considering the location of RTCs is the tax system or regime of the location being considered. Ross (1990) cited in Mulligan (2001) describes that from a multinational corporation perspective, tax considerations and treasury issues are closely related. Simkova (2005, cited in Polak et al. 2007) establishes the criteria i.e. the requirements/conditions mentioned previously that need to be considered in setting up an international treasury center (ITC) for a holding company in Czech Republic. The criteria are bank transaction fees (minimum), prices for foreign incoming and outgoing payments (minimum), withholding and corporate tax (minimum), withholding tax for intra-group yield (minimum), reporting requirements (minimum), rating (as good as possible), currency environment and existence of other TCs in the region. Simkova (2005, cited in Polak et al. 2007) found that Switzerland met the mentioned criteria as number one when tested with other, mostly European Union countries, such as e.g. Germany, Ireland, Italy, Slovakia and United Kingdom.

Levieux (2007) compared Singapore and Hong Kong in the attempt to determine which country would provide better financial facilities for MNCs looking to set up RTCs in Asia. The outcome was in favour for both countries because when two different structured TC organizations were presented, one would operate better in Hong Kong, the other more efficiently in Singapore (Levieux, 2007). The counterparty model TC presented in Levieux (2007) operates better for MNCs in Singapore than in Hong Kong because of Hong Kong's restriction on deductibility of interest expense. The interest payable to an entity that is not subject to Hong Kong's income tax is not deductible for tax purposes;

hence it is impractical to consider a Hong Kong incorporated vehicle. Although, Levieux (2007) argues that if a TC operates mainly as an agent for the underlying operating entities, Singapore's advantage over Hong Kong would reduce significantly. Different financial regulations provided by different locations will suit different structured TCs.

MNCs embarking on setting up RTCs in Asia tend to have Singapore and Hong Kong on the top of their lists of locations (Levieux, 2007). Levieux (2007) reasons that the popularity of these two countries, is due to "their roles as International financial centre, solid telecommunications and transport infrastructures, easy availability of qualified staff, loose foreign exchange controls and their benign tax environments". The debate to locate regional headquarters (RHQs) in Asia is frequently between Singapore and Hong Kong (Business Asia, 1999). A survey conducted on choice of location for RHQs by MNCs shows 35 percent of respondents choosing Hong Kong followed by 30 percent to Singapore then Tokyo nine percent, and Sydney five percent (Business Asia, 2000)

Murphy (2000b) examined the non-tax criteria involved when making decisions to locate RTCs. The non-tax criteria are cost (people, premises, IT and telecoms); outsourced option availability; location of other operations; centres of expertise (high quality treasury expertise); control (whether Directors, CEOs and CFOs are taking direct interest in control of treasury activities); currency control of the Euro; Banking system and regulation (availability of modern banking and strong regulation); language (English – prominent financial language) and name recognition (region well known for setting up TCs). Mulligan (2001) suggested very similar criteria in locating a centralised treasury department especially the tax related criteria mentioned in Simkova (2005) as well as non-tax related criteria examined by Murphy (2000b).

Criteria described by Simkova (2005, cited in Polak et al. 2007) will provide the primary list of criteria investigated in this study. Do these criteria exist or do they need to be improved competitively compared to other locations in the effort to encourage MNCs to set up RTCs or ITCs in Brunei? Simkova (2005, cited in Polak et al. 2007) provided specific list of criteria commonly assessed when considering certain locations for the set up of RTC. These criteria will be referred to from now on as Location Criteria (LC).

Casalino (2001) mentions other LC such as restrictions for finance companies, licence involved in setting up companies in foreign land, concentration of cash, notional pooling and fees and restrictions for resident/non-resident MNCs. Good access to regional and international affiliates and appropriate time zone relative to the region of RTCs are also LC to consider suggests Anwar (1999). Giegerich (2002) points out that level of access to major stock exchange, a liberalized capital market, political stability, thin capitalisation rules and double tax treaty networks are also LC to be examined when considering to locate RTC.

Mr. Lee Chuan Teck the Executive Director, Financial Markets Strategy of Monetary Authority of Singapore said that “we monitor these trends (MNCs setting up operations in Singapore) closely; constantly reviewing our policies and refining our tax regime, to maintain our status as the location of choice for regional corporate treasuries” (Monetary Authority of Singapore, 2007). Yuthamanop (2004) supports the changes needed when new rules were introduced in Thailand so that MNCs could set up RTCs there as requested by many MNCs. Necessary changes to financial and banking regulation is vital to first draw corporate RTCs into the country, regular monitoring for updates by the right authorities to maintain beneficial operation of these RTCs is also compulsory for the long term compared to other locations.

2. Formulation of Problem

Leow (2005) argued that small changes rather than big changes to have a monumental effect on multinationals in Singapore. The tax concession under the Global Trade Programme mentioned previously was widened in 2006 to include trades dominated in Singapore dollar transactions, the requirement for a transferee company to be a Singapore tax resident in order to obtain stamp duty relief on the transfer of assets between associated companies had been removed as of February 2005 and lifting 80 percent export percentage requirement for the Bonded Warehouse Scheme to facilitate greater flexibility in storing and moving goods between pre-approved warehouses. These are the changes Singapore has made to induce growth of multinationals in the country. Brunei has potential to do the same. Some of the change already made is establishing Brunei International Financial Centre (BIFC) to stimulate growth of making Brunei an off-shore financial centre (Oxford Business Group 2007).

2.1. Leading International Financial Centres and Hosts for RTCs

Examining other countries especially the leading international financial centre and hosts of RTCs and how they have been developing their financial and banking sector will assist in solving this issue. Through comparative analysis, the study will identify differences and similarities (if available) in the current situation affecting multinationals, especially RTCs and treasury activities, in the three countries involved in study. Thus the differences will form recommendations for Brunei to consider improving upon in achieving desirable treasury performances. This is the objective of the present study.

Blair (1999), MAS (2005) and Leveux (2007) have made it clear that Singapore is Asia’s

International Financial centre. Next to Singapore is Hong Kong, being Singapore's main rival, as these two countries are MNC's preferred countries to base their Asian operations (Blair 1999, Business Asia 1999, MAS 2005 and Leveux 2007). The success of Singapore's financial and banking sector attracting 3600 companies to set up their operations there is phenomenal (Monetary Authority of Singapore 2007) after the small changes suggested in Leow (2005). Not only are MNCs basing their Asian operations in Singapore, RTCs are establishing themselves there privately if not on behalf of these MNCs. This brought in treasury activities worth US\$204 billion into Singapore's treasury market in 2004 (Monetary Authority of Singapore 2007). Singapore and Hong Kong therefore would be suitable for the comparative analysis.

2.2. Treasury Performance and Similar Comparative Studies

Brunei's strategic location is excellent to host RTCs. Having a currency exchange on par with Singapore, and having a fairly high standard of living, the Brunei dollar is quite strong. Monetary policy has been determined by linking the Brunei Darussalam's dollar to the Singapore Dollar and there is parity between the two. The Singapore link is seen as a stabilizing influence. TCs deal a lot with transferring of funds (Potty et al. 2004) and the lack of foreign currency control in Brunei makes it a good location for RTCs in the sense that an important LCn (Location Criterion) that Brunei already possesses. However Brunei is not attracting RTCs, therefore it must be lacking certain other important LC which is necessary for RTCs to operate better than in other location. Watanabe (1998) has similar comparative study (to two successful rivals) to this present study but instead of focusing on tax, this study focuses on treasury related factors which is inclusive of tax related issues. Comparing Taiwan with Singapore and Hong

Kong, Taiwan's Tax system was outdated and inadequate (Watanabe 1998).

This present study has a main core objective of comparatively analysing Brunei Darussalam's LC and treasury performance, to that of Singapore and Hong Kong. Much of the work done on locating RTCs in Asia and Pacific has always pointed to Singapore and Hong Kong, followed by Malaysia and Australia (Blair 1999). Brunei Darussalam already has the important tax LCn at hand of hosting RTCs, but this potential has still been ignored.

Zilva (2004) studied Australia's regional operating headquarter taxation incentives by comparing them to Singapore, Malaysia and Thailand. Zilva (2004) and Watanabe (1998) have similar study methods i.e. tax related comparative study. Zilva found that Australia's tax rates offers the highest among the four countries investigated, "The Australian tax laws made Australia comparatively unattractive country to hold foreign investment" Zilva (2004, p. 56). Zilva's focus was on the comparative study of regional operating headquarters and its tax concessions offered by the four countries; Australia, Singapore, Thailand and Malaysia, the present study will focus on a comparative study of RTCs and the LC offered by Brunei, Singapore and Hong Kong.

2.3. Paper Aim

Recommendations regarding changes that need to be implemented in Brunei following the success of other countries (Singapore and Hong Kong) in attracting MNCs to set up RTCs in their region will be made. These changes will be in the form of financial and banking (prices for banking services) reforms as set up by Simkova (2005, cited in Polak et al. 2007) and possibly others. Already having the strategic location, political and economic stability, comprehensive and up-to-date legislation, strong regulatory and supervisory frameworks, low costs for

business operation, presence of liquidity, time zone convergence, advanced physical infrastructures, diverse domestic support service, excellent international education and health facilities, and well-educated labour force (Oxford Business Group 2007), further refining the financial and banking regulations competitively to international financial centres such as Singapore and Hong Kong could make Brunei the next leading location for Regional Treasury Centres.

3. Location Criteria

The criteria Simkova (2005 cited in Polak et al. 2007) assessed for a holding company (CGS) in Czech Republic is based on cash pooling on a national basis in three currencies, three banks and three structures (Polak et al. 2007). Lenka Simkova, in collaboration with Treasurer of the company Mr. Vit Sigmund and her supervisor Dr. Polak, set a target of locating the ITC for CGS in a country that enables the best conditions for cash flow controlling and administration, and also tax advantageous. The criteria mentioned in 1.3 (first paragraph) i.e. the LC, will serve as a set of framework for data collection for the three countries; Brunei Darussalam, Singapore and Hong Kong in this present study and will be compared to identify differences and similarities (if available).

A description of criteria is available in Polak et al. 2007, and an academic audience was informed about the location criteria, weighting of criteria, matrix of weighted utility, etc. at a lecture of Dr. Petr Polak at the University of Groningen, The Netherlands, in October 2008.

The research methodology is based on a comparison of 11 location criteria (LC) across three countries: Brunei, Hong Kong, and Singapore. The 11 criteria are as follows: (LCn 1) Monthly banking fees, (LCn 2) Bank transaction

fees, (LCn 3) Price of incoming foreign payment, (LCn 4) Price of outgoing foreign payment, (LCn 5) Price of foreign urgent payments, (LCn 6) Withholding tax, (LCn 7) Corporate tax, (LCn 8) Important treasury centres, (LCn 9) reporting requirements, (LCn 10) Currency environment, and (LCn 11) Ratings. A summary description of each location criterion (LCn) is provided in Table 1.

The data collection process involved gathering information on each of the 11 criteria from secondary data sources, with data collection and analysis methods varying, depending on the criterion (see below) but conducted simultaneously. Much of the data; mostly pricing for services provided by banks for Business/Corporations/Enterprises and etc was sourced from the top three leading banks in each country which were measured by asset size: Hong Kong (HSBC, Bank of China and Hang Seng Bank), Singapore (DBS Bank, United Overseas Bank and OCBC Bank) except for Brunei as the data from this country is not as readily available. The three banks utilized from Brunei for this study is according to the latest ranking of the Asian banks (Asian Bank Rankings 2004) from FinanceAsia magazine referred at asianbanks.net. According to this ranking, out of the eight banks in Brunei, HSBC has the largest asset size followed by United Overseas Bank and then Malayan Bank (Maybank). Other sources of data include academic database and treasury websites for recent articles, central bank websites and Asia's Treasurer Handbook 2008 for tax related criterion.

Data for seven of the LC (LC 1, 2, 3, 4, 5, 6, and 7) is quantitative as these criteria are based on tax percentages, minimum average of fees and prices for bank services. Data for the remaining four LC (criterion 8, 9, 10 and 11) is qualitative (non-numerical), namely textual information gathered predominantly from online resources.

Table 1. Description of the 11 Location Criteria

Location Criterion (LCn)	Description
1. Monthly banking fees	Business account minimum monthly maintenance fees charged by banks.
2. Bank transaction fees	Minimum fee per transaction charged by banks for business accounts.
3. Price of incoming foreign payment	Inward remittance fees – minimum charge for fund transferred (buying foreign currency) by foreigners to their country of residence.
4. Price of outgoing foreign payment	Outward remittance fees – minimum charge for fund transferred (selling foreign currency) by foreigners to their country of residence.
5. Price of outgoing urgent payment	This service fee is similar for making outgoing payments but more expensive (minimum charge).
6. Withholding tax	Percentage of payment payers made to resident or non-residents that are withheld for the local tax authority.
7. Corporate tax	Tax imposed on profits made by companies by local authority.
8. Important treasury centres	The existence of RTCs in Brunei, Singapore or Hong Kong.
9. Reporting requirements	Amount of transactions that require to be reported to the central bank or monetary authority.
10. Currency environment	Possibility of financial transactions in other currency especially Euros, US dollars, and Pounds; convertibility of a domestic currency. Foreign currency accounts and services.
11. Ratings	Credit ratings by rating company Coface given to Brunei, Singapore and Hong Kong. Rating A1 (“best”) to rating D (“worst”) (Coface launches a new “business climate” rating)

The data collection procedure for each criterion in each country is described in more detail below. A comparative analysis of the 11 LC across the three countries, identifying similarities and differences, is presented in the Results section.

The study employed a deductive approach moving from theory to data collection, as suggested by Saunders (2007). According to the Simkova (2005, cited in Polak et al. 2007), there are 11 criteria that needs to be examined (the 11 LC) to assess the condition

of a location to determine its suitability to host RTCs. Therefore, the objective of the current study was to compare these 11 LC across three countries: Brunei, there are zero RTC versus Hong Kong and Singapore, are the two well known locations for establishing RTCs in Asia.

4. Data Collection Procedure

A summary of the data sources used for each criterion across the three countries is provided in Table 2.

Table 2. Summary of Data Source

Criterion	Data source (Brunei)	Data source (Hong Kong)	Data source (Singapore)
Bank transaction fees	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)
Corporate tax	Brunei Economic Development Board	Asia Treasurer's Handbook 2008	Asia Treasurer's Handbook 2008
Currency environment	Banks (HSBC, UOB & Maybank)	Banks (HSBC, Bank of China & Hang Seng Bank)	Banks (DBS, United Overseas & OCBC)
Important treasury centres	Search of recent articles from academic databases and world wide web	Search of recent articles from academic databases and world wide web	Search of recent articles from academic databases and world wide web
Monthly bank fees	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)
Price for foreign incoming payments	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)
Price for foreign outgoing payments	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)
Price for urgent outgoing foreign payments	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)	Calculating the average minimum charge of top 3 banks (by asset size)
Ratings	Ratings website – trading-safely.com	Ratings website – trading-safely.com	Ratings website – trading-safely.com
Reporting requirements	From Monetary Authority/ Central bank website – Ministry of Finance	From Monetary Authority/ Central bank website – Monetary Authority of Singapore	From Monetary Authority/ Central bank website – Hong Kong Monetary Authority
Withholding tax	Brunei Economic Development Board	Asia Treasurer's Handbook 2008	Online source – lowtax.net

Summary of the data sources used for each criterion in Brunei Darussalam, Hong Kong, and Singapore

5. Comparative Analysis

Data collected were simplified into appropriate tables for clear comparisons for the three different countries nominated in the study Brunei, Hong Kong and Singapore. Each LCn was analysed separately as its own section to clearly spot differences or similarities across the three countries. LC with quantitative data (LCn 1 to

LCn 7) relating to prices and tax percentages will be group together and measured in terms of which has the highest and lowest figure. The target is to recognize which of the three countries has the lowest figures as this indicates that that country has the most favourable LC compared to each other. The country with higher figures for each LCn will offer more expensive condition for RTC to operate in. LCn 8 to LCn 11

i.e. LC with qualitative data will be compared across the three countries as well.

5.1. Converting to the Australian dollars

All averaged minimum prices for services provided by banks from each country were converted to Australian Dollars (AUD) according to Westpac 2nd October 2008 monthly average exchange rates (Westpac Monthly average exchange rates 2008) to simplify the procedure of comparing the costs of services the banks provide, originally in different currencies i.e. Brunei Dollars (BND), Singapore Dollars (SGD) and Hong Kong Dollars (HKD) from each different country provided.

The results are found from collection of available datum for every LCn from each country following data collection procedure mentioned in Chapter 4 and comparative analysis of the found data. The results for establishing whether Brunei has the facilities to accommodate RTCs as Singapore and Hong Kong are comes from comparing Singapore's and Hong Kong's current state of condition (LC) to Brunei's. Through this method, finding out if Brunei can compete with the Asia's leading international financial centre and location for RTCs in Asia in terms of hosting RTCs and its functions.

6. Comparative Analysis and Results

Location Criterion 1

Table 3. Monthly bank fees.

Location Criterion (1)	Brunei	Singapore	Hong Kong
Monthly bank fees	BND20.67	SGD15	HKD36.67
Exchange rate (AUD1)	1.1697	1.1697	6.3725
Monthly bank fees (AUD)	17.67	12.82	5.75

Table 3 shows LCn 1 i.e. Monthly banking fees compared across the three countries Brunei, Singapore and Hong Kong. After converting the three different currencies to AUD according to the currency exchange rate by the Westpac Bank, Hong Kong offers the lowest average fees for maintaining a business account which is AUD5.75. And Brunei offers the highest average monthly fees.

Location Criterion 2

Table 4. Bank transaction fees.

Location Criterion (2)	Brunei	Singapore	Hong Kong
Bank transaction fees	BND8.33	SGD0.33	HKD56.67
Exchange rate (AUD1)	1.1697	1.1697	6.3725
Bank transaction fees (AUD)	7.12	0.28	8.90

Table 4 presents the average banking transaction fees (cost per transaction) compared across the three countries. Singapore offers the lowest average banking transaction fee of AUD0.28 compared to Brunei of AUD7.12 and Hong Kong AUD8.90.

Location Criterion 3

Table 5. Price of foreign incoming payment.

Location Criterion (3)	Brunei	Singapore	Hong Kong
Price for foreign incoming payment	BND15.03	SGD10	HKD41.67
Exchange rate (AUD1)	1.1697	1.1697	6.3725
Price for foreign incoming payment (AUD)	12.85	8.55	6.54

Hong Kong offers the lowest average price for banking service for making foreign incoming payment of AUD6.54 as shown in table 13 compared to the average foreign incoming prices calculated for Brunei (AUD12.85 – highest) and Hong Kong (AUD6.54).

Location Criterion 4

Table 6. Price for foreign outgoing payment.

Location Criterion (4)	Brunei	Singapore	Hong Kong
Price for foreign outgoing payment	BND25	SGD15	HKD116.67
Exchange rate (AUD1)	1.1697	1.1697	6.3725
Price for foreign outgoing payment (AUD)	21.37	12.82	18.31

Table 6 shows the LCn 4 i.e. the average price of banking service for making foreign outgoing payment via TT compared across the three countries. Brunei offers the highest average fee for this LCn of AUD21.37 while Singapore offers the lowest averaged fee for making foreign outgoing payment of AUD12.82.

Location Criterion 5

Table 7. Price of urgent foreign payments.

Location Criterion (5)	Brunei	Singapore	Hong Kong
Urgent foreign payments price	BND25.03	SGD15	HKD156.67
Exchange rate (AUD1)	1.1697	1.1697	6.3725
Urgent foreign payments price (AUD)	21.40	12.82	24.59

Table 7 shows LCn 5 i.e. the price for making urgent foreign outgoing payment. The average price compared across the three countries shows Brunei offers the most expensive of the average prices of AUD21.40 while Singapore offers the lowest average urgent foreign payment average price of AUD12.82.

Location Criterion 6

Table 8. Withholding tax.

Location Criterion (6)	Brunei	Singapore	Hong Kong
Withholding tax	20 %	15 %	N/A

Table eight represents LCn 6 withholding tax. The withholding tax of all three countries were collected and compared across each other. Singapore offers the lowest (20 %) between itself and Brunei (15 %). Hong Kong does not impose withholding tax but for a certain circumstance, 1.75 % of royalties is subjected to tax.

Location Criterion 7

Table 9. Corporate tax.

Location Criterion (7)	Brunei	Singapore	Hong Kong
Corporate tax	30 %	18 %	17.5 %

Table 9 shows corporate tax (LCn 7) compared across the three countries. Brunei has corporate tax of 30 % Singapore has 18 % and Hong Kong 17.5 %. Therefore, Hong Kong offers the lowest percentage of corporate tax of 17.5 %.

Location Criterion 8

Table 10. Important treasury centres.

Location Criterion (8)	Brunei	Singapore	Hong Kong
Important treasury centres	none	Nokia, Nissan, Sony, UPS, Caltex etc.	JP Morgan, P&O, Nedlloyd's

For table 10, it shows LCn 8 i.e. the existing important (multi-national company's RTC) treasury centres that have located in each of the three countries. There is zero RTC in Brunei while there are quite a few in Singapore including Nokia, Sony, UPS, Caltex, Ericsson and etc. There are a few in Hong Kong as well including JP Morgan and P & O Nedlloyd's.

Location Criterion 9

Table 11. Reporting requirements.

Location Criterion (9)	Brunei	Singapore	Hong Kong
Reporting requirements	Only certain threshold.	No capital controls	Some control

Table 11 shows LCn 9 of the reporting requirements to central banks/Monetary Authority of the country for banking transactions. Brunei and Singapore offers very minimum reporting requirements to the Monetary Authority while Hong Kong requires gross amount of lending and borrowing reporting (Hong Kong Monetary Authority 2005).

Location Criterion 10

Table 12. Currency Environment.

Location Criterion (10)	Brunei	Singapore	Hong Kong
Currency environment	USD, EUR, GBP, AUD, JPY etc.	USD, EURO, AUD, GBP, JPY etc.	USD, EURO, AUD, GBP, JPY etc

Table 12 presents LCn 10 for the currency environment of each country in terms of the ability of MNCs making transactions in important foreign currency such as USD, EUR, GBP, AUD and etc. Most of the banks in the three countries offer banking facilities in the mentioned foreign currencies.

Location Criterion 11

Table 13. Ratings.

Location Criterion (11)	Brunei	Singapore	Hong Kong
Ratings	N/A	A1	A1

Table 22 shows the ratings given to countries. Both Singapore and Hong Kong were given A1 business climate and country credit ratings.

Table 14. Summary of results (in Australian dollars – AUD)

No.	Location Criterion (LCn)	Brunei	Singapore	Hong Kong
1	Monthly bank fees	\$17.67	\$12.82	\$5.75
2	Bank transaction fees	\$7.12	\$0.28	\$8.90
3	Price for foreign incoming payment	\$12.85	\$8.55	\$6.54
4	Price for foreign outgoing payment	\$21.37	\$12.82	\$18.31
5	Urgent foreign payments price	\$21.40	\$12.82	\$24.59
6	Withholding tax	20 %	15 %	n/a
7	Corporate tax	30 %	18 %	18 %
8	Important treasury centres	Zero		
9	Reporting requirements	Minimal	Minimal	Minimal
10	Currency environment	USD, EURO, GBP, AUD, JPY etc	USD, EURO, AUD, GBP, JPY etc	USD, EURO, AUD, GBP, JPY etc
11	Ratings	N/A	A1	A1

7. Discussion of qualitative and quantitative LC with results

“Does Brunei Darussalam have the ability or resource to become the next leading location for Regional Treasury Centres in Asia”, this is the proposition of this present study.

Using a similar method of finding suitable location for RTC – Simkova (2005, cited in Polak et al. 2007), this present study achieved in producing similar results applied to Asian countries instead of the European countries as Simkova (2005) did. The main functions of treasury management i.e. cash management

Table 15. Results.

No.	Location Criterion (LCn)	Brunei	Singapore	Hong Kong
1	Monthly bank fees	Highest	Middle	Lowest
2	Bank transaction fees	Middle	Lowest	Highest
3	Price for foreign incoming payment	Highest	Middle	Lowest
4	Price for foreign outgoing payment	Highest	Lowest	Middle
5	Urgent foreign payments price	Middle	Lowest	Highest
6	Withholding tax	Highest	Middle	Lowest
7	Corporate tax	Highest	Middle	Lowest
8	Important treasury centres	Zero	One	One
9	Reporting requirements	Minimal	Minimal	Minimal
10	Currency environment	1 bank	3 banks	3 banks
11	Ratings	N/A	Best	Best

Highest – LCn with the highest figure.

Middle – LCn with not the highest or the lowest figure.

Lowest – LCn with the lowest figure.

Zero – None

One – There are existing RTCs.

(Mulligan, 2001) especially making foreign payments is the focus of Simkova (2005) as was this study.

Discussion of each result of LC found is focused on whether Brunei can compete with the other two countries whom are the leading location for RTCs. Results of LC with quantitative data (LCn 1 – LCn 7) are discussed first followed by LCn 8 to LCn 11 individually discussed comparing the three countries.

7.1. Discussion of results from quantitative data (LCn 1 – LCn 7)

For LCn 1 – LCn 7, the target is to minimize a high figure for each country as per table 15 to identify competitiveness of Brunei's current condition for hosting RTC. From table 15.1, Brunei holds 71.4 % of the highest figure from the list of LC that must have a low figure in

order to be a suitable location for RTC. Hong Kong with 28.6 % of the LC with a high figure while Singapore with 0 % of the LC with a high figure meaning it either has the lowest figure or middle figure but definitely not the highest.

It is clear from these results that Brunei offers the most expensive banking service relating to functions of RTC and higher percentage tax for MNCs to operate compared to the banks in Singapore and Hong Kong.

Hong Kong and Singapore has 57.1 % and 48.9 % respectively the lowest figure from the list of quantitative LC while 0 % for Brunei. This simply means that Singapore and Hong Kong has most of the lowest average fees for banking service and low percentage tax. 0 % for Brunei confirms that Brunei either offers the highest or middle figure for banking service and percentage tax which is not suitable for RTC when comparing Brunei as a location to

Table 15.1. Represents LC for which country with the highest figures.

No.	Location Criterion (LC)	Brunei	Singapore	Hong Kong
1	Monthly bank fees	Highest		
2	Bank transaction fees			Highest
3	Price for foreign incoming payment	Highest		
4	Price for foreign outgoing payment	Highest		
5	Urgent foreign payments price			Highest
6	Withholding tax	Highest		
7	Corporate tax	Highest		

Table 15.2. Represents LC for which country with the lowest figures.

No.	Location Criterion (LC)	Brunei	Singapore	Hong Kong
1	Monthly bank fees			Lowest
2	Bank transaction fees		Lowest	
3	Price for foreign incoming payment			Lowest
4	Price for foreign outgoing payment		Lowest	
5	Urgent foreign payments price		Lowest	
6	Withholding tax			Lowest
7	Corporate tax			Lowest

Singapore and Hong Kong further proving Singapore and Hong Kong offers a more desirable location for RTC.

7.2 Discussion of results from qualitative data (LCn 8 – LCn 11)

LCn 8 – Important treasury centres.

Table 15.3 shows the LC with qualitative data collected. For LCn 8, Brunei currently has no RTC meaning there are zero RTC in Brunei compared to the few (represented by “One”) that has set up in Singapore and Hong Kong. There are currently about 150 RTC operations with varying degree in Singapore according to recent study by PricewaterhouseCoopers (Giumarra 2001). Singapore has the largest number of RTCs in Asia Pacific (Kini 2007). With already existing RTCs, Singapore and Hong Kong both are in an already good position for future RTCs to be located there by prospective MNCs. The availability of other RTCs in the region would show that the region already has the treasury function support needed by this entity.

LCn 9 – Reporting requirements.

Out of the three countries assessed for this LC, Hong Kong and Brunei share a fair reporting requirement to the central bank/Monetary Authority. While in Hong Kong, banks are required to report gross lending and borrowing, any amount of fund transfer reaching a certain threshold would need to

be reported to the Ministry of Finance i.e. Brunei Monetary Authority. According to the data collected, Singapore has the least reporting requirements making it a more favourable region for RTCs.

LCn 10 – Currency Environment.

Out of the three banks assessed in Brunei, only one offers foreign currency account and services including important currencies such as the USD, EURO, GBP, AUD, CAD, JPY and many more. The other two international banks do not have services with these currencies, while all three banks from both Singapore and Hong Kong not only provides services in the previously mentioned foreign currencies but many more of other currencies. The ability to conduct transactions in foreign currencies in a region is a crucial part of a RTC function. As it deals with cash management especially cross-border transfers the ability of the region to provide instant conversion of currencies without many problems serves the region well in making a location suitable to accommodate an RTC.

LCn 11 – Ratings.

Ratings offered by Coface considers a country’s overall liquidity and solvency (Coface launches a new “business climate” rating). Singapore and Hong Kong are both given the best rating of A1 for their business climate and country rating by this rating company whereas it is difficult to find online ratings given to Brunei’s business climate.

Table 15.3. LC with qualitative data.

No.	Location Criterion (LCn)	Brunei	Singapore	Hong Kong
8	Important treasury centres	Zero	One	One
9	Reporting requirements	Minimal	Minimal	Minimal
10	Currency environment	1 bank	3 banks	3 banks
11	Ratings	Zero	Best	Best

8. Discussion and Recommendation

8.1. Discussion

From the results shown, clearly Brunei Darussalam has a more expensive banking service fees and charges and higher percentage tax imposed on company profits by the local authority compared to Singapore and Hong Kong. This may be the first obvious sign indicating Brunei's lower level of competitiveness not only in terms of attracting RTCs but also attracting MNCs from all around the world compared to Singapore and Hong Kong. Major companies deal with major movements of funds, millions and even billions. If Brunei's local conditions or LC fall short in competing with other regions then those other regions would be the preferred location for regional headquarters or finance offices to be set up by these major companies (Economist Intelligence Unit Limited, 2000). Competing closely to Singapore and Hong Kong, as these two countries are Asia's International Financial Centres (Levieux, 2007), is important if Brunei are to follow in their footsteps to become an international financial centre and leading hosts for RTCs.

The averaged prices for making overseas payments provided by the banks in Brunei are more expensive than those offered in Singapore and Hong Kong. MNCs originating from other countries will not benefit from cost savings when having regional operations in Brunei compared to having regional operations in Singapore or Hong Kong. Profits will not be taxed as much in Hong Kong or Singapore compared to Brunei because Brunei has the highest corporate tax imposed on profits. Having the highest percentage of withholding tax also reduces Brunei's competitiveness in attracting RTCs as these entities are primarily tax driven (Anwar 1999, Zink 1995, Murphy 2000a, Casalino 2001, Giegerich et al 2002, Simkova 2005, Polak 2007). A benign tax system is the crucial aspect to attracting RTCs (Mulligan, 2001).

In terms of existing RTCs in the region, Brunei currently has none. The closest RTC is in Labuan which is an island that lies eight kilometer off the coast of Borneo where Brunei Darussalam lies (Wikipedia, Labuan 2008). The RTC is the regional finance office with treasury functions for Shell Malaysia. Due to this, considering Brunei as a prospective location for an RTC may not be viable. It is entirely different for Singapore that is the fourth largest trader in derivatives and the ninth largest offshore lender making it an easy target for RTC with already approximately 150 existing RTCs (Giumarra, 2001). Hong Kong is the next favourite location for regional headquarters of MNCs and also RTCs in Asia (Business Asia 2000, Levieux 2007). Although the actual number of RTCs that have established themselves in Hong Kong is not available, Hong Kong is definitely Singapore's rival when competing for MNCs regional headquarters or RTCs in Asia.

Flexible regulation is also a factor to consider when considering a location for RTC (Zink 1995, Anwar 1999 and Geigerich 2002). Although Brunei currently does not strictly regulate transfer of funds between financial institutions but neither do Singapore and Hong Kong. The facility for foreign currency transaction is already available in Brunei although it is not as developed compared to Singapore and Hong Kong hence the availability of foreign currency transaction most banks in the country. Banks in Brunei offers accounts and services in most important foreign currencies i.e. USD, EURO, GBP, AUD, JPY, SGD and a few more. This shows that Brunei has some potential to start off the improvements needed to put itself in a better position to attract RTCs or even regional headquarters of MNCs.

The ratings given to Singapore and Hong Kong are the best ratings that rating company Coface can give to a country and its business climate (Coface n.d.). Other than having a good

business environment, Singapore and Hong Kong are considered by this rating company to have “available and reliable corporate financial information together with very good institutional quality” (Coface launches a new “business climate” rating). This type of assessment can benefit Brunei when it is considered to be a location for regional headquarters or RTC for MNCs. Information regarding a location or region i.e. Brunei should be easily available to potential overseas investors to expose Brunei and its capability to assist these MNCs to expand in Asia.

8.2. Recommendation

To compete with Singapore and Hong Kong in becoming a region of MNC’s regional headquarters or RTCs it is important for Brunei to constantly be vigilant in terms of regulations put forward for potential overseas investors. This means changes have to be done in order to improve the current situation. According to the present study, reassessing banking facility charges for business or corporations especially international businesses or corporations is a fair start. Good and modern banking facility is one of the key factors to attracting RTCs (Anwar 1999, Murphy 2000b and Geigerich 2002).

Next would be the examining Brunei’s current taxation regulations imposed on any types of companies both local and international. Singapore and Hong Kong are in a better position in terms of attracting RTCs or regional headquarters of MNCs as their percentage tax is lower compared to Brunei. Nokia chose Singapore over Hong Kong, Malaysia and Australia due to unattractive tax regimes offered by the other three countries (Blair 1999). Tax reforms will certainly attract foreign investors into Brunei. Singapore approved over 3600 regional headquarters in 2003 from 49 in 1993 through improved tax concession (Zilva, 2004).

As local tax regulation is the primary factor when considering location for RTC (Zink 1995, Anwar 1999, Casalino 2001, Geigerich 2002, Simkova 2005, and Polak 2007), it is most important to regulate tax system as competitively or closely to those with huge success in attracting RTCs such as Singapore and Hong Kong.

Increasing the number of students majoring in finance at tertiary level education could benefit Brunei in the long run when attempting to improve its appeal towards attracting MNCs and their RTCs. RTC requires trained specialists in the finance area and would be ideal to locate at regions with treasury related experts (Murphy 2000a, 2000b, Casalino 2001 & Geigerich 2002).

9. Conclusion

There are many more factors to consider when considering a location for RTCs. Simkova (2005) cited in Polak et al. (2007) offers a full description of the specific needs of a holding company in Czech Republic therefore coming up with the LC (utilized in this present study) to investigate the conditions of a list of countries in Europe to locate this holding company’s RTC. By means of the methods in this study, the study concludes that Brunei does not have the required resources or abilities to efficiently host an RTC when compared to Singapore and Hong Kong. But this conclusion is incomplete because although the LC utilized in this study is significant for assessment it is merely a one means of examining a location. It is one of the methods how to assess a location, despite there being additional possible variables – other than those mentioned and investigated in this present study – that need to be considered and are difficult to be measured. These include the language barrier, availability of expertise, availability of outsourcing options, access to key financial markets and banking centres,

stability of communication networks, time zone, notional pooling, cash concentration and many more (Zink 1995, Anwar 1999, Murphy 2000a & 2000b, Casalino 2001, Giegerich 2002 and Simkova 2005).

All the other potential LCs mentioned in the first paragraph need to be investigated as well to completely indicate if a location i.e. Brunei Darussalam can successfully host a regional treasury centre. This is the available limitation to the study due to the major investigation requirement to a short span of period provided to conduct this present study. Another limitation would be establishing the fact (proven statistically or mathematically) that more favourable LCs (for example that of Singapore and Hong Kong to Brunei evidenced in this study) does result in a better performance of treasury for the country i.e. without a doubt attracts RTCs and improves regional treasury centre operations in terms cost efficiencies (minimal banking costs and low tax), minimal restrictions for fund transfers between the entities involved (banks, RTCs and companies). These limitations are opportunities for future exploration or investigation to further extend this research.

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