

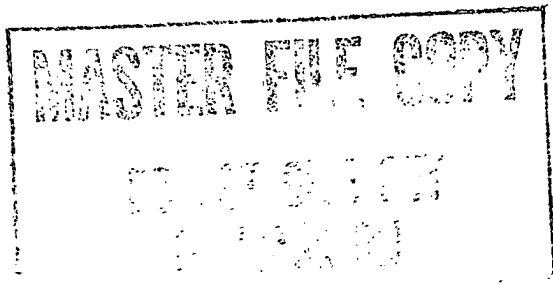


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Brunei: A New and Well-Heeled Ministate



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An Intelligence Assessment

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EA 83-10242
December 1983

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Brunei: A New and Well-Heeled Ministate



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An Intelligence Assessment

This paper was prepared by [Redacted]
Office of East Asian Analysis. Comments and queries
are welcome and may be directed to the Chief,
Southeast Asia Division, OEA, [Redacted]

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Key Judgments

Information available as of 1 December 1983 was used in this report.

Oil-rich Brunei enters nationhood in January 1984 with an affluence unmatched in Southeast Asia, but its stultifying political system and divisive racial policies could mean future internal strains:

- The apolitical populace will increasingly question the Sultan's autocratic rule as independence brings greater contact with the outside world, especially as students return from overseas.
- The Sultan's unbudging opposition to a representative political system increases the likelihood of an eventual confrontation.

An unassimilated Chinese minority—largely denied citizenship by discriminatory practices—is quiet because it is prosperous. Should prosperity diminish or discrimination become oppressive, communal tensions could develop like those in neighboring Malaysia. Chinese frustration already has resulted in a slow emigration of managerial and technical personnel, whose continued departure could impair functioning of the vital oil and natural gas industries.

Although content to be a bit player on the international scene, Brunei is showing an active interest in political ties with the United States and a larger US commercial presence in Brunei. The Bruneians are also showing interest in US military assistance programs, and we anticipate such a request soon after independence.

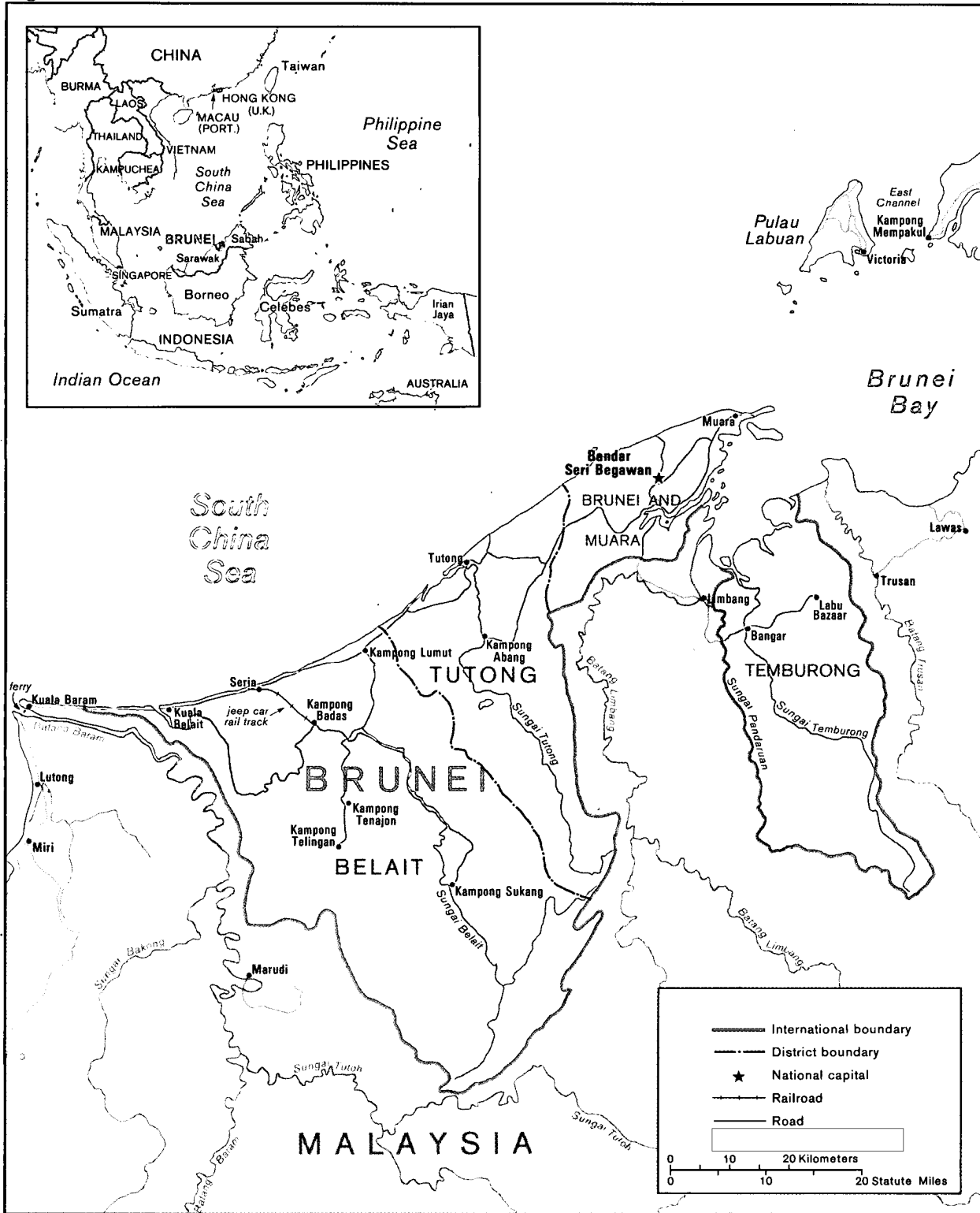
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Figure 1



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Brunei: A New and Well-Heeled Ministate [redacted]

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The Reluctant Nation

A British protectorate for nearly a century, Brunei is approaching independence on 1 January 1984 with a distinct lack of enthusiasm. Although internally self-governing since 1959, the Delaware-sized, oil-rich sultanate on Borneo's northern coast has been content to let Britain handle its external affairs and defense. Brunei's reluctance to stand on its own stems in part from residual suspicions that neighboring Malaysia—whose state of Sarawak splits Brunei in two—wants to incorporate it. Brunei declined to join the Malaysian Federation on its formation in 1963 because of dissatisfaction with arrangements for sharing its oil earnings, and Malaysia's subsequent backing of Bruneian dissidents spawned Bruneian suspicions. [redacted]

Brunei is also loath to give up the British protective shield that has permitted it to concentrate on exploiting its oil and natural gas reserves, earnings from which have provided it with an affluence unapproached in Southeast Asia; in 1980 per capita GDP was \$27,000 (see appendix). For their part, the British, although nettled by what they saw as unjustified criticisms by the UN decolonization committee of an unwanted colonial role, have found it difficult to extricate themselves. Britain almost had to issue an ultimatum to get Bruneian acceptance of independence, according to the US Embassy in Malaysia, which is accredited to Brunei. Even so, there has been continuing Bruneian foot-dragging, underscored by delays in choosing a date for independence celebrations, which will now be on 23 February. [redacted]

Brunei's readiness to pay the \$2.5 million annual cost of retaining a 900-man Gurkha battalion provided by the British reflects Brunei's uneasiness about standing on its own. An acrimonious debate with the British over British concern that the Gurkhas not be used against internal opponents of the Sultan's regime has apparently been resolved to London's satisfaction. For the British, Brunei affords a locale for rotating Gurkha troops from Hong Kong, as well as the only jungle

training facilities available to the British Army. British expatriates will probably continue to serve in the Bruneian armed forces and civil administration, although in decreasing numbers. [redacted]

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A Political Anachronism

Brunei's almost feudal political system appears certain to foster political agitation, particularly as independence brings greater contact with the outside world and the reclusive Bruneians become more exposed to new ideas. The ruling class is a small, closely knit group with little contact with the rest of the population. The 36-year-old Sultan Hassanal Bolkiah is an absolute monarch and makes all decisions of consequence. Under the constitution, the Sultan is chief executive and personally nominates the incumbents of all executive offices. Since a 1962 rebellion aimed at overthrowing the Sultan and establishing a North Borneo republic, members of the legislative council as well have been appointed by the Sultan. These appointed officials never make a statement at variance with the Sultan's views, and, if the Sultan's views are unknown, they do not venture an opinion. They are hesitant even to present political ideas to the Sultan, according to the US Embassy. [redacted]

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Political activity has been proscribed and Brunei has been governed under a state of emergency since the abortive 1962 rebellion against the Sultan's rule. A handful of participants in the uprising remain in prison without ever having been brought to trial. Political parties are banned, there are no elections, and by all accounts of local observers the royal family has set itself firmly against any democratic experiments. Nevertheless, the populace is quiescent, partly out of contentment with the high standard of living. [redacted]

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A commoner Acting Chief Minister, appointed two years ago, is responsible for the daily functioning of the government. An impressive administrator, he has developed a popular following by holding village meetings and listening to citizens' suggestions. For this reason, however, he has come under suspicion from the Sultan, quick to see a commoner with a political base as a threat. Local observers speculate that on independence the Sultan may remove the Chief Minister and appoint his malleable brother as prime minister and perhaps foreign minister. [redacted]

Although there is no organized movement for political reform within Brunei, the exiled Brunei People's Party, which led the 1962 uprising aimed at creating a north Borneo federation of Brunei and the present Malaysian states of Sabah and Sarawak, continues to agitate for a democratic state. The only serious political organization that has ever existed in Brunei, it had the allegiance of half of the population at the time of the rebellion, according to the US Embassy. [redacted]

One of the most likely threats to stability will come from students returning from abroad. Formerly, only a handful of Bruneians went abroad for study, most of them members of or associated with the royal family and thus more controllable than commoners. Since the mid-1970s, however, more and more commoners have gone abroad. Some 2,000 students now in the United Kingdom, because Brunei has no university, could become the nucleus for demands for an opening up of the political process. Even a moderate dose of modern political thought will make many of them harsh critics of the Sultan's tight control. There is also a risk that students in the United Kingdom will take up the Islamic radicalism that has infected Malaysian students there. [redacted]

The US Embassy believes that returning students will challenge the stultifying political system, and Islamic radicals will rail [redacted] Malaysian Deputy Prime Minister Musa Hitam, who

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worked in Brunei for many years before he entered politics, sees the political system as so feudal and decadent that it is certain to fall under the influence of a growing, politically aware commoner elite. He foresees radical change within five years. []

Although not an immediate threat to the new government, another vexing issue is the uncertain citizenship status of some 50,000 Chinese, about 25 percent of the population of 210,000. As in Malaysia, the Chinese dominate business and form a major part of the work force of the oil and gas industry. Although prosperous, they are actively discriminated against. Only about 10 percent are citizens, and rigid requirements—such as fluency in the Malay language and demonstrated knowledge of the culture of the 65-percent Malay majority—prevent any great increase in the number of Chinese citizens. Although noncitizens, including some British-protected persons, will become stateless at independence, the Bruneian Government has not resolved the Chinese problem, despite British urging. Several hundred Chinese management and engineering personnel have already emigrated, mostly to Canada, where they are working in the oil and gas industry. Some Bruneian oil industry officials have expressed concern that the departure of Chinese could reach such proportions that Brunei's ability to run its oil and gas industry would be in jeopardy. Even if the Chinese remain, communal strife along the lines of that in neighboring Malaysia could easily develop should prosperity decline or social and religious discrimination become more repressive. []

A Bit Player Internationally

Because its fledgling diplomatic service numbers only about 40 officers, after independence Brunei will initially concentrate on joining the Commonwealth, the UN, and ASEAN. Brunei will give first priority to relations with ASEAN, into which it will be welcomed shortly after independence, and will establish embassies in each of the five ASEAN capitals. It also plans to convert its current liaison office in London into an embassy and will open a diplomatic mission in the United States, either in New York or in Washington. Although staunchly Muslim, Brunei is undecided

over joining the Islamic Conference, according to the US Embassy, because it does not want to get drawn into Arab political disputes. []

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Within ASEAN, Brunei's relations will be closest with Malaysia, despite the residue of distrust over Malaysia's past efforts to destabilize Brunei. The Bruneian Government apparently is satisfied that the Mahathir government in Kuala Lumpur is sincere in its efforts to put past Malaysian wrongdoing behind it, according to the US Embassy. Whatever future Malaysian intentions, Brunei calculates that membership in ASEAN will provide a constraint against Malaysia. []

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In the transitional period toward independence, Brunei has looked to Singapore as its tutor in international diplomacy. Despite the UK's formal responsibility for Brunei's foreign affairs, Brunei has made a practice of attaching itself to the Singaporean delegation as observers at international gatherings. According to the US Embassy, Brunei has felt more comfortable with a fellow Asian nation and sees Singapore's views on some international issues as more compatible than the UK's. In any case, commercial and official links with Singapore are strong, and Singapore Prime Minister Lee Kuan Yew has visited Brunei several times. For its part, crowded Singapore values the use of Bruneian terrain for the infantry training it lacks space for at home. Such exercises are usually carried out in low key in order not to arouse Malaysian concerns. []

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Although bitter over Indonesian involvement with the 1962 revolutionaries and the fact that Jakarta still harbors the leader of the uprising, Brunei is now apparently satisfied that the Indonesians are keeping the aging rebel leader under wraps. The warming of relations with Indonesia was underscored by a visit to Indonesia by the Sultan, at his initiative, in 1981. []

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Malaysia: Brunei's Former Nemesis

Malaysia's pique over Brunei's refusal to join the Malaysian Federation in 1963 led Kuala Lumpur to support remnants of the 1962 uprising in Brunei. Malaysian clandestine operations using exiled dissidents, plus Malaysian-instigated criticism by the UN decolonization committee of the British presence in Brunei, continued until the mid-1970s. [redacted]

The Hussein government, which came into office in Kuala Lumpur in early 1976, began a laborious process of reconciliation. "Polo diplomacy" between the royal houses of the peninsular Malaysian states and the Brunei Sultan's extended family—plus Malaysian offers of exchange and educational facilities to growing numbers of Bruneian officials, students, and military officers—slowly allayed Bruneian suspicions. Malaysia continued to harbor a few participants in the 1962 rebellion, and it does so even now, but apparently has put a lid on their political activities. By 1982, relations had improved to the point that Brunei—which until then routinely attached itself to the Singaporean delegation at international meetings—sent its UN observers along with the Malaysian delegation. The reconciliation was capped by

a visit to Brunei this year by Malaysian Prime Minister Mahathir, for whom the Bruneians have a high regard. Historical tensions have thus dissipated, although—with Bruneian memories of the period when Malaysia was actively confronting Brunei—residual antipathies will linger for some time. [redacted]

The ill-concealed disdain some Malaysian officials have for Brunei's feudal political structure will continue to annoy the Bruneians, and Malaysian territorial claims promise to be nagging irritants. Brunei has long smarted over Malaysian continental shelf maps, which claim the entire north Borneo coast, recognizing no continental shelf for Brunei, a particularly significant omission because Brunei's oil and natural gas reserves are almost all offshore. Brunei regards as arrogant Kuala Lumpur's refusal to discuss Brunei's claim to the Limbang salient of the adjacent Malaysian state of Sarawak—an area which was detached from Brunei in the 1890s and which splits the small sultanate into two segments. [redacted]

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Relations with the other ASEAN members—Thailand and the Philippines—are cordial but not close. Thailand provides most of the rice consumed in Brunei and sends some workers to the labor-short country. The Philippines sends larger numbers of workers, including some 3,000 working on the Sultan's new palace. [redacted]

Brunei has shown no intention of opening ties with the Soviet Union or China; neither has publicly shown interest in the new nation. [redacted]

Early Independence Prospects

With massive oil revenues and continued British help in running the civil administration, Brunei should embark on independence smoothly. Brunei's economic well-being is a hedge for now against serious challenges to the anachronistic and unchanging political

system. Within the next few years, this sense of well-being will be tested. Prosperity notwithstanding, growing popular aspirations for a political role and divisive communal policies appear certain to bring internal strains. [redacted]

If Brunei has its way, the United States will play a larger role in Brunei's affairs after independence. The Sultan has shown a lively interest in relations with the United States, and, according to the US Embassy, Brunei is anxious to establish a resident US diplomatic mission.¹ Bruneian officials, although having only a

¹ The dearth of trained personnel kept Brunei from opening an office in Washington, attached to the British Embassy, in the last three years. [redacted]

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rudimentary knowledge of the United States, have been approachable to US diplomats visiting from the US Embassy in Kuala Lumpur. The Bruneians are especially interested in sending students to the United States for college and postgraduate training; almost none are here now.

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Underscoring Brunei's interest in strengthening ties with the United States was its decision last August to shift the management of investment funds totaling \$5 billion from British to US banks (Citibank and Morgan Guaranty). The Bruneians have also shown interest in US security assistance programs, and an early request after independence is anticipated. Like Singapore, Brunei would be prepared to pay cash for equipment and training, according to the US Embassy. It apparently hopes to capitalize on its location along air routes and sea lanes between US bases in the Philippines and facilities in Singapore, Australia, and New Zealand. Brunei has some of the world's best jungle warfare training facilities and a modern 2,500-meter runway near the capital city (Bandar Seri Begawan), which it may envisage as a refueling stop for US military flights. In view of Brunei's outgoing attitude toward the United States, Bruneian-US relations after independence should get off to an amicable start.

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Appendix

The Economy—Awash in Oil

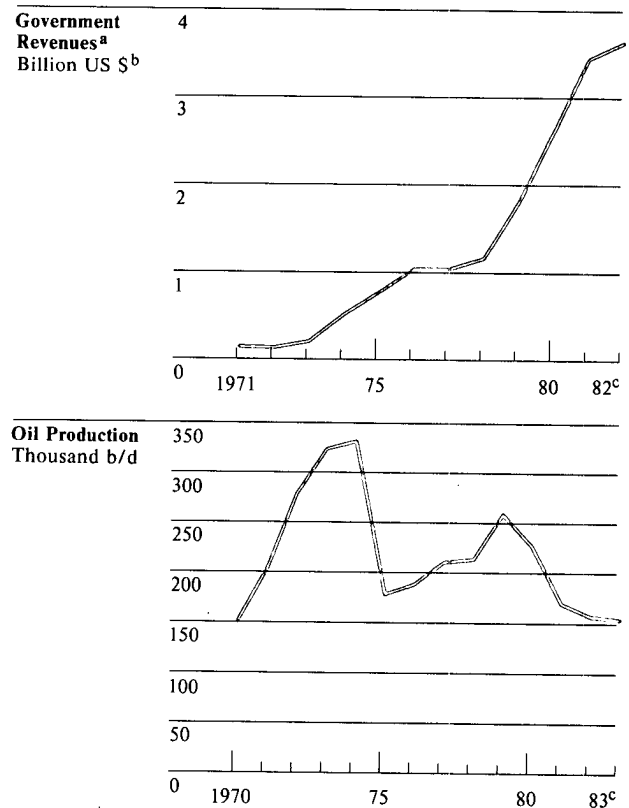
Brunei's economy is dominated by the oil and natural gas industries, which together account for 80 percent of the GNP and 99 percent of export earnings. These industries are the second-largest employers after the government, whose bloated civil service comprises nearly one-half of the work force.

Because of oil and gas revenues, Brunei has foreign exchange reserves of some \$13 billion and an annual balance-of-payments surplus of \$1-2 billion, although the exact amounts are masked by Brunei's secretiveness on financial matters. The huge surplus has been used to underwrite a rapid pace of modernization and, in addition, to provide the populace with large subsidies for food and housing, and free education and medical care.

Oil production is the monopoly of Brunei Shell, a consortium jointly owned by the Brunei Government and Shell Oil. Crude oil production is currently 150,000 barrels per day, down from 255,000 b/d a few years ago (see figure 2). The decline is partly due to the soft world oil market, but also reflects a deliberate policy decision by the government to conserve its oil reserves. Proven reserves of 1.8 billion barrels are sufficient to last well into the next century at current production rates. Declining world oil prices and the cutback in Brunei's oil output since 1979 have reduced foreign exchange earnings, but only to the extent of paring the massive annual payments surplus and not enough to have any effect on economic well-being.

Similarly, large reserves of natural gas, nearly 225 billion cubic meters, will last 30 years at current production rates. Practically all of the annual production of 7 billion cubic meters is exported as LNG (liquefied natural gas) to Japan under a 20-year contract that runs through 1993. The LNG plant, which opened in 1973, is jointly owned by the Brunei Government, Shell, and Mitsubishi.

Figure 2
Brunei: Oil Production
and Government Revenues



^a Royalties from oil and gas account for nearly all revenues.

^b Converted at the Brunei exchange rate of July 1980.

^c Estimated.

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LNG liquefaction plant at Lumut, Brunei



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Oil policy in Brunei apparently is aimed at shifting emphasis away from any single foreign operator. In exploring for new oilfields, for example, Brunei has shown interest in providing competition for Shell. The Jackson Company of Dallas was awarded a concession in 1982. Although it has made no commercial discoveries, the Bruneian Government apparently has been impressed with its technology and has encouraged it to continue. Two other American firms (Woods and Sunray) have been awarded oil and gas exploration leases on Brunei's continental shelf.

As a result of the dominance of oil and gas, there is almost no other productive economic activity. Construction and commerce are the only significant modern sectors besides government and petroleum. Production of food, fish, rubber, and timber have declined in recent years, and Brunei now imports 80 percent of its food. Efforts to promote manufacturing under a five-year plan that ended in 1979 produced few results. Specific projects—a pulp mill to tap Brunei's unexploited forests and a glass factory to utilize local sand deposits—have not gotten off the ground.

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There is a growing US business presence in Brunei, one the Bruneian Government encourages. Bechtel has two major management contracts—for constructing the Sultan's palace and the Foreign Ministry building. A US firm has built housing for Shell, and US banks (Bank of America and Citibank) are active and competing successfully with their more staid British competition. Sheraton has opened Brunei's only hotel of international standards.

Economic diversification efforts are now focused on agriculture, and a British consulting firm is conducting a multimillion-dollar study to determine the best prospects. Full employment and the attractions of a comfortable urban life raise doubts, however, about the likelihood of any extensive development program becoming successful.

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