



INSTITUTE OF SOUTHEAST ASIAN STUDIES, SINGAPORE

OIL AND ECONOMIC DEVELOPMENT ISSUES IN BRUNEI

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PREFACE

The purpose of this brief study, which forms part of a larger work now in preparation, is twofold: to explore critical ideas and to invite constructive feedbacks. Readers are therefore most welcome to submit comments.

The major work will examine in greater detail the political economy of oil in Brunei. A pioneering study, it will attempt to expose oil "imperialism" in a Southeast Asian sultanate.

Brunei is a British protected state. Barring any major political setback, it is scheduled to become independent in 1983. Brunei is, however, essentially a petroleum enclave. Through many years of political autonomy and consolidation, Brunei Shell has managed to create for itself a state within a mini sultanate.

Enclaves exist in different forms and shapes. In form, the Brunei model is not unique, but in present day international petroleum nomenclature, it is extraordinary. The anomalous state-company relationship that has arisen in the sultanate is a source of political embarrassment that Great Britain can no longer ignore.

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Oil and Development

The importance of oil in the economic development of both industrial and nonindustrial countries is well established; but the two kinds of economies differ greatly in the amount of energy they use in proportion, as can be determined by the input-output analysis. For nonindustrial, developing economies, Scott Pearson's case study on Nigeria is an indispensable example of petroleum input-output analysis.¹ As this is not primarily a quantitative work on economic development, no effort will be made to produce for Brunei an input-output matrix similar to that in Scott Pearson's study. The author's purpose is to illustrate in very general terms the relationship between oil and Brunei's policy of economic development. The stress is on policy processes rather than development *per se*.

The direct contribution of the petroleum and gas industries to the economy of Brunei is already known.² Aside from contributing heavily to the national product of Brunei, the oil industry has for some time contributed over 95% of Brunei's total export value, a proportionately large share of foreign exchange credits and, most important of all, a major portion of the state's tax. The ratio of oil royalties to total revenue in 1974 was over 21%; it averaged 17% in the previous three years. If all other economic rents paid by Brunei Shell to the state were added, the proportion of oil revenue would be much higher.

It was stressed elsewhere that oil and gas made up 99% of the total value of Brunei's 1976 exports, an increase of 5% since 1972.³ However, the government's total revenue and total exports were not compared; nor was the actual amount of royalties that Brunei Shell paid over a selected period of time shown.

Table 1 shows the comparison between revenue and export statistics during 1968-76.

1 S. Pearson, *Petroleum and the Nigerian Economy* (Stanford: Stanford University Press, 1970).

2 B.A. Hamzah, "The Political Economy of Oil in Brunei" (Ph.D. Dissertation, Fletcher School of Law and Diplomacy, Tufts University, Medford, Mass., 1980), hereafter cited as "Political Economy of Oil."

3 Ibid.

Table 1: Revenue and Export Statistics (in million Brunei dollars)

Year	Total Revenue	Export	Excess of Exports over Revenue
1968	199.7	281.43	81.73
1969	222.64	270.14	47.5
1970	186.77	292.10	105.33
1971	209.01	323.74	114.73
1972	256.50	497.10	240.60
1973	368.86	852.10	483.24
1974	1,027.42	2,388.32	1,360.90
1975	1,564.37	2,494.81	930.44
1976	-	3,294.15	-

Sources: *Brunei Statistical Yearbook, 1975/1976*, pp. 49-70.
Statistics of External Trade, 1976.

It is essential to recognize the difference between export value and foreign exchange. Since the export of oil and gas is exclusively in the hands of foreigners using Brunei Shell as their corporate veil, the value of export is not the same as foreign exchange accruals. Nevertheless, the difference between export earnings and state revenue does indicate that the retained earnings are smaller. To put it in another way, the portion of oil revenue received by the state is much smaller than that received by Brunei Shell.

Similarly, the amount of royalties as a percentage of the total revenue is patently low. The computations in Table 2 adequately support the point that Brunei's gains from oil royalties have been minimal.

The increase in the proportion of oil revenues between 1948 and 1951 is attributed to the rise in royalties from two shillings a ton previously to three shillings a ton since 1948.⁴ To arrest the declining revenue proportion from 1949 onwards, a three-tier royalty-rates concept was introduced in 1955. (It was revised in 1963 and 1969.)⁵ The major declared purpose of the

4 A. Lumsden, "The Gulf State of the Far East," *Petroleum Economist*, June 1978.

5 See B.A. Hamzah, "Political Economy of Oil," Chapter IV.

Table 2: Oil Royalties in Brunei* (in Brunei dollars)

Year	Oil Royalties	Total Revenue	% of Total Revenue
1932	67,510	362,403	18.6
1933	235,755	580,750	40.5
1934	286,929	645,020	44.5
1935	383,112	813,532	47.1
1936	499,172	928,690	53.7
1937	482,567	1,049,293	45.99
1938	592,350	1,179,979	50.2
1939	710,059	1,274,644	55.7
1940	792,537	1,556,354	50.9
1941	548,701	1,325,912	41.4
1942-45	n o t a v a i l a b l e		
1946	58,550	744,145	60.5
1947	994,912	4,389,974	22.6
1948	4,239,287	6,856,299	61.8
1949	5,608,844	8,736,148	64.2
1950	13,226,026	17,302,869	76.4
1951	24,212,465	69,390,750	34.8
1952	26,781,619	75,625,620	35.4

Note: * The computations are extracted from various annual reports and other published official records.

enactments of 1955 (and of the enactments in 1963 and 1969) was to increase the proportion of royalties payable to the state; but, as it may be seen from Table 3, the contrary occurred.

The oil industry's most important contribution to the economy of Brunei derives from its payments to the government as well as from the foreign exchange and capital investments it brings into the country. Unlike the Nigerian case described by Scott Pearson, there are practically no backward or forward linkages arising from the petroleum industry in Brunei. This is because the oil industry is so capital-intensive that it does not have the attributes to influence backward or forward linkages. In addition, with most of the firms being foreign-owned, the greater part of the revenue is repatriated. Tax linkages are equally weak since the government does not tax personal income and the 50% corporate tax and the 8-12½% royalties are too low.

Table 3: Oil Royalties in Brunei, 1968-74 (in Brunei dollars)

Year	Oil Royalties	Total Royalties*	Total Revenue**	% of Oil Royalties to Total Revenue
1968	29,420,611	30,710,974	191,713,539	15.3
1969	39,561,027	41,076,157	222,641,118	17.7
1970	33,969,709	35,533,026	186,774,669	18.2
1971	37,779,189	39,427,396	209,011,069	18.0
1972	45,300,000	50,728,263	256,602,544	17.6
1973	62,928,373	64,705,969	368,861,523	17.0
1974	216,954,000	217,270,784	1,027,427,596	21.1

Notes: * Includes forest royalties and other forms of nonoil related royalties.

** Includes all forms of economic rent and revenue sources.

Being extremely capital intensive, both the liquefied natural gas (LNG) industry and the oil companies employ a small labour force. In 1976, they employed only 3,621 persons -- about 7.1% of the total work force⁶ -- and produced about 52.2% of the Gross Domestic Product (GDP).⁷ However, the government hopes that the oil industry would absorb 3,500 workers between 1974-79.⁸ This figure was based on the assumption that new investments in the forms of an ammonia plant, a urea plant, and a petrochemical complex would be undertaken. However, as indicated elsewhere, the government plans to defer development on these projects.⁹

In the author's judgement, the government should go ahead with the original plans; that is, encouraging the companies to invest in the petrochemical

6 *National Development Plan, 1975-1979*, p. 41.

7 *Ibid.*, p. 41.

8 *Ibid.*, p. 43.

9 B.A. Hamzah, "Political Economy of Oil," pp. 49-98.

and urea plant projects. The government still has some leverage to effect this policy. First, Brunei's proved reserves of hydrocarbon resources are still adequate to make these investments economically viable. Secondly, there are presently minimum political risks.

In view of the significant role of oil, it will be proper to investigate economic development policies in Brunei so as to establish the extent to which planners have accounted for oil and gas in their development plans.

Review of Past Development Plans

Brunei is now experiencing the impact of its three Five-Year Plans. The first of these covered the period 1953-58.¹⁰ The second was instituted in 1962 and lasted until 1966.¹¹ After six years without a national development plan, the Sultan of Brunei, at the budget session of the Legislative Council on 27 December 1972, commanded that the Third Brunei Plan be prepared.¹² The government took three years to produce a 21-page plan.

Common to all three plans are brevity and a lack of coherence. There is also little precision in the plans' objectives. Indeed, in all three development plans, the same fourteen points have been repeatedly stressed as the objectives for development. There is no one overriding development objective linking the others. This can be seen from the following fourteen specific objectives enumerated in the second national development plan adopted by the government in 1963:¹³

- (1) Diversify the economy to reduce dependency on oil.
- (2) Reduce and avoid marked disparities in the prosperity and growth of different areas and regions in the country.
- (3) Maintain a high level of employment.

10 *National Development Plan, 1953-1958.*

11 *National Development Plan, 1962-1966.*

12 The Sultan's address to the Legislative Council, 27 December 1972.

13 Also enumerated in *National Development Plan, 1975-1979*, pp. 34-36.

- (4) Raise per capita income through the increase of productivity.
- (5) Maintain a relatively stable price level.
- (6) Encourage and foster good industrial labour relations to achieve increased efficiency and higher productivity.
- (7) Achieve a more equitable income distribution.
- (8) Develop an adequate and comprehensive national system of education.
- (9) Develop a comprehensive system of national health services to provide facilities adequate to raise the levels of all aspects of public health.
- (10) Provide adequate public services through:
 - (a) improved communication means;
 - (b) adequate water, sewage and sanitation facilities to all areas of the country;
 - (c) drainage and irrigation facilities for agricultural development, proper industrial zoning, town and country planning.
- (11) Community development.
- (12) Provision of adequate power facilities.
- (13) Cultural development.
- (14) Encourage and promote private sector participation in all aspects of national development projects.

The main problem with all Brunei's national development plans is that they neither suggest how nor at what pace these objectives can be met. Also missing from the plans are the essentials: capital formation, the structure and characteristics of the economy, important development data, and designation of responsibilities.

Despite a long-standing pledge to diversify the economy, Brunei is becoming increasingly dependent on oil and gas exports. Similarly, progress in other major development areas which the government plans to encourage has not been very impressive. The case of employment illustrates this point well.

Granted, the rate of 2.6% unemployment is comparatively low.¹⁴ But the deferment of ammonia and urea plant projects, along with the decision not to go ahead with the petrochemical complex, the timber complex or other related industries, will affect the future employment pattern. It was anticipated that the above projects would create 10,000 new jobs under the Third Brunei Plan.¹⁵ Deferring them has cost the government 3,500 new jobs. Besides, the government has not indicated which other productive sectors, apart from the mining sector, will produce these jobs.

It is impossible to keep track of Brunei's development plans in the absence of development reviews. In 1973, in an attempt to streamline its development policies, the government created the Economic Planning Unit,¹⁶ whose functions include:

- (1) the formation and revision of national development plans.
- (2) co-ordination of technical assistance activities.
- (3) implementation of agreed development projects.

The author's investigations have shown that the Economic Planning Unit has never revised past plans. Nor has it begun to produce a new five-year plan though the present one is due to expire at the end of 1979. If Brunei officials feel any urgency about producing a more comprehensive five-year plan, the author has not detected it. On the contrary, a senior officer¹⁷ of the Economic Planning Unit confessed that any new plan would be an exact carbon copy of previous ones. He also admitted that the present government methods and private machinery to promote ambitious development projects are inadequate. Moreover, he confessed that any abrupt change in the lethargic pace of development may not be well received by the ruling élite.

14 *National Development Plan, 1975-1979*, p. 48.

15 *Ibid.*, p. 43.

16 *Ibid.*, p. 61.

17 Confidential source.

The Third Brunei Plan¹⁸

There is a very striking similarity in the text and presentation of the Third Plan and its predecessor. While the Third Plan should represent the logical extension of the ideas and objectives contained in the previous plan, nevertheless one would expect some new ideas injected into it. The absence of new ideas is not altogether surprising since Brunei development plans only indicate a framework and the general direction for planning purposes. The brief plan lacks essential statistical data and is incomprehensible. Fifty percent of the plan is a repetition of the objectives of the second plan. There is no objective or statistical review of the achievements in the interim. The remaining sixteen pages are divided into six short chapters.

Reading between the lines, one can discern a few ambiguous objectives. At one point, there is mention of creating 10,000 new jobs as the "main objective". Yet in another section, one's attention is drawn to the pitfalls of not taking into consideration economic factors. To avoid such pitfalls, the Third Brunei Plan was

formulated and designed for strengthening, improving and further developing the economic, social and cultural life of the people of Brunei with top priority to be given to the following objectives:

- (a) Maintain a high level of employment; and
- (b) Diversify the economy through the accelerated development of agriculture and industry.¹⁹

Creating 10,000 new jobs between 1974 and 1979 is within the framework of maintaining a high level of employment. To create these jobs and to keep pace with a projected increase in population of 2.3% per annum, the GDP has to grow by at least 2.8%.²⁰ The overall target, however, is to attain a 6.8% GDP²¹ growth per annum. Based on provisional figures between 1974-75, the GDP at market prices grew at 8% and 16.3% between

18 *National Development Plan, 1975-1979.*

19 *Ibid.*, p. 46.

20 *Ibid.*, p. 48.

21 *Ibid.*

1975-76.²² So the attainment of the desired 6.8% GDP annual growth is within limits. But there are two problems. First, in the absence of family planning education, the target of a 2.3% population increase is too high for Brunei. It has been stressed elsewhere that between 1970-71, the population grew at 4.5% per annum. Granted that 1.2% of this annual increase was attributed to immigration, the projected 2.3% annual population growth is still too high. Secondly, GDP growth is not evenly distributed. Growth occurs exclusively in the oil mining and related industries, and this leads to another crucial problem. The oil industry is capital intensive and has reached its optimum in manpower employment. For many years, the annual increase of the labour force in the oil mining sector has averaged slightly more than 120 people. In fact, in 1976 the oil industry employed less people than in the previous year. (For details see Table 4.)

The second major objective of the Third Brunei Plan is the diversification of the economy, emphasizing accelerated agricultural and industrial development.²³ Like the first objective, the second is a repetition of a long-standing government pledge. There is an implicit problem in determining whether this objective can be attained. This is because the government has not specified how and when this objective is to be attained except to describe in very general terms that expansion has to take place "through accelerated agricultural and industrial development."²⁴

It has been demonstrated that progress in the agricultural sector is not very impressive.²⁵ The government has evidently given lip service to this goal. It has also been shown that Brunei is basically an agricultural country. It has no other industries apart from those associated with the production of crude oil and natural gas. Worse still, it has no industrial infrastructure and is very much isolated from Singapore and Kuala Lumpur or Manila to benefit from any spillover. Besides, the petroleum sector is already overloaded. The deferment of the petrochemical project is evident of one kind of overloading.

22 *National Development Plan, 1975-1979*, p. 48.

23 *Ibid.*, p. 46.

24 *Ibid.*

25 B.A. Hamzah, "Political Economy of Oil," Chapter II.

Table 4: Number of Employees in the Private Sector by Major Industry, 1971-76

Industry	1971	1972	1973	1974	1975	1976
Agriculture	598	NA	302	317	303	341
Oil & Natural Gas	2,850	NA	3,238	3,458	3,626	3,621
Sawmilling	431	NA	619	520	553	544
Other Mining	1,245	NA	1,191	1,164	1,451	1,500
Construction	5,416	NA	5,010	4,265	5,487	6,837
Wholesale & Retail	1,342	NA	2,017	1,857	2,112	2,181
Coffee Shop, Restaurant & Hotels	540	NA	753	760	969	964
Transport, Storage & Communication	506	NA	671	697	1,004	1,051
Financial & Business Services	512	NA	547	783	304	805
Community, Social & Personal Services	2,897	NA	1,814	1,632	1,857	1,817
All Industries	16,357	14,289	16,162	15,253	18,066	19,660

Sources: *Labour Department Annual Reports, 1971-1975; Employment Returns, 1976; Brunei Statistical Yearbook, 1975/1976.*

To prove the point that the government has done little towards diversifying the economy, the following statistics on government spending since 1965 were computed. It is possible from these statistics to compare the actual financial disbursements with mere statements of commitment.

Since it is the declared policy of the Brunei Government to diversify its economy via expansion in agricultural and industrial sectors, it is anticipated that the government will allocate more money to these sectors. The statistics in Table 5 will bear testimony to whether the government has actually fulfilled its pledge.

Table 5: Government Current Expenditure by Major Departments (in million Brunei dollars)

Department	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Chief Minister and State Secretariat	.81	1.32	1.32	1.98	1.62	1.96	2.34	2.00	1.81	2.21	4.12
Adat Istiadat*	.29	0.12	0.28	0.23	0.23	0.52	0.60	0.85	0.60	1.30	1.29
Agriculture	1.11	1.38	1.46	1.90	1.85	2.03	2.34	2.18	2.45	3.78	4.25
Radio and Television	1.43	1.44	1.77	1.56	1.76	1.84	1.92	2.12	2.09	2.54	4.25
Royal Brunei Malay Regiment	9.61	19.62	17.97	13.51	19.70	22.28	30.12	29.17	34.95	53.17	97.89
Customs	0.63	0.73	0.82	0.87	0.85	0.98	0.96	1.02	1.06	1.44	1.50
District Offices	1.80	2.38	2.79	3.22	3.47	2.88	2.67	2.69	2.62	3.79	4.42
Education	10.20	13.22	14.52	15.87	17.52	19.39	22.81	25.94	27.99	35.22	41.88
Electrical	2.64	3.74	3.97	4.72	6.35	6.55	7.21	7.19	7.30	8.63	12.47
Fire Services	9.52	0.58	0.75	0.72	0.96	0.79	0.87	0.95	1.02	1.35	1.33
Religious Affairs	2.05	2.65	3.55	4.14	4.49	4.94	5.15	5.92	6.60	8.51	9.69
Marine	0.83	0.85	0.77	0.91	0.89	0.88	0.85	0.88	0.94	1.47	1.30
Medical and Health	4.36	4.93	5.46	6.17	6.29	7.02	7.67	8.38	9.59	12.61	14.98
Municipal	1.63	2.03	2.08	2.28	2.53	2.50	2.74	2.93	3.41	4.90	5.07
Police	3.64	4.15	4.99	5.13	6.08	6.20	7.90	8.77	9.64	12.61	14.98
Postal Services	0.50	0.67	0.79	0.93	0.97	0.91	1.08	1.12	1.14	1.59	1.80
Public Services	9.91	11.98	11.61	12.04	12.66	12.14	12.83	15.20	15.19	23.24	25.10
Survey	0.88	1.07	1.10	1.08	1.15	1.21	1.29	1.26	1.32	1.70	1.66
Telecommunications	1.18	2.17	2.20	1.89	1.62	2.43	2.20	2.81	3.20	3.58	3.17

Note: * Ceremonial Duties

Source: Brunei Statistical Yearbook, 1975/1976, p. 72.

The above figures speak for themselves. In eleven years (1965-75), the allocation for agricultural development grew by only four times, compared with ten times the growth of the allocation for defence, five times that for the Office of the Chief Minister and the State and four times that for education. In absolute figures, for the period under review, the annual allocation to agriculture never exceeded that to each of the following: the Religious Affairs Department, Electricity Board, Radio and Television, Defence, Education, the Customs Department. In fact, in 1972 and 1973, more money was allocated to the Civil List of His Highness, the Sultan of Brunei, than to the Agricultural Department. In 1974 and 1975, the Sultan and his immediate family received \$2.61 million²⁶ and \$2.62 million respectively.²⁷

It is more than apparent that, contrary to the proposed plan, the agricultural sector received very little attention from the government. By the same token, unless the government reviews the whole budget allocation and distribution, the proposed diversification cannot be properly addressed. It is imperative that more money be given to the agricultural sector, but the amount to be given depends on the government's plans and the absorptive capacity of the sector concerned.

The proposed diversification plan includes investment in the following fields:

(1) Rice Production. The plan recognizes that the present output is only between 20-25% of domestic demand.²⁸ The government plans to increase productivity and output to meet 50% of the domestic demand by 1979. The author's figures indicate that the proposed target may not be attained. It will be recalled that the increase in utilized land has been marginal. While output was relatively high during 1973-75, it dipped in the 1975-76 period. The government does not specify how and when it plans to attain self-sufficiency. But it does propose increased productivity via large-scale investments. However, in Southeast Asian rice cultivation, most rice fields are too small and cannot be economically worked on a large-scale mechanized basis. Besides, mechanized rice

26 Unless stated otherwise, all references in the text are to Brunei dollars.

27 *State of Brunei: Estimates of Revenue and Expenditure, 1975*, p. 15.

28 *Ibid.*, pp. 53-54.