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Paper No. 56

Small Enterprise Development and the 'Dutch Disease' in a Small Economy: *The Case of Brunei*

RICHARD HEEKS

April 1998

Published by: Institute for Development Policy and Management
University of Manchester, Precinct Centre, Manchester, M13 9GH, UK
Tel: +44-161-275-2800/2804 Fax: +44-161-273-8829
Email: idpm@man.ac.uk Web: <http://www.man.ac.uk/idpm>

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Richard Heeks
Institute for Development Policy and Management
University of Manchester
Manchester, UK
Email: richard.heeks@man.ac.uk
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Abstract

Following hydrocarbon (oil/gas) discoveries and price rises, a number of small developing economies which had been relatively poor found themselves to be relatively wealthy. However, the existence of significant quantities of minerals with strong export potential has generally been seen as a mixed blessing for national development. All of these small economies have thus adopted conscious policies of diversification aimed at increasing the economic contribution of other sectors.

Initial diversification strategies focused mainly on the development of large enterprises. More recently, though, these economies have begun to take a greater interest in small enterprises. This has chimed with growing recognition of the potential impact these enterprises can have on factors such as employment and income generation, income distribution, and technical innovation.

This paper therefore investigates issues relating to small enterprise development in small, rich economies, choosing the case of Brunei as the main example for discussion. The material presented derives from a research study conducted from 1995 to 1997, including fieldwork and a survey of enterprises in Brunei.

Following the introduction, the paper is divided into five main sections. In the first, some of the benefits and costs of a booming minerals export sector are summarised. In the second, typical responses (in the form of so-called "resource-based industrialisation" and other large-scale initiatives) are investigated; and the need for small enterprise-based diversification is argued. In the third, the state of small enterprise development in Brunei is described. The fourth section analyses the current constraints to the creation and expansion of small firms in Brunei, particularly those constraints that relate to the economic domination of hydrocarbons in a small economy. Finally, conclusions are drawn about the future of small enterprise-based diversification strategies in this small economy.

1. Introduction

Following the oil price rises of the 1970s, many oil-producing developing countries - including a number of small economies - which had been relatively poor found themselves to be relatively wealthy¹. However, the existence of significant quantities of oil, gas or other minerals with strong export potential has rarely been seen as an unmixed blessing for national development. Concerns have come to be focused around concepts of a "Dutch disease" (Corden 1984) or "resource curse thesis" (Auty 1993), which describe potentially negative outcomes associated with an economically-significant minerals export sector. As a result of these concerns and other factors, most oil exporting countries have adopted conscious policies of diversification aimed at increasing the economic contribution of other sectors.

Over a similar timescale, there has been growing interest in the role of small enterprises in national development, and a recognition of the potentially important contribution these can have on factors such as employment and income generation, income distribution, and technical innovation (Han et al. 1985, Thomas et al. 1991, Mead & Liedholm 1998). Many major initiatives have been undertaken by governments and development agencies seeking to assist small enterprise creation and expansion. There has therefore also been considerable work analysing both the constraints to small enterprise development and the nature of interventions and agencies that seek to support this development (Neck & Nelson 1987, Commonwealth Secretariat 1990, OECD 1995).

Much has therefore been written about oil/mineral-based economies and about small enterprise development separately, but very little work has drawn these two strands together. This paper therefore aims to be one of the first investigating issues relating to small enterprise development in a strongly oil-based economy.

One particular economy - Brunei Darussalam (henceforth referred to simply as Brunei) - is chosen as the main example for discussion. The material presented in this paper derives from a research study conducted from 1995 to 1997 in collaboration with the Manchester Business School, which included fieldwork and a survey of enterprises in Brunei.

As Cleary & Wong (1994:3) note, little work has been done on Brunei, yet it has a regional and economic importance well beyond its relative physical size and population. It has also been seeking for some time to diversify from a very heavy reliance on oil and gas, and small enterprise development has come to be part of its diversification portfolio. Relevant lessons can fairly easily be drawn from the paper for other similar small, minerals-rich countries such as those in the Middle East and elsewhere². However, it is also the intention that the analysis will provide useful

¹ The list of those affected includes Algeria, Bahrain, Brunei Darussalam, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad & Tobago, United Arab Emirates, Venezuela and, to a lesser extent, Cameroon, Colombia, Egypt, Indonesia, Jordan, Malaysia, Mexico, Morocco, South Africa, Syria and Tunisia. Other minerals-rich developing economies include Angola, Bolivia, Botswana, Jamaica, Namibia, Niger, Zaire and Zambia.

² For example, Bahrain, Gabon, Jamaica, Kuwait, Oman, Qatar, Trinidad & Tobago, and the UAE.

insights for larger minerals-rich countries and for small enterprise development programmes generally.

The paper is divided into five main sections. In the first, some of the benefits and costs of a booming minerals export sector are summarised. In the second, typical responses (in the form of so-called "resource-based industrialisation" and other large-scale initiatives) are investigated; and the need for small enterprise-based diversification is argued. In the third, the state of small enterprise development in Brunei is described. The fourth section analyses the current constraints to the creation and expansion of small firms in Brunei, particularly those constraints that relate to the economic domination of hydrocarbons in a small economy. Finally, conclusions are drawn about the future of small enterprise-based diversification strategies in this small economy.

1.1 Overview of Brunei

Brunei is a small nation on the north-west coast of the island of Borneo, divided into two areas that are separated by part of the Malaysian state of Sarawak (see figure 1). The southern part consists of three districts: Belait, Brunei and Muara, and Tutong. It includes the capital, Bandar Seri Begawan, most of the population (estimated at about 300,000 in 1997, of whom about two-thirds were Malays and 20% Chinese³), and most of the economic activity. By contrast, the separate Temburong district hosts few people and little economic activity.

Figure 1: Brunei in South-East Asia



In the 13th century, Brunei formed the centre of what was a virtually Borneo-wide Islamic empire. However, both territory and power diminished, particularly following

³ Figures from Eccelston et al. (1998). As Cleary & Wong (1994:2) note, there are problems obtaining reliable statistics on Brunei through a combination of lack of publication, and lack of confidence in the objectivity and/or underlying data-gathering methods of those statistics that are published. Thus the statistics that are used in this paper must be treated with some care. In addition, the latest available statistics are always cited but these, in a few cases, are several years old.

the arrival of Western powers in the 16th century. The Sultan of Brunei retained autonomy with British support but this autonomy was steadily eroded and territory ceded until the formal establishment of a Brunei British protectorate in 1888. A new constitution in 1959 transferred the powers of the British Resident to the Sultan and gave his role a constitutional basis with the promotion of the ideology of a Malay Islamic Monarchy (Melayu Islam Beraja - MIB). This entrenched the political role of the Malays, the importance of Islam, and links between Islam and the state.

In 1962 the then Sultan proposed to join the Malaysian federation. A mass uprising against this was suppressed but the Sultan decided against joining and a state of emergency was declaring that remains in force today. Formal independence from the UK was attained in 1984. The country's legislative council was dissolved the following year and all political parties were banned in 1988. Power in Brunei is therefore strongly centralised, with the Sultan (who also holds the office of prime minister and minister for the interior) governing by decree, assisted by a number of non-elected advisory councils.

In the early part of this century, the Bruneian economy was based on timber, rubber and minerals such as coal, but oil has come to play a steadily increasing role since the sinking of the first exploratory well in 1899. The first commercial well was sunk in Seria in 1929, came on stream in 1931 and, by 1938, formed part of the most productive field in the Commonwealth (Cleary & Eaton 1992).

Gas production for domestic use began in the late 1950s but production easily began to outstrip demand. A decision was taken to liquefy for export production, and this began in the early 1970s with the opening of Brunei's main liquefied natural gas (LNG) plant at Lumut. Income from oil and gas production reached a peak in 1980 and oil production was cut back thereafter with the institution in 1981 of the National Petroleum Depletion Policy, which led production to be capped at 150,000 barrels per day⁴. Brunei is presently the 14th largest oil producer in the world and the 4th largest natural gas producer (Asia & Pacific Review 1995). Japan is now the main market for exports, followed by South Korea, Thailand and other regional consumers.

⁴ This was raised in the early 1990s, partly in response to the Gulf War, to lie at around 170,000 bpd in 1994. Gas production has not been capped and, after peaking in 1980 and then falling again, rose slowly to roughly 27m cubic metres/day in the mid-1990s (Borneo Bulletin 1996).

2. The Benefits and Costs of Minerals

2.1 Benefits of a Minerals-Based Economy

Since its first commercial exploitation, oil has played a dominant role in the Brunei economy:

"By the late 1930s, oil exports accounted for around three-quarters of all state exports by value and the transformation of the economy of the country had begun."
(Cleary & Wong 1994:37)

Oil and gas production have now made Brunei a wealthy nation. It had an overall GDP of B\$7.1bn (US\$5.0bn) in 1996, up from B\$5.1bn (US\$2.34bn) in 1986, and a massive balance of trade surplus: nearly B\$1.0bn (US\$0.7bn) in 1995 on exports of just under B\$3.8bn (US\$2.7bn) and imports of just over B\$2.8bn (US\$2.0bn) (CIA 1997, FEER 1998).

Its mineral wealth has left Brunei with no foreign debt, and has also provided the basis for huge foreign reserves and foreign investments. The Sultan's own personal wealth is estimated at US\$37bn while the Brunei Investment Agency is estimated to have US\$35bn-US\$60bn in overseas assets (Asia & Pacific Review 1995, FEER 1998). Because of this, around half of all government revenue now comes only indirectly from oil and gas, in the form of earnings from hydrocarbon-funded overseas investments.

The other half comes directly from oil and gas production. Nationalisation has not been used but the revenues are drawn from the multinational subsidiaries via three main mechanisms:

- taxation of profits (50% of oil profits and 45% of those on LNG are taken as tax);
- share purchase (for example, the Brunei government owns a 50% share in all the component companies of the main oil company, Brunei Shell Petroleum (BSP));
- royalties (typically charged at between 8% and 12.5% of crude oil prices).

Changes in the way royalties are calculated (now a cost, not set against taxes payable) plus increases in share ownership have helped to shore up Brunei government revenues since the 1970s even though oil prices have fallen overall. The government has also ensured close control of the oil and gas industry through board membership of foreign subsidiaries, through its control of the concession agreements, and through the activities of its two planning and regulatory bodies: the Petroleum Unit and the Brunei Oil and Gas Authority.

Just as the Brunei government has earned huge sums from oil and gas, it has also spent huge sums. In 1995, for example, the government's budget was B\$3.7bn (US\$2.5bn or just over US\$8000 per capita) of which around 30% was capital expenditure (CIA 1997). Through the mechanism of National Development Plans (NDPs), initiated in 1953, the government has thus been able to focus relatively large sums on building the nation's social, human and physical infrastructure.

The state has, for example, spent heavily to provide health and education services that are free at the point of delivery to all Brunei citizens. The result has been a rise in life expectancy (now about 75 years compared to 62 years in 1960⁵), in literacy (to roughly 90%), and in the numbers of university-educated workers, to levels that match those of OECD nations. Similarly, Brunei now has an infrastructure of good roads, port facilities, power and water supplies.

In addition to their welfare and infrastructural provision, individual Bruneians have benefited in employment terms. The high levels of government expenditure have provided a significant proportion of Brunei employment, both within government itself and within those Brunei organisations paid to build the infrastructure or deliver the services.

Bruneians are also relatively wealthy. With such a small population, GDP per capita is necessarily high - at around B\$24,100 (US\$17,000) in 1996 it is akin to the average for all industrialised countries (FEER 1998). Government assists further because there is no personal income tax in Brunei, and power, housing, transport and some foodstuffs are all subsidised.

This, in turn, has helped to strengthen a dramatic rise in living standards and in consumption. TV ownership levels (c.32 per 100 population in the mid-1990s), for example, are now equivalent to levels on the European periphery in countries like Ireland and Israel (UNDP 1997), whilst car ownership rose ten-fold between 1970 and 1990 to one of the highest levels in the world (Cleary & Wong 1994:30). Meanwhile, consumer price inflation has remained low at around 2% per year throughout the 1990s.

The domestic market for goods and services has therefore expanded, providing a target not merely for imports but also for local production. Hundreds of Brunei enterprises have grown up to serve the expanding market, especially in service sectors such as retailing and construction. The main oil company, Brunei Shell Petroleum, has encouraged the sub-contracting of work to local firms; runs management training and related courses to improve its sub-contractors' business skills; and funds a full-time business adviser to assist these firms. It has also initiated a Young Enterprise scheme.

Economic diversification has thus been visible with recent successes in the export of garments and with the oil/gas sector's share of GDP having shrunk from nearly 60% in 1986 to 37% in 1996 (MIPR 1997a).

⁵ Infant mortality has also fallen from 63 per 1000 in 1960 to 9 per 1000 in 1995 (UNDP 1997).

2.2 Problems of a Minerals-Based Economy

Despite the self-evident nature of the economic and social benefits that oil has brought to countries like Brunei, there has been concern for many years that oil - indeed, mineral extraction in general - is not a problem-free driver of the development process.

These concerns have often been corralled under the heading 'Dutch disease'. This term first made its appearance when Holland's manufacturing sector experienced a loss of competitiveness, particularly export competitiveness, following the Schlochteren natural gas discoveries in the 1960s (Struthers 1990). The problem has been mainly laid at the door of an overvalued currency, the appreciation of which, in turn, was blamed on the strength of Dutch hydrocarbon exports (Benjamin et al. 1989).

The Dutch disease or, in its more generic format, the 'booming sector model' is therefore the description of an economy in which there is co-existence of a booming minerals sector and a lagging or shrinking sector. The latter was initially identified as manufacturing, but the ideas have also been extended in other economies to cover agriculture. More recently, the term 'resource curse thesis' has come into use, which hypothesises a wider set of costs to be associated with a booming minerals sector.⁶

From the literature (Jazayeri 1986, Struthers 1990, Fardmanesh 1991), one can distil three main effects/problems that have been associated with a booming mineral exports sector, each of which will be discussed in turn here.

a) *The spending effect*. This occurs when part of the additional income generated thanks to the mineral boom is spent in-country on non-traded goods and services (education, health, welfare, construction, other services), leading to excess demand for these since imports cannot flood in to meet demand and since domestic supply constraints exist. As a result, there is price (and, hence, profit) appreciation. In comparative terms, local production of traded goods becomes relatively less profitable and this encourages its relative contraction.

There has been only a relatively small growth in local production of Brunei-specific goods, but the first outcome has otherwise been seen very clearly in Brunei, with a massive expansion of the non-traded sector in terms of services. For example, spending on health, education, construction and other infrastructural development rose roughly ten-fold between 1970 and 1990. By the early 1990s, the non-oil/gas parts of the economy were completely dominated by non-traded elements (see table 1).

⁶ Davis (1995) usefully distinguishes the two. The Dutch disease is not necessarily growth-inhibiting of itself, but the resource curse thesis goes further and 'interprets a mineral boom as a net economic loss'.

Table 1: Breakdown of Brunei Non-hydrocarbon GDP for Early 1990s

Category	Proportion of non-oil/gas GDP
Community/Social/Personal Services	54%
Retailing	9%
Wholesaling	4%
Construction	8%
Banking/Finance	7%
Transport/Communications	6%
Other (including Traded Goods and Agriculture)	12%

Source: EIU (1994)

Much of this spending effect has been channelled through, and spent on, government services. Government administration doubled in size between 1960 and 1970, and then doubled again to 1980 (Cleary & Wong 1994:29). By the 1990s, therefore, the government sector provided jobs for more than half of all working Bruneians (MIPR 1997b). The spending has not merely created jobs, but very privileged jobs, with generous public sector wages, allowances, subsidies and loans on items such as land, housing, education and cars.

Such spending on the public sector may be a pre-requisite and an enabler of diversification but - as can be seen from the table - it does not, of itself, produce a sound diversified economic base.

b) *The resource-movement effect.* This occurs when the boom in the minerals sector causes the marginal product of factors employed in that sector to be raised. In other words, as the output price of the extracted mineral rises, so does the apparent productivity of production factors such as labour and capital. Where these resources are mobile, they will be drawn out of other sectors into the booming minerals sector. Put more simply, investors will invest capital in minerals rather than other sectors because their investments will bring higher returns, and workers will also prefer this sector because they will be paid more.

Trade in other resource-based products such as coal, timber and rubber was squeezed out of the economy by oil more than 50 years ago. More recently, though, the described domestic resource-movement effect cannot be detected in Brunei; in large part because the hydrocarbon sector has been an enclave, into which only limited local capital and labour can move⁷. The majority of investment in the sector has been foreign, as is the majority of employment, with just over 4000 people (less than 4% of the total workforce in Brunei) employed in the early 1990s (MIPR 1994:17).

The standard Dutch disease model incorporates significant movement of resources out of manufacturing into the mineral boom sector. Brunei, like a number of developing

⁷ Benjamin et al. (1989) and Struthers (1990) see this enclave behaviour and consequent lack of resource-movement effect as a generalisable feature of developing country mineral booms.

countries, has very little manufacturing and therefore few capital or labour resources that would move out even if oil were not an enclave. As noted above, exports of non-oil items like garments do take place but they are haphazard, tiny (less than 5% of exports by value) and, being based on an export enclave model, they have little or no connection with the Brunei domestic economy.

On the basis of cases like this and the particular nature of such manufacturing as does exist in developing countries, Benjamin et al. (1989) therefore argue that the developing country variant of the Dutch disease model sees the resource-movement (and spending) effect adversely affecting agriculture rather than manufacturing.

Certainly, Brunei has experienced a significant loss of competitiveness, capital and labour in agriculture and related areas such as fishing. Employment in agriculture, for example, fell from one-third of the total workforce in 1960 to roughly 3% according to the 1991 census. However, labour and other resources have moved into the sectors that have boomed indirectly because of oil - the non-traded sectors - rather than into oil itself. Brunei's mineral boom has therefore caused major resource movements, but not quite in the manner described by the basic Dutch disease model.

c) *The currency appreciation effect.* According to the standard description, the mineral boom will cause the local currency to strengthen and appreciate. This will hinder exports by increasing their price and will encourage imports by reducing their price, thus discouraging import substitution. In particular, this is felt to create problems for the manufacturing sector as it did in Holland (Struthers 1990).

A strong currency appreciation effect is seen in Brunei, with the currency appreciating more than 35% between 1986 and 1997 against the US dollar⁸. However, the Brunei dollar is held at par with the Singapore dollar and its value is likely to be determined more by the Singapore economy than that of Brunei. Secondly, whilst oil and gas have certainly substituted for Brunei's other natural resource exports over the past 60 years, it has never had any significant manufacturing (or agricultural) exports on which this effect might be seen. Nonetheless, the appreciation of the Brunei dollar will do nothing to assist development of a manufacturing export sector⁹.

In terms of import substitution, this has been limited to date with Brunei, as described below, being highly import dependent in almost all sectors.

⁸ The currency was the least affected in the South-East Asian region by the crisis of 1997/98. It depreciated only 10% against the US dollar before beginning a slow recovery.

⁹ Authors such as Benjamin et al. (1989) and Struthers (1990) have argued that overvaluation of the exchange rate actually assists local manufacturing by cheapening the cost of industrial inputs and intermediates. However, this will only be of value to manufacturing competitiveness where some form of protection exists for manufacturing outputs, and this has not been the case in Brunei.

Other Problematic Mineral-Related Effects

Three other effects, less often or less clearly delineated in the literature, can also be described:

a) *The technology substitution effect.* In theory, the cost of labour is likely to rise relative to the cost of capital as wages are bid up in a booming economy, thus causing a shift from labour-intensive to capital-intensive production techniques (Webster 1993). The first part of the effect has occurred in Brunei and its strong currency should help technology imports. However, technology substitution is by no means universal because:

- the hydrocarbon sector is already highly capital-intensive;
- other potential technology substitution sectors are either small and/or lacking in the skills of technology choice and use;
- in Brunei, as in many other oil-exporting nations, rising local wages have led to an influx of low-wage foreign labour as much as any substitution of technology.

b) *The enclave effect.* This refers more to the lack, rather than presence of, an effect because, as with other mineral boom sectors, the hydrocarbon sector in Brunei has generated few direct externalities despite inducing large infusions of foreign capital and technology. More sector revenues have been invested overseas than locally. Of those invested in Brunei, the majority have been ploughed into welfare, not into manufacturing, and so 'the development potentials of the economy are thwarted by the almost hermetically-sealed nature of the oil industry itself and the revenues generated by that industry.' (Cleary & Wong 1994:100).

Nor - despite the development of a number of local firms through the endeavours of BSP and related companies - have the efforts to promote local sub-contracting been much more successful:

"Overall, the multiplier effects of the oil and gas industries tend to be low. Linkages with the production sector of the economy are weak; much of the technology and machinery continues to be imported with most sub-contracting work going to established overseas firms. A strong network of locally owned and staffed firms catering to the industry simply does not exist. Most of the sub-contracting firms engaged in offshore drilling in particular come from regional offices in Singapore."
(Cleary & Wong 1994:59)

c) *The dependency effect.* The dependence of Brunei's economic development on oil and gas rose quickly from the 1930s and the decline of their significance in the economy noted in the previous section has been more apparent than real. Much of the government and private sector activities in GDP that appear to have grown are financed by oil revenues, with around 90% of government revenue derived directly or indirectly from oil and gas (Cleary & Eaton 1992).

There is thus still an immense economic - and political - dependency on hydrocarbon revenues. Individual jobs, individual lifestyles and even the political stability of the Brunei government depend on the continued high level of spending that these revenues allow. Any sizeable fall in these revenues could have enormous implications. Whilst

GDP is estimated to have grown about 4% per annum on average during the 1990s, the economy is by no means 'bullet-proof'. GDP per capita, for example, fell from B\$57,000 (US\$26,600) in 1980 to B\$25,400 (US\$14,700) in 1991 to B\$24,100 (US\$17,000) in 1996. Similarly, published government revenue fell from B\$8.5bn (US\$4.0bn) in 1981 to B\$3.5bn (US\$2.5bn) in 1995, despite the compensating effects of earnings from overseas investments.

Trade remains equally dependent, with hydrocarbons making up more than 95% of exports by value in the 1990s (MIPR 1994, FEER 1998)¹⁰, and with this sector itself being very export-dependent since the domestic market consumes only about 3% of oil and gas production (Borneo Bulletin 1996). At the same time, growth in local expenditure coupled with declining agriculture and a meagre manufacturing base have helped drive a massive rise in imports and a heavy import dependency. Brunei's need to import 80% of its food is most notable, but it is also almost entirely dependent on imports for supply of manufactured goods, machinery and equipment. Imports rose from B\$1.46bn in 1986 (US\$0.67bn) to more than B\$2.8bn (US\$2.0bn) in 1995 (MIPR 1994:2, CIA 1997).

Davis (1995) combines these elements to create a 'mineral dependence index', made up of a composite of the contribution of minerals to trade and GDP. Brunei ranked second in the world in 1991, only just behind Libya, and up from seventh place in 1970. Although its investments abroad do provide some measure of stability, the Brunei economy still rises and falls with the relative vagaries of world oil prices and it therefore remains singularly vulnerable.

To sum up, the original Dutch disease posited a decline in manufacturing as the result of a booming mineral sector. Brunei's lack of a pre-existing manufacturing base means the Dutch disease cannot be exactly replicated¹¹. However, almost all the negative component effects of the Dutch disease are observable in Brunei. Agriculture has clearly suffered through either direct or indirect effects of the oil boom, and that boom has at the very least created economic constraints to any expansion of manufacturing in Brunei. The only beneficiary sector has been non-tradeable - often public sector - services, which have boomed as much as oil and gas. It is beyond the scope of this paper and of available statistics to argue whether Brunei represents a case of 'resource curse thesis'. What is certain is that its mineral finds have brought problems as well as benefits to the Brunei economy.

¹⁰ A figure that has remained roughly constant since the mid-1970s (Cleary & Wong 1994:58).

¹¹ As with many ideas, much of the writing on the Dutch disease has followed a familiar path - the idea is first mooted in a particular situation and challenges prevailing ideas; other writers provide evidence for a similar phenomenon in other situations; the idea becomes part of orthodox thinking; then other writers increasingly challenge this bandwagon from both theoretical and practical perspectives.

3. Diversification in a Minerals-Based Economy

3.1 The Need for Economic Diversification

It is clear from the evidence presented above, that the Brunei economy - like that of many other oil producers - has suffered a number of negative consequences from its single-minded dependence on oil. Brunei's oil-related problems are sufficient cause in themselves for diversification to be a pressing need, as government has claimed it to be since the early 1960s. In addition, current estimates are that oil will last around 25-30 years at current production levels and gas a further 40 (Borneo Bulletin 1996). This may seem far away, but others have felt that too and the example can be cited of 'Trinidad and Tobago [*which*] failed to diversify its economy before its sizeable reserves were exhausted.' (Auty 1989:371).

Other factors make the need for diversification even more urgent. For example, the population growth rate is 2.5% per annum but already more than one-third of the population is under 14 and half are under 20 (CIA 1997). There are many thousand new entrants into the labour market each year, yet employment in the public and hydrocarbon sectors is largely stagnant, if not declining.

Unemployment levels are therefore rising. Much of Brunei's unemployment may be disguised, but even official estimates show unemployment doubling during the 1980s from around 3.6% in 1981 to nearly 7% in 1992. Unofficial estimates put the level of unemployment at 10% and, in this rich country, poverty has yet to be eliminated, with claims that '20 percent of the population lives below the poverty line of US\$500 a month.' (Bissio 1995:149, Asia & Pacific Review 1995).

The creation of new employment- and income-generating opportunities is therefore imperative from an economic perspective, but also from a political one. Failure to successfully diversify from dependence on oil revenues and growth in the numbers of young, disaffected urban unemployed have played a part in the Islamic resurgence and social/political tensions in many oil-rich countries including Bahrain's mid-1990s' turmoils, the 1990 attempted coup in Trinidad & Tobago and, most notably, the fall of the Shah in Iran.

Underneath Brunei's relaxed and open image, there exists a potentially uneasy mix of Malay, Islamic and Western institutions and values into which there have been large infusions of Western goods consumption and of quasi-Western lifestyles. With religion resurfacing as a potential focus for discontent (given the clampdown on political channels) the regime in Brunei has sought to defuse some potential Islamic pressures through the 1990s' bans on alcohol and pork, the introduction of an Islamic bank, strong 'legitimising acts' of Islamic faith by the Sultan, and the re-assertion of the doctrine of MIB as a defining ideology for the state and its development. However, these pressures would be more strongly defused by economic diversification and consequent job creation:

"Securing a stable economic base and sustainable development are essential if the political stability of the sultanate is to be assured" (Cleary & Wong 1994:131)

3.2 Large-Scale Paths to Diversification

What, then, can be done to assist economic diversification, to reduce dependency and vulnerability, and to create new employment- and income-generating opportunities?

The typical pattern of oil revenue expenditure is common to many countries and falls under three main headings: reducing foreign debt, physical infrastructure (roads, housing) and human "infrastructure" (health, education), and industrialisation (Gelb 1986, South 1988). As noted above, Brunei has already overcome one aspect of dependency by eliminating its foreign debt. As also noted, spending on infrastructure provides direct benefits through workers' wages but is otherwise an enabler rather than direct producer of other investment and wealth creation.

Lesser elements of the typical government spending pattern - heavy defence spending to maintain external but also internal political stability (at US\$268m in Brunei in 1995 it was higher than education and health spending combined (UNDP 1997)), local price subsidies, and the creation of major public buildings (often with the hope of enhancing internal legitimacy in relatively undemocratic societies) - also produces little basis for sustainable diversification.

The focus of this section will consequently be on diversification through investment in industrialisation. The typical industrialisation route chosen has been that of large-scale, resource-based industrialisation (RBI). RBI has tended to take two main forms (Auty 1989). The first is the development of downstream industries that process the hydrocarbons. Examples include oil refining, gas liquefaction and processing, and petrochemicals. The second is the development of energy-intensive industries, generally making use of gas as an energy input (often as an alternative to flaming or venting it). Examples here include iron and steel production; aluminium smelting and rolling; and ammonia and fertiliser production. To some extent bridging the two forms are petrochemicals industries such as ethylene and methanol production.

RBI has dominated as the diversification route in many countries, including Bahrain, Nigeria, Saudi Arabia, Trinidad & Tobago, the United Arab Emirates, and Venezuela¹². Gelb (1986) explains why, in particular, large-scale RBI has been so dominant and so favoured by governments:

- it is highly visible;
- it can absorb large sums rapidly;
- it has a high import content, thus putting little pressure on domestic sectors;
- it creates a source of patronage;
- it promises loan capital via suppliers' credit;
- it promises easy export diversification without hard choices.

¹² Specific examples from small countries include:

- Bahrain - iron and steel production; aluminium smelting and rolling; methanol production; and fertiliser production (South 1988, Auty 1989)
- Trinidad & Tobago - oil refining; gas liquefaction and processing; petrochemicals; methanol production; and iron and steel production (Courier 1993)
- UAE - oil refining; gas liquefaction; fertiliser production; and aluminium smelting and rolling (Ghanem 1992)

Even under ideal conditions, however, RBI investments tend to be 'large, lumpy and risky'; they take some time to show a return; are significantly dependent on foreign skills, capital and technology; create environmental problems; and are subject to fluctuating prices (Courier 1993). In practice, large-scale RBI projects have generally performed poorly or have failed outright¹³ (Auty 1989). They have often led to a build-up of debt and/or recurrent spending commitments, which is particularly hard to bear when oil revenues drop or if investment needs arise in other areas; and they have involved little indigenisation of technological capability (Courier 1993).

"The negative spillover effects from RBI, in terms of capital misallocation and low growth, are substantial. ... The pursuit of ambitious RBI strategies encouraged neglect of the competitiveness of non-hydrocarbon tradeables" (Auty 1989:370-371)

RBI has therefore diverted attention away from other diversification strategies, and runs the risk of exacerbating rather than relieving Dutch disease-type effects.

Given the importance of political, in addition to economic, motivations for RBI investment, it is no surprise that part of the root cause of RBI problems is political. There has been poor project appraisal by appraisers working to governments with vested interests in having the projects proceed. Projects have often been state-owned in order to reinforce government's control over resources and outcomes, leading to difficulties in running these enterprises on business lines. These factors have intertwined with managerial and economic factors such as poor projection of future costs and competition, downturns in the world market for project outputs, capital cost overruns, high recurrent costs, and poor management (Auty & Gelb 1986, Gelb 1986).

Ever since the 1960s, there have been plans in Brunei to move into RBI. Areas then identified for investment and diversification include production of fertilisers, plastics, and other hydrocarbon-based products, and the trend continues today with industries to be encouraged through granting of 'pioneer status' including cement, glass and fertiliser production, iron and steel rolling mills, and industrial chemicals. Given the record of RBI in other countries, it is fortunate that such plans have so far come to naught.

Brunei's only two forays into RBI are the Seria refinery and the LNG plant at Lumut. The former is small, uneconomic in any global sense and runs below capacity, but was built largely as a political decision (Cleary & Wong 1994:56). The latter exports most of its output to Japan, with a little being used for local electricity generation. However, this can hardly be classed with the examples above, since limited local

¹³ Examples include Bahrain's iron and steel plant, which was a white elephant with no real orders (South 1988, Auty 1989); Trinidad & Tobago's steel plant, which was largely a failure (Auty & Gelb 1986, Auty 1989); and 'Cement factories in the U.A.E. [which] are running at a loss', surviving only through government contract subsidies (Ghanem 1992). Small countries have particular problems in reducing the risks of RBI: large projects are more likely to dominate the local economy; the countries are less likely to have money to invest in several diversified RBI projects; there are fewer physical inputs locally; there is a larger need for export sales; less chance of vertical integration; and more chance of MNC domination. Auty (1989) finds that, in practice, small countries tend to be more prudent and so offset their theoretical disadvantages. However, RBI still retains all its central problems for these economies.

demand made the only alternatives to building the plant quite unrealistic: flaming, venting or use in some massive industrial project.

Brunei has thus had many RBI-related plans but has not progressed very far down this route. This seems fortunate because, given the problems associated with RBI, plus the small size of the economy and the competition from similar production regionally, it is clear that RBI does not represent a sound diversification strategy for the country.

3.3 Alternative Diversification Strategies

If RBI is not to be advocated, where else can the country turn? Apart from the apparent success of Royal Brunei Airlines, most other attempts at large-scale commercial projects have not been successful in Brunei. In manufacturing, 'the apparent slow response of large-scale industries' (MIPR 1994:10) is noted, and in agriculture/agro-industry large-scale projects covering cattle raising, rice growing or prawn farming have largely failed.

Indeed, any attempts at boosting agriculture appear doomed for, in spite of huge government investments, this sector seems to have entered a terminal decline which can be blamed on poor land quality and drainage; lack of interest from Bruneians due to the attractions of other sectors; and rigidities in the system of land ownership that make transfer difficult and post-transfer tenure often insecure. Fishing is similarly in decline and timber is being conserved, with doubts that timber profits are 'in any way equivalent to the non-timber benefits of the forests as a resource.' (Cleary & Eaton 1992:224).

Only one diversification strategy therefore seems to present itself - the development of the small-scale sector in manufacturing and services. The necessity for such a strategy has not been lost on the Brunei government:

"It is imperative that the government facilitates and promotes the development of the local fledgling SMEs"
(MIPR 1994:2)

4. Status of Small Enterprise Development in Brunei

If the encouragement of small enterprise development needs to form a central plank of Brunei's diversification strategy, it will first be useful to survey the status of small enterprise development in the country to see how far such diversification has progressed. Initial statistics cover all enterprises but, given the preponderance of small enterprises (and the lack of other statistics), these will be taken as a useful input to understanding small enterprise in Brunei.

4.1 Overall Sectoral Distribution of Enterprises

Private sector enterprises were distributed as indicated in table 2 in 1988.

Table 2: Distribution of Private Sector Enterprises in 1988

Sector	No. of establishments	Percentage of total
Wholesale & Retail Trade	702	27%
Construction	508	19%
Community, Social & Personal Services	427	16%
Mining & Manufacturing	367	14%
Coffeeshops, Restaurants & Hotels	166	6%
Transport, Storage & Communication	158	6%
Financial, Insurance & Business Services	154	6%
Agriculture, Forestry & Fishing	147	6%
Total	2,629	100%

Source: MIPR (1994:16)¹⁴

Distribution of enterprises was largely the same in 1992, by which time there were 3,502 active registered establishments (MIPR 1994)¹⁵. This represents a net average annual growth of just over 7% in the number of enterprises and the government therefore admits that overall there has been 'slow growth both in quantity and quality of entrepreneurs.' (MIPR 1994:11). The rate of new enterprise creation will be higher than these figures suggest because the net growth includes enterprises that have failed. There are no official figures on the failure rates of Brunei enterprises. However, interview data from banking and accounting firms suggested that under half of all start-ups survive for more than five years.

Statistics provided by Storey (1994) allow some cross-country comparisons. The failure figures are of the same order as failure rates in other countries. However, while Brunei firms may be failing just as well as anyone, other international comparisons show how small enterprise formation in Brunei lags behind. Scaling down the business

¹⁴ Figures are based on registered, active enterprises. Registration takes place with the Registrar of Companies and Names, a step taken by the majority of enterprises. Only enterprises named after the full name of the owner have a legal choice about whether or not to register.

¹⁵ A further 2,335 establishments were registered but not considered active. In addition, there were unregistered enterprises in the 'informal sector consisting of very small, domestic-based, part-time enterprises... which cover such activities as traditional handicraft, processing of foodstuffs and dress-making.' (MIPR 1994:3).

numbers proportionately to Brunei's population, one would expect Brunei to have 15,000 businesses if it were a mini version of the UK and 17,000 if it were a tiny Greece. Even incorporating inactive and unregistered businesses, it seems likely to have only about half this number. Allowing for business failures, Brunei's annual start-up rate is around 10% of all establishments, well below UK estimates of 14% and estimates for various developing countries of more than 20% (Mead 1994).

The sectoral distribution of private sector employment follows similar, but not the same, lines as that of establishments, as shown in table 3.

Table 3: Sectoral Distribution of Private Sector Employment in 1990

Sector	Employment in 1990	Percentage of Total Private Sector Employment	Employment Growth Since 1979
Construction	20,718	38.6%	136%
Wholesale & Retail Trade	6,916	12.9%	164%
Mining, Quarrying & Manufacturing	5,580	10.4%	243%
Community, Social & Personal Services	4,433	8.3%	86%
Oil & Gas Production	4,170	7.8%	-6%
Transport, Storage & Communication	3,935	7.3%	160%
Coffeeshops, Restaurants & Hotels	3,113	5.8%	147%
Financial, Insurance & Business Services	2,955	5.5%	176%
Agriculture, Forestry & Fishing	1,091	2.0%	109%
Sawmilling & Timber Processing	702	1.3%	22%
Total/Average	53,613¹⁶	100%	117%

Source: MIPR (1994)

Services (construction firms, traders/suppliers, shops, contractors) therefore constitute around 85% of all business establishments and 80% of all private sector employment in Brunei.

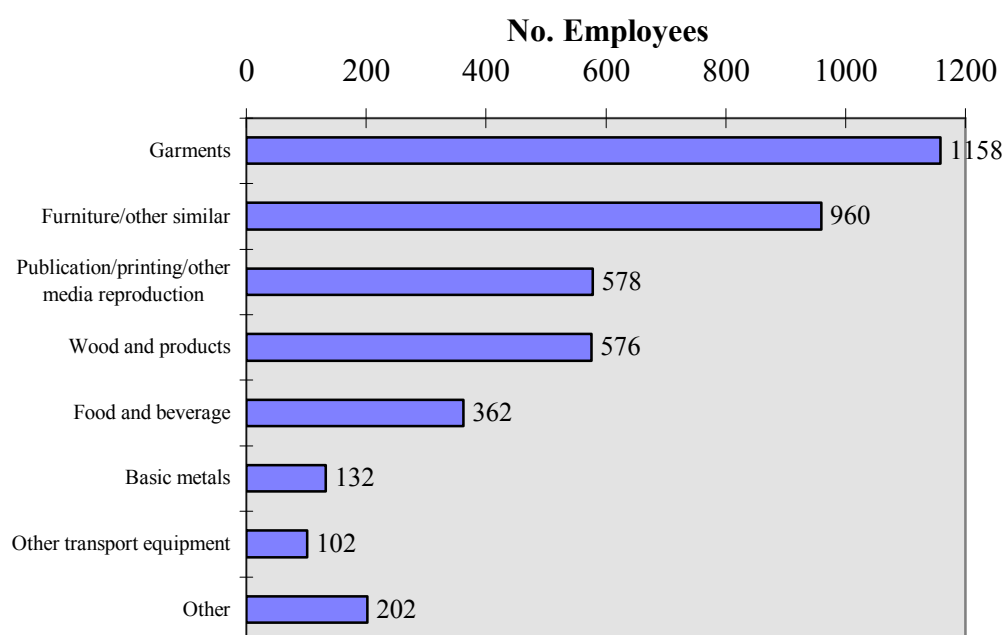
¹⁶ By 1992, the total numbers employed in the private sector had risen to 63,118, representing just over half of Brunei's total workforce (MIPR 1994). (The majority of this workforce is foreign, so this does not contradict the earlier assertion that government employs more than half of working Bruneians.)

In economic terms, manufacturing represents Brunei's mainstay - but only when one includes the oil and gas sectors. Excluding the hydrocarbon enterprises, manufacturing remains poorly developed. Non-oil manufacturing makes up two-thirds of all manufacturing employment and - as can be seen from the table - has been growing rapidly (from a small base) during the 1980s and 1990s. However, it provides only 10% of manufacturing value-added and, at most, 3% of exports, and so hardly appears as a category in GDP tables (Cleary & Wong 1994:99).

Even this may overstate the extent of activity in this sector. Bankers holding accounts or loans for entrepreneurs found only around 2% to be 'genuine manufacturers'¹⁷. There were a somewhat larger number of enterprises that are sometimes included within manufacturing including service activities like car repair, printing or equipment maintenance, and traders erroneously claiming to be undertaking manufacturing.

The 1991 census employment figures provide the following breakdown for manufacturing activities¹⁸.

Figure 2: Breakdown of Manufacturing Employment by Sector (1991)



Manufacturing activities are therefore clustered around a very few segments, with little diversification. The first sample survey for the research reported here provided an estimate that, in 1995, there were about 70 garment firms, 25 furniture and related firms, 30 operating in wood and products, and 40 in food and beverages (printing and related businesses were excluded from the survey's definition of manufacturing). The

¹⁷ Many accounts of supposed entrepreneurs were found to show very erratic activity - very occasional credits, a batch of debits coming all together, and long periods of inactivity. These enterprises could be classified as quasi-failed - they continue to exist in theory but only because they are not the main source of livelihood for the entrepreneur.

¹⁸ 'Furniture/other similar' is assumed to cover building materials and concrete products firms. The 'other' category includes metal fabrication, textile production, electrical equipment assembly, production of specialised fibreglass and plastic products, jewellery and handicrafts such as ceramics. These figures suggest that manufacturing provided just under 4% of total Brunei employment in the early 1990s.

extent of employment diversification is also much less than indicated, with under 20% of manufacturing employees being Brunei citizens.

4.2 Enterprise Size

The most up-to-date comprehensive figures relating to enterprise size produced by the Brunei government are shown in table 4, but they unfortunately date from the late 1980s.

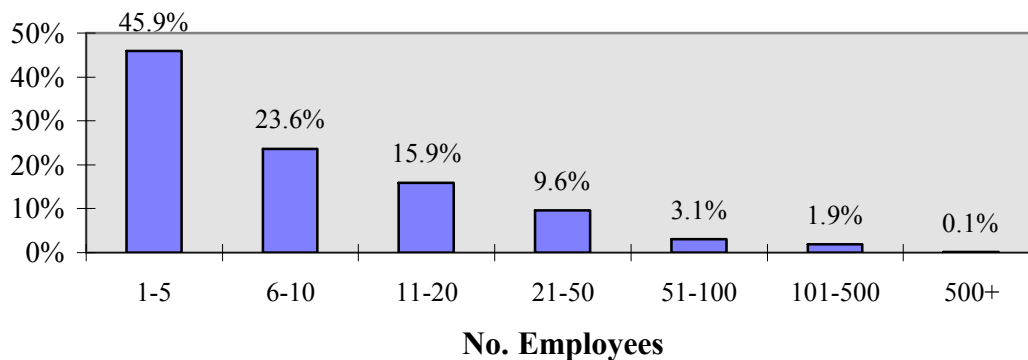
Table 4: Breakdown of Brunei Private Sector Enterprises by Size (1988)

Sector	Total No. Establishments	No. of Employees						
		1-5	6-10	11-20	21-50	51-100	101-500	500 +
Wholesale & Retail Trade	702	395	182	82	28	12	3	-
Construction	508	158	89	107	85	32	36	1
Community, Social & Personal Services	427	221	116	57	25	7	1	-
Mining & Manufacturing	367	155	99	49	45	15	3	1
Coffeeshops, Restaurants & Hotels	166	44	41	55	20	4	2	-
Transport, Storage & Communications	158	76	31	25	15	8	2	-
Financial, Insurance & Business Services	154	64	29	26	30	3	2	-
Agriculture, Forestry & Fishing	147	93	33	16	4	-	1	-
All Sectors	2,629	1,206	620	417	252	81	50	3

Source: adapted from MIPR (1994)

Figure 3 summarises the figures across all sectors and shows that, by any definition, small enterprises dominate the economy, at least in numerical terms. The Brunei government's only size-related definition is that of 'small and medium enterprises', which are those employing 100 workers or less. On the latest estimates, SMEs therefore accounted for 98% of all private sector establishments; c.90% of all non-oil, private sector employment; and 68% of total employment. Brunei has a far greater proportion of small and very small firms and employment than the average OECD country, but these figures fall within the typical range for a developing country.

Figure 3: Distribution of Brunei Private Sector Enterprises by Size (1988)



These figures only cover registered enterprises. Not surprisingly, the first survey, undertaken in 1995, uncovered a greater proportion of micro-enterprises than the figures here would indicate. It was estimated that 80-85% of manufacturing enterprises had less than 10 workers, compared to 69% with less than 11 workers in the government's figures. A number of these unregistered micro-enterprises were engaged in handicrafts production.

According to the government, Brunei's smaller firms mainly comprise a 'low-capital, low-technology and labour intensive type of set-up.' (MIPR 1994:2). Quality of production is often poor with the local market generally presenting little challenge since, as one interviewee described, "you don't have to be excellent in the Brunei market in order to survive, you just need the right connections."

4.3 Trade

Brunei's manufacturing exports are very limited, with at least 90% of domestic manufacturing production being sold in-country, and with non-oil manufacturing making up less than 3% of all exports. The largest single part of these is represented by the output of the two enclave garment factories which, for example, sold around US\$11m-worth of goods, mainly to the US, in 1994. Apart from this there have been just a few items of furniture, bricks, tiles and similar items exported to the adjoining Malaysian states.

Imports are more widely used. One interviewed commentator put forward figures that three-quarters of firms source more than 50% of their raw materials within Brunei, but the survey pointed to even greater import dependency since it was common to find firms which sourced only power and water locally, importing virtually everything else, including the majority of their labour inputs.

The main model for manufacturing businesses in Brunei is therefore foreign input, domestic output. The only exceptions have been the export-processing garment firms and the local sourcing of some wood-based and similar natural resource-based enterprises.

4.4 Summary

The good news for Brunei is that small enterprises dominate both its services and manufacturing sectors, though this is hardly surprising.

The bad news is that numbers of start-ups and overall numbers of enterprises fall way below those of other countries. Those that do exist have not accomplished much, scoring poorly on sectoral range, employment generation, growth, output quality, import dependence and exports. Small manufacturing enterprises in particular have been rare and those that do exist are not performing well.

The next section examines the constraints that help to explain the quantitative and qualitative underperformance of Brunei's small enterprise sector to date.

5. Factors Underlying Small Enterprise Development in Brunei

Why should it be, given the conscious encouragement of small enterprise development in Brunei, that this development remains limited in terms of both quality and quantity?

To investigate this question, it will firstly be necessary to understand the factors that support or constrain the start-up and growth of small enterprises, in order to investigate their presence or absence in the Brunei context. The factors used here are drawn from Grindle et al. (1989), Commonwealth Secretariat (1991), Vivarelli (1991), Mead (1994), and Storey (1994). For convenience of discussion, they have been divided into five domains. The factors listed are all positively associated with enterprise start-up (S) and/or growth (G) and/or protection against failure (F):

- **'Pull'/price incentive drivers:** the existence of market demand and the potential for profits and/or greater than current earnings (S&G).
- **'Push'/labour market drivers:** unemployment levels (S); family background in business (S); personality/motivation of entrepreneur (S&G); experience in enterprise and/or management (S&G); level of education (G).
- **Access to inputs:** finance; skills/labour; technology; information (S&G).
- **Firm strategy/behaviour:** breadth of product/customer range (G&F); growth (F); business planning (G); the number of enterprise founders (G).
- **State policy:** provision of some inputs (S).

5.1 Incentive/'Pull' Factors

The existence of a small enterprise sector relies on at least some from the pool of potential entrepreneurs taking the plunge and setting up a business. The main factor highlighted in inducing entrepreneurs to make such a decision is usually seen as the financial incentive, created from a combination of existence of a market, evidence of market demand and some, at least perceived, likelihood of creating a self-employed wage or profits.

With Brunei being a relatively rich country with high levels of personal consumption, one might perceive a strong pull. However, as Storey (1994:70) points out, the rate of small business start-ups seems relatively independent of overall wealth or consumption levels. What matters more is whether wealth creates demands that local small enterprises can meet. In this case, that part of the Dutch disease known as the spending effect should work to the benefit of start-ups and enterprise growth with the boom in non-traded goods and services. Certainly, this impact is detectable, for example in the significant number of businesses that have set up within community, social and personal services, or within retailing. The dependency effect has also been beneficial, with the boom in imports providing the basis for the creation of several hundred import/wholesale small businesses.

Personal Incentives

However, in other ways, Brunei's high levels of wealth seem to work against small enterprise development, or at least to cause incentive drivers to differ along ethnic lines. The presence of the booming oil sector has driven up wages in Brunei in all sectors, and the spending effect has created a large, well-paid public sector from whose ranks many potential entrepreneurs could be drawn. Because of Brunei's citizenship laws, these public sector employees will be mainly Malays (also known as bumiputrans - literally, sons of the soil).

When these employees retire, they come to form the major source of Malay entrepreneurs. Some of them will be relatively young, for example, retiring after only a five- or fifteen-year service contract or commission. They nevertheless receive a generous pension, typically 75% of last pay drawn, and a sizeable provident fund payment, typically between US\$30,000-150,000.

Herein lies the problem - for most Malays, moving into business is most certainly not an economic necessity. Hydrocarbon revenues have meant that both current and retired public servants are sufficiently well-off that there are few financial incentives for them to risk either their salaries and perks, or pensions and 'nest eggs', on a move into private sector entrepreneurship. Even the unemployed are well provided for through the incomes of other family members.

Thus, Malays seem to move into business more as a way of doing something they would find interesting or through spotting what they perceive to be a relatively easy way to make a bit of money. This latter rationale has also constrained business start-ups since Malays can make less risky investments with higher returns by investing in land or property (which only Brunei citizens can own) rather than business, or through investing overseas rather than locally.

The majority of Malays interviewed had gone into business following an idea from a friend or information that a single contract was coming up for which they could tender if they had their own business. This, in turn, helps explain the far greater focus on commerce rather than manufacturing and the poor rates of enterprise growth, leading the government to bemoan the fact that enterprise managers 'are not professional, dynamic and growth and expansion oriented' (MIPR 1994:5). One facet of the Dutch disease has therefore been the creation of a major disincentive to the formation of small enterprises in the country and a lack of motivation for growth in those that do exist.

By contrast, Brunei's Chinese population has been largely excluded from citizen status. Consequently, Chinese make up only 5% of citizens but 65% of the country's 'permanent residents' and 47% of 'temporary residents' according to the 1991 census. As non-citizens, the Chinese are denied access to public service employment opportunities or general welfare benefits or ownership of land (in which much Malay wealth is held). For the Chinese, moving into business therefore is an economic necessity and virtually the only available option in order to survive. It is clearly ironic that the government's attempts to protect and succour the Malay population are

actually harming it in the long-term by forcing the Chinese to become the nation's entrepreneurs¹⁹.

Given this background, how does one explain the apparent creation of several thousand small businesses in Brunei; frequently in tradable sectors such as construction, restaurants and hotels, furniture and food; and frequently with a bumiputran in charge?

The principal explanation is that of local market requirements, which take two forms. Firstly, there are some localised bumiputra consumer demands - for particular local designs to be incorporated into furniture or garments, or for food to be prepared in a particular way - which imports or foreign firms would be unable to provide. Secondly, there are some localised business practices which exist. When a firm does business with any of the 'big three' - government, Brunei Shell Petroleum, or Royal Brunei Airlines - there is a formal need for there to be local (i.e. bumiputran) ownership, and there is an informal need for someone who has local (i.e. bumiputran) connections.

BSP, for example, requires 100% bumiputra ownership for its 'low-technology' suppliers. For other suppliers only majority bumiputra ownership is required but, if two tenders are deemed equivalent, the firm with the greater bumiputra equity will be awarded the contract. Firms wishing to get contracts therefore typically work with equity levels around the 90% mark.

These rules and regulations would apparently create the incentive framework for a burgeoning Malay business sector and culture, and explain the appearance of bumiputra businesses noted above. In reality, however, this is mainly 'window dressing'. Ownership rules are subverted in two ways. Firstly, by the creation of subsidiaries with much greater non-Malay (typically Chinese) equity, into which funds are diverted. Secondly, by the fact that the Malay partners are usually sleeping partners who are not involved with the running of the enterprise. Known locally as 'Ali Babas', these partners will give their name to the firm in exchange for a percentage of profit, a percentage of turnover, or a direct commission payment based on winning a contract through their local connections. Those with good connections are often highly prized and are requested to act as partners in many different firms. As well as providing the contacts that lead to contracts, the Malay partners can also help keep government inspectors at bay.

Many of these supposed entrepreneurs often risk little in salary and privilege terms. Some retain their public sector or large company jobs and create the business in, for example, their wife's name²⁰. They - and the retirees with pensions - also often risk little in investment terms, with the equity being provided by the external investor in the case of 'Ali Baba' firms.

¹⁹ Reflected, for example, in the 1991 census which showed a far smaller proportion of the Chinese population was unemployed compared to the Malay and a much higher proportion was listed as 'production craftsmen' and 'managers'.

²⁰ Round-table meetings with some public officials are therefore punctuated with gaps during which they step outside to answer their mobile phones and thereby undertake their business dealings.

There are signs of change, with a few Malay partners taking an interest in their businesses, a few Chinese managers trying to select more active bumiputra partners, and pressure from the large purchasers to remove the most blatantly inactive of the Ali Babas. Nevertheless, it was still found that the Chinese - who form 5% of Brunei citizens, 17% of the Brunei population (i.e. including residents), and 34% of those employed in manufacturing - make up 75-90% of active enterprise managers. The inability or unwillingness of Malays to take up genuinely entrepreneurial positions coupled with signs of Chinese emigration in response to their exclusion from citizenship (Asia & Pacific Review 1995) only exacerbate the dangers of this ethnic skew.

Market Size

With a population around one quarter of a million, even a mainly wealthy quarter of a million, Brunei does not win any market size prizes. To this may be added the enclave effect described above - that, whilst several hundred small enterprises have business links with the hydrocarbon sector, the overall economic externalities and generated business opportunities are tiny compared to the amount of money circulating within the sector and to external firms. Market size is further restricted by competition from imports and high local costs.

By and large enterprises can only move into areas where localisation is key, as described above where local consumer demands or local contacts are critical, or where scale economies do not readily exist, as in some of the service sector activities that typify Brunei small enterprise. Although these niches do exist, the overall effect is to further limit the potential for both start-up and growth of small enterprises.

The obvious conclusion is the need to increase potential market size and, hence, production scales by addressing the export market. Here, however, a number of problems lie:

- To a certain extent, Brunei is an island of wealth in a sea of local poverty. At least on Borneo, overall income levels are low and export opportunities are thus limited. Such opportunities are further constrained by Brunei's lack of an accessible hinterland and the relatively poor links to the rest of Borneo.
- Where regional markets exist - for example in Singapore or mainland Malaysia - someone has already got there first and is likely to be producing high quality, low cost products which present a considerable export barrier to new entrants from a relatively unchallenging economy. It is questionable whether most current Brunei businesses could gear up production quality and capacity and reduce production costs sufficiently to enter the export market. For example, Brunei itself is part of an ASEAN initiative to increase regional manufacturing but one of its plans is to locate an industrial estate in Indonesia - where labour costs are low - rather than in Brunei. In addition, ASEAN's tariff reduction initiatives are by no means complete, so that import tariffs provide an additional barrier to regional exports.
- Exporting requires considerable effort in going overseas continuously, obtaining information, making contacts and winning contracts, and then ensuring that the product is produced on time, in sufficient quantity to sufficient quality. Some existing entrepreneurs frankly admitted that it just seemed too risky and tiresome

compared to making less money by staying home and relying on their existing contacts.

- The general trend (recent blips notwithstanding) of continuing strength and appreciation of the Brunei dollar hampers exports.

Brunei's only real success in exports has been in garments using an export processing zone model for a couple of firms which rely on foreign labour and high import intensity and which therefore bring few benefits to Brunei other than those which would be achieved by investing in a similar factory overseas.

5.2 Labour Market/'Push' Factors

The previous section looked at the factors which affect the demand for entrepreneurs. This section looks, overall, at whether or not conditions in Brunei are propitious for a supply of entrepreneurs to meet that demand (such as it is).

Unemployment

Given the evidence of a positive association between unemployment levels and rates of business start-up, one might see Brunei's growing unemployment rates as a ray of hope for the small enterprise sector. Unfortunately, this is not the case because, as noted, family support ensures that the unemployed feel few financial pressures. The most frequent categorisation of the young unemployed was into those who were waiting for a well-paid public sector job to come up; those who had decided to join the ranks of the "idle rich"; and those who were turning to drugs and crime (with considerable overlap between the groups). Many were seen as using the businesses of other family members like their own personal cash source to purchase status symbols and as having little inclination to go into business. Although these perceptions are undoubtedly stereotyped, they hardly give much hope that any further rises in unemployment will be a spur to small enterprise development.

Personal Background and Motivation

Vivarelli (1991) cites the entrepreneur's desire for greater use of his/her own technical abilities and for independence as the two key push factors correlated with business start-up. However, Lim (1985) describes the lack of technical tradition, the limited desire for independence, and the greater interest in belonging to large, secure organisations among Malays, particularly when compared to Chinese populations.

The desire for financial independence has often been seen as a strong motivator for female entrepreneurs, though this is clearly tempered by cultural context. There are no survey figures on male and female entrepreneurs but interview responses lead one to estimate that perhaps around 20% of those calling themselves entrepreneurs are women, compared to an estimate that 32% of the adult labour force is female (ILO 1997). One may easily hypothesise various socio-cultural constraints on female entrepreneurship to explain these figures. On the other hand - although not supported by any independent evidence - there was a widespread perception among finance and other support institutions that women were more 'serious' about making their business

succeed. This was said to be indicated by greater reliability in loan repayments and less likelihood of spending their business' money on personal consumption status symbols.

Family history is a key influence on entrepreneurship, with estimates that between 20% and 47% of those entering or in business have a father who was also in business (Storey 1994:64). The lack of either a significant Malay business tradition or of Malay-run businesses in recent years has meant that virtually no Malay citizen has a family history of enterprise. By contrast, Chinese entrepreneurs often have a family background in business and move directly into business themselves after some employment with another family enterprise. As already stated, the Chinese have the further spur of being an excluded and socially marginalised group.

Wider than this, entrepreneurial motivations are dampened because business itself has yet to attain the social status it has in other countries. Interviewees cited a number of social events in which seating and similar arrangements make the 'pecking order' clear. On these occasions, entrepreneurs come virtually at the bottom of that order. There is resonance with nineteenth century British society and the views of the aristocracy that enterprise in general and manufacturing in particular was somehow an unseemly, ungentlemanly pursuit. In the UK, other fractions of society were present for whom this social repudiation was a stimulus to greater enterprise. Unfortunately, Brunei society is too small and too homogeneous for this to occur.

The attitude to business has also had the effect of making those who do set up on their own want large, overt symbols of their 'success'. As a result, they divert enterprise cashflow or even loans into conspicuous consumption rather than into the business. As one interviewee summarised:

"Those who want status don't go into business; those who go into business want status and so spend the business' money on cars, mobile phones and other symbols."

From this attitude flow many of the problems of Brunei enterprises such as a lack of financial discipline or long-term planning.

Most interviewees (both Chinese and Malay) reported examples of bumiputran motivational deficits in small enterprises - of those who left work after a few days because they found the nature of work not to their liking; of those who showed no desire to be trained to improve their performance at work; of those who showed no aspiration to be promoted. Bumiputran employees were thus relatively rare in many small and medium enterprises, despite governmental pressures to hire them. The principal explanation is, at best, that many Bruneians take a private sector job just as a stop-gap (for example, to please their parents) until a job with the 'big three' arrives and, at worst, that in such a wealthy society, a non-work culture is emerging. Not only do these explanations bode ill for direct entrepreneurship in Brunei, but the consequence - a lack of experience in enterprise management - is equally troubling in the longer term.

Previous Enterprise and Managerial Experience

Previous experience of working in a small enterprise is positively associated with enterprise start-up, while previous experience of management is positively associated with both the likelihood of start-up and subsequent enterprise growth. Like entrepreneurs worldwide, those in Brunei tend to move into an area with which they are already familiar - something related to other family businesses in the case of many Chinese entrepreneurs; contracting or supply work for some ex-government officers; and car repair or construction for ex-armed forces staff.

However, it was clear from interviews that the type of management experience picked up by the largest group of potential entrepreneurs - retiring public servants - is not particularly relevant to the world of small enterprise. The relatively small number of small enterprises also means there are not yet enough to constitute a 'critical mass' that would create a sizeable number of new spin-offs, at least amongst the Malay population.

The high failure rate and poor performance of many small enterprises suggests that, even when entrepreneurs have small enterprise experience, few of them are learning or developing capabilities which can be transferred to new enterprises. Rather, they are continuing to manage informally and poorly with few signs of improvement on the basis of experience.

Educational Level

Higher levels of education are correlated with higher start-up rates in some studies (though not in others) and with higher enterprise growth rates. Thus, one of the very few factors in favour of small enterprise development in Brunei is the heavy investment the state has made in education of its citizens. However, the quality of education has been questioned (Bissio 1995:149) and, even if this is a positive factor arising from the state's considerable oil earnings, it is overwhelmed by negative ones including the lack of appropriate skills.

5.3 Access to Inputs

No business can be started or developed without access to a wide variety of inputs, some of which are discussed below.

Access to Capital

Brunei is a very wealthy country by almost anyone's standards and yet, bizarrely, entrepreneurs face difficulties in getting access to capital for start-up or expansion. There are massive funds available for investment from the oil and gas surpluses but the Brunei Investment Agency has invested these overseas rather than in local projects because of the higher returns this brings. The same is even true of deposits with local banks, 80% of which are invested overseas, with the remainder invested mainly in "personal loans, constructions and general commerce. In 1989 only [B]\$12 million out

of total domestic lending of \$967 million was directed into investment in manufacturing." (Cleary & Wong 1994:114).

Apart from the fact that they are financially unattractive because of the higher risk and lower rates of return they offer (which, in turn, relate to factors outlined elsewhere such as the motivations of Brunei entrepreneurs, and the skill, cost and demand constraints they face), Brunei start-ups have trouble getting funding because banks apply very traditional methods of loan scrutiny. They typically require either cash, property or land title as collateral²¹ plus some personal or business credit record. The banks also like to see some of the entrepreneur's own money being invested and to judge the borrower's "character" through references and/or an interview. All of this acts to exclude some proportion of the potential entrepreneur population. The one group that can easily get a loan - government servants and others employed in the 'privileged sector' who have their salaries paid into the bank - are those who are least likely to be using loans for entrepreneurial activities.

The financial institutions find themselves hampered in their decision-making by the lack of information on business finances and personal creditworthiness. One of the major banks turned down roughly 90% of proposals where the proposer was not one of their own customers because other banks either refuse to divulge information, or provide misinformation in an attempt to mislead; because there are no credit agencies or blacklists to help; and because company accounts are not audited and so are untrustworthy.

With a number of banks, business ideas, having overcome the barriers described, only needed some semblance of financial viability in order to be funded. Only one or two institutions required anything approaching a business plan, and trust/character seemed to figure far more prominently in bankers' deliberations. Similar criticisms are levelled at bank loans in other countries, but it seems particularly true of Brunei that the process of seeking credit does little if anything to assist the entrepreneur and is not sufficiently related to the business viability of their proposal.

Finally, those who do get loans are hit by the parity between the Brunei dollar and that of the much larger Singapore economy. This has meant that local interest rates are largely determined by Singapore rates and so are often higher "than local conditions would otherwise dictate" (Cleary & Wong 1994:114).

It had been the intention that the government's Economic Development Board would help to plug financing gaps. It had a Small-Medium Enterprise loan scheme for Malay citizens that has been operational since 1977 with a revolving fund of B\$100m, which provided a loan of up to B\$1.5m (c.US\$1m) at 4% interest rate to be repaid over 12 years. However, as with other finance sources, the EDB required collateral and

²¹ Business assets purchased with loans are not accepted. Land in Brunei is often the major asset owned by a borrower but regulations mean that its acceptance as potential collateral, let alone its realisation as collateral through transfer of title, would have to be sanctioned at the very highest levels of government. The effect is to greatly restrict the use of land as collateral. This holds for the Islamic banking system as well. Its only difference relates to the inability to charge interest on a loan but the end result is much the same - the entrepreneur "sells" some collateral item to the bank and then "buys" it back over time for a larger sum - the effect being that they are given a loan against collateral which is paid back with interest.

suffered from a degree of bureaucratisation, with some interviewees reporting waiting times of up to three years for loans to materialise. Largely due to these problems, the EDB itself found little demand for enterprise funding, particularly manufacturing, and its disbursements therefore did not match the initial intentions, as the estimated breakdown in table 5 indicates.

Table 5: Economic Development Board Lending

Loan Rationale	Proportion of All Loans
House-building or purchase (mainly for subsequent letting)	65%
Purchase of taxi or other transport vehicles	11%
Other construction	6.6%
Retail shop purchase/construction	4.4%
Miscellaneous, including manufacturing/cottage industries ²²	4.2%
Other denoted uses (petrol stations, agriculture, fisheries, restaurants, garages)	8.8%

The Board's work has now been largely taken over by the Development Bank of Brunei, but there has yet to be any sea change in capital availability for local entrepreneurs.

Foreign investment could also plug financing gaps and it has been ploughed into a few select areas, but principally into hydrocarbons. In other sectors, the other ASEAN markets appear more lucrative than Brunei, and Malaysia's nearby Labuan Island, for example, is well ahead of the game in attracting foreign investment into regional production. The lack of basic business information on Brunei - market sizes, costs, supplier/customer/joint venture contacts - also hampers foreign investment.

All of these constraints have meant that - as in most countries (Vivarelli 1991, de Wilde et al. 1991:21) - small enterprises in Brunei have relied to a very large extent on self-financing for start-up and self/internal financing for expansion. Craftsmen retiring from government service receive a B\$50,000 lump sum and senior officers receive B\$250,000. Given that a number of the interviewed entrepreneurs had started up with investments of around B\$20,000, family members are provided with significant internal resources to draw upon. Whilst this limits expansion and has certainly hampered some of the more entrepreneurial businesses, it has also fitted the motivations of many of those who set up small enterprises.

Access to Skills/Labour

Brunei's entrepreneurs are adversely affected in two ways by problems with the local labour market. Firstly, as already pointed out, the high wages and good terms and conditions offered by the oil-fuelled employers (government, hydrocarbon sector and airline) make it very hard to attract local employees into any other job. Secondly,

²² It was reported that the manufacturing component consisted mainly of a single loan to a fish processing joint venture.

there is a lack of relevant skills in many areas including accounting, engineering, production work, etc.

There have been three main results:

a) Those Bruneians who do possess relevant skills are 'picked off' by the large private sector concerns with generous packages that reduce their incentive to go into business for themselves.

b) Many small enterprise jobs, particularly in sectors such as construction and manufacturing, have been filled by non-Bruneians. According to the 1991 census, 40% of the working population was 'imported labour' (MIPR 1994:4). Some, for example in oil, are hired because they possess premium-rated skills and others because employers see foreigners as less demanding, harder working and more reliable than local staff (EIU 1994). However, the main motivation is that foreign workers, such as those from Indonesia or Bangladesh, can be paid much lower wages than the Bruneian 'going rate'. Brunei's censuses have thus shown that the average wage in non-oil manufacturing is roughly half the average for the rest of the economy.

This has therefore meant that the contribution of small enterprises to the employment of Bruneians has been rather small, with less than 25% of all private sector workers and less than 20% of manufacturing employees being Brunei citizens (Borneo Bulletin 1996).²³ Even this figure is an over-estimate since it excludes the significant numbers of illegal immigrants working in Brunei. Such numbers arise because of the tight quotas and conditions imposed on legal immigration by the Labour Department within the Ministry of Home Affairs.

Typical outcomes of a legal application for foreign workers include agreement for only a minority of the workers applied for; the requirement for a bank guarantee for each worker (e.g. B\$3600 for a UK expatriate); and a requirement in certain sectors to hire one bumiputran at a specified salary level for every expatriate employed. In addition to illegal immigration, these barriers have also led to the creation of bogus enterprises which apply for a quota of workers and, on having some approved, transfer them illegally for a commission to genuine firms in need.

c) Despite the use of cheap foreign labour, wage costs in Brunei are relatively high in regional terms. It is, for example, cheaper to pay for an Indonesian factory worker in Indonesia than in Brunei. In addition, any Bruneian employees are paid far more than comparable workers in, say, a Malaysian or Indonesian enterprise. The result has been the production of high cost goods and services in Brunei that cannot compete outside their local market in cost, let alone quality, terms.

²³ This scenario - of indigens perceived by employers as languid and of a large pool of mainly low-paid foreign labour - is common to a number of other small, oil-rich states, such as Kuwait and Bahrain (South 1988, Khorshid 1990).

Access to Management Skills

From interviews one can conclude that the principal management skills lacunae in Brunei small enterprises are:

- Financial management. Typical problems were a complete lack of realism in cashflow forecasts, a failure to understand the principles of giving and receiving credit causing the business to run out of money, and a failure to separate personal and business finances.
- Inventory management. Typical problems were buying up stock that would then sit unsold for months, or running out of production inputs leading to poor continuity of supply.
- Marketing and promotion. Typical problems were a failure to identify and analyse possible markets, and an inability to sell into those markets through failures such as poor packaging or distribution.
- Production management. Typical problems were failure to choose and efficiently use production technology, and producing goods or services of inadequate or inconsistent quality.
- Human resource management. Typical problems were failure to recruit staff with the required skills and experience, and failure to train, motivate or retain existing staff.

As noted above, despite some honourable exceptions, there are signs of a lack of learning on-the-job, and of experience therefore failing to upgrade these skills.

The Brunei education system does attempt to provide both business-related management skills and experience with, for example, the Bachelor in Business Administration at the University of Brunei Darussalam and the HND in Business and Finance at the Institute of Technology. The training content of these programmes is generally good, and includes placements and the running of a trial business venture. However, the courses only graduate about 50 students per year and, of these, less than 5% have gone into business for themselves, with the remainder heading into the public sector, existing private enterprises such as banks, or remaining unemployed. Their impact on the skills deficit is therefore limited.

Access to Technology

As described in previous sections, one can see the pre-conditions for a 'technology substitution effect' associated with the booming oil sector. As wages in the general economy rise, so it becomes progressively more attractive to replace labour with capital goods in the form of new production technologies.

In practice, the effect is undercut by the infusions of cheap foreign labour; by the limitations on access to finance for acquisition of inputs like technology; by the lack of technical awareness among entrepreneurs; and by the lack of skills in both choosing and using new technology. As a result, outdated and/or underused equipment still abounds within Brunei's small enterprise sector, contributing to wastage of investments and low productivity levels.

Access to Information

Entrepreneurs need several kinds of information in order to start up or develop their business, including:

- Market demand information (e.g. how big the market for their potential product is)
- Legal information (e.g. what legal requirements there are for starting up a business)
- Financial information (e.g. the prices of raw materials and machinery)
- Technical information (e.g. how best to produce their intended product)
- Competitor information (e.g. who else is producing a similar product)

There are two main barriers to accessing this information in Brunei.

Firstly, the lack of formal information sources. The only formally-produced information consists of government information on incentives and promotional industries; sample business plans available on request for priority industries; and Brunei's Yellow Pages. Other lists of businesses occasionally emerge, for example, from the Chambers of Commerce. There is no clear legal responsibility for businesses to file accounts, so most do not, and there is no use of even the most generalist media to disseminate usable information about business. Entrepreneurial requirements therefore remain unfulfilled.

The lack of information relates in part to the small size and youth of the Brunei market, but also to the second main barrier - the lack of an information culture. The government's culture - that values secrecy but not formal information - is repeated in the private sector. Business opportunities are mainly identified by word-of-mouth and entrepreneurs are therefore loath to discuss their business with anyone, since it is easy for someone else to step in and 'steal' or tender for a contract (even at less than cost, given the business subsidies that pensions or the income of other family members can provide). The lack of formal accounts or other company information reinforces this trend, since business decisions have then to be made on the basis of rumour, reputation or recommendation rather than more objective information.

As such, entrepreneurs in Brunei can only work if they have access to informal information networks and this tends to restrict the range of 'players' and range of business activities.

Access to Other Inputs

Access in Brunei to other inputs that enterprises require is characterised by high prices and supply uncertainty, constraint and delay.

The restrictive nature of land regulations has already been noted, and this hampers businesses in other ways. Land is often made available as a temporary-owned lease, which is renewable every year, the uncertainty of which discourages business investment. Even longer leases are generally for less than seven years. In addition, as discussed below, state-controlled industrial estate sites are hard to obtain and often not as suitable as those available privately. Pressure on land and property has also pushed rent prices up.

The fact that most raw materials, intermediate inputs and all capital goods have to be imported pushes prices up and creates supply uncertainty. Finally, the utilities may be competitively priced thanks to large government investments but they can also be slow, with connections for phones, for example, taking from one month in the centre of Bandar for those with contacts to as much as one year in outlying districts.

5.4 Enterprise Strategy/Behaviour

The strategy adopted by an enterprise has an obvious impact on its chances of both survival and growth. For example, as discussed in the following section, the existence of business planning as part of an enterprise's activities is associated with higher levels of enterprise growth.

Business Planning

Unfortunately, few feasibility studies or business plans are created in Brunei during the process of business start-up or expansion. Even when they are created, the content of such studies and plans is frequently poor, being based on guesswork and hearsay rather than properly researched data, reinforced by the lack of internal information on their own performance (even accounts) that enterprises generate. These deficiencies reduce the likelihood of businesses being granted access to finance and other necessary resources, reduce the likelihood of growth, and increase both operational inefficiency and the likelihood of business failure.

This situation arises from the motivational, skills and information deficits described earlier and from the uncertainties inherent in reliance on imports, on small and narrow markets, on outdated technology, and on informal contact networks. The situation is perpetuated by the fact that the main resource providers do not require feasibility studies or business plans as a mandatory step in accessing resources. As noted, finance providers have been more concerned about other factors (collateral, track record, reputation, commitment of personal funds and informal connections with bank officials) than with business plans. Although they want business proposals to appear viable, and would require something approaching a full plan for the largest loan applications, viability may be judged on the contents of single sheet of paper (i.e. not even a basic feasibility study) plus an interview with the proposer for small businesses.

Most parts of government issuing business approvals and resources (business registration, business licences, labour quotas, town and country planning licences, utilities) concern themselves little, if at all, with the related business plan.

The exception to this rule - and then only to some extent - has been the Ministry of Industry and Primary Resources (MIPR), particularly its One-Stop Agency (OSA), as a resource provider of land. It has sometimes used business plans as a way of judging whether or not land should be granted to an entrepreneur. However, lack of a unified approach adopted by all Ministry staff; under-staffing in certain areas; completion of plans by government staff rather than entrepreneurs; and lack of a package of support measures have produced only intermittent pressures on entrepreneurs.

Other Enterprise Strategies

Other factors associated with small enterprise survival provide cause for concern in the Brunei context.

a) Breadth of product and customer range. The wider an enterprise's range of products and/or customers, the more likely it is to survive. In Brunei, however, many enterprises, once created, stick with the same product line that they first developed an idea for, and the same few customers that they already knew of through family or friendship contacts. Few of the enterprises surveyed had considered diversification, and still fewer had any relevant ideas about how diversification might be achieved. Given the product and size limitations of Brunei's domestic market, even those who were trying to diversify had not found it easy.

b) Growth. Not surprisingly, the most significant prophylactic against business failure is growth, yet the majority of Brunei small enterprises encountered during interviews did not appear to be growing in terms of either turnover or employment. As already noted, these outcomes often appeared to be rooted in the particular motivations of the main entrepreneur.

c) Number of founders. Enterprise growth is found to be positively associated with the number of founders of the business. Whilst the use of spouses and 'Ali Babas' led to some confusions on this, it appeared that the majority of Brunei businesses surveyed had just a single founder.

5.5 The Policy Environment

Review of Past Government Support for Small Enterprise in Brunei

Brunei is currently on its seventh national development plan (NDP 7). All its plans have attempted to set some kind of framework for the internal investment of the country's oil revenues. As can be seen below, a review of the previous plans presents a rather sobering history of largely failed exhortations to diversify. This summary is largely drawn from the comprehensive work of Cleary & Wong (1994), and page numbers are cited accordingly.

- Brunei's first five-year national development plan encompassed the years 1953-58. Its main aim was infrastructural development and expanded social services. Efforts to encourage diversification were included, but this meant irrigation and rubber seedlings nurseries whilst '...in expanding non-oil related industry, little was actually done.' (p80).
- Diversification was one of the 'key economic objectives' (p81) of NDP 2 (1962-66) but most money was actually spent on infrastructure, education and housing. Agriculture still formed the main diversification channel, although 'A number of potential areas for manufacturing growth were noted with feasibility studies

proposed for developing the use of glass sand deposits²⁴, timber processing and fertilisers.' (p82). Little was spent on industry and the next plan concluded that NDP 2 'did not contribute significantly' to diversification.

- 'The aim of diversification dominated NDP 3.' (p83), which covered the period 1975-79. It wanted to create around 10,000 new jobs and it recognised the importance of manufacturing. But, as ever, 'In terms of diversification policies, rhetoric was perhaps greater than investment.' (p84) - 'the budget for industrial diversification projects was tiny'; only 10% of the allocated budget was spent; and non-oil manufacturing's share of GDP fell from 1.19% in 1975 to 0.55% in 1979. There were unsuccessful attempts to start work on major industrial project ideas of a pulp-mill, ammonia-urea and glass manufacturing industries.
- The major objective of NDP 4 (1980-84) was 'diversification through the development of agriculture and non-oil based manufacturing industry' (p85), yet expenditure on industry as a proportion of total plan expenditure fell by two-thirds, and less than 25% of the allocated industry budget was spent. As usual, most money went on social services, transport and communications infrastructure, public buildings (with very large sums being spent in the run-up to Independence), security and public utilities.
- Within NDP 5 (1986-90), 'economic diversification policies assumed a key role. Strategies of both export-oriented industrialisation and import-substitution industrialisation were espoused in the programme.' (p86). For the first time, plans began to put their money where their mouth was, with industrial development programmes receiving 10% of budget of which half was specifically for industrial promotion. Some diversification outcomes also began to emerge in the form of the two textile exporting factories; and dairy products, canned drinks and bottled mineral water factories. However, the link between policy inputs/investments and outcomes is not entirely clear. The Industry Unit had been a department under the Ministry of Development but, on Jan 1st 1989, a new Ministry of Industry and Primary Resources was created.
- The chief aim of NDP 6 (1991-95) was 'to establish a sustainable and diverse economic base.' (p88), and there was a desire to focus on high value-added and capital-intensive industries. Trade and industry was given 10% of the budget, although this also included substantial spending on agriculture and forestry, so that less than one-fifth of this amount (around B\$55m in all) was allocated to industrialisation. In 1992, a Trade and Industry Development Council was set up to secure greater investment in industry and to promote diversification. Social services (housing, education, public facilities) still received three times more than the whole of trade and industry.

Plans and the bureaucracy only paid lip service to diversification until the late 1980s, and this history fits well with Auty's (1994:24) assertion that the richer the natural resource endowment, the longer lax policies are tolerated and the less pressure there is to achieve rapid industrial development. Early plans were beset by a lack of any monitoring and evaluation mechanisms, and were structurally constrained by the lack of a focal responsibility for achieving particular objectives and by the top-down nature of the bureaucracy, which discouraged initiatives or frank reporting of progress.

²⁴ Glass is a recurring Bruneian industrial theme, the most recent variant of which was the 1989 feasibility study for a silica glass plant undertaken by the Commonwealth Secretariat - from which nothing materialised.

Cleary & Wong (1994:141) are convinced that "Economic planners now fully recognise the need to place diversification at the heart of development strategies". Yet there remains a continuing sense of "We'll get it right next time", with a recent statement that the next development plan would represent a change from the past and 'would be aimed at diversifying the economy' (FEER 1998:86).

Nevertheless, the creation of bodies such as the Ministry of Industry and Primary Resources and the Trade and Industry Development Council do indicate a greater seriousness of purpose, which has led to a range of current interventions which are described and analysed below.

Industrial Estates

The Ministry of Industry and Primary Resources has a system for approval of small enterprise start-up proposals. At present, however, the only asset over which the Ministry has control is its monopoly on access to land in industrial estates; a power that has been ceded to it by the Ministry of Development. As a result, only those entrepreneurs who want such land come to the Ministry, probably representing somewhere around 5% of start-ups.

When these entrepreneurs do come to the Ministry, they are faced by a number of difficulties. The staff in the Ministry's One-Stop Agency appear keen to assist small enterprise development but themselves have no control over the allocation of estate sites, which are controlled by the Ministry's Industrial Promotion Unit. Worse, agreement over provision of utilities and over labour, construction, premises and import permits does not fall within the OSA's remit, but within that of departments in other Ministries or government bodies.

The resultant rounds of paperwork, meetings, poor coordination and internal wrangling mean that, on average, it takes roughly two years from application to operational industrial estate unit of which proposal processing can constitute up to half. This can only be sped up if the entrepreneur has contacts in the relevant departments²⁵. Despite its aspirations, the One-Stop Agency is therefore unable to be any such thing and had come to be christened the 'Full-Stop Agency' by entrepreneurs, undermined by being given responsibility but not power.

The tremendous sensitivities around land also hamper the Ministry. Temporary, annually-renewable leases on estate land can only be granted to part-time or non-commercial units. For all typical enterprises, a leasehold arrangement is made for a number of years. However, it is politically almost impossible to reclaim the site during the period of the agreement if the entrepreneur does not set up a business. The result is that the Ministry is very wary of allocating land to entrepreneurs without a track record in business, but also that many allocated sites are nevertheless unused and unusable until their lease expires.

²⁵ As one entrepreneur put it, "There's the quick queue at the back door, and the slow one at the front door of every department." As Blunt et al. (1989) explain, in interactions with government officials in Brunei, time is commoditised, and it is through relations or friends that an entrepreneur avoids expending too much of this commodity.

In deciding on a location for a start-up business, Brunei entrepreneurs are influenced by the availability of transport, power and other infrastructure, on which estate and non-estate sites score about evenly; and by the availability of premises, on which estate sites can score more highly given the high demand for business premises outside estates. However, the outputs from the survey coincide with the work of Ramachandran (1993) in citing proximity to home - for financial, trading and social reasons - as the main factor determining new small enterprise location. In this, not surprisingly, the estates are rated worse than locations within or near to the entrepreneur's home.

Existing businesses that had wished to relocate also exposed the problems of state-provided premises. Entrepreneurs had turned down sites and premises for being too small; for having a paint-spraying business next door employing men which was felt to be inappropriate given the number of women workers in their own business; and because, to quote one, 'the place was fit for monkeys but not for my people'.

Adding to this the ignorance of many entrepreneurs about the One-Stop Agency and industrial estates, the fact that most of the 12 estates are located outside the capital, and the heavy time/bureaucratic overhead of obtaining an estate site, then it is little wonder that the estate scheme has not been a great success. Cleary & Wong (1994:112) estimate that only 3% of enterprises were estate-located by the mid-1980s and there was little evidence that this figure had changed by the mid-1990s. Demand was far greater for the privately-built 'shop-houses' (residential quarters upstairs, commercial quarters downstairs) which are often booked up immediately they are proposed, let alone built.

Brunei is not alone in the problems of industrial estates:

"To a politician, an industrial estate is a symbol of importance, similar to a large factory, that shows off what he or she has accomplished for the electorate. Unfortunately, the concept has a long history of failed effectiveness. ... Generally, industrial estates do not meet the needs of small entrepreneurs." (de Wilde et al. 1991:19)

However, where Brunei does suffer particularly is from the fact that its estate policy is MIPR's main, not to say only, instrument to support local small enterprise development.

Finance and Incentives

The only direct financing scheme in operation has been that of the Economic Development Board/Development Bank of Brunei which, as noted above, has found itself having to provide loans mainly for property development. Company tax - normally levied at 30% of profits - is not payable by sole proprietorships or partnerships, thus providing some incentive for small firms.

A programme of incentives is also available to 'pioneer status' firms, including customs duty exemption and a tax holiday for two to eight years, depending on the amount of capital invested. However, the main focus of this policy has been to encourage firms of a sufficiently large scale to have an immediate potential for exports, and it has been envisaged more as an attraction to foreign rather than domestic capital. As stated already, many of the pioneer sectors fall within the category of RBI (including the ever-popular 'glass') to which are added such oddities as toys and tissue paper. By 1997, only 11 applicants had even been granted pioneer status, let alone set up an enterprise to take advantage of it, so that this bias against small enterprises has had little impact.

Finally, a number of government departments were criticised for late payment of invoices, which particularly hampers small firms with their more limited cashflows. (To be fair, there were clearly two sides to this problem, with the poor financial acumen of entrepreneurs also being behind their failure to correctly document or follow-up their invoices.)

Other Interventions and Other Institutions

The government's only other promotional intervention is in marketing, where it has helped to fund trade exhibitions in Brunei and external trade missions. Although such activities undoubtedly bring some benefits, the achievements to date appear to have been modest.

There are a large number of other approvals about utilities, use of premises and use of labour that businesses are supposed to seek from different arms of government. However, these are merely regulations that link to no provision of promotional assistance. As a result, although only a very few enterprises operate without dealing with any state agency, some do operate without having all the necessary approvals.

Given the difficulties associated with government agencies, one might hope that Brunei's Chambers of Commerce could act as alternative enterprise support institutions or even just as policy lobbyists. Unfortunately, the Chambers that exist are held in very low regard, epitomised by the views of one interviewee: "They are just little cabals; a network of friends looking for the opportunity to be chosen for trips overseas. We worry that any problems, opportunities or information divulged to them would be used for the business gain of the senior members." These bodies are therefore not currently politically credible as a source of assistance to Brunei business or as a source of representation. This may help to explain the lack of promotional policy interventions for business in Brunei.

Analysing Small Enterprise Policy in Brunei

Policy Focus and Priorities

Despite an increasing rhetoric of small enterprise support, the focus of business policy has mainly been to try to encourage large enterprises; those with foreign investment; and those with export potential. In sectoral terms, the government still remains far more committed to assisting agriculture, fisheries and forests than other sectors.

These former sectors receive technical, marketing and training assistance that is not available to industry or services and a sense of priorities can be seen in the staffing of MIPR, described in table 6.

Table 6: Breakdown of Staffing in Ministry of Industry and Primary Resources

Sector	Number of staff
Agriculture	2,000
Fisheries	100
Forestry	100
Central Administration	40
Industry	40

Even this under-estimates the extent of the skew to agriculture since many of the industry staff are seconded from, or have a background in, agriculture and can be poorly attuned to industrial issues and requirements. There are three industry-related staff in outlying MIPR offices but, despite a debate about their acting as industrial extension officers, they remain clerical staff who merely collect rent.

The figures presented are changing as the Ministry re-orientes itself more to industry and less to primary resources. An example of this re-orientation was the 1996 restructuring, which included the creation of a new Resource Centre for small enterprise and the Brunei Industrial Development Authority within the Ministry. However, the restructuring was at least partly about division of the spoils of government.

The Resource Centre was the name given to the remainder of Sinaut Agricultural Training Centre after its training function was transferred to the Ministry of Education. It has run the risk of being seen as a body searching for a function and, in any case, focuses on 'enterprise' in agriculture, fisheries and forestry. In a similar way, the Development Authority's creation was used to facilitate transfer of the Department of Co-operatives from the Ministry of Home Affairs to MIPR. Structures have therefore been determined as much by politics as by any business objectives.

Because change has been difficult to achieve and partly politics-driven, policy has virtually nothing to offer the vast majority of Brunei enterprises which are small, local in financing and focus, and in the service sector. Even the assistance government does provide - industrial estate premises - is not what most entrepreneurs want, and what most entrepreneurs would want from support agencies - such as technical and marketing assistance - they do not provide.

Lester (1995) categorises the Brunei government's policy as indicated in table 7.

Table 7: Dimensions of Small Enterprise Support Policy

	Low Promotion	High Promotion
Low Selectivity	Model A	
High Selectivity	Brunei at present	Model B

The government's strategy has been to assist very few enterprises, by being highly selective, and yet to offer those selected very little in the way of support, such as investment, training, etc. More fruitful models have been:

- Model A: providing limited support measures, but making these widespread and focusing more on the development of entrepreneurs rather than enterprises. This is based on the understanding that, with this 'scattergun' approach, at least some of the interventions will have a positive impact.
- Model B: making an effort to pick winners but then 'putting your money where your mouth is' and providing a substantial battery of supports, at least initially, to ensure that these enterprises have a real chance of becoming operational in the case of start-ups or sectoral leaders and/or exporters in the case of existing enterprises.

Government Institutions

Internally-focused rather than demand-led supply of services is typical of small enterprise development agencies (de Wilde et al. 1991:20). One may seek a greater understanding from the work of Gibb & Manu (1990), who describe a contingent model of best practice for enterprise support agencies which would seek as close a match as possible between enterprises and support agencies on a set of dimensions. Of these dimensions, the three most critical are those of people, structure and process. Analysed in this way, one can see problems in all three areas for the development of small enterprise in Brunei:

a) People. Government support agencies are staffed almost entirely by Brunei Malays, and it is entrepreneurs from this ethnic group that the agencies explicitly seek to assist. Given that a large pool of potential entrepreneurs is formed from retired civil servants, the match here is excellent. However, the difficulty remains that, currently, the majority of active enterprise managers are Chinese whereas most Malays have little incentive or background to drive them into business. In addition to the 'people mismatch' between agencies and entrepreneurs, there is thus the greater problem that those being given the support - the Malays - do not really want it, and those who might want it - the Chinese (most of whom are not Brunei citizens) - are not the intended recipients. The underlying desire and need for training is reflected in the composition of open-access training courses in business topics run by colleges and private sector training organisations, which report Chinese making up 75-100% of the participants.

Nor are government civil servants seen as models for entrepreneurship. Many, it is true, are able individuals who want to help their country develop and perceive themselves to be trapped within a system they feel powerless to alter. However, there

is another part of the picture, as exposed in Blunt et al.'s (1989) survey work, in which Bruneians rated incompetence and laziness as the main explanations for delays in their own government offices²⁶. Half of those surveyed thought it best to have little to do with government officials; a feeling reflected by a majority of entrepreneurs.

b) Structure. Government agency structures are large, heavily bureaucratic, hierarchic and centralised, with the Ministries of Finance, Defence and Development calling the shots and with MIPR well down the 'pecking order'. MIPR (and, indirectly, small enterprise development) remains heavily dependent on Finance, through which every voucher spent has to be routed, and Development, which controls most utilities plus construction and premises approvals.

Yet government is run through with a culture of patron-client relations and deference to superiors. The result is that each Ministry (and each department within a Ministry) is treated as a personal fiefdom that is practically at war with the other fiefdoms.

The lack of co-ordination between parts of government has already been noted in connection with industrial estates. It is seen in the overlapping roles within MIPR of the One-Stop Agency, the Resource Centre, the Brunei Industrial Development Authority, and the Industrial Promotion Unit. It also applies to overall enterprise development policy planning and implementation since at least three separate bodies in government - MIPR, the Ministry of Development's Bumiputra Guidance Unit, and the Ministry of Finance's Economic Development Board (its role now taken over by the Development Bank of Brunei) - plus Brunei Shell's Bumiputra Development Unit - have played a role in this field without there being an operational mechanism for coordination between any of them.

Government therefore provides neither a good match nor model for Brunei small business.

c) Process. As a result of the people and cultural issues already described, government processes are slow, overly bureaucratic, and essentially reactive and inward-looking. Other results include:

"Disowning of problems and an abdication of responsibility for the search for solutions. ... Avoidance of data gathering on the causes of problems. ... Erection of barriers to change." (Blunt 1993:129)

"Initiative and innovation is to a large extent stifled because of concerns that particular courses of action, particular decisions, might have adverse personal consequences." (Cleary & Wong 1994:129)

There are no incentives for staff to do their job well, to keep materials and interventions matched to requirements or even up-to-date. Nor, ironically, are there sufficient resources in this rich country for many types of interventions since 90% of MIPR's budget is already committed to staff costs. Such interventions as do arise are generally on the 'one size fits all' model rather than driven in any way by client requirements. Again, these are very different from the characteristics of small

²⁶ Overwork and corruption were not highly rated as explanations.

enterprises, at least of the active and successful enterprises. As one entrepreneur put it, "Working as they do, the idea of them giving advice to me is a joke - I should be the one helping them out."

From all these three viewpoints, then, there is a poor match between the government agencies and the enterprises they seek to assist.

5.6 Summary

Growth of small enterprises has the potential to diversify the Brunei economy away from its oil dependency and away from the negative effects of the Dutch disease. Such diversification is seen and the above analysis should not be seen to deny the fact that there are skilled, motivated Brunei entrepreneurs - both Malay and Chinese - who have started up and are running successful small enterprises.

Through an understanding of enterprise drivers and constraints, it can be seen that there are some positive factors present within the Brunei context that can encourage small enterprise development, including:

- A high proportion of rich Bruneians within the local market with money available for consumption or for investment in self- or family-owned enterprises.
- A marginalised group with entrepreneurial roots (the Chinese) which needs to turn to enterprise if it is to remain in Brunei.
- Peculiarities of local consumer demand which act as an effective barrier to imports.
- A high level of educational provision, including specific entrepreneurship training.
- A policy that includes specific provision for small enterprise assistance and a number of active and capable government staff who wish to support small enterprises.

Unfortunately, the successful entrepreneurs are the exceptions rather than the rule, and they have got where they are by battling against both social and economic constraints.

Some of these constraints can be seen as relatively generic, such as the lack of business planning and some of the barriers to enterprise input access. We might also include here the role of government, which has been over-regulatory and under-promotional; has prioritised agriculture and large, foreign-owned, export-related industrial projects; and has failed to match the realities of Brunei small enterprise in staffing, structure and process. A few constraints are relatively specific to Brunei, such as the schism between the Malay and Chinese communities, and the culture of informality and secrecy.

Others, though - indeed, the main constraints - arise from the particular and difficult combination that is the focus of this paper: mineral riches with their Dutch disease spin-offs within a small economy. Together, these have created the main barriers to small enterprise development by stifling pull factors.

In a country with a small population, mineral riches have enabled a large proportion of that population to be placed in well-funded government jobs, thus removing financial

incentives for the majority population. The domestic market is so small that scale economies for domestic-focused producers are negligible. It is reduced still further because the hydrocarbon sector remains a virtual enclave, and because mineral wealth drives a phenomenal level of imports. All that remains for local producers are a few Brunei-specific niches that are easily saturated and are not the basis for an export trade that would be needed to create scale economies. Mineral wealth has also driven up labour costs and the local currency, thus placing export markets even further out of reach.

Having a small, mineral-rich economy therefore chokes off the incentives that draw entrepreneurs out. In turn, this reinforces push factor constraints - the lack of unemployment incentive, and the lack of family backgrounds and experience in business for the Malay population. This also reinforces the lack of access to enterprise inputs, by creating:

- an extensive focus on overseas investment that has led to the atrophy of domestic financial institutions and investment;
- a lack of entrepreneurial skills; and
- a tendency to use cheap foreign labour rather than new technology in the search for cost reductions.

The shortcomings of government intervention relate partly to the combination of small size and mineral wealth. The latter has largely removed the perceived urgency from and commitment to diversification in both policy and implementation. It has allowed the government to invest mainly in the non-traded services sector. It has ensured that, in a public sector awash with money, neither personal performance nor the achievement of organisational objectives have been subject to any kind of real scrutiny. Brunei's small size has exaggerated the impact of mineral wealth, and has also retained a fundamental role for personal contact networks that undermines most rationalist interventions.

Mineral wealth has even affected culture and politics. These have been shaped by oil and gas money, and the vast hydrocarbon revenues poured into this small country have partly created and certainly perpetuated political structures and cultural values that are, in many ways, inimical to small enterprise development.

Brunei - like other small, mineral-rich economies - therefore finds itself in a bind. Because it is small and mineral-rich, it needs to diversify and small enterprise development seems a more likely route than large-scale developments. Yet, because the country is small and mineral-rich this creates a host of constraints to the development of a viable and vibrant small enterprise sector.

Were Brunei bigger or - ironically - poorer, then diversification into the small enterprise sector would be more likely to succeed.

6. Future Developments in Brunei

A variety of different possible developments can be hypothesised or even prescribed. These will focus on actions by the state, given the dominating role of the state in Brunei, and given that state actions are seen as a key determinant of mineral wealth outcomes (Jazayeri 1986, Struthers 1990, Usui 1996).

State Promotion of Small Enterprises

A fairly standard prescription for the situation that Brunei faces would be, focusing on the current shortcomings of government intervention, to advocate new promotional measures for the small enterprise sector.

It is clear from the analysis above that two things need to change which might be achieved by the creation of a single Entrepreneurship Development Centre for Brunei. First, the *form* of government intervention. In line with the Gibb & Manu (1990) approach, such changes would be likely to include:

- More staff from the Chinese community.
- Some autonomy for the Centre with a flat organisation and an executive board that included entrepreneurs and representatives of all relevant government institutions.
- Charging of fees for services and staff based in the field rather than in central offices.
- Performance-related contracts for Centre staff and the measurement of real outputs in terms of their impact on business.

Second, the *content* of government intervention, bringing in the usual list of promotional interventions by government from such a Centre, including finance, consultancy/advice, training programmes and technological assistance.

Yet the requirement for such changes is well known in Brunei. The problem is, as has been described above, that the current economic, cultural and political realities prevent such initiatives being undertaken. The only way to break this deadlock is through the concerted support and intervention of the most senior public officials. Even this, though, cannot remove the mineral wealth constraints that encircle small enterprise development.

Trade Protection

Given the entry barriers in export markets, it must be recognised, as the government does, that 'the main market prospect for SMEs is for import substitution' (MIPR 1994:9). However, the prospects in a number of sectors - household goods, textiles and clothing, food and drink processing - are hampered by competition from imports, so that little substitution is possible. Overseas producers have built up technological capabilities and scale economies over a number of years, providing efficiency gains which easily overcome transport and import costs.

There is therefore a strongly arguable case for the imposition of import tariffs behind which infant Brunei industries could be nurtured and then gradually exposed to

competition by a continuous programme of tariff reductions. Import protection has formed a key part of industrial development policies in many Asian, Latin American and, in earlier times, Western economies. It has also been seen to play an important role in diversification strategies for oil-rich states (Struthers 1990, Courier 1993).

However, at present, Brunei's highest general import tariff is 30% of cif value²⁷; most taxed imports attract a much lower rate than this; 90% of classified items are exempt; and any increases are most unlikely to occur. Firstly, this is due to Brunei's membership of WTO and of ASEAN, within which a series of medium-term tariff-reduction agreements have been reached, locking the members in to a steady decrease in various import tariffs. Secondly, the huge positive balance of payments surpluses remove one strand of economic rationale that is often used to justify import protection. Thirdly, there are no internal political pressures for protection because of the poor condition of industrial lobbying organisations. In any case, given the foregoing analysis, it seems more likely that a tariff rise would stimulate the creation of foreign subsidiaries in Brunei rather than activity from the somewhat sluggish domestic enterprises.

Other Approaches

Other initiatives, none of which seem to offer much promise, include:

- *Encouraging foreign investment.* Foreign investment has already come in to the Brunei economy in the very few sectors, such as hydrocarbons or construction, that offer any real prospect of profits. Foreign investment fails to find its way into other sectors not because of ignorance but because exporting to the Brunei market is cheaper and easier than trying to set up production for the local market, and because input constraints prevent Brunei becoming a platform for exports.
- *Encouraging domestic state investment.* As with foreign investment, the investments of the Brunei Investment Agency follow likely returns and so, quite rationally, do not invest much in the domestic economy. Similarly, Semaun Holdings - a government-owned company - has a brief for both overseas and local investment but has yet to have a major impact, in part because it is required to invest locally only in areas 'not in direct competition with the local private sector.' By diktat, both organisations could be made to invest more in local production and Semaun is aiming to do so. This, however, would merely be an extension of the current reality of creating subsidised public sector employment. Government contracts awarded to private sector contractors at present have the same effect, and this cannot be seen as the basis for genuine and sustainable diversification.
- *Encouraging sub-contracting from the hydrocarbon enclave.* As described, sub-contracting from Brunei Shell has been one of the few sources of small enterprise development in the Brunei economy, and there is undoubtedly some scope for expansion of this. However, the enterprises so formed remain almost entirely dependent on the main hydrocarbon firms, and so they become part of the enclave rather than separate from it, with little hope of any separately sustainable existence.
- *Developing export processing.* Brunei's few non-oil exports have come from enclave exporting and many similar economies have seen EPZ-type activities as a possible developmental path. The problem for the small, mineral-rich economies is

²⁷ Though government concerns prompted the import tariff on cars to be massively increased in 1995.

that such activities become almost hermetically sealed off from the domestic economy. They source no major inputs, least of all labour, from the domestic economy and therefore effectively become a foreign production location, no different in effect from investments in, say, Indonesia or Thailand.

- *Reducing state expenditure.* If fewer Bruneians were employed by the public sector; if those employed were paid less; if welfare and other services had to be paid for rather than being received for free, then Bruneians would be forced into enterprise. However, none of these scenarios seems politically likely to occur. Even during the drop in oil prices of the 1980s, for example, the state adopted the rhetoric of belt-tightening and the need for diversification. In practice, though, hydrocarbon royalties and revenues from other sources were raised to avoid any significant change to the status quo.
- *Prioritising existing sectors.* If import protection is a non-starter, as outlined above, there are still a variety of sectors in which enterprise could flourish within Brunei. These are the sectors with few scale economies or those where some form of 'natural protection' exists thanks to particular localisation advantages such as high transport costs, perishability of products, specific local customer needs, or a requirement for special local knowledge or contacts. These sectors include food and drinks processing, garment production, handicraft/small-scale production based on wood, metal and other products, and local services. However, as seen above, these sectors need no prioritisation because they have already been recognised and filled by entrepreneurs. The problem is that they are simply too small to provide a basis for significant employment.
- *Prioritising new sectors.* A common package of 'sectoral saviours', perhaps disseminated by a small group of jet-setting consultants, seems to do the rounds of small developing economies. This includes financial services, information-based services, and eco-tourism. Whilst each may have some potential, this seems likely to be very limited for Brunei given its skill and labour constraints and given the existing competition. Financial services, for example, are unlikely to develop given the more competitive actuality of Singapore and potentiality of Malaysia's Labuan island.

Brunei's Future

What, then, is to be Brunei's fate? On current appearances, it would seem that large-scale diversification efforts will not work and that small-scale diversification, while it could work, is likely to remain constrained to 'tinkering around the edges' of the economy. A substantial part of these constraints derives from Brunei's combination of mineral wealth and small size.

Brunei will always remain small but mineral wealth will not last. Brunei may therefore be destined to become some bizarre combination of country club and investment trust, as income from foreign investments takes over from direct hydrocarbon revenues; as the only employment opportunities remain those provided by the state; and as growing personal wealth allows a substantial proportion of the population to opt out since they do not need to work in order to live.

The result, as Cleary & Wong (1994:139) describe, may be 'Growth without development, wealth without employment.'

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