

## **Why New Ideas Are Important to Brunei Economy? And how We Can Finance It?**

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**Abstract**

*As the impact of the Global financial crisis, currently many countries around the world suffered with the low economic growth. Therefore, slow economic growth and volatility of oil price will be considered as the major threats for Brunei in the future. This paper focuses in answering the question of why new ideas are important to Brunei economy and how we can finance it. As the last part of this paper, we come to the conclusion that slows economic growth and volatility of oil price explained the important of new ideas for Brunei economy for the next future. It also noticed the important of entrepreneurship for Brunei Economy to stimulate economic growth. Therefore, in the association of how we should financed the ideas, this paper analyzes the way of how Asia successful entrepreneurs financed their ideas and comes up with the conclusion that there are two sources of funding used by some entrepreneurs to finance their business ideas. First by doing joint investment with friends and secondly by own capital. However the real entrepreneurs never think that source of capital is the first consideration in carrying out their business idea.*

**Keywords:** *Economic Growth, Entrepreneurship, Ideas.*

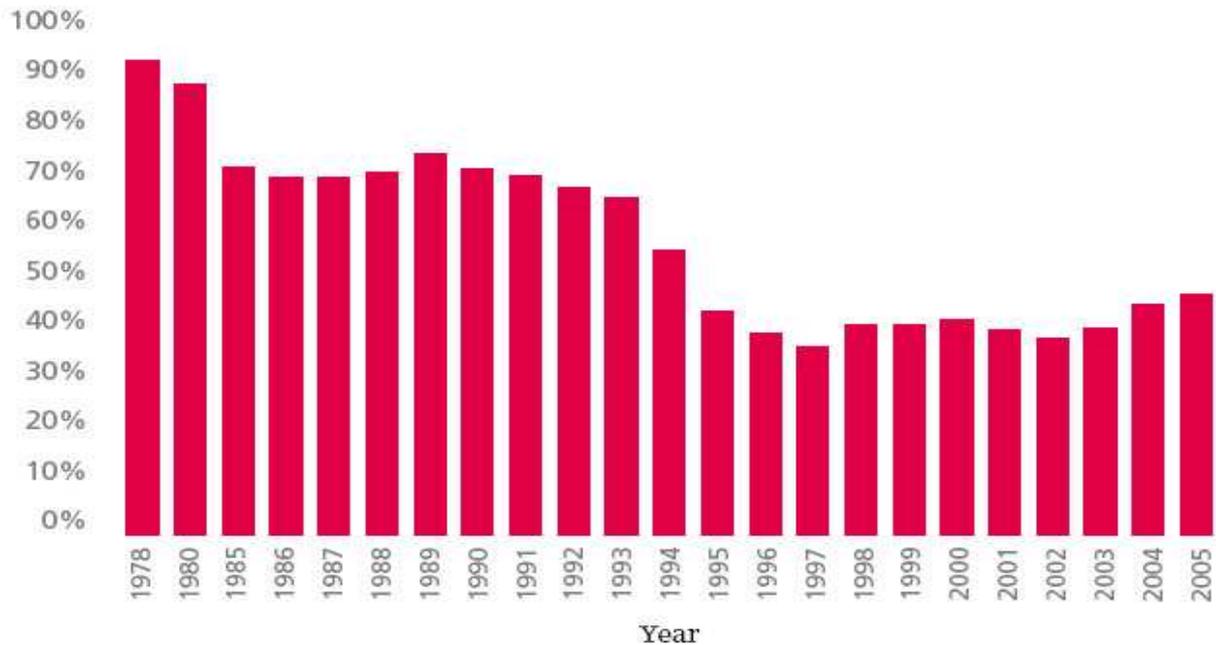
**Why New Ideas Are Important to Brunei Economy? And how We Can Finance It?****1.0 Introduction**

Prior to 1979, China maintained a centrally planned, or command, economy. A large share of the country's economic output was directed and controlled by the state, which set production goals, controlled prices, and allocated resources throughout most of the economy. To support rapid industrialization, the central government undertook large-scale investments in physical and human capital during the 1960s and 1970s. As a result, by 1978 nearly three-fourths of industrial production was produced by centrally controlled state owned enterprises according to centrally planned output targets. Private enterprises and foreign-invested firms were nearly nonexistent. A central goal of the Chinese government was to make China's economy relatively self-sufficient.

Beginning in 1979, China launched several economic reforms. The programs launched by the government to stimulate economic growth was the 'Four Modernizations' reform program. The goal of the "Four Modernizations" was to strengthen the sectors of agriculture, industry, technology, and defense. Therefore, additional coastal regions and cities were designated as open cities and development zones, which allowed the local government to experiment with free market reforms and to offer tax and trade incentives to attract foreign investment into all of those four sectors. In addition, state price controls on a wide range of products were gradually eliminated. This "four modernization" was transformed China's economy into one increasingly driven by competition, innovation and productivity. Therefore, as the results, in 2007:

- The number of private enterprises grew significantly.
- Output in Chinese agriculture has grown rapidly for the last several decades.
- Industrial sector grew significantly
- China became independent for its military weapons
- China became the country with tremendous economic growth

The central feature of China's transition from a centrally planned economy is the development of the non-state sector, private firms led by an emerging class of entrepreneurs. In 1978, the first year of reform in China, the state sector accounted for over 90% of the country's GDP; by 2005, this had fallen to less than half (see Figure-1).

**Figure-1: State-owned enterprises' share of GDP, 1978-2005**

Source: China's National Bureau of Statistics

Since the late 1990s, China's entrepreneurs have been the key driver of growth. They are the creators of the *de novo* firms that are forming a dynamic and innovative private sector, an essential force in any developing country. The increase in entrepreneurship in China bodes well for sustained economic growth. China's remarkable economic growth has been achieved through the rapid emergence of a dynamic private sector. And we know about the generation of self-employed entrepreneurs who have driven this transformation.

Even though, the remarkable growth of China has been driven by various engines, the most notable is the development of the non state sector, fuelled by the desire of millions of Chinese people to translate their brilliant idea into small scale business. The easing of the state's control over the economy allowed the emergence of a generation of entrepreneurs, who have transformed the economy into one increasingly driven by competition, innovation and productivity.

## **1.0 The Relationship among New Ideas, Entrepreneurship and Economic Growth**

Samuel Johnson's (1755), author of 1755's *A Dictionary of the English Language*, defined ideas as the mental images or internal visual pictures. As such, they have no relation to words or the concepts which are designated by verbal names. Therefore based on Johnson's definition, ideas is something, such as a thought or conception that is in our mind and will be useless without any translation.

It's very important to translate our idea into reality because when someone successfully translated their brilliant ideas into something like goods or services than it becomes innovation. The goal of innovation is to create business value by developing ideas from mind to market. Once the ideas is translated into goods or services then commercialized, finally it ended with the business activity or usually called entrepreneurship. At the end of the day when many people come up with their brilliant idea in starting their own business, it will run the economy of the country.

Jason Henderson (2006) in his article defined entrepreneurship as the practice of starting new businesses in response to ideas translation. Entrepreneurship is increasingly being recognized as a primary engine of economic growth. By combining existing resources with innovative ideas, entrepreneurs add value through the commercialization of new products, the creation of new jobs, and the building of new firms. The Global Entrepreneurship Monitor indicates that nations with higher levels of entrepreneurial activity enjoy strong economic growth. In short, entrepreneurship is the link between new ideas and economic growth.

There are several ways how entrepreneurship stimulates economic growth. Carree and Thurik (2005) recognize that entrepreneurship stimulates growth through knowledge spillovers, increases competition, and expands diversity. Recognizing the role of knowledge spillovers, Carree and Thurik indicate that entrepreneurship leads to economic growth because it is the mechanism by which knowledge spillovers develop. Knowledge is endowed in a person or economic agent. Hence, it requires an individual entrepreneur to start a new enterprise thereby capturing the value of the knowledge embodied in the individual. Thus, entrepreneurship is the mechanism in which knowledge is commercialized and used to stimulate economic growth.

The second way entrepreneurship stimulates economic growth is through increased competition brought on by the creation of new enterprises. Interestingly, this second conduit by which entrepreneurship influences growth also contains a knowledge component. Carree and Thurik recognize that knowledge externalities, both within industries and across industries, emerge from competition for new ideas not the competition of product markets. As a result, knowledge externalities are more likely to emerge in competitive environments than in environments of local monopolies. By creating new firms, entrepreneurship stimulates the competition for new ideas and fuels the process of developing knowledge externalities.

The third way entrepreneurship supports economic growth is by spawning diversity among firms in a specific location. Carree and Thurik argue that entrepreneurship contributes to economic growth by creating diversity and developing channels for knowledge spillovers across firms.

## **2.0 Why with Brunei Economy? Why New Ideas Became Important to Brunei Economy?**

With the real GDP per capita around \$30,200, currently Brunei is recognized as one of the wealthiest country in Asia. However, Brunei faces the massive problem to build a sustainable non-oil economy. As long as the oil reserves last (at least for another decade) and the highly fluctuated of oil price, Brunei has sufficient financial resources to support the government's policy of heavily subsidizing basic and luxury goods.

Brunei economy grew at a modest and stable annual average real rate of 2% between 2000 and 2010. Oil and gas production provides Brunei with the majority of its export revenue and has accounted for nearly 90% of its GDP over the past few years. Brunei is the third largest oil producer in South East Asia and world's fourth largest producer of liquefied natural gas. Thus, should we say it is a good or bad news by having annual average 2% for economic growth? To answer this question, we need to make a comparison with other countries' economic growth. Table 1 below shows the average economic growth of Southeast Asia countries.

Table1.

**The Average Economic Growth of the Southeast Asia countries 2000 -2010 (in USD)**

Country	Brunei Darussalam	Indonesia	Malaysia	Philippines	Vietnam	Thailand
Real GDP per capita (2010)	USD 30,200	USD 2,900	USD 7,700	USD 1,900	USD 1,100	USD 4,600
Average Economic Growth	2%	4.9%	5.3%	4.7%	6.9%	4.5%

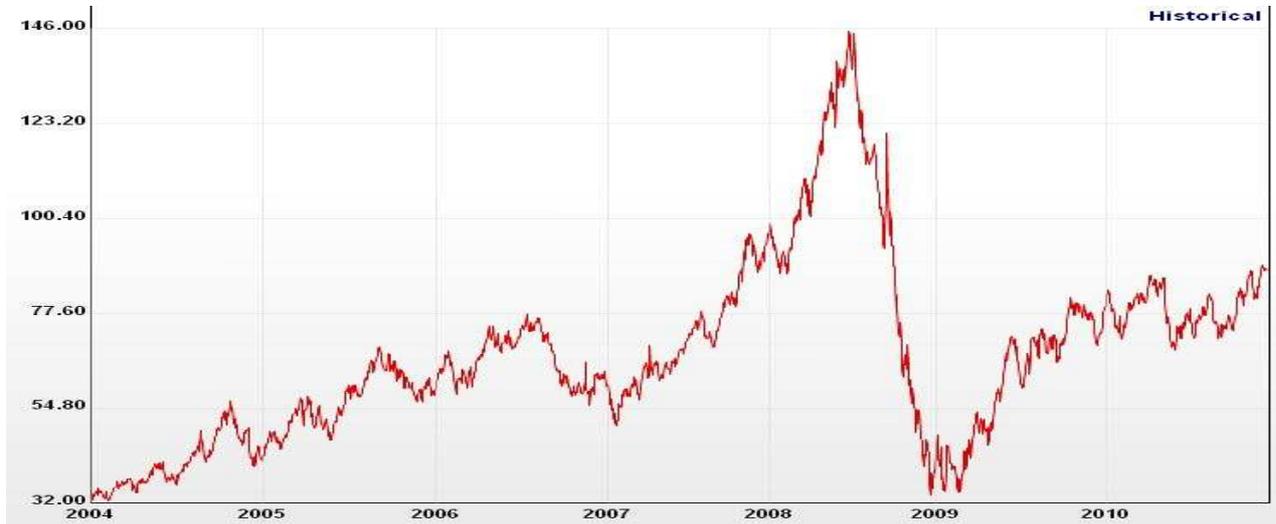
Sources: *The World Fact Book, Central Intelligence Agency*

Based on the data, we can answer the question of why with Brunei economy? By giving an illustration of Brunei economic condition as a person who is walking while the other people are running in reaching their economic sustainability.

Another thing, Brunei is the 4th largest producer of gas in the world. As a developing country, it is almost entirely reliant on the income made from these resources. However these resources are finite and although oil and gas exports account for more than 90% of real GDP earnings and government revenues, if the country continues relying solely on the income made from these commodities, eventually its export earnings would fall to 0. The life of existing oil reserves is estimated to last for around fifty years moreover the oil price is highly fluctuated.

Although known as one of the countries with the highest oil production in Asia, Brunei faces massive problem in the future due to the volatility of oil price (as we can see on Figure 2) which is end up with the instability of the Brunei revenue. Moreover Brunei consumption increased year by year as we can see on Table 2 and Figure 3.

**Figur-2 The Changing of Oil Price**

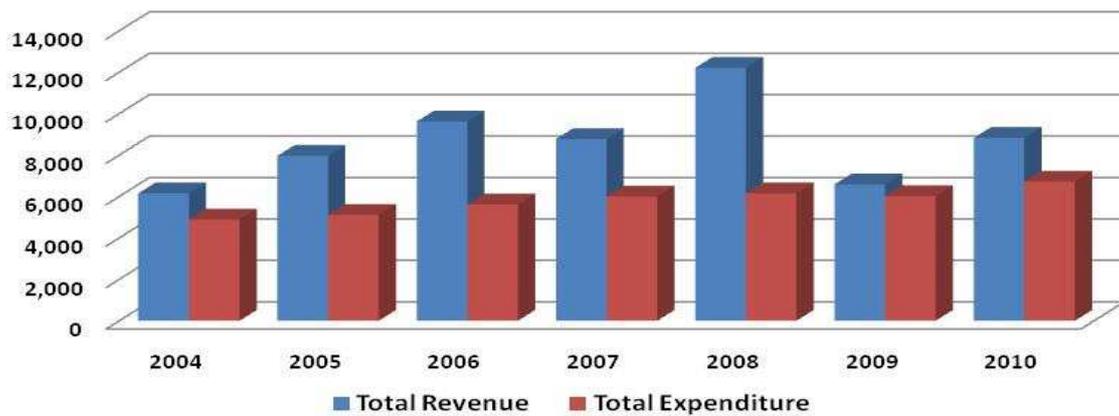


Crude oil futures prices on NYMEX exchange in USD (US Dollars) per barrel

**Table2 and Figure3.**

**Brunei Revenue\* and Expenditure\*\* Year by Year in billion Brunei Dollar**

	2004	2005	2006	2007	2008	2009	2010
<b>Total Revenue</b>	6,151	7,964	9,620	8,773	12,209	6,585	8,827
<b>Total Expenditure</b>	4,888	5,107	5,613	5,998	6,146	6,022	6,722



Source: Economy Watch 2011

**\*Revenue** : consists of Oil and Gas sales, taxes, social contributions, and grants receivable.

**\*\*Expenditure** : consists of total expense, subsidize and the net acquisition of nonfinancial assets

Based on the figure 2 and figure 3 above, we can analyze that the oil price highly fluctuated, and the oil price fluctuation significantly controlled the revenue of Brunei government, since oil and gas sales contributed 90% of the government revenue. As we can see, In 2009 the Brunei revenue significantly shrunked by 46% due to the oil price crash, moreover during the global financial crisis, government's investments overseas are suffered a lot.

Slow economic growth and volatility of oil price should be considered as the major threats to Brunei economy in the next future and those two major reasons explained the important of economic diversity by increasing the percentage of non oil and gas shares on Brunei GDP through entrepreneurial activity.

Entrepreneurship stimulates GDP growth through knowledge spillovers, increases competition, and expands diversity for knowledge spillovers across firms. Entrepreneurship is the mechanism in which knowledge is commercialized and ends up with new ventures, thus plays a major role in the eradication of unemployment by creating employment opportunities for people at various levels. Moreover, by creating new ventures, entrepreneurship stimulates the competition for new ideas and fuels the process of developing knowledge externalities. In the other side, entrepreneurial activity also facilitates the government to fill their coffers with the taxes that are generated from the entrepreneurship undertakings which in turn helps them to generate more revenues.

According to Fortune (2002), From the case of United Stated, 44 percent of new jobs in the United States are created by startup companies, 55 percent by the growth of existing firms, and only 1 percent by relocation. And finally these startup firms create about 70 percent of new economic growth.

For all of those things, entrepreneurship should be widely promoted to the young generation. The government and university must encourage the youth knowledge and activity related with entrepreneurship so the youth have willingness to come up with their brilliant ideas by setting up new ventures and creating new jobs rather than rely on government job.

### **3.0 How We Can Finance The Ideas?**

The second important question related to the previous case is how to finance the idea? However, There are many articles talking about how we should finance the business idea, but some of them are theoretical suggestion and sometimes irrelevant with the reality. Therefore, let's learn the way of how business idea should be financed from the Asia young successful entrepreneurs under 25 years old promoted by Business Week magazine couple years ago.

1. Divyank Turakhia from India, as a 16-year-old high school student in 1998, he founded the Directi Group with a \$600 initial capital financed by sharing investment with his brother, Bhavin (co-founder). That seed money has sprouted into a global conglomerate that is believed to be worth over \$300 million today. In the first month of company operations, the business managed to generate enough revenues to return the borrowed amount and get the company rolling. Today, the company is debt-free, has more than 1 million customers for its array of domain name registration, Web hosting, and site building services, and employs more than 250 people. Currently Directi group became one of the fastest-growing domain registration companies in the world. (<http://www.directi.com>)
2. The next lesson was coming from Handy Setiono, the ambassador of young successful entrepreneurs from Indonesia. All of this started from a trip to the Middle East where he spotted an opportunity to serve kebab, a common and popular dish in the Middle East, to the Indonesian people. He then enrolled in a cooking course and brought home the recipe and knowledge to make fine middle east kebab. This recipe was then slightly altered to match the Indonesian tongue. And it seems that he did get it right. He started off by selling the kebab in a regular cart, known as the gerobak, one employee. He even did the cooking himself sometimes. But somehow, the business didn't take off as planned. He then added some design and colors to his cart and sales started to pick up. This gained him enough attention to attract the media, a very crucial part of his business. Having been featured in many shows, his franchise gained the attention of many franchisees. And franchise sales skyrocketed ever since. He runs his kebab business with the initial investment of Rp.4 million (USD 400), generated from his saving account. Currently he runs a fast-growing

chain of kebab sandwich shops with 65-odd outlets and uses franchise as his marketing strategy in order improve his company's expansion. (<http://www.babarafi.com>)

3. Lee learned something about adversity early in life. To help the family's strapped finances, he hawked oranges on the streets of Hong Kong at age 7. Tough times, though, spawned a burning desire to succeed. In 2003, Lee and friends launched TnC, an information technology service that offers an array of online services for event planners. The company manages membership databases and online registration, sends e-mails to conference participants, and provides companies with interactive editing tools to update their Web sites. Earlier this year, it rolled out a beta version of EditGrid, a spreadsheet service where users can upload and host a spreadsheet on the Web, share it with colleagues and friends, and collaborate with other users on the same spreadsheet in real time. David K.F. Lee founded Team and Concepts (TnC), a Hong Kong-based company in 2003. He financed the initial investment in starting business by sharing investment with his friends. (<http://www.editgrid.com>)

Finally based on the story of how young successful entrepreneurs in Asia financed their business idea, we come up with the idea that all entrepreneurs mention above, financed their owned business by mutual sharing investment with their friends and some finance their business solely from their own capital which is relatively small compared to GDP per capita of Bruneian amounted to USD 30,200. Hence, we are truly belief that high GDP per capita earned by Bruneian could cover financing needs to start up the small size ventures. Moreover the real entrepreneurs believe when they have done their homework well, many institutions will come to finance their idea.

Actually the most significant barriers for Bruneian are the willingness of them to come with new ideas in starting up new ventures. So in this case government should promote more entrepreneurial activity hence Bruneian could be stimulated to participate in the activity. Moreover, we also encourage Brunei University to provide entrepreneurial education for university students so that university students recognize the importance of entrepreneurship by translating their idea into new ventures.

#### **4.0 Conclusion**

We come to the conclusion that new ideas are completely important for Bruneian economy. There are two major reasons what made its important, firstly is 2% stable annual average of economic growth is not enough for competing in global market even in the Southeast Asia. Secondly about oil price, in fact oil and gas production has accounted for nearly 90% of Brunei GDP over the past few years and it becomes a serious problem due to the highly fluctuated of oil price.

Therefore we encourage government and institutions of high learning to promote entrepreneurial activity and facilitate the Bruneian ideas hence it could be translated into real business activity. We are of the opinion that Universiti Brunei Darussalam (UBD) should consider setting up an entrepreneurial club (Al-Harran) in the campus. One of the objectives in setting up the club is to promote students' business ideas into real business ventures. At the end of the day, students must be willing to take reasonable risks, have long-term vision and learn from their mistakes without ever giving up. It is also important to have saving box that will help finance new ideas so that students with great ideas in the campus can obtain finance from the saving box. However, the important thing that should be noticed is the real entrepreneurs never think that source of funding is the first consideration in implementing their business idea because the real entrepreneurs believe when they have done their homework well, many institutions will come to finance their ideas.

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