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**AN ASSESSMENT OF ECONOMIC DIVERSIFICATION
IN KUWAIT**

by

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An Assessment of Economic Diversification in Kuwait

M. Nagy Eltony

Abstract

Kuwait is a typical example of an oil-based economy. The oil sector contributes over one-thirds of GDP and over 90 per cent of exports. Economic diversification for Kuwait means reducing the heavy dependency on the oil sector by developing the non-oil sectors of the economy. It also implicitly includes reducing the direct role of the public sector while increasing private sector activities and hence private sector's size and role in the economy.

The study shows that although Kuwait has tried to lessen its dependence on oil through the development of the non-oil sectors, its success so far has been, at best, very modest. Furthermore, it is expected that Kuwait will continue to rely heavily on oil for the next two decades at least. Nevertheless, economic diversification is on the top of the agenda for economic reform and substantial efforts are being undertaken to achieve this goal.

Keywords: Economic Diversification, Kuwait

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I. Introduction

Oil was discovered in Kuwait in 1938, and production and export began in 1946, transforming this small country and the lives of its population in many ways. As crude oil production increased to meet rising world demand, revenues from oil exports mounted. By late 1950's, oil revenues made it possible for the Kuwaiti economy to achieve one of the world's highest per capita incomes. Oil and associated activities came to dominate Kuwait and its economic structure.

Kuwait is a typical example of an oil-based economy. The oil sector contributes over one-thirds of GDP and about 90 percent of exports. Narrow productive capacity represents the other side of a single-sector economy. Kuwait is also characterized by limited absorptive capacity. During the 1980s gross investment represented, on average, 30% of net savings. The excess has been translated into a current account surplus in the balance of payments and represents a net addition to Kuwait's abundant capital invested abroad.

In 1990, Iraq invaded Kuwait. The composition of the GDP and the performance of the economic sectors i.e., agriculture and fisheries, manufacturing, mining and quarrying, and construction, were seriously affected by the invasion. The industrial sector, in general, and the non-oil industries, in particular, were destroyed or profoundly damaged by the invasion and hence the economic diversification process suffered a major setback.

For the case of Kuwait, economic diversification means reducing the heavy dependency on the oil sector by developing the non-oil sectors of the economy. It also implicitly includes reducing the direct role of the public sector while increasing private sector activities and hence its size and role in the economy. Furthermore, economic diversification for Kuwait also means increasing non-oil exports, non-oil revenues and Kuwaiti labor force participation in all

economic sectors and professions. The aim of this study is to assess the economic diversification efforts and experience in Kuwait.

There is a great deal of theoretical and empirical literature scrutinizing various aspects of economic diversification such as Cordon and Neary (1982), Hamilton (1983), Neary and Wijnbergen (1986), Fardmanesh (1991), Gelb and Associates (1988) and Taylor et al. (1986) to name a few. The empirical studies have used a number of indicators and measures in order to assess the progress of the economic diversification efforts. These indicators include: the contribution of oil versus non-oil sectors to the GDP; the proportion of oil revenues versus non-oil revenues in total government revenue; the percentage of oil exports versus non-oil exports in the total exports and the composition of non-oil exports and imports; the progress in total employment for Kuwaitis versus non-Kuwaitis by the various economic sectors and by profession; and finally the developments in the relative importance of public versus private sector contribution to GDP.

In the following section, the Kuwaiti Economy is discussed and described including its main features and characteristics as they pertain to economic diversification. The third section focuses on the oil sector versus non-oil sector contribution to GDP while the fourth section discusses the proportion of oil revenues versus non-oil revenues in total government revenue. The sectoral diversity, i.e., oil sector and non-oil sector development is presented in section five. Section six gives the foreign sector (export-import) diversity and section seven, shows the human resources development in Kuwait. Finally, section eight gives the conclusions.

II. The Economy of Kuwait: The Main Features

Kuwait's economy is small and open, and exports typically account for around 55% of GDP. This is in the same range as in other GCC countries (see Table 1). In the 1980s investment gradually declined as a percentage of GDP. After a brief flurry of reconstruction in 1991-92, gross fixed capital formation has again fallen in absolute and relative terms, accounting of only about 11% of GDP in 1999.

Table 1
Economic Indicators: Kuwait and Other GCC Countries

	Kuwait	Saudi Arabia	UAE	Oman
GDP (\$ bn)	29.6	139.2 ^b	41.1 ^a	15.6 ^b
GDP per head (\$)	13,132 ^b	6,960 ^b	15,085 ^a	6,981 ^b
Oil production (m b/d)	1.95	7.662	2.28	0.89
Exports of goods (\$ bn)	12.2 ^d	49.8	28.3	7.23 ^b
Imports of goods (\$ bn)	7.54	27.4	24.4	4.67 ^b

^a Estimate. ^b Derived using Saudi figures for population, which may be over estimated. ^c Official estimate Source: EIU; Country Report, 2000.

Public and private consumption accounted for about 87% of GDP in 1998 (See Table 2). Furthermore, the Trade/GDP ratio, a typical measure of openness in an economy, is around 90% compared to more than 100% for comparative economic indicators for Bahrain and the UAE.

The government is taking serious actions towards economic reform and structural adjustment in many different directions, such as public finance, privatisation and the role of public sector, and the domestic labour market. At the same time, fiscal and monetary authorities in the country are working towards creating the financial and monetary conditions required for a stable, consistent, and predictable economic environment, which is one of the main ingredients for a successful economic policy. Furthermore, in order to improve overall efficiency of the economy and hence curb the increase in its fiscal burden, the government intends to improve cost efficiency of each of the services it provides to the population. Furthermore, in an effort to create more favourable and stable economic conditions the government has imposed user charges for health services and health insurance for non-Kuwaitis.

Table 2
GDP by Type of Expenditure (KD Millions)

	1985	%	1989	%	1995	%	1998*	%	1999**	%
• Final Consumption	4529	70.2	5476	76.1	5884	74.2	6700	86.8	6994	77.4
Government	1445	22.4	1814	25.2	2612	33	2412	31.2	2465	27.3
Private	3084	47.8	3662	50.9	3272	41.2	4309	55.8	4529	50.1
• Final Capital Formation	1297	20	733	10.2	1100	13.9	1253	16.2	1136	12.6
• Exports-Imports	705	11	788	11	843	10.6	-255	-3	903	10.0
• GDP	6449.9		7196.7		8725.3		7717.1		9032.8	

*Revised.

**Provisional.

Source: Annual Statistical Abstract, Ministry of Planning, Central Statistical Office.

The government has been the sole supplier of most of the public utilities and services to country's population. The following is the list of broad groups of services provided by the public sector in Kuwait: education; health services; housing to eligible citizens; electricity; fresh water; brackish water; telecommunication services; fuel, particularly gas, for household use; gasoline for private and public transportation; public transport (Bus service); physical infrastructure, particularly road networks; Sanitation services and other miscellaneous social services.

Under the existing policy education, health and sanitation services are supplied free to Kuwaitis, while most other services, such as electricity, fresh water, gas and oil products are provided at highly subsidized prices to both Kuwaitis and expatriates.

In general, policy options are limited in Kuwait. On one hand, the monetary policy options are extremely limited. The Central Bank of Kuwait has no independence, and the government is committed to maintaining a nominal exchange-rate peg against a trade-weighted basket that is dominated by the US dollar. On the other hand, fiscal policy options are also limited in terms of both expenditure and revenue. It has little control over revenue, which is dominated by oil. Moreover, political constraints have thus far prevented the introduction of both consumption tax and personal income tax, although the Ministry of Finance is studying a draft law on income tax.

However, on the expenditure side there is little latitude left for easy budget cutting. While current spending accounts for some 70-75% of total state spending, public-sector salaries and consumer subsidies continue to account for a hefty 80-85% of current spending. These are the hardest areas to cut, and the bulk of austerity measures in recent years have targeted items such as purchase of equipment and development project spending.

As for economic planning programs, Kuwait's problem with long-range planning lies in the difficulty of predicting revenues and expenses. Oil revenues have fluctuated wildly in the past three decades. In 1967, the Planning Board formulated the country's first five-year development plan, covering the period 1967-72. The diversification of the sources of national income was the main goal specified in the plan. The plan also emphasised the improvement of skills amongst the Kuwaiti population. However, neither the government nor the Parliament seriously adopted this plan. The second five-year plan for 1976-81 met the same fate.

Hence, both plans were considered as mere economic guidelines for specific economic sectors such as electricity and water, housing, oil and gas and public health. During the 1960s, 1970s and 1980s, the country tended to mainly rely on annual programs with long term objectives only loosely described.

The increasing complexity of the economy, however, together with the shock waves induced by the collapse of the unofficial stock market in 1982, prompted the government to elaborate a more comprehensive strategy, incorporated in the third five-year plan covering 1985/86-1989/90. The goals of that plan were:

- Diversifying state income through the development of new industries, and, particularly, promoting the financial sector in order to generate revenue from sources other than hydrocarbons.
- Developing the downstream activities of the oil industry, through expansion of refining facilities, increased oil transportation capacity, and the acquisition of retail outlets overseas.
- Improving the nation's infrastructure (transport and communications), and maintaining all existing infrastructure.
- Increasing the supply of electricity and desalinated water to meet increasing demand.
- Improving public services and providing these to the Kuwaiti public at minimal cost.

- Providing adequate public housing for all needy Kuwaitis.
- Promoting the participation of private investment in local production.

By the end of 2000, Kuwait finalized the formulation of the first long-term strategic plan for 2000-2020. The plan was the result of simulation exercises among three alternative development scenarios. The plan aims at structural changes in Kuwait's chronic imbalances in both the production and population structure. That goal is to be achieved through increasing productivity. This means changing the patterns of investment from physical to human infrastructure, selecting for expansion those types of activities that require highly skilled labour. Moreover, internationalisation of tradable activities is a major direction in the long-term plan. Finally, the plan aims at a gradual reduction in the dominant role of the state through a privatisation process. Policies also aim at a gradual change in the skill composition of expatriate labour. The long-term plan (20 years) is composed of a series of medium-term plans (5 years), each of which represents a stage towards achieving the long-term plan.

III. Oil Sector Versus Non-Oil Sectors Contribution to GDP

Following liberation from the devastating Iraqi occupation of 1990 and 1991, Kuwait has successfully managed to face the challenges of reconstruction and rehabilitation of infrastructure and oil facilities. There was a rapid economic expansion in 1992 and 1993 with the economy growing at the exceptionally high growth rates of 76% and 29%, respectively. In 1996, Kuwait's GDP achieved a record high of about US\$ 31 billion; it grew by 28% to surpass, the pre-invasion level of US \$ 24 billion in 1989 (See Table 3). This was mainly due to an upsurge in oil prices. Furthermore, in 1999, GDP grow by about 17 % from its 1998 level also due to an oil price rise after recording a decline of about 15% in 1998. Thus, oil price fluctuations still have a profound impact on the GDP and the level of economic activities.

The findings of Eltony (2001) on how macroeconomic variables in Kuwait react to fluctuations in the world oil prices highlighted the causality running from oil prices to oil revenues and then to government expenditure and other variables. However, further assessment of the relationship between these variables leads to the conclusion that oil price shocks do impact macroeconomic variables in Kuwait and also, via government expenditure of both types, development and current expenditures.

Furthermore, Kuwait's economy is characterized by an overwhelmingly dominant public sector and heavy dependence on oil both in terms of value-added and revenues (see table 4). Over the years, however, the dependence on oil has declined somewhat. Between 1985 and 1999, the shares of non-oil sectors in the country's GDP increased from about 50% to 64% of the GDP. Kuwait's production of oil and gas accounted for 49% of GDP in 1985. Despite the improvement in world oil prices during 1999, this sector produced only 36% of the country's GDP, however, it was responsible for about 90% of total exports of goods and services.

Table 3
GDP at Current Prices (Million Dinars)

Item	1985	1989	1995	1997*	1998*	1999**
Crude Oil & Gas Production	3185.1	2780.8	3137.4	3632.5	2370.6	3354.4
% change	61.9	61.9	10.8	-12.1	-34.7	37.1
% GDP	49.3	38.6	40.0	40.0	30.7	36
Non-oil Sectors	3264.8	4416.1	4788	5474.1	5347.1	5678.4
% change	7.4	7.4	5.9	5.8	-0.8	6.2
% GDP	50.7	61.4	60.0	60.0	69.3	64
Imputed Bank Service Charges	-127.7	-117.7	-165.0	302.1	382.4	438.3
% change	3.9	1.9	14.7	12.6	26.6	14.7
Import Duties	60.4	63.6	68.2	83.2	84.2	84.9
% change	-6.2	6.3	3.0	2.2	1.2	0.8
Gross Domestic Product	6449.9	7196.7	7925.3	9106.6	7717.1	9032.8
% change	0.4	23.7	7.6	-2.1	-15.2	17.1

*Revised data

** Provisional data

Source: Annual Statistical Abstract, Ministry of Planning - Central Statistical Office. 1999.

IV. The Proportion of Oil Revenues Versus Non-Oil Revenues

Historically, receipts from the sale of oil and its products have been the main source of country's revenues. Since the early 1980s however, income from investments abroad has become another important source of revenue. In 1998/99, oil revenue and investment income, respectively, accounted for 81% and 17% of Kuwait's total revenues.

In 1999/2000, oil revenue account for about 77% of the total revenues while non-oil revenue accounted for only 23% up from only 10% in 1994/95. As for expenditure, the current spending accounts for about 75% of total state spending, salaries, wages and consumer subsidies continue to account for a bulky 85% of current spending. During the last few years one of the main problems facing the Kuwaiti economy has been the deficit in the government's annual budget (see Table 4).

Table 4
Government Finances
(KD m; years ending June 30th)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Revenue						
Oil revenue	3,101	2,910	3,000	3,608	2,798	2,284
%	2,785	2,490	2,558	3,208	2,254	1,761
Non-oil revenue	90	86	85	89	81	77
%	316	420	442	400	544	463
	10	14	15	11	19	23
Expenditure						
Wages & salaries	4,193	4,230	4,210	3,978	4,040	4,295
%	1,066	1,164	1,245	1,255	1,299	1,330
Requirements of goods & services	25.4	27.5	29.6	31.5	32.2	31.0
%	294	261	257	266	309	345
Development projects & land purchase	7	6	6	6.8	7.6	8.0
%	396	380	443	415	376	345
Miscellaneous expenditure & transfer payments	9.4	9.2	10.5	10.4	9.3	8.0
%	2,438	2,425	2,265	2,014	2,056	2,230
	58.2	57.3	53.9	51.3	50.9	53

^aGovernment budget, not actual figures. ^bExcludes RFFG transfer.

Sources: Central Bank of Kuwait, Quarterly Statistical Bulletin and Annual Statistical Abstract, Ministry of Planning.

V. Sectoral Diversity: Oil Sector Versus Non-Oil Sectors

1- Oil Sector

Over the years, Kuwait's dependence on oil has declined somewhat. It represented about 36% of the GDP in 1999 down from 64% in 1985 (see Tables 3 & 4).

The current oil production capacity is 2.5m b/d while output is set at just over 2m b/d in line with OPEC quotas. Kuwait is seeking to raise its OPEC quota to the same level as the UAE (2.2 m b/d in 2000). At current rates of production, Kuwait has sufficient reserves for more than 100 years of oil output. Kuwait has embarked on an aggressive exploration campaign in order to raise its production capacity to 3.5m b/d by 2005.

For the most part, the Iraqi invasion resulted in major damage to the refineries and necessitated a massive repair and rehabilitation program. Kuwait has three refineries, at Mina al-Ahmadi, Mina al-Abdulla and Shuaiba. The largest is Mina al-Ahmadi, with a rated capacity of 330,000 b/d. Mina al-Abdulla and Shuaiba are rated at 230,000 b/d and 240,000 b/d respectively. Kuwait's overall refinery capacity stood at around 1m b/d at the end of 2000.

Kuwait first developed a petrochemicals industry in the late 1960s. The sector soon lost momentum as a result of a lack of associated gas and the absence of a profitable export or domestic market for products. A revival of petrochemicals took place in the years immediately after the Iraqi invasion. Developing a petrochemicals sector provided new opportunities for an enhanced private-sector role, central to the government's fiscal reform plans. Equate, a major joint venture between the state-owned Petrochemical Industries Company, Union Carbide of the US, and Kuwaiti private-sector investors, began production in 1997 as the first of a number of such arrangements. The joint venture uses ethane-enriched gas as feedstock; the plant has a capacity of 650,000 tones / year (t/y) of ethylene, 350,000 t/y of ethylene glycol and 450,000 t/y of polypropylene.

2- Non-Oil Sectors

A) Financial Services sector

1. An Overview

Kuwait has seven commercial banks and three specialized banks which combined have a total of 125 branches, of which one is a single-branch operation belonging to a joint-venture bank (the Bank of Bahrain and Kuwait).

Kuwait Finance House (KFH), one of three specialized banks, operates as a commercial bank restricted to Islamic financial transactions. A new Islamic banking bill, however, promises to bring KFH under central bank supervision and end its 25-year monopoly on Islamic banking by allowing foreign Islamic banks to operate in Kuwait. The other two specialized banks, Industrial Bank of Kuwait and Kuwait Real Estate Bank, were created to provide long-term credit at a time when the supply of fresh capital from the public sector was not constrained. By the end of 1999 there were 28 licensed investment companies and about 27 "exchange companies" (i.e. currency and commodity dealers), which came under Central Bank supervision.

The Kuwait Stock Exchange (KSE) was launched in 1977. It went through a series of speculative boom-bust cycles until 1982, when a speculative binge associated with another, unofficial market known as the Souq Al-Manakh resulted in the effective end of investor liquidity. The market was reopened in September 1992 but only began to grow strongly after 1995. In November 1995 the KSE adopted an automated trading system that was designed to allow higher trading volumes; volumes increased by 139% in 1995 and 198% in 1999. Furthermore, to increase the participation of the private sector, the government introduced programs for privatization by selling the stocks of some of the publicly-owned enterprises. This had a positive impact on the volume of trade in the stock market in Kuwait. The market's value indicator increased by 88% in half a year, from US\$ 1,052 million in the second half of 1996 to US\$ 1,979 million in the first half of 1999. In the meantime, the price indicator grew by 8.9% from 979 points at the end of December 1996 to 1,065 points at the end of June 1999. The government is also planning further privatisation by selling its share in the Communications and Mobile Phone Company. At the end of 2000, 85 companies were listed with a total capitalization of KD6.2 bn (\$20.7 bn). Also, in May 2000, the National Assembly unanimously approved a draft law allowing foreigners to buy shares in Kuwaiti companies.

2. Measures of Financial Deepening in Kuwait

Kuwait has made significant progress in building a modern financial sector. In recent years, Kuwait has embarked on economic and financial reforms in recognition that economic growth and stability are often associated with increasing financial deepening and in response to the need to quickly adapt to rapid globalisation (El-Erian 1995; Darrat 1996; Bisat 1996; and Eltony and Al-Mutairi 2001). For the most part, the financial and monetary authorities have implemented a financial liberalization program. This program included deregulating and gradually opening up of the financial sector (e.g. the stock market) for foreign participation.

Since financial deepening is difficult to quantify, we use here three different measures. These measures are:

K	=	Currency ratio (CC/M1).
Z	=	Monetization ratio (M2/GDP).
KK	=	Mobilizing longer term assets (M1/GDP).

K, the currency ratio, reflects the degree of sophistication of the domestic financial market. Z, the monetization ratio, reflects the size of the financial market. KK is a measure of the extent of monetization and mobilization of long-term assets.

The review of the data for the time period 1975 to 1999 reveals that K, the currency ratio, was following a decreasing trend. This signifies a high degree of diversification of financial institutions and greater availability and use of non-currency forms of transaction media such as bank accounts and deposits. This ratio reached its lowest level of 26 percent in 1995.

The monetization variable, Z also indicated significant improvements over the past two decades. This ratio has increased substantially indicating further expansion in the financial market relative to non-financial markets and this in turn implied a faster accumulation of a wide range of financial assets such as saving accounts. This ratio recorded its highest level of 98 percent in 1998.

Finally, the ratio of currency and sight deposits (M1 to GDP), KK, reflects the degree of sophistication of the financial market shown by the level of dependency on cash or liquidity preferences in the Kuwaiti economy. This ratio has also shown significant improvement over the time period. It declined from around 32 percent in the 1970s to around 15 percent in the 1990s (See Table 5). In sum, the Kuwaiti financial sector is showing substantial improvements in achieving financial deepening.

Table 5
Measures of Financial Deepening in Kuwait

Year	K	Z	KK
1975	36.4	25.2	8.5
1980	37.5	36.8	8.6
1985	32.0	78.9	15.9
1989	34.4	82.1	13.6
1995	26.3	93.1	14.9
1998	30.5	97.9	14.8
1999	32.4	85.2	15.1

Sources: Annual Economic Report, Central Bank of Kuwait.

B) Non-Oil Manufacturing Sector

The manufacturing sector is largely composed of small-scale activities such as food processing and building-material production. Little of the output is export-oriented and much of it exists due only to government subsidies and incentives.

Before the Iraqi invasion, there were 3,600 privately-owned manufacturing units in Kuwait, most of them extremely small, employing eight people on average. Currently, there are about 4,000 privately-owned manufacturing firms in Kuwait, most of which are small-scale and employ less than 15 people. They produce textiles, processed foods, leather goods, clothing (accounting for 60% of activity), wood products including furniture (20% of activity) and various metal products and machinery. Expatriates provided almost all of the skilled labour for this sector, which was effectively wiped out by the war. In 1999, the non-oil manufacturing sector represented a small portion of GDP, only 3.8% (See Table 6).

C) Agriculture and Forestry Sector

At its maximum in the 1980's, less than 0.4% of Kuwait's land area was cultivated. In 1989 agriculture's contribution to non-oil GDP reached a peak at 1.1%. The sector plays a negligible role in the Kuwaiti economy and does not offer an important source of employment. Before the Iraqi invasion, Kuwait had developed some minor projects involving desert cultivation of vegetables. Agricultural output reached about 90% of pre-war output in 1999 but represented only 0.4% of GDP (see Table 6).

D) Construction Sector

In the early years of Kuwait's economic development, the construction sector accounted for about 10% of GDP. By 1989 this figure had dropped to 4%. After a brief reconstruction-led recovery in the early 1990s, it has settled at about 3% of GDP (see Table 6).

Table 6
Non-Oil Sectors Contribution to GDP (%)

	1985	1989	1995	1998*	1999**
Agricultural and Fisheries	0.6	0.7	0.4	0.5	0.4
Manufacturing	3.3	3.3	3.9	4.2	3.8
Construction	4.0	2.0	3.1	3.1	2.5
Banking and Insurance, Real Estate Services	12.5	12.4	11.4	15.4	14.2
Transport and Communications	4.2	4.1	4.6	5.9	5.6
Wholesale and Retail Restaurants and Hotels	8.8	9.1	7.8	8.4	7.2
Community, Social and Personal Services	17.4	29.8	28.8	31.8	30.3

*Revised.

**Provisional.

Source: Annual Statistical Abstract, Ministry of Oil, Central Statistical Office.

Government spending drives the sector's growth. Residential construction is partly the domain of the Public Authority for Housing Care, and therefore directly related to budget spending. A total of 53,746 applications for public housing were pending at the end of November 1999; approximately 2,200 units are completed and distributed every year.

Private-sector construction activity is indirectly driven by the public sector because it relies on credit from specialized financial institutions as well as on state spending on highways and basic services, without which new suburban developments cannot take place. Redevelopment of existing residential neighbourhoods, effectively recycling existing infrastructure, is practically an unknown concept in Kuwait.

VI. Foreign Trade diversity

Kuwait is an open economy with few restrictions on external trade. Because of its oil exports, Kuwait has enjoyed surplus balance of trade and balance of payments during the last several years. The oil trade dominates Kuwait's exports, with the only significant trend in recent years being the increasing importance of refined product exports. During the 1980s, refined products, on average, accounted for approximately 60% of total annual oil exports. Crude oil and oil products together accounted for about 91% of total exports in 1999 (see Table 7).

Table 7
The Composition of Exports (Million Dinars)

Item	1985	1989	1995	1997	1998	1999
Oil Exports	2845	3357	3636	4056	2574	3352
% of total	89.3	91.5	94.4	94.7	89.2	90.7
Other Exports	110	141	148	143	242	279
% of total	3.5	3.8	3.8	3.3	8.4	7.5
Re-exports	230	172	69	86	69	65
% of total	7.2	4.7	1.8	2.0	2.4	1.8
Total Exports	31865	3670	3853	4285	2885	3696

Source: Annual Statistical Abstract, Ministry of Planning - Central Statistical Office. 1999.

Similar to the recovery witnessed by the domestic economy, Kuwait's external balance showed a significant improvement over the past two and half years. The provisional data indicate a substantial increase in the balance of trade surplus, in the first half of 2000, with more than US\$ 3 billion on the positive side. This represents about a 50% increase over the year 1999. It is worth mentioning that the balance of trade in 1999 achieved a surplus of US\$ 4.6 billion, which was the highest since the liberation of Kuwait. As for the capital account, the data also suggest a

brighter picture; capital outflow has decreased from US\$ 1.9 billion in 1998 to US\$ 1.4 billion in 1999.

In 1999, the USA and Japan together accounted for more than 40% of Kuwaiti exports and imports. Kuwait's exports are highly concentrated among its top five trading partners, which together take more than 80% of its exports. Such a concentration, together with the risk inherent in depending almost entirely on a single commodity, means that Kuwait is highly vulnerable to external shocks and other countries' business cycles (see Table 8).

Kuwait has attempted to limit some of this risk in recent years, mainly by increasing the share of its exports going to dynamic Asian economies. High GDP growth rates mean that their propensity to consume energy is also high, and they represent a fast growing, dependable export market.

Kuwait's imports are more diversified, and imports from the EU collectively were greater than those from either the US or Japan in 1999. Imports are primarily finished goods and competition between suppliers is fierce. With its attractive credit rating, Kuwait is in a good position to buy from whichever supplier can offer the best terms.

Table 8
Main trading partners, 1999 (% of total)

Exports to:	%	Imports from:	%
Japan	27.2	Japan	12.8
US	16.1	US	12.3
South Korea	15.2	Germany	7.7
Netherlands	12.5	Saudi Arabia	6.2
Singapore	12.3	Italy	5.8
Pakistan	5.4	UK	5.7
Taiwan	5.0	India	3.7
UK	3.5	France	3.7
France	1.6	China	3.2
India	1.2	Australia	3.2

Source: IMF, Direction of Trade Statistics.

VII. Human Resources Development In Kuwait

Another issue facing the Kuwaiti economy has been its dependence on expatriate labour, and the effect of this on the size and composition of the country's population. According to the available information, at the end of 1999 population in Kuwait had reached 2.26 million (or 95% of its level in 1989), an increase of only 1% over last year. Most of the increase in the population came from the Kuwaiti population which grew by 3.8%.

The recent data have also indicated that the labour force participation ratio has improved to reach about 56% at the end of 1999 in continuation of a trend that started after the liberation. Also, the dependency ratio has declined, which is also an improvement, to reach 86 persons per 100 of the labour force.

Kuwait's total labour force rose from 607,608 in 1992 to 1.24m by the end of 1998, but then declined by 2.2% to under 1.22m at the end of 1999. There is a sharp imbalance between the number of Kuwaitis and non-Kuwaitis in the labour force, and in the employment of both groups in the public and private sectors. The non-Kuwaiti labour force decreased by 3.6% in 1999. At the end of the year, however, non-Kuwaitis still comprised 82% of the total workforce and almost 98.6% of employees in the private sector. Kuwaitis meanwhile dominate the public sector, which expands each year to accommodate nationals entering the labour market. In 1999 they represented 70% of public sector employees. Put another way, 94% of all Kuwaiti employees work in the public sector. In absolute terms, the number of Kuwaitis employed in the public sector grew by 6.5% in 1998 and 5% in 1999 (See Tables 9, 10 and 11).

Table 9
Labour force distribution by activity, June 1998

	Kuwaiti	Non-Kuwaiti	Total
Agriculture & fisheries	41	23,626	23,667
Mining & quarrying	3,871	4,426	8,297
Manufacturing	6,547	74,481	81,028
Electricity, water & gas	4,508	3,629	8,137
Construction	769	134,678	135,447
Wholesale, retail trade & restaurants	3,212	197,202	200,414
Transportation & communications	5,598	36,797	42,395
Finance & business services	5,597	38,801	44,398
Community, social & personal services	171,932	434,550	606,482
Unclassified	4,115	78,396	82,511
Total	206,190	1,026,586	1,232,776

Source: Public Authority for Civil information.

Table 10
Public-sector employment by employer (year-end figures)

	1998	% Kuwait
Ministries & departments	163,048	73
Education	47,092	76
Interior	32,840	75
Health	27,773	50
Social affairs & labour	11,045	92
Communications	8,652	93
Electricity & water	6,937	61
Information	4,544	83
Public works	3,595	74
Others	20,570	80
Attached & Independent	46,234	71
Kuwait petroleum corp.	13,168	70
Municipality	6,949	84
Kuwait university	4,567	52
Kuwait Airways	4,556	60
Other	16,994	76
Total	209,282	73

Source: Annual Statistical Abstract, Ministry of Planning, Central Statistical Office.

Table 11
Labour distribution by profession, 1999 (% of total)

	Kuwaiti	Non-Kuwaiti
Doctors & scientists	22	78
Engineers	18	82
Economists, lawyers and accountants	24	76
Teachers	53	47
Managers & supervisors	47	53
Writers, artists and social workers	52	48
Businessmen & salesmen	11	89
Technicians & engineering	33	67
Technicians in medicine & science	25	75
Clerks, firemen & policemen	57	43
Craftsmen	8	92
Semi-skilled workers	2	98
Services, workers & gardeners	2	98
Regular workers	2	98

Source: Public Authority for Civil information, 1999.

The government needs to create 10,000 new jobs a year in the next five years to absorb the growing Kuwaiti labour force. It has accelerated plans to "Kuwaiti-ize" the private sector, by replacing 10% of expatriate workers with Kuwaitis each year. But this will prove difficult, as many private sector jobs and the terms and conditions attached to them are unattractive to Kuwaitis. At the same time, some 44% of Kuwaitis in the public sector do not hold secondary school certificates, making them unattractive to private-sector employers. The government proposes taxing companies and expatriate workers and using the funds to provide incentives to private firms to hire Kuwaitis. However, such proposals are expected to have little effect and the already overstuffed and inefficient public sector will continue to assume the title of the country's major Kuwaiti labor force employer. Another plan under consideration is to cut the already relatively small numbers of expatriates in the public sector - accounting for less than 25% of public-sector employees.

VIII. Conclusions

Despite the unprecedented increase in oil revenues since the 1970s, the Kuwaiti economy has suffered from several structural imbalances. The economy of Kuwait exhibits represented the following distinctive features:

1. A heavy reliance on the outside world, especially regarding oil revenues, investment income, and imports.
2. A rate of public spending which has great influence in determining the level of economic activity and in adjusting the mechanism of income flows within the economy.
3. An undiversified productive base and a small domestic market.
4. A structural distortion in the human resource base and labour force profile.

As far as the composition of the GDP is concerned, the performance of the economic sectors, (i.e., agriculture and fisheries, manufacturing, mining and quarrying, and construction), were seriously affected by the invasion. However, a healthy growth of these sectors in the post-liberation period was mainly responsible for the improvement in national income. The growth in GDP (at current prices) during 1992-95 was about 11%, and during 1995-99 the GDP increased by about 5%. While the overall growth of the GDP during 1992-99 was promising, one must not shy away from the fact that this growth was mainly generated by the oil sector. The economy of Kuwait continues to rely heavily on a single exhaustible resource that is vulnerable to both national and international events. This situation is further complicated by the performance of the non-oil manufacturing sector that has remained erratic ever since the liberation.

In spite of the concerns expressed and the general policy direction announcements there has been limited success in translating them into tangible action programs. There has been some improvement in the structural balance relating to the composition of the economy as well, but not to the desired level. There has been some recent improvement in the budget deficit position, but a large part of it is attributable to favourable international oil prices. The policy makers are fully

aware of the need to have a practical program to affect fundamental changes to ensure a sustainable long-term development that bring about a real economic diversification drive.

As for the Kuwaiti labor force, the public sector has been absorbing them, with almost any skills, without demanding a high level of productivity, and offering higher employment benefits than the private sector. In contrast, the Kuwaitis take up only a few employment opportunities in the private sector. This environment has left little incentive for the Kuwaiti labour force to acquire skills, and improve productivity levels, which is required for absorption in the private sector. Furthermore, the private sector has the perception that the Kuwaiti labour force are relatively more expensive, both in terms of productivity and wages. Therefore it feels reluctant to offer a large number of jobs to them. Major reforms are required to resolve this problem.

To conclude, Kuwait has tried hard to lessen its dependence on oil through the development of the non-oil sectors. Its success has, so far, been modest. It is expected that Kuwait will continue to rely heavily on oil at least for the next two decades. Nevertheless, economic diversification is at the top of the agenda for economic reform and substantial efforts are being undertaken to achieve this goal.

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