

TECHNICKÁ UNIVERZITA V LIBERCI

Hospodářská fakulta

Katedra ekonomie

Akademický rok: 2003/2004

## ZADÁNÍ BAKALÁŘSKÉ PRÁCE

pro

**Yahya Marmash**

**Program č. 6208 B    *Ekonomika a management***  
**Obor č. 6208R085    *Podniková ekonomika***

Vedoucí katedry Vám ve smyslu zákona č. 111 / 1998 Sb. o vysokých školách a navazujících předpisech určuje tuto bakalářskou práci:

Název tématu:

**Economic Development in Kuwait**

Pokyny pro vypracování:

1. Introduction of Kuwait
2. An Overview of Kuwait Economy
3. Economy Organization in Kuwait
4. Kuwait Money Agency
5. Conclusion and Recommendation for Government

V 16/04 H<sub>h</sub>

KEK/PE  
33 p.  
abr. 1 tab.

Rozsah grafických prací:

25 - 30 stran textu + nutné přílohy

Rozsah průvodní zprávy:

Seznam odborné literatury:

- Scarca, M.: Evolving Culture of Kuwait, Unipub, INDIA, 1987
- The Kuwait Research Group : Executive Report on Strategies in Kuwait, Icon Group International, KUWAIT, 2000
- O'Shea, M.: Kuwait (Cultures of the World), Benchmark Books, 1999
- Abu, Hakima A.: The Modern History of Kuwait, Intl Book Centre, 1983
- Isiorho, S., Gritzner, G.: Kuwait (Modern World Nations), Chelsea House Publishing, America, 2002
- Crystal, J.: Oil and Politics in the Gulf, Cambridge University, UK, 1995

Vedoucí bakalářské práce:

Ing. Mgr. Marek Skála

Konzultant:

Ing. Miroslava Lungová, Ph.D.

Termín zadání bakalářské práce: 31. října 2003

Termín odevzdání bakalářské práce: 21. května 2004



prof. Ing. Jiří Kraft, CSc.  
vedoucí katedry

prof. Ing. Jiří Kraft, CSc.  
děkan Hospodářské fakulty



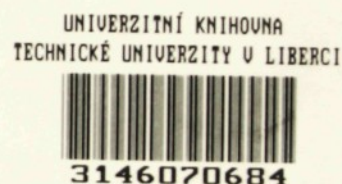
# **TECHNICAL UNIVERSITY OF LIBERCE**

## **FACULTY OF ECONOMICS**

Study program: 6208 – Economics and Management  
Specialisation: Business Administration

### **ECONOMIC DEVELOPMENT IN KUWAIT**

**Vývoj ekonomiky v Kuvajtu**



**BP-PE-KEK-2004 05**

**YAHYA MARMASH**

**Supervisor: Ing. Mgr . Marek Skála**  
**Cosultant : Ing . Miroslava lungová , Ph.D.**  
**Number of pages: 33**  
**Appendix : 0**

**Deadline: 21.5.2004**

## **Acknowledgement**

I would like to express my thanks to every single person who gave me the help and the time to complete this project especially to Ing. Mgr. Marek Skala, in the Economics Department in the Technical University of Liberec for being very helpful and for his guidance toward the completing of this project.

Thanks to go to my family for providing me with the comfortable atmosphere to work on this project, for their support and patience.





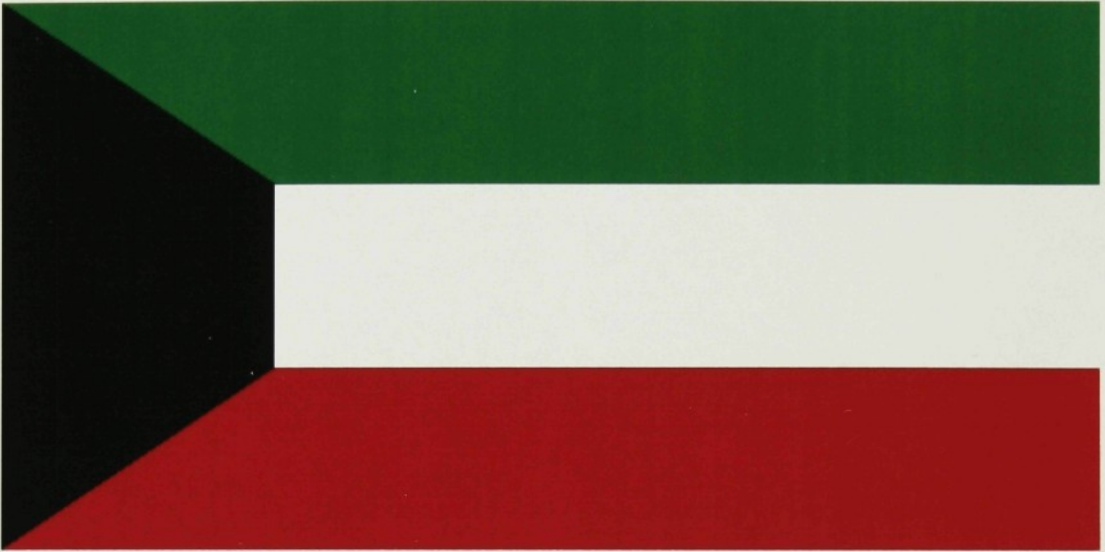
I declare that this bachelor work has been done independently using the literature with the assistance of the supervisor and consultant.

Liberec, January 10th 2004





kuwait flag (432x216x256 bmp)





<b>1</b>	<b>Introduction For Kuwait.....</b>	<b>3</b>
<b>2</b>	<b>An Overview of Kuwait Economy.....</b>	<b>5</b>
2.1	<i>The Kuwait economy before oil exploitation .....</i>	<i>5</i>
2.2	<i>Economic growth.....</i>	<i>5</i>
2.3	<i>Government revenues and expenditures .....</i>	<i>6</i>
2.4	<i>Agriculture .....</i>	<i>7</i>
2.5	<i>Industry.....</i>	<i>8</i>
2.6	<i>Industrialization .....</i>	<i>11</i>
2.7	<i>Importance of the oil industry In the economic setting.....</i>	<i>11</i>
2.8	<i>Oil sector and the structure of the economy .....</i>	<i>11</i>
2.9	<i>Oil Industry in Kuwait.....</i>	<i>12</i>
2.10	<i>Natural gas .....</i>	<i>13</i>
2.11	<i>Kuwait oil exports .....</i>	<i>14</i>
2.12	<i>Kuwait's investment and international trade .....</i>	<i>14</i>
2.13	<i>Economic implications of Kuwait's foreign investment.....</i>	<i>14</i>
2.14	<i>Technology.....</i>	<i>15</i>
<b>3</b>	<b>Economy Organization in Kuwait.....</b>	<b>16</b>
3.1	<i>Overview .....</i>	<i>16</i>
3.2	<i>Kuwait petroleum company (KPC) .....</i>	<i>17</i>
3.3	<i>Kuwait oil company (KOC).....</i>	<i>18</i>
3.4	<i>Kuwait aviation fuelling company (KAFCO) .....</i>	<i>19</i>
3.5	<i>Kuwait foreign petroleum exploration company (KUFPEC) ....</i>	<i>19</i>
3.6	<i>Kuwait national petroleum company (KNPC).....</i>	<i>20</i>
3.7	<i>Economic independence .....</i>	<i>20</i>
3.8	<i>Kuwait within the Arab region.....</i>	<i>21</i>
3.9	<i>Foreign trade.....</i>	<i>22</i>
<b>4</b>	<b>Kuwait Money Agency .....</b>	<b>24</b>
4.1	<i>The central bank of Kuwait (CBK).....</i>	<i>24</i>
4.2	<i>The savings and loan bank .....</i>	<i>25</i>
4.3	<i>Kuwait fund for Arab and economic development (KFAED) ...</i>	<i>25</i>





4.4	<i>Kuwaiti stock exchange (KSE).....</i>	27
4.5	<i>Kuwait investment authority (KIA) .....</i>	27
4.6	<i>Kuwait chamber of commerce and industry (KCCI).....</i>	29
4.7	<i>Domestic banks .....</i>	30
4.8	<i>Monetary market and financial system.....</i>	31
4.9	<i>Foreign bank .....</i>	31
5	<b>Conclusion and recommendations for the Government .....</b>	32



## 1 Introduction For Kuwait

Kuwait is generally characterized as being a small country small in area and population. Kuwait, in fact, is only 6,200 Square miles with a population of about 850,000. It shares with Saudi Arabia the ownership and administration of an additional area of 2,500 square miles along the coast between the two countries. It is located in a corner of the gulf. Kuwait is bordered by Iraq on the north and west, by the Gulf along the east and Saudi Arabia on the south.

Kuwait is a flat desert with the exception of a few economically insignificant oases and fertile areas scattered on the coastal area. There are seven small islands in the Gulf.



Before World war II, the Kuwait economy depended mainly on sea trade with India and Africa's east coast and on fishing, especially for pearls. Sea trade and pearling provided the based for the third major economic activity, boat building. At the time, Kuwait City was simple in all respects. It was a market place for the trade between the Bedouins and the urban communities.

The country was without fresh water; the fresh water supply had to be bought by boat from Iraq. Consequently, agricultural activities were very limited. In 1946, the per capita income was \$50. governmental and social services were either non-existent or of a very low standard.



So before World War II, the Kuwaitis had a subsistence economy an unsophisticated economy with no potential or ingredients for economic development and growth. After World War II, and in 1946 in particular, production and exportation of oil from the Burgan Field and Neutral Zone started. The production of crude oil grew from approximately 6 million barrels in 1946 to 400 million barrels in 1956 and finally to 900 million barrels by 1974.

Agriculture (including fishing) accounts for a small portion of Kuwait's gross domestic product (GDP). The agricultural sector's contribution to the GDP doubled from KD 4 million to 8 million; in the latter year, it accounted for only 0.24 percent. This economic sector moreover utilized only 3 percent of those privately (nongovernmentally) employed





Within the agricultural sector itself, the fishing industry predominates. Indeed, other than oil, Kuwait's most valuable resources lies in the sea. At one time, Kuwait was accorded a modicum of fame as an important pearling center. Today, fishing and particularly shrimping have become big business in Kuwait. By the mid – 1970's, about KD 2.5 million worth of shrimp was exported annually. Although fishing has also been a traditional activity, it never came close to the multi-million dollar industry that exists now. In 1971 the United fisheries Company (an amalgamation of three independent Kuwaiti fishing companies) grossed revenues of \$16.2 million. A study carried out by the food and Agricultural Organization of the United Nations indicated that annual fish production in the Gulf could be increased from the percent 100,000 long tons to about six times that figures. Preliminary estimates from Kuwait's own Institute of Fisheries confirmed the report. Of the 10,000 tons of fish taken about half (mainly shrimp), is exported.

Government studies have shown the feasibility of commercial scale production of fruits and vegetables using hydroponics methods. However, little progress has actually been made in terms of expanding the income base of the country. The reasons for lack of progress in and obstacles of expanding this sector are obvious: deficiencies of soil, dearth of irrigation water, the harsh climate, and the limited supply of agriculturally trained manpower. There is heavy dependence on expatriate labor since Kuwaitis possess an almost "agriculture-less" mentality, aside from fishing. Over 90 percent of Kuwait's land is considered noncultivable. Underground water pumped from deep wells is the primary irrigation source; salinity of the water is between 0.3 and 11 percent.

In 1976 there were 471 agricultural holding of which 53.5 percent specialized in vegetable production, 16.6 percent in poultry, and the reminder in dairy cattle breeding and multipurpose undertakings. The major crops, clearly destined for domestic consumption, are tomatoes, radishes, melons, cucumbers, and a sprinkling of other vegetables. The clover grown is used as livestock feed. Kuwait's agricultural sector furnishes about 13 percent of total vegetable consumption, 6 percent of the milk consumed, about 10 percent of the meat, and 20 and 45 percent of the country's eggs and poultry requirements respectively.

Clearly Kuwait is still overwhelmingly dependent on the import of foodstuffs. Despite a proclaimed governmental policy to attempt to reduce this reliance. The greatest success has been in the poultry (including egg production) and cattle industries, employing new methods through the government's encouragement.





## 2 An Overview of Kuwait Economy.

### 2.1 *The Kuwait economy before oil exploitation*

Kuwait in the pre-oil era possessed most of the salient features of an underdeveloped country. These, to mention a few, included a very low per capita income, combined with a low annual saving rate, an almost zero rate of growth, seasonal employment, overdependence on the imports of capital and consumer goods, a very high rate of illiteracy and the lack of sufficient social overhead capital.

It appears, despite the lack of almost all-necessary statistical information, that a primitive, highly labor intensive, one resource economy-pearl fishing followed by seafaring – characterized this period. Developments in science and technology, as we shall see, brought an end to this simple, vulnerable economy.

The purpose of this chapter is to try to shed some light on the development of the pre-oil economic, political and social structures. Its significance resides in the fact that it introduces the background of Kuwait's present development and growth.

### 2.2 *Economic growth*

Kuwait has recoded a unique rate of economic growth by nations standards, whether developed or underdeveloped. Before world War II, Kuwait had a subsistence economy without the ingredients for economic development and growth. Since the war, with the stepping up of the production and export of crude oil, the social and economic structure has drastically changed.



Per capita income has grown from \$3138 to \$11,000 (Mallakh,R. 1968:29). The high rate of growth in the economy is mainly attributed to the exploitation of the natural resources which are oil and natural gas. The growth in the oil sector, which accounts for more than 50 percent of the GNP, has been considerably high and stable over the last two decades. This steady, high and stable growth in the oil sector has led to high and suitable economic growth in the economy.

Economic planning in Kuwait has been conducted only in the last ten years. The government introduced the first five year development plan and the major objectives of this plan were reducing the economy's dependence on immigrants as a source of manpower and





reducing the oil sector as the main source of revenues. The plan also included other objectives that were not purely economic such as equal distribution of income and closer economic cooperation with the other Gulf States and with the rest of the Arab world.

**Ratio of non-oil Exports to Total Exports**

Year	65/66	66/67	67/68	68/69	69/70	70/71
Total Exports	500	554	513	581	621	731
Non-oil Exports	14	13	16	22	25	27
Non-oil Exports/ Total exports	3%	2.3%	2.8%	3.8%	4%	3.7%

Source: Planning Board (Kuwait: Government printing Press).

**2.3 Government revenues and expenditures**

Since the Kuwait government is the recipient of oil revenues, analysis of the impact of these proceeds on the economy necessitates a study of government expenditure policies. The increase in government revenues bears witness to the rising oil output. In 1946 government revenue from oil was estimated at KD 0.27 million (KD1 = \$ 2.8), increased to about KD 105 million in 1956, and reached KD 231.7 million in fiscal (Mallakh,R. 1968 :35). The large influx of capital on the one hand, and the Ruler’s will to develop the country on the other, brought radical changes to Kuwait’s economic and social life in a relatively short period of time,

However, the realization of such an objective is not an easy task in a country which lacked almost every productive resource except capital. When the construction program first started in 1949, no one anticipated the amount of effort and tie that would be required to covert oil revenues into finished projects. The government itself was neither organized nor



staffed to undertake such a large expansion in public works. Construction was started largely without plans other than sketches and without even preliminary cost estimates. However, the increase in oil revenue made clear that planning required expert advice, and foreign consultants were engaged for this purpose. Town planning rather than more comprehensive economic development programming was prepared and later amended. A group of five foreign engineering firms won contracts to carry out the principal government projects on a cost-plus basis. The projects principal fields of investment have been street construction, water supply, electricity, education, medical services, port, roads, and housing. It was soon discovered, however that this procedure pushed up costs to unduly high levels and left much room for abuse; therefore it was abandoned most of the contracts were cancelled. While, undoubtedly expensive it should be conceded that rapid physical changes in the old Arab town were accomplished during this short period. The first power and sea water distillation plants came into being. Many miles of main roads were built; schools, hospital, mosques and public buildings were begun on a large scale. Responsibility for planning and executing a development program was then entrusted to the Public Works Department. However, the present construction program is a continuation of every phase of the earlier program but with greater emphasis on development of outlying communities airports and low-income housing. In the main, a modern city has replaced the old seaport town.

## 2.4 Agriculture

Kuwait is largely a desert except for a few oases and fertile area in the southern part and along the coast. Fresh water is very scarce; when the rain does not exceed 4.1 inches a year, it either evaporates or is absorbed by the sand. Thus, Kuwait at present has no agricultural base of any economic value, except for small scale animal and poultry farming which hardly exists. The agricultural sector contributes only an average of 0.5 percent to the GDP (Mallakh, R. 1968 :47). In addition, the contribution of this sector is decreasing in both dollar value and percentage. Cultivation of the soil must be experimented with for a long time, which has not yet been done on a large scale. Success in agriculture then could possibly change the role of the agricultural sector for the country.







## 2.5 Industry

Modern industries in Kuwait still are limited in size and number. The existing industries in Kuwait fall into two groups. First is large scale modern industry initiated by the government or by the government together with the private sector. Oil and gas have offered the base for the refining and petrochemical industries. The petro-chemical industry, based on natural gas, is represented at present by the Kuwait Chemical Fertilizer Company (KCFC). Eighty-eight (88) percent of the KCFC is owned by the government. It exported its products to twenty-seven countries (Mallakh,R. 1968 :78).

Ammonia and sulphur are the primary products from which the KCFC derives urea and ammonia sulphate. Production has grown 150 percent. Expansion in capacity is very important because natural gas is the main element in the industry. Natural gas is abundant in Kuwait. The utilization ratio of natural gas is approximately 35 percent.

Petroleum refining is actually the major industry of the industrial sector. The refining operations are run and managed by the Kuwait National Petroleum Company (KNPC). KNPC's receipts amounted to 64 percent of the receipts of the industrial sector. The growth of the refining operation is the major factor for the growth in the industrial sector.

The refined petroleum that is processed domestically by KNPC amount to 3 percent of the total production of crude oil (KNPC has refined 24 percent of the total production of crude oil refined locally.) the total products refined by KNPC and the other two refineries owned by Kuwait Oil Company (Gulf and BP) and American Independent Oil Company (AMINOIL) amounted to 13 percent of the crude oil production in 1971



Sectoral Contribution To Gross Domestic Product (Million Kuwaiti Dinars)

Sector	1966/67	Percent Of Total
Agriculture	1	0.1
Fishing	3	0.4
Crude Oil, Natural Gas & Mining	489	61.1
Manufacturing Industry	29	3.6
Construction	38	4.7
Electricity, gas & Water	18	2.3
Transport, Storage & Communications	22	2.8
Wholesale & retail trade	64	8.0
Banking & Insurance	12	1.5
Real Estate	38	4.7
Public Administration & Defense	46	5.7
Other Services	41	5.1
Gross Domestic Products (Factor Cost)	80	100.0
Net Indirect Taxes & Subsidies	3	--
Gross Domestic Product (Market Value)	80	--





Receipts of Major Industrial Companies in Kuwait

	<u>1969</u>		<u>1970</u>		<u>1971</u>	
	KD,000	%	KD,000	%	KD,000	%
Kuwait National Petroleum Co.	28,028	74	38,237	80	50,209	82
Kuwait Metal Pipes Industries	789	2	560	1	1,406	2
National Industries Company	861	2	835	2	1,283	2
Kuwait Flour Mills Co.	3,508	10	3,813	8	4,502	7



## **2.6 Industrialization**

The current frontier in Kuwait economic activity is industrialization. The establishment of a viable and diversified economic base via industrialization was the guiding principle of the first five-year plan, drawn up. Kuwait cannot depend on the export of crude oil a wasting asset – to enhance present welfare and future development. Steps must be taken to ensure a degree of economic vitality and prosperity for the period ahead when reserves will be diminishing to relatively low level.

However, Kuwait represents a somewhat unique situation among developing economies; such traditional sectors as agriculture can be expanded only with difficulty. In this case, industrialization does not arise from the usual positive stimuli of cheap labor and abundant raw materials (other than petroleum); rather, the drive to industrialize is the result of the limitations on alternatives. Positive factors do include cheap energy and abundant capital. Yet the current state of industrial technology requires that efficient production units must be capable of output much greater than be absorbed in the domestic economy alone. The result is great dependence on export oriented industry, vulnerable to the state of the world market.

It should be kept in mind that the petroleum industry involves a number of stages and processes beyond the lifting of crude oil

## **2.7 Importance of the oil industry in the economic setting**

The impact of the oil industry on the Kuwaiti economy takes two forms: first, through its contribution in terms of government revenues, foreign exchange earnings, employment, supply of energy, demand for local products, and national income. Second, an indirect impact through financing development investment expenditures.

## **2.8 Oil sector and the structure of the economy**

Official figures place 1966/67 Gross domestic product at factor cost, at KD 801 million. As for the distribution of the gross Domestic Product among the major sectors. The oil sector accounted for 61.1 percent. Services contributed 27.8 percent while manufacturing industry represented 10.6 percent. Agriculture and fishing contributed only 0.5 percent. By any standard, the oil sector is the leading one except in its capacity to employ. Its growth rate





has been high, in absolute and relative terms, in comparison with that of other sector (Al-ebraheem, Y. 1997 :98).

## 2.9 Oil Industry in Kuwait

The oil industry in Kuwait is composed of six companies which are engaged in the exploration and production activities in Kuwait's territories and in the divided zone between Saudi Arabia and Kuwait. The companies operate through concession agreements granted by the Kuwaiti government. This concession differs from one company to another in its terms (areas, duration, taxes, royalties). Each company occupies a certain area and operates in it according to the terms of the concession. Five of these companies are Jointly owned by Kuwait and foreign interests (oil companies). (The sixth company [KNPC] is the only national company and 60 percent of it is held by the government with 40 percent held by private Kuwaiti interests). Kuwait Oil Company (KOC) controls over 90 percent of crude oil output in Kuwait which makes it the dominant company in the industry locally.

### Oil Companies Operating in Kuwait

Kuwait Oil Company (KOC) Gulf Oil, British Petroleum.	The biggest company; controls 92% of oil output.
Kuwait Shell Petroleum Development Company.	No activities were carried out by the company from 1964 to date, pending settlement of border problems
Kuwait national Petroleum COMPANY (KNPC)	60% held by government; 40% held by private Kuwaiti share holders.



2.10 Natural gas

Natural gas is another aspect of the oil industry in Kuwait. Total production of natural gas is associated completely with the level of crude oil output. At first, natural gas, after it was separated from oil, was flared and therefore completely wasted. After negotiations with oil companies, a part of the natural gas became integrated into the oil industry as a source of wealth. It was first used for generated into the oil industry as a source of wealth. It was first used for generating local power for oil companies (oilfield injection) and later it was used to supply the needs of local developing industries and to generate electric power.

The ratio of utilized natural gas to the total production has increased over the last seven years but it still is very low. The ratio was 16.5 percent and it reached 35.2 percent. The ratio indicates the great opportunities to integrate the natural gas industry into the economy (Al-ebraheem,Y. 1997 :103).

Although natural gas is associated with oil production, the structure of the gas industry is quite different from that of oil. The prices and trade agreements are always determined by bilateral arrangements between producers and consumers, rather than y the operation of a complex international market, as is the case of oil.

Gas/Oil Ratio In Kuwait’s Oil Fields

Field	Average Gas/Oil
Burgan	460
Magwa	518
Ahmadi	516
Raudhatain	890
Sabriyah	855
Bahra	494
Minagish	530
Umm Gudair	210





### **2.11 Kuwait oil exports**

The quantity of oil exports is the second major variable that will affect the size of expected oil revenues. Since Kuwait has adopted oil conservation policies, the size of oil exports will depend mainly on Kuwait's policies regarding the level of oil production. The ceiling on production is determined on the basis of local revenue needs and international considerations.

### **2.12 Kuwait's investment and international trade**

There is a concern over the fact that massive investment in the oil-exporting countries will lead to a greater domestic economic output and consequently to a disequilibrium in the world's balances of trade which will have an impact on the economies of the industrial countries. But, the industrialization of Kuwait and other Arab countries will be mainly capital intensive such as investment in infrastructure, refineries, petrochemicals and so on. This would not disrupt the international market equilibrium. These industries are not employment creating; therefore, they do not affect the employment in developed economies but are rather for machinery, equipment and technical and managerial know-how from the developed countries. These purchases will no doubt boost Western exports and consequently their economies.

### **2.13 Economic implications of Kuwait's foreign investment**

Considering all countries with surpluses as investors in the international market, there is a great concern over the flow of investment into the industrial countries. The problem and the concern is not over today's limited investment but about the future or precisely the near future.

It has been estimated that the amount that will be accumulated by OPEC countries by 1980 is equal to two or three times the total value of all stocks listed on the British, German and French stock exchange or three-fourth of the current value of all the stocks on the leading stock market in the world.

Change of this size will create a shift of claims on real resources which will generate some negative economic and political consequences. It is not easy for people and system in the West to visualize a world economy where such massive foreign assets are accumulated and controlled by foreign interests.



This issue has two aspects. First, Kuwait must consider that it is not alone in the international investment market, and considering other OPEC countries, especially from the Arab world, in the same markets will intensify the problems and the implications of these investments. Secondly, there is the problem of the extent to which investments can be concentrated in a particular region or country.

### **2.14 Technology**

Technology is one of the highly needed factors in underdeveloped economies, including Kuwait. And what is meant by technology in the broadest sense includes material, marketing, organizational and other skills as well as advanced technical information and know-how. Some argue that technology for its owner, is deployable economic resource; once it is sold or transferred it is gone forever. Others argue that once technology is developed it is not consumed by use; but by its very nature it is inexhaustible. Thus its managerial social costs are zero and its price should be zero.

Generally, technology and the know-how of the industrial countries are their life-blood and are one of the major factors for their economic successes. So a company or country which has been successful in the development of its technology will license or sell that technology at a reasonable value only when they have a substantial interest in the business or the project. Therefore, the issue here is the paradoxical one that advanced countries should not be expected to give away skills and knowledge nor is it reasonable that a country should expect to get something for nothing.





### **3 Economy Organization in Kuwait**

#### **3.1 Overview**

As member of OPEC, Kuwait owns about 10 per cent of the world's proven oil reserves. Its reserves of 96.5 billion barrels are expected to last more than 100 years.

A Central Bank of Kuwait report put the country's gas reserves in 1997 at 52.4 trillion cubic feet, or 1.1 per cent of the world's proven reserves. This figure, however, does not include Kuwait's share from operations in the Neutral Zone border area, which it shares with Saudi Arabia.

Foreign concessionaires dominated Kuwait's oil industry until 1973 when production peaked at 3.3 million bpd at low prices. By 1977 the industry was nationalised and a policy of conservation and reduced output was implemented. In 1981, production touched a low of 1.25 million bpd but rose to 2 million bpd in 1990.

During the 1970s and 1980s Kuwait moved heavily into downstream activities including local refining, transport, overseas refining, and distribution of products -- through the acquisition of foreign assets. Refining and the overseas distribution of products, besides generating higher profits, provided market protection during gluts in crude oil. Kuwait also entered the field of overseas exploration and production.

After a period of reorganisation in the late 1970s and the acquisition of foreign corporations in the 1980s, Kuwait's oil industry, supervised by the Ministry of Oil, is controlled today by the Kuwait Petroleum Corporation (KPC) as the overall coordinating body.

Kuwait Oil Company (KOC) carries out exploration and crude production.

Kuwait National Petroleum Company (KNPC) manages refineries and domestic marketing.

Kuwait Oil Tanker Company (KOTC) undertakes transportation.

Petrochemicals Industries Company (PIC) produces petrochemicals.

Kuwait Foreign Petroleum Exploration Company (Kufpec) handles exploration of oil overseas.





Kuwait Petroleum International (KPI) manages downstream operations in Europe.

Kuwait Aviation Fuelling Company supplies fuel to aircraft that use Kuwait International Airport. Sante Fe International Corporation provides expertise in exploration, drilling, pipelines, etc. Sante Fe's wholly-owned subsidiary, C.F. Braun & Company, provides refinery-engineering services.

The destruction of Kuwait's oil industry during the Iraqi occupation was extensive, but damage to exploitable reserves was estimated at only about 2 per cent. Several hundred oil wells and gathering stations (GSs) required replacement. All the three domestic refineries were beyond operation. By mid-1994, however, nominal production capacity of crude from Kuwait and its share of the Neutral Zone was around 2.4 million bpd, and refinery's capacity was back to pre-invasion levels.

Today, the industry has recovered fully from the onslaught of the Iraqi invasion. The State-owned KPC is estimated to be the seventh largest oil company in the world. It has extensive overseas operations including refineries and large downstream distribution networks in western Europe. Non-Arab states, however, are Kuwait's main customers; the country exports some 78 per cent of its products to them.

### **3.2 *Kuwait petroleum company (KPC)***

Kuwait Petroleum Corporation (KPC) was established in 1980 as an umbrella organisation to manage Kuwait's rapidly growing and diversifying oil interests. The Minister of Oil supervises and chairs its Board of Directors. KPC is also referred to as "The Ambassador of Kuwait's Oil Industry".

In less than two decades, KPC has become a world leader in the oil industry; a truly international entity respected by governments and business institutions worldwide offering a fully integrated portfolio of services.

Underlying KPC's strategy for growth are the principles enshrined in KPC's strategic corporate objectives. These encompass:

The protection of Kuwait's hydrocarbon resource, and the careful exploitation of the resource through the most effective means.





The maximisation of revenues from Kuwait's hydrocarbon through effective marketing of crude and products.

A commitment to develop the technical and administrative abilities of its workforce.

A commitment to contribute to the development of the national economy, to greater benefit of the State of Kuwaiti. KPCs' ambitious plans for expansion include a production target of 3 million barrels per day after 2005.

KPC and its subsidiaries remain committed to the protection of the environment. Progress in this area has been achieved by cooperating and coordinating with local and international institutions and corporations which have similar concerns.

### **3.3 Kuwait oil company (KOC)**

Kuwait Oil Company (KOC) was formed in 1934 by the British Petroleum Company and Gulf Oil Corporation, today known as Chevron.

The first exploration well was drilled at Bahrah. In February 1938, oil was discovered at Burgan. Eight more wells were drilled at Burgan during 1938-1942. Operations, however, remained suspended until the end of the Second World War. On June 30, 1946 the first crude oil shipment was exported.



Oil was later discovered at Rawdhatain in North Kuwait in 1955 and at Minagish in 1959.

In 1964, KOC took the first steps to exploit natural gas that now provides substantial additional revenue for Kuwait.

In 1974, a participation agreement was ratified by the Kuwait National Assembly giving 60 per cent control of the operations of KOC to the State of Kuwait, the remaining 40 per cent being divided equally between BP and Gulf Oil Corporation. In March 1975, the Kuwaiti Government took over the remaining 40 per cent shares, thus assuming full control of KOC.

During the Iraqi invasion, almost 80 per cent of KOC's establishments were destroyed. Their restoration in less than four years is a tribute to the Kuwait's national pride.





Today, KOC's activities are numerous, including exploration, land and marine surveys, drilling of wildcat wells, production of crude oil, natural gas and other hydrocarbons

### **3.4 Kuwait aviation fuelling company (KAFCO)**

Kuwait Aviation Fuelling Company (KAFCO) was established on July 1, 1963, with Kuwait National Petroleum Company (KNPC) owning 51 per cent shares and British Petroleum Company owning 49 per cent.

In March 1987, KAFCO became a subsidiary of Kuwait Petroleum Corporation (KPC), when the latter bought all the shares.

KAFCO specialists in the supply of A-1 fuel (ATK) to all aircraft that use Kuwait International Airport. Jet A-1 is a kerosene fuel that undergoes rigorous testing at every stage of production to meet stringent international specifications. This is part of the company's precautionary measures to ensure safety of both passengers and the aircraft. Jet A-1 is produced locally at two of Kuwait Petroleum Corporation's refineries.

Utilisation of the new equipment like motorised valves, high-speed pumps and sophisticated electronic systems for remotely monitoring depots and hydrant points help provide quick and efficient service to airline companies.

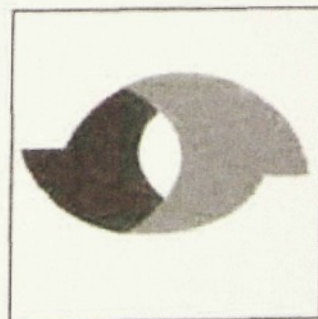
KAFCO supplies fuel to an average of 15,000 aircraft a year. The company's depot has a storage capacity of approximately 30 million liters, which represents three weeks' fuel supply.

As its main objective, KAFCO devotes special attention to training and developing its employees in an effort to continuously keep pace with international standards and regulations.

### **3.5 Kuwait foreign petroleum exploration company (KUFPEC)**

Kuwait Foreign Petroleum Exploration Company (KUFPEC) was established in 1981 with a mission to widen the scope of Kuwait's oil industry activities worldwide.

KUFPEC is the only company in the Arabian Gulf to carry out drilling, development and production operations in foreign countries. It operates in eight countries: Australia, China, Egypt, Indonesia,







Pakistan, Sudan, Tunisia and Yemen

The company's portfolio comprises seven producing fields, three fields under development and one under appraisal, in addition to discoveries that have not been fully assessed

### 3.6 *Kuwait national petroleum company (KNPC)*

Kuwait National Petroleum Company (KNPC) was established in 1960 as a joint venture between the State of Kuwait and public shareholders, to exploit Kuwait's share of what was rapidly becoming an international Industry.

In 1975, KNPC became a fully State owned company, and in 1980, a subsidiary of the newly formed Kuwait Petroleum Corporation. It was assigned to handle oil-refining operation, gas liquefaction activities as well as supplying gasoline, gas oil, kerosene and lube oil to the national consumer marketplace. KNPC also provides the Ministry of Electricity and Water with gas oil and heavy fuel oil for local power plants.

Following the restructuring of the Kuwait oil sector in 1980, KNPC took over the management of Mina Al-Ahmadi Refinery in addition to its Shuaiba Refinery and Mina Abdulla Refinery, which was, transferred to KNPC in 1978.



Over the course of the decade, Mina Al-Ahmadi refinery was modernised to produce the environmentally approved low sulphur fuel oil used by the country's power stations, refineries, petrochemical plants and heavy industry. The quality of refined products was also upgraded.

As for the petroleum products distribution network, KNPC operates over 98 filling stations in various parts of Kuwait

### 3.7 *Economic independence*

All developing countries purpose the independence objective to a greater or lesser extent. This is clearly reflected in their successive development plans. For a small sized economy like Kuwait with its overwhelming dependence on foreign markets for the marketing of oil as well as for imports, the pursuance of national objectives in this sphere needs clarification as well as justification. Some may argue that the impact on the standard of





living of such objectives may be damaging and even suicidal to examine this or other similar or dissimilar views, one has to ask first what meanings can be attached to economic independence as an ultimate objective for Kuwait to follow without seriously threatening its high level of consumption.

The first relates to independence in the field of the oil industry: that is to say independence from foreign oil companies owning and controlling the extraction, processing or marketing of oil products. As far as production and pricing are concerned these companies assume full power. Negotiations with the governments of the oil producing countries have been mainly concerned with their shares of profits.

Another concept concerns independence from oil itself as the major source of income, which amounts to the diversification of the economy. The achievement of this objective may be effected through the creation and establishment of other activities; manufacturing, shipping, insurance and banking as well as by investment part of the oil revenue in foreign assets.

A third concept relates to independence from certain imported goods or services. Reasons advanced for this version of economic independence relate in general to the risks associated with imports resulting say from temporary or prolonged dislocations of transport facilities or from an unexpected fall in exports, together with the fear of relying too heavily on one or few sources of foreign supply. Policies proposed to achieve this objective range widely from a policy of import substitution (subsidized domestic production of certain goods such as food, steel, etc) to a diversification of the foreign sources of supply and the piling up of financial foreign reserves. These measures, except import substitution, have been more or less effectively followed in Kuwait so that the risks associated with foreign supplies have been considerably reduced. Goods are supplied virtually from every part of the world economy, with such a high degree of competition among source of supply that the Kuwaiti importers are on the strong side of a buyer's market. This applies mostly to Kuwait importation of labor

### **3.8 Kuwait within the Arab region**

Kuwait considers itself a part of the Arab world culturally and economically. Economic cooperation within the Arab bloc is of considerable importance and of great potential. This cooperation could lead to an integration of resources and an overcoming of the





narrowness of the domestic markets. These gains would in turn help to achieve economic progress in the region.

One of the main objectives of the Kuwait fund for Arab Economic Development is wealth sharing and economic cooperation among Arab countries. The capital of the fund is approximately \$ billion with borrowing capacity up to \$11 billion (Al-sabah ,y. 1980 :25).

Agricultural and industrial sectors are limited in their absorption capacity and they have not grown fast enough to absorb the growth in the labor market.

Government jobs are considered as a means for income distribution that comes from oil revenues.

Thus, employment in government jobs in most cases has been motivated by reasons other than the need for real expansion in government functions. This generous employment policy has led to disguised unemployment and worsening government bureaucracy. Evaluation of governmental structure, government employment policies, and government working force is very urgently needed. Training and redirecting the surplus employees and redistributing them into other sectors is even more important and critical. These measures are prerequisites for establishing a base for an advanced economy. Oil has been, and will continue to be fore a limited time, the base for decent standards of living; but afterwards, the Kuwaitis and their abilities will be the base for maintaining and developing a strong and healthy economy.

**3.9 Foreign trade**

Foreign trade plays an important role in the Kuwaiti economy. Its importance can be determined through relating foreign trade to the GNP:

$$\frac{\text{Exports} + \text{Imports}}{\text{GNP} + \text{Imports}}$$

Eighty (80) percent was the ratio for Kuwait which was very high by world standards.



Kuwait imports almost all the consumer and capital goods. The imports have grown substantially (8 times) per capita imports have reached \$ 823. This growth and high rate of import have been stimulated by:

- The liberal trade policies represented by low tariff rates (4% ad valorem) in addition to the free exchange market. Imports by the government and oil companies, in addition to foodstuffs, gold silver and most capital goods, are fully exempted from import tariffs;
- The expansion in some sector of the economy, especially construction and services;
- The limitation of the economy in producing the local goods;
- The continuous rise in per capita income and the associated rise in demand.
- The propensity to imports in the year 1996 to 1969 in Kuwait averaged 28.5 percent. The marginal propensity to imports in same years averaged 33 percent. These ratios are very high in relation to world standards and they emphasize that Kuwait has the characteristics of a highly specialized economy and smallness.



## 4 Kuwait Money Agency

### 4.1 The central bank of Kuwait (CBK)

The Central Bank of Kuwait (CBK) was founded on June 30, by law 32/1968 and started operations on April 1, 1969, replacing the Kuwait Monetary Council.

The CBK's goals are:

To exercise the privilege of issuing the national currency,

To ensure stability of the Kuwaiti currency and its flexibility in relation to other foreign currencies,

To direct the credit policy with the aim of assisting social and economic progress and increasing national income,

To supervise the banking systems in the State,

To serve as Banker to the Government, and To provide financial advice to the Government.



The CBK encompasses three organisational divisions, each with its own objectives and function. These divisions are: the Governor of CBK Office which includes offices and units reporting to the Governor; the Monetary Policy division, which includes departments concerned with banking operations, foreign operations, and economic affairs; and the Organisation and Management division, which includes banking operations, manpower and administration services.



The CBK is also responsible for issuing the tools of general debt, such as treasury bonds and bills, on behalf of the Ministry of Finance as well as clearance of cheques between various units of the local banking sector.

The CBK disseminates information to the public, individuals and establishments interested in economic, financial, banking and monetary affairs, locally and externally, through its publications and periodicals (in both Arabic and English).

During the last few years, CBK has witnessed substantial growth and development, which is reflected in the introduction of new activities and organisational divisions, in addition to the reorganisation of some departments.



## 4.2 *The savings and loan bank*

The Credit Bank was established (by Law 40/1960) to facilitate land, agricultural and industrial credit loans for Kuwaiti citizens, in addition to extending credit to State employees against security of their salaries and bonuses.



The Credit Bank was later replaced with the Savings and Loan Bank (by Law 30/1965), with some amendments to its objectives and operational framework. The most prominent of these amendment was it should undertake create awareness among the public in order to encourage them to save; and collect the people' savings and invest them.

The Savings and Loan Bank is a public corporation of an independent legal status operating under the supervision of the Minister for Finance.

The Bank has a Board of Directors that plans the general policies of the bank and supervises their execution. The members of the Board are appointed by a resolution of the Minister for Finance. They include seven skilled and experienced Kuwaitis and a Director General. The Board of Directors determine, with the approval of the Minister for Finance, the administrative and financial regulations and systems as well as the regulations of the employees of the bank.

## 4.3 *Kuwait fund for Arab and economic development (KFAED)*

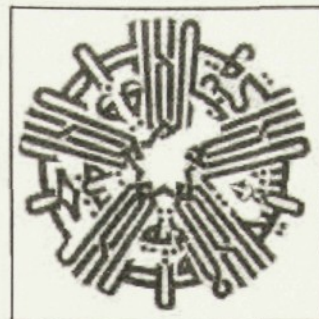
The Kuwait Fund for Arab and Economic Development (KFAED) was established on December 31, 1961, as a mechanism through which the State of Kuwait could extend loans and aid to Arab and other developing countries.

The KFAED is an autonomous public body having an independent legal identity. It is administered by a Board of Directors whose members are appointed by HH the Crown Prince and the Prime Minister, and the Chairman of the Board. The Prime Minister has delegated this authority to the Minister for Finance. The management of the Fund is the responsibility of the Director General, who is appointed by the Chairman of the Board. One or more Deputies to the Director General assist him in the management of the Fund In order to discharge its functions, the Fund was given broad freedom of movement, and the right to follow any of the courses outlined in the Law and its Statutes.



Its functions are:

- Offering loans and guarantees;
- Offering grants for technical aid and providing other forms of technical assistance;
- Participating in the capital of development institutions; and Participating in the capital of international, regional and other development finance institutions.



The Fund has placed emphasis on financing the agriculture, irrigation, transport, communications, energy, industry, and the water and sewage sectors.

It offers assistance to:

Central and regional governments, public utilities and other public institutions. International, regional and local development institutions, particularly development financial institutions. Establishments which undertake joint projects between a number of developing countries, and various private institutions concerned with development.



In pursuing its objectives and goals, KFAED's exclusive concern is to serve the interest of the countries with which it cooperates and to promote friendly relations between them and Kuwait. Over a period of 40 years, the Fund has played an effective role in strengthening the ties of co-operation and friendship between Kuwait and other countries.

According to the recent statistics, the Fund's paid-up capital since its foundation amounts to KD 2,000 million. Total loan disbursement extended amounted to KD 3,077 million. The Fund has granted 595 loans since its inception and extended technical assistance on 196 occasions to different countries and organisations, which have benefited 96 countries in Africa, Asia, Europe and Latin America.



#### **4.4 Kuwaiti stock exchange (KSE)**

Share trading in Kuwait started in 1952, when the first Kuwaiti shareholding company -the National Bank of Kuwait was established. The first law concerning the organisation of the issue of shares and subscription was promulgated in October 1962.

In 1970, Law No 32 was issued on the regulation of stock trading in shareholding companies. In 1976, Ministerial Resolution No 61 led to the organisation of dealings in Kuwaiti shareholding company shares.

In 1977, the bourse was opened and named the Kuwait Stock Exchange (KSE). It was, however, in August 1983 that the KSE was reorganised as an independent financial institution, by an Amiri decree, to be managed by the Exchange Committee and by the executive administration.



After the Iraqi Invasion of Kuwait in August 1990, the Kuwait Stock Exchange was closed and resumed operations on September 28, 1992.

KSE became the first stock market in the world to use an Arabic Automated System on January 17 1996, when it implemented the automated trading system.

The new system allows faster, fairer and more efficient securities trading and has improved competitiveness in the market and increased equality between traders. The system provides brokers access to the all-pertinent information required to assist their clients in the trade of securities. The end result is a better client-broker-exchange relationship

On September 10, 2000, the Foreign Investment Law was issued by the Government to allow foreigners to invest in the Kuwait Stock Exchange for the first time.

#### **4.5 Kuwait investment authority (KIA)**

The discovery of oil in the early 1950s and its export constituted an important turning point in Kuwait's economy leading to the financial surpluses, and making it necessary to find means for their proper investment and growth. In 1960, the Government created the General Reserve, which was financed from the budget surplus.





In the 1970s, the Future Generations Fund was formed. It consisted of 50 per cent of the General Reserve at that time, 10 per cent of the annual budgetary revenues of the State, plus the profit on these assets.

The significant increase in the amount of funds allocated for investment and the widening scope of investment venues lead to the next step of improving the quality of investment operations and processes. Kuwait Investment Authority (KIA) was, thus, formed to take over from the Ministry of Finance in managing and developing the financial reserves of the State. It was established as an independent legal identity, by law 47/1982 to operate under the auspices of the Ministry of Finance. On behalf of the State of Kuwait, KIA is authorised to develop and manage the General Reserve, and the assets of the Future Generations Fund as well as any other funds entrusted to it by the Minister for Finance, who heads KIA's Board of Directors.

Its membership consists of the Minister for Oil, the Governor of the Central Bank of Kuwait, the Under Secretary of the Ministry of Finance, on an ex-office capacity, and five other Kuwaitis who are experienced in the field of finance and investment. These members are appointed, by decree, for tenures of four years each, three of whom should not occupy any other public office. The Board chooses from within its members a Managing Director to assume the executive management of the KIA.

The Board of Directors of KIA is responsible for supervising the KIA's affairs. It has the jurisdiction to make decisions as it sees fit to fulfill its aims and objectives.

Its main task is to draw a plan for the general policy of KIA and to supervise its implementation. It draws up and sets all regulations and procedures (administrative and financial) which are necessary to the operation of KIA. The Board reviews and decides on the annual budget of KIA and its financial accounts before they are submitted to the Council of Ministers.

The objectives of KIA are numerous and vital to the economic well being of the country. It develops and manages the General Reserve and the Future Generations Fund, in the most appropriate and feasible investment venues and products, with a mission to enhance the State's economic and fiscal policies and strategies. On the other hand, it complements these investments with the economic base in Kuwait so as to serve and develop the national economic interests.

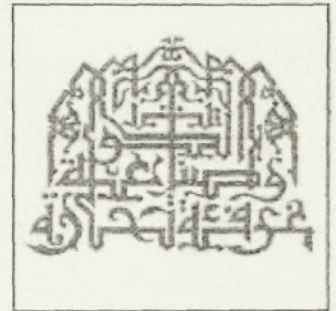


KIA encourages the private sector by participating in the financing of the establishment of companies and projects that have possible economic returns. It also helps in developing the role of local financial companies by giving them the opportunity to manage some of its investments locally and abroad. KIA also provides liquidity to the State's Treasury when needed. Some of the noteworthy projects and local companies where KIA has invested include Gulf Cable, Electrical Industry Company, Mobile Telephone Systems Company and Kuwait Investment Company.

#### **4.6 Kuwait chamber of commerce and industry (KCCI)**

Kuwait Chamber of Commerce and Industry (KCCI) is a non-government institution representing business establishments in Kuwait. The Chamber acts on the behalf of, represents and lobbies for the interests of businesspersons and industrialists in Kuwait.

The establishment of a Chamber of Commerce was first mooted in 1952. Three years later, the Chamber was established and, in 1959, the election of the Chamber's first Board of Directors took place.



KCCI is a truly democratic organisation. The members of the Board of Directors are all elected and its leading figures are known for their contribution to industry and business.

The Chamber is a repository of information on commerce and industry and it distributes information and statistics for the benefit of all concerned and provides the government with reports, information and ideas relevant to commercial and industrial issues. The Chamber also releases a periodical bulletin with relevant information on commerce and industry. To provide effective and high quality training to young and qualified Kuwaitis, it has established the Abdulaziz Hamad Al-Sager Training Centre. The Chamber of Commerce was awarded the ISO 1990 Certificate in 1998 for excellence in all of its activities.

The Chamber takes part in all the GCC meetings and seminars, visits members of the European Union's Gulf branches and participates in the board of directors meeting of the GCC.

At international level, the Chamber participates in international economic conferences and seminars, contributes to meetings and activities of the International Chambers of



Commerce in Paris (France), the Islamic Chamber of Commerce in Karachi (Pakistan) and the International Labor Organisation.

Since its establishment in 1959 until 1998, the number of members of the Chamber rose from 481 to 19,000 and more.

#### **4.7 Domestic banks**

The banking system in Kuwait comprises the Central bank, seven commercial banks (six locally owned), three specialized banks (the real Estate Bank, the Industrial Development bank, and the savings and Credit Bank), and several major non bank financial institutions. Four of the seven commercial bank are privately owned. The Bank of Kuwait and the Middle East and the newly created Burgan Bank are jointly owned by the government and the private sector; the private sector holds a majority interest in the former and the government in the latter bank. The only commercial bank which has foreign interest is the Bank of Bahrain and Kuwait which was recently opened.

The Kuwait real Estate Bank was organized on October 6, 1973 with a capital of KD 5 million. The bank assists in the financing of real estate activities and was duly registered with the Central Bank.

The government concern with the welfare of lower-income groups is manifested in the financial sector by the fully government-owned Credit and Saving Bank. The purpose of this bank is to effect social objectives, especially as regards the lower-income population. The bank accepts deposits and grants loans for limited-income housing and for private investment, which will help, diversify the economy. Loans made by this bank are low interest, long term, and paid out in installments with some form of security required. The fore runner of the Credit and Savings bank was the government-owned "Credit Bank" which, after its formation in assumed all the duties now assigned specifically to the industrial Bank, the Real Estate Bank an the present Credit and Saving Bank.

The main activity of Kuwaiti commercial bank is the short-term financing of foreign trade taking up approximately 70 percent of local lending operations. The five Kuwaiti commercial banks then exiting issued KD 103.1 million in credit to local concerns. The dual condition of exporting nearly twice as much (on the average) to other Arab countries than is imported and of importing nearly all material needs from abroad (mostly from developed





countries) has shot Kuwait to the forefront of Arab financial affairs in the Gulf. The resulting impetus to the banking industry is a welcomed advantage to the private economy which depends primarily on the services sector.

#### **4.8 Monetary market and financial system**

Besides the Central Bank of Kuwait. The Monetary Market in the Kuwait economy consists of five commercial banks, one real estate bank, the state saving and credit bank and two investment companies (Kuwait Investment Company and Kuwait Foreign Trade, contracting and Investment Company). Four of the commercial banks and 49 percent of the fifth are privately owned. Ninety-eight (98) percent of KFTCIC and 50 percent of KIC are owned by government (El-Tigani, A. 1982:51).

Because of the fact that there are limited outlets for investment and free convertibility of K.D., commercial bank always invest the major proportion of their holding abroad. Foreign assets amounted to an average of 71 percent. Local assets amounted only to an average of 21 percent of the net assets. Local investment of the commercial bank are mostly geared to credit facilities in the form of advances and discounts.

On the other hand, the most important source of funds at the disposal of the bank is resident deposits, which formed an average of 72 percent of the net assets. Foreign liabilities amount to an average of 11.4 percent of the sources of funds (El-Tigani, A. 1982:54). The structure of the commercial banks assets and liabilities indicates that there are huge outflows of funds from the financial system in Kuwait to the outside world.

Saving and credit bank have been established to facilitate the needed in the areas where commercial banks have not entered. They also play a complementary role in attracting local savings. Real estate loans are the main area for the banks credit which formed 88 percent of the total loans. The rest of the loans have been directed to the areas of industry and agriculture. All the loans are distinguished as being easier term loans than those of the commercial banks with regards to interest rates and payment.

#### **4.9 Foreign bank**

The first bank to begin operations in Kuwait was the British Bank of the Middle East (BBME) which opened in Kuwait in 1941 and was given a thirty-year concession during which time no other foreign bank was allowed to operate in Kuwait. For eleven years the





BBME was the only bank doing business in Kuwait, but by 1952 the first Kuwaiti bank was formed, the National bank of Kuwait.

Although foreign banks are not specifically forbidden from opening branches in Kuwait, there is only one foreign branch bank and the remaining six commercial banks are all 100 percent Kuwaiti owned. Foreign banks must, in any case, operate in the form of joint stock companies (which requires a majority Kuwait ownership) and prove that they have at least KD1.5 million allocated specifically for operations in Kuwait. Because of the joint stock format and because of the abundance of capital in Kuwait, no other foreign bank is likely to open a branch there for some time to come. Several foreign banks do provide management services of Kuwaiti business however.

## **5 Conclusion and recommendations for the Government**

The main finding of this study is the confirmation that the financial sector does play an important role in diversifying the Kuwait economy. This conclusion has been inferred from the analysis results, which show a number of facts. First, the rates of growth of the income from the financial sector over the period of the study have out paced

Those of the GDP and the oil sector. Second, the financial sector has a higher reward to risk ratio than the oil sector, which implies that it is less volatile or less risky. Third and most important, the results of the analysis show that the rate of growth of the oil income. These findings imply that the government should continue its effort in expanding the financial sector as it has been proven as its main vehicle of diversification of the economy. In fact, the meager contribution of the other economic sector renders the financial sector as an important economic sector, if not the most important.

In a country like Kuwait with a relatively low absorptive capacity and weak competitive position in the international products market, the concentration on services would be the natural path to follow. Of the services available, the financial sector stands out as the most suitable one for Kuwait with its huge resources and reserves. Moreover, the international financial markets have become more integrated and hence more opportunities would be open for Kuwait. The government can support the financial sector through the provision of resources and through the adoption of policies that help in strengthening this important economic sector. It goes without saying that equally important to the above is the development of the necessary personnel through strong education and training systems.

This study also shows that the rate of growth of the non-oil exports towards the total exports is relatively low at an annual average rate of growth of 2.3 percent. This implies that non-oil exports need to be encouraged. Again, this indicates that the government can achieve this by establishment organization for export promotion and finance and through the adoption of policies that are supportive to the exporters. Means and ways should be adopted to make the country's exports more competitive, at least in the neighboring Arab Markets.





# BIBLIOGRAPHY

## Books:

- Scarce,M; Evolving Culture of Kuwait , Unipub , INDIA , 1987
- The Kuwait Research Group : executive Report on Strateries in Kuwait , Icon Group International , KUWAIT , 2000
- O'Shea,M : Kuwait (Cultures of the World ) , Benchmark Book , 1999
- Abu, Hakima A : The Modern History of Kuwait , Intl Book Center , 1983
- Isiorho, S , Gritzner, G.: Kuwait (Modern World Nations), Chelsea House Publishing,America , 2002
- Crystal, J . : Oil and Politics in the Gulf , Cambridge University , UK , 1995
- El-Mallakh, R : Kuwait Trade and Investment , Westview Press Inc , USA , 1979
- El-Sheikh, R : Economic Growth of The Oil State Problems and Policies , A publication of The University of Kuwait , Kuwait , 1973
- Iskandar, N :THE Development of A one Resource Economy , The Department of Economics Indiana University , India , 1969
- Crystal, J : Kuwait / The Transformation of an oil State , Westview Press, Kuwait , 1992
- Razzage, A : The Market Versus the State / An Investigation into The Nature of Public Intervention and Its Impact on Economic Development in The case of Kuwait , The British Library , UK , 1993
- El-beblawi, h : Strategic Options of Development of Kuwait ,Industrial Bank of Kuwait, Kuwai1,1980
- The Planning Board : The Kuwait Economy , Kuwait Government Printing Press , 1969
- Mallakh, R : Economic Development and Regional Cooperation , University of Chicago , Chicago , 1968
- Al-Sabah, Y : The Oil Economy of Kuwait , Kegan Paul International , Boston , 1980

- **Al-Salman,M : Industrial Subsidies in Kuwait/ an Economic Analysis and Evaluation , The British Library, UK , 1985**
- **Al-ebraheem,Y : Badget Deficit , Resource gap and Development in Oil Economies ,  
Kuwait University , Kuwait , 1997**
- **Al-dekhayel, A : The State and Political Leitimation in an Oil-rentier economy/ Kuwait as a case study , The British Library , UK , 1990**
- **Dashti, A : Kuwait and Globalisation / Opportunities and Constrains ,  
Industrial Bank of Kuwait , Kuwait , 1999**