White Paper for the Economic Growth Pillar

On the Road to Sustainable Economic Prosperity

مركز الكويت للسياسات العامة
Kuwait Public Policy Center

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Key message

Background

There are a number of ongoing, government-led initiatives from strategy, policy and planning perspectives to achieve the New Kuwait Vision objectives. After reviewing gaps and challenges within ongoing initiatives, this white paper presents policy priorities for private-sector-focused economic growth for Kuwait and should be viewed as complementary to ongoing initiatives. The policy priorities recommended here are to be integrated into the national mid-range plan for the economy pillar.

Issues

In ongoing and future policy-making in Kuwait, we should recognize that the economy is dynamic, the evidence base on which to develop policies is constantly changing and priorities are shifting. Low global oil prices could continue to persist in the near future and international issues, such as regional conflicts and the recent and ongoing global trade war, can impact international and regional economies. In addition, as Kuwait introduces new policies, their impacts will be felt across all seven pillars on which a more diversified and stronger economy will be built. For this reason, policies should be prepared that will benefit from potential positive consequences and take measures to mitigate any negative impacts. A pragmatic plan toward sustainable economic prosperity should be followed, with a clear economic rationale used across the public-sector decision-making process, as well as providing support to the private sector.

Policy Priorities for the Economy Pillar – Planning to Deliver Private-Sector-Focused Economic Growth: Economic Growth, Private Sector Development and Diversification

1. Public Financial Management within national planning should be embedded in policy in coordination with other public entities. This is to ensure that policies to manage economic growth for a low-oil price scenario and operate within the context of a

budget deficit and, as such, effectively reduce public expenditure by cost reduction options in order to decrease the size of the public sector.

2. A clear policy for comprehensive spending reviews within national planning where each of the public entities should come up with spending priorities to consolidate fiscal spending.
3. Manage and maintain agreed capital spending and reduce current spending for each of the public entities.
4. Ensure that any subsidy policy, whether it is removed or maintained, is based upon a clear economic rational and that any negative impacts on the private sector can effectively be managed.
5. Develop an overarching productivity improvement policy across government entities for economic sectors.
6. Prioritize public investment in projects that will have a high socioeconomic impact and that are centered on the economic growth and development of the private sector.
7. Improve on foreign direct investment (FDI) policy and promotion to enhance capital accumulation and technological progress. This can serve to enhance the knowledge base of the country.
8. Develop a comprehensive technology, innovation and knowledge policy to ensure maximum benefit to the private sector and that the public sector can play its role where and when there is a case for intervention.
9. Improve on bureaucratic processes that support the private sector; ensure a clear rationale for intervention by the government and perform impact assessments on high-profile and strategic projects to get clarity on benefits and risk management strategies.
10. Improve on financial sector regulations and non-financial market regulations in the economy for the private sector.
11. Enable policies to provide additional support for the private sector to ensure high levels of growth, especially in the potential sectors that have been presented in this report, for example, chemical, health and education.
12. Improve on policy for public private partnership projects (PPP), making it more attractive to the private sector and simultaneously achieving New Kuwait objectives from the perspective of public finance.
13. Integrate and align policies to ensure development of fundamental sectors for the economy and businesses.
14. Create specific policy to offer incentives for the development of high growth, value adding, tradable sectors.
15. Develop a comprehensive international trade policy to secure the benefits of international trade for the private sector. This will lead to economic growth and the aligning of regional and global business opportunities.
16. Develop policy to provide support for traditional and non-traditional sectors for private business.
17. Update policy for small- and medium-sized enterprises (SMEs), ensuring the right funding and technical support, and set independently derived procurement targets for the SMEs across government departments.
18. Integrate a human development policy within the labor market focused on the development of specific skills and applied knowledge. This will support diversification in the economy.

Executive Summary

Background

This white paper presents policy priorities for Kuwait's economic growth. The private sector will lead, while the public sector will ensure the continued development of infrastructure and will foster a regulatory and business environment that allows the private sector to thrive. Policies should be developed to encourage the public sector to engage in those areas where there is a clear rationale for government intervention and to support its citizens in achieving their full potential. In this context, this paper is somewhat unique among other recommendations in the current literature regarding activities for the economy pillar as it reinforces overarching areas for policy development, aligning itself with the commonalities present in fundamental policies and, as such, seeks to promote economic growth across the board.

Coverage in paper

Four broad areas are covered in the paper: economic growth and management; private sector development; diversification of the economic base; and an approach to effectively delivering the relevant policies. Impact areas that affect more than one pillar alongside the economy pillar are also presented in this paper. Additional details regarding the evidence base and research methodologies can be found in background reports to the paper. The recommendations here have benefited from discussions with a number of stakeholders and, most importantly, interviews with a number of high-profile private sector CEOs.

Ongoing activities with high impact on the private sector and the economy

There has been ongoing development work and progress on achieving the objectives of the seven pillars: Economy; Administration; Infrastructure; Living Environment; Healthcare; Education and Human Capital; and International Positioning of the New Kuwait[1]. This development work aims to ensure a longer-term strategic transformation of the country into an excellent business and cultural location. Within the national planning process, which involves ongoing economic reform and initiatives across public entities, a number of strategic investment projects are currently progressing well. The Mubarak Al Kabeer Port is to increase its capacity, and Kuwait International Airport is expanding to accommodate more visitors to increase airport capacity to serve up to 25 million passengers upon completion. In addition, renewable energy sources are expected to contribute more to Kuwait's national power supply. To this end, the Shagaya Renewable Energy Project is reaching completion, at which time it will supply directly to the national grid, allaying a significant part of the nation's electricity demands[2]. Moreover, as expected, oil revenue was higher, in keeping with the global trend. Kuwait secured oil revenue of KD18.4 billion for the 2018 fiscal year ending March 31, 2019, which is a 29 percent increase from the previous year. Its non-oil revenue also grew at KD2.1 billion, which is a 24 percent increase over the period. This revenue gain is attributed to the higher global oil price for the fiscal year and for Kuwait, average crude oil price for the year was US$68.62 per barrel. This means that the budget deficit is lower than originally projected for the fiscal year. Before Future Generations Fund (FGF) transfer, fiscal deficit for the year is KD1.29 billion, which becomes KD3.346 billion after the transfer but the deficit is down 31 percent from previous year.

Interconnected policy areas

There are a number of cross-cutting policy areas that, though designed in service of other pillars, are highly interlinked to the economy pillar. Human capital, labor, infrastructure and trade are the most important elements that require attention in the construction of any overarching policy. For example, policy and planning development should include two of the important areas – trade and labor market issues. A single policy may readily impact multiple, connected sectors, so it is important to develop policies that support the achievement of the economy's full potential.. Interconnected areas can be developed and reformed further to take full benefit of the impact they can have on the economy pillar.

Issues around trade imbalances for non-oil; import substitution; bilateral trade; the attracting of international companies and the establishment of committees to coordinate the work of the relevant parties in international trade so that work streams are all recognized across public authorities to make trade one of the key drivers of economic diversification. Developing a clear trade policy is vital. The trade and export diversification should get additional priority in policy development. A clear policy on ways to provide incentives and develop the tradable sector for export and develop the import substitution sector/products should be included. This is even more important as Kuwait becomes more fully integrated in global and regional trade. Recent agreements with China are examples of this and they demonstrate how economic policy planning impacts international relations and intersects with the global position pillar.

1 http://www.newkuwait.gov.kw/
2 https://www.kuna.net.kw/ArticleDetails.aspx?id=2703316&language=en

TABLE 1

Policy Priorities for the Economy Pillar – Planning to Deliver a Private-Sector-Focused Economic Growth

Policy Areas	What
Policy Priorities – Fiscal Policy and Economy Management	1. Public financial management within national planning should be embedded in policy in coordination with other public entities. This ensures that economy management policies for economic growth take on board a low-oil price and scenario planning, doing sensitivity analysis in this context for public finance forecasting, and operate within the context of a budget deficit. Cost reduction options for public entities is also required to better manage public finances.
	2. A clear policy for comprehensive spending reviews within national planning in which each of the public entities should come up with spending priorities to consolidate fiscal spending.
	3. Manage, maintain agreed capital spending and reduce current spending. National-level approved policy guidelines on public finance – based on economic rationale - should underpin remaining subsidy measures; cost-cutting measures to make public finance more efficient should be implemented across public bodies.
	4. Ensure that all subsidy policies, in cases in which subsidies are maintained and in cases in which they are removed, have a clear economic rationale; any negative impacts on the private sector must be managed effectively.

Why	How
Policy should have clear guidelines for every public entity on how to manage spending during a low oil price situation and on how to gradually minimize the size of the public sector.	Instigating a planning and economic policy that integrates growth, support for citizens, economic stability and achieves the New Kuwait vision objectives. Contained in this is the necessity of ensuring fiscal discipline by expenditure control and the proper allocation of resources across national priorities. Public finance should improve on efficiency though minimizing cost per unit of output delivery, that is to say, reliably achieving the outcome for which the output has been planned. It is also necessary for the Kuwaiti authorities to introduce clear fiscal rules in economy management policies based on alternative oil price based on various, alternative price scenarios. Of most importance here is the inclusion of a plan of action for times of low oil prices in the international market. Last, for the reasons previously outlined, it is vital for the nation to aim to reduce the size of its public sector.
Within the context of national public finance planning, spending reviews are to prioritize and manage revenues, expenditure and deficits, in order to allocate funding across the policy areas, with a view to ultimately expanding the private sector. This should set limits on spending and establish links to national KPIs to achieve New Kuwait objectives, ensuring efficiency and effectiveness of public expenditure. This is a systematic tool to plan expenditures and an opportunity to reform the way services are provided.	On a routine basis, the policy should be that each of the public entities lists their spending across core, top priority and general projects. Core projects would include those spending areas that must be delivered for a specific reason, national security being one example. Top-priority projects would be those that deliver maximum returns. Finally, general projects would be those projects in which spending can be delayed or reduced.
Public expenditure on capital spending has a higher impact on the economy than current spending. When high-impact and high-growth areas are identified and prioritized, capital expenditure will contribute to growth.	Clearly distinguish current and capital spending. Protect, increase and prioritize capital spending. A high budget deficit within macroeconomic policy management was one reason Kuwait's ranking dropped in 2017 in the global competitiveness report. Fiscal policy should prioritize public expenditures that have the greatest impact on the economy.
Some subsidies are used to redistribute oil revenues and correct for destructive market forces. Where social benefits are higher than benefits perceived by the private sector, the use of subsidies might be justified. Education, health and environment are three of the sectors that ought to be protected. However, subsidized wages in the labor market distort the market, which harms the private sector by increasing public sector wages. Authorities must be aware that unplanned subsidy removal has the potential to make private business unsustainable.	Integrate three overlapping areas, including: first, it is important to reduce current expenditure by improving cost cutting measures and second, it is vital to develop a clear rationale for subsidies across economic sectors and remove subsides from those sectors that are hindering efficiency. Of equal importance is noting that when removing subsidies, mapping the impact on the private sector will minimize any negative impact on profitability, focusing on relative prices. Third, the final point to make here is that when subsides are used as a tool to redistribute oil revenues to the citizens, they should be used across different sectors of goods and services, preferably those in which prices are the least elastic and the demand most stable, such as food, education and health. In addition, the removal of subsidies should be spread out across the wider economy so that relative prices are not affected.

TABLE 1

Policy Priorities for the Economy Pillar – Longer term Economic Growth

Policy Areas	What	Why
Policy Priorities – Longer term Economic Growth	5. Develop an overarching productivity improvement policy across government entities for economic sectors. Further develop policies to boost productivity and ensure that they are working as the key drivers of growth in Kuwait. This is most important for the non-oil sector as economic diversification holds the key to sustainable growth.	Total factor productivity is the m growth. Over the last few decade in Kuwait was either zero or othe
	6. Prioritize public investments based on high-socioeconomic-impact projects centered on economic growth and the private sector. Ensure clarity on the assumptions and criteria involved in the prioritization of projects by carrying out economic appraisals for each of the projects.	Investment projects should be se infrastructure investment. Kuwai Infrastructure does not necessari
	7. Improve on FDI policy and promotion to enhance capital accumulation and technological progress. Refine FDI policy to integrate promotion to match with other GCC countries, facilitate intervention by regulation and openness in dealing with foreign investment, ensuring local partners can benefit from the projects.	The main priority for Foreign Dir chnology and skills into Kuwait; b sector to take the lead in promot are more aggressive in neighborin
	8. Develop a comprehensive technology, innovation and knowledge policy to ensure maximum benefit to the private sector and allow the public sector to play a role where and when there is a case for intervention.	There is a rationale for the public and innovation are the key driver for private sector real growth. Ku year 2016 was 68, so there is muc outlined above, much incentive to
Policy Priorities - Private sector development	9. Improve on bureaucratic processes when supporting the private sector; ensure a clear rationale for intervention by the government and do impact assessments for high-profile and strategic projects to get clarity on benefits and ways to manage risks.	Analyses from private sector CEC ments to support the private sect at municipal and national levels ar cy is one of the major issues hind business environment and compe last few years in the country. Inte issue.
	10. What: Labor market reform: National policy papers regularly discuss labor market reforms. The public sector will remain the dominant employment sector in the near future, even after the implementation of labor market reform. Labor market reform combining both the private and public sectors should facilitate the movement of workers from the public to the private sector. Note: Why and how overlap between labor market issues and diversification, and are covered in that section below	

	How
ost important driver of high and sustained economic es, the contribution of productivity to economic growth erwise negligible.	First improve the business environment and competitiveness by enhancing regulatory frameworks for the private sector, reducing trade barriers and developing a favorable environment for international trade. Second, reform the labor market to reduce public-sector dominance and combine reform for both the sectors, ensuring it covers both the public sector and private sector within the labor market. Ensure that the private sector can absorb higher employment, and that employees have the right skill sets to be more productive. Third, improve Kuwait's human capital by developing and educating low-skilled workers to fill skill gaps. A vital aspect of this is identifying the economy's needs within the country, as well as developing the education sector and allocating more funding to it from primary schools all the way up to higher education institutions. Fourth, improve on R&D and STI activities and ensure funding is available where there is high potential and an economic rationale.
en as a part of a growth strategy. One example is t ranks low in its region for international infrastructure. ly translate into higher long-term growth.	Prioritize investments in good-quality infrastructure, which offers benefits to the private sector. This would improve private sector economic efficiency. As discussed before, through increasing employment, wealth creation and the availability of a larger range of competitively-priced goods and services, a stronger private sector can, in turn, improve the welfare of the country's citizens.
ect Investment policy should include: transferring te- uilding a knowledge economy; and supporting the private ting economic growth. Investment promotion activities g competing countries.	Provide additional incentives to high-growth FDIs to ensure technology can be effectively transferred through this channel. Identify and list all incentives and activities to attract FDIs across public bodies, to coordinate and effectively deliver the objectives and minimize public-sector resources. Periodically carry out a comparative analysis on investment promotion initiatives across the GCC countries and the wider region to determine who the main competitors are when it comes to attracting regional FDIs in their respective countries.
sector to play a key role in this area. R&D, technology s of growth and technological progress is the key driver uwait's GCI "Technological Readiness" ranking for the ch improvement to be made here and, from the reasons o make it.	Public sector support should be given to those areas in which there is a risk of market failure that may be detrimental to the well-being of the population. Enhanced support for innovation and technology, including funding to support these initiatives in all sectors of the economy, is similarly important. Funding support will involve attracting funding applications from a diverse range of areas in the economy and approving them based on set criteria, front and center of which ought to be any potential benefit for economic growth.
Ds show that developing policy and regulatory environ- tor and reducing bureaucratic procedures for businesses re the major areas that require improvement. Bureaucra- ering doing business in Kuwait. In line with this, the doing titiveness in the private sector have worsened over the ernational indicators also suggest that bureaucracy is an	Improve at every step the delivery of services to support the private sector. Setting up clear objectives and rationale at the policy development stage, and looking at the impact on the wider economy, can help reduce any adverse impact on the private sector at an early stage. In addition, further development of automation for receiving business approvals from local and national-level public services will benefit the sector. There also has to be senior-level ownership of a policy or regulation when an intervention is required.

TABLE 1

Policy Priorities for the Economy Pillar – Private sector development

Policy Areas	What
	11. What: An effective policy framework for small and medium enterprises (SMEs): A supportive framework for small- and medium-sized enterprises (SMEs) is required, and this must be integrated within the overall private-sector development plan. SMEs can contribute to job creation and selected high-performing SMEs can mature into larger organizations. Note: Overlapping with the diversification sector and discussed in that section.
	12. What: Overarching policy issues: Improve on fundamental and foundational areas in the economy. Note: Overlapping with fundamental and foundational areas in the diversification sector and discussed in that section
	13. What: Gradual removal of subsides that lack an underlying economic rational while minimizing the impact on relative prices in the economy: It is often claimed that the most important reason industries are still profitable is that there is a subsidy on electricity, and if the subsidy is removed from all sectors in the economy, the non-oil sector GDP will collapse. Subsidies can be eliminated gradually, but this has to be done systematically and only when there is an economic rationale for doing it. Subsidies should be removed in a way that ensures that other policies help the private sector manage any loss by ensuring profitability can still be achieved. Note: Overlapping with public finance management and discussed in the previous section.
	14. Streamline financial sector regulations and other market regulations in the economy for the private sector.
	15. Enable policies to provide additional support for the private sector to ensure high levels of growth, especially in potential sectors.
	16. Improve on policy for Public Private Partnership Projects (PPP), making it more attractive to the private sector and at the same time achieving New Kuwait objectives from the perspective of public finance.

Why	How
While access to finance is not an issue for competent private businesses, financial regulatory frameworks should be improved. For example, some business processes are often dubious and the stock market not sufficiently supportive of domestic private sector companies	Develop the regulations further. Private-sector views should be considered when policy is developed and, hence, a proper consultation process for regulatory development is vital.
(1) There are high growth potential sectors. (2) The private-sector CEOs stated that they believe that it is important to look beyond Kuwait and to the region in order to broaden the market for the sector. Some of the sectoral support areas for the next five to ten years required by the private sector are discussed in the report. Key areas include health, education, real estate and infrastructure. Others include retail and consumer products, logistics, financial services, power and renewable energy, the chemical industry and tourism. When it comes to sectoral development, views of the interviewees on tourism as a potential sector ranged from no potential at all to high potential. Two of the interviewees who did not think that tourism is one of the areas that can help the economy believed that it does not fit well with the country's social landscape. The agriculture and food sector received support from the CEOs who believe that this is a good sector to focus on, keeping in mind the environmental challenges for this sector in the region.	Provide technical support and incentives for the sectors. Integrate with other policies.
Financial attractiveness and bankability: Making investment projects such as PPP projects financially attractive is one of the important challenges facing the private sector. The private sector companies involved in the project should be able to attract equity finance from shareholders and reach the required amount of debt (bankable). In addition, cancellation of a project at a later stage, after passing the technical evaluation stage, for example, adds to risk and to the loss of time and resources, which serves to further discourage private sector investors. Operating with these uncertainties and financial risks is in itself a reputational risk for Kuwait and undermines the potential to attract FDIs from large, reputable investors from across the globe.	At an early stage, any issues around the bids and the process to approve PPP, should be addressed and solutions agreed upon, as a private sector company could stand to lose a lot of resources if a project is cancelled during its later stages without provisions and potential solutions put in place beforehand. The process should consider bankability and financial attractiveness issues of the project at an early stage and not at a later stage when the private sector bidders have already spent resources on the project proposal. Engage with the private sector investors early, alerting them to the risks and challenges by communicating effectively. In addition, doing a realistic feasibility study with a clear project specification; finding ways to minimize resource implications for the private sector and bringing in key private sector investors and the public sector financiers for the project in working meetings can be some of the ways to deal with the issues around financial attractiveness and bankability of projects. In addition, there should be an effective dispute resolution process between the public and private sector for PPPs. When there are any issues regarding PPPs, such as cancellation of a PPP project without a good reason, the private sector companies involved should be able to discuss the issues with government authorities. Just as importantly, there should be no changes to the project document after the bidding process ends by the PPP entity, as this can have major cost implications.

TABLE 1

Policy Priorities for the Economy Pillar – Longer term Economic Growth

Policy Areas	What	Why
Policy Priorities - Diversification of the Economy	17. Integrate and align policies to ensure development of fundamental sectors for the economy and businesses.	Literature and country experiences suggest that this is one foundation for economic growth and production diversifica nal indicators.
	18. Specific policies to offer incentives for high-growth value-added tradable sectors.	There are potential high-growth sector opportunities in Ku many incentives for investment. Developing the private sec sectors with high-performing growth.
	19. Develop a comprehensive international trade policy to secure the benefits of international trade for the private sector. This will lead to economic growth, and the aligning of regional and global business opportunities.	International trade is a key ingredient for private sector lec many projects and activities currently in operation to attra international investments. However, one current drawback import/export policy concerns not currently well integrate area. By this we mean policy concerns involved in internati more specifically, the feasibility of producing some of the p imported and, most importantly, the potential for diversify into the global market. International trade overlaps two pi and the global positioning pillar. Policy action should be to one banner of trade policy.
	20. Policy to provide support for traditional and non-traditional sectors for private business.	Traditional and non-traditional sectors for private business oil sector growth.
	21. Update policy for SMEs, ensuring the right funding and technical support, and set independently derived procurement targets for the SMEs across government departments.	Due to the nature and size of SMEs, they find it challenging scale and do not have much to contribute to economic gro SMEs contribute to employment and some of them can ma addition, small technology SMEs can supply much-needed s ven product development in the economy. Policy developm aspects.
	22. Integrate a human development or capital policy within the labor market focused on the development of specific skills and applied knowledge. This will support diversification in the economy.	Diversification policies should be well integrated with the p human capital development. First, public sector employmen benefits, job security and fewer working hours compared t private sector. Reduce public sector recruitment and ensur the public sector are in line with those in the private secto quired for specific public-sector jobs should be similar to tl jobs. Second, current low or unskilled foreign laborers sho productive roles in the tradeable sector.

	How
of the core areas. Providing a ation is a key area of internatio-	There are ongoing initiatives at the national level to ensure these areas are covered within the overall management of the economy. Macroeconomic stability, improved competitiveness, better business environment, labor market development, access to and use of technology, instigating the right policies to support businesses and emerging opportunities, providing quality education and applied skills training, and developing linkages to international markets are the key fundamental ingredients for diversification in the case of Kuwait.
uwait and, as such, potentially tor should encourage these	Policies and their implementation should ensure no negative consequences impact on other sectors while focusing on the high-profile sectors. First, Kuwait firms can profit from government procurements as the public sector is the dominant sector in Kuwait. This is a low-risk business opportunity where the firms can gain from the oil revenue public sector spending and the abundance of available low-wage, low-skilled workers in the labor market. For government procurements, provide incentives to those firms which are actively planning to expand their tradeable businesses as they prepare for the export market. Second, provide effective incentives to Kuwait businesses to encourage expansion into the export market. This should include financial and regulatory incentives. The support should cover: offering export insurance guarantees; business support services enabling venture capital industry; linking with domestic and international research institutes for new technologies; and taking initiatives to foster links with international multinationals, developing the export sector.
d economic growth. There are ct FDIs. Kuwait also makes is the number of disparate d into one easily manageable onal and regional trade and, roducts that are currently ing exports of non-oil products llars, namely the economy pillar integrate all these areas under	The trade and export diversification should get additional priority in International Positioning strategy of Kuwait. First, provide incentives and develop the tradeable sector for export. Provide incentives, financial and regulatory, to high-value added and strategic products that are currently being imported from other countries. Health sector products are a good example in this regard as health has been identified as a high-growth potential sector. Second, develop trade logistics to cover domestic and international markets. Trade logistics have an impact on costs for business and commerce, and cost reduction would impact productivity and growth.
should be integrated into non-	First, encourage knowledge and advanced technology industries, and market them to the industrial sector by offering innovation funds at the operational level (e.g. physical, managerial) and supporting them at both the top level and the ground level. Second, encourage and support the establishment of the agro-processing and food industries. Support the private sector by encouraging higher investment in production and infrastructure projects with high economic benefits. Land can also be made more easily available to further encourage investment. Third, horizontal and vertical diversification should be encouraged. Fourth, as infrastructure capacity increases over the next few years, policies should be integrated so that the economy can absorb the emerging capacity.
to benefit from economies of wth and GDP value. However, ture into larger companies. In kills to support innovation-dri- ents should recognize these	First, develop the SMEs that are doing business in tradeable and high-growth potential sectors by providing financial incentives and support on a step-by-step basis. This can have the effect of evolving SMEs into mature larger businesses specializing in export industries. Second, reduce the monopolistic structure of larger, private businesses and state-owned enterprises in the market so that easy market access is available to everyone, ensuring competition in the market. Third, develop the SMEs within an industrial cluster, where the public sector can invest in the infrastructure.
pillar that covers labor and nt in Kuwait offers better o positions available in the e that the benefit packages in r. In addition, the skill set re- heir comparable private sector uld be encouraged to move to	There is a need to integrate reform into the low-skilled workers segment of the labor market. Likewise, there is an imperative to develop a mechanism for easy mobility of these laborers to productive sectors. In addition, those countries that currently supply low-skilled laborers to Kuwait can also supply semi-skilled laborers that can fill in the required roles in the tradeable sector. This can be achieved by developing bilateral agreements with the countries in question.

1. Introduction

This paper presents policy priorities to support the national plan's economic pillar to achieve the 2035 vision objectives for Kuwait. This paper centers on a private-sector focused economic growth model for Kuwait, which distinguishes it from other reports that take a more general approach. Under this model, the role of the public sector is to ensure a conducive business environment and to intervene in the economy when there is a rationale for doing so. The policy priorities are based on an analysis of ongoing initiatives that are most significantly related to the economic growth pillar and engagement with key stakeholders, including interviewing selected, high-profile CEOs. The analysis has been based on a review of the gaps and challenges of ongoing national plans as well as a review of the current relevant literature and discussions with selected focus groups and stakeholders[3].

There are discussions in the literature that natural-resource-based economies suffer from a "resource curse," sometimes referred to as "Dutch Disease." This is where resource abundance leads to an appreciating real exchange rate. This can lead to a lack of incentives within a commodity-based economy to diversify and industrialize. More recent arguments in the literature suggest that the natural resource abundance can bring fourth technological progress and new knowledge for the country, which can, in effect, contribute to economic progress (Hesse 2008). The empirical evidence suggests that whether abundant natural resources are a curse or a blessing depends on a country's social and economic management. Put simply, a country's ability to effectively convert these natural resources into productive uses is the crux of this issue. The presence of natural resources can cause the real exchange rate to appreciate, in addition to causing deindustrialization and bad growth prospects. The situation is worse in those countries that are characterized by several other factors including: faulty institutions; ineffective adherence to the rule

3 See Al-Mahmood (2018, 2018a, 2017, 2017a). Details are not presented here to avoid repetition.

of law; corruption; and an underdeveloped financial system. The non-oil sector becomes less competitive due to the induced appreciation of the real exchange rate. The available empirical evidence suggests that resource-rich countries with quality institutions, trade openness, and high investments in exploration technology enjoy the benefits of their natural resource wealth without succumbing to the negatives outlined above (Ploeg 2011).

Kuwait is a natural-resource-based, oil-rich, high-income economy in the Gulf region. The government has been working relentlessly to benefit from its hydrocarbon resources, transforming the country in a bid to achieve sustainable economic prosperity, and lessening reliance on oil revenues. The government of Kuwait has been working on enhancing economic growth in order to develop a diversified, private, non-oil sector in addition to vibrant and modern public services and a sense of national community. The medium-term development plans emanate from the New Kuwait 2035 vision[4]. The current plan contains seven pillars for delivering the vision, one of which is the economy pillar[5]. In the national plan, the economy pillar aims to support policies that move away from oil revenue while maintaining Kuwait's prosperity, supporting jobs and income for all residents, and positioning Kuwait as a strong economy within the international arena.

The economic policy objective is to generate growth and employment for Kuwaitis and to develop efficient and vibrant public, non-oil private sectors that would serve to diversify the production base. Overarching objectives includes developing SMEs and attracting FDIs. Economic growth policies are interlinked with policies and initiatives involved with some of the other pillars. The most important linkages are with human capital, infrastructure and public administration, i.e. public finances. Policy priorities here are divided into economic growth, private sector growth and diversification of production within the economic pillar.

This report is organized into eight sections that are as follows. Section 2 presents the current economic situation in Kuwait. Section 3 presents a non-technical conceptual framework. Following this, there will be three sections, 4,5,6, presenting policy priorities for the three areas within the economy pillar. Section seven presents cross-cutting policy areas with six other pillars. The final section presents a high-level proposal on how to deliver the policies and implement a mid-range national plan to achieve the New Kuwait objectives.

4 First Medium-Term Development Plan was for 2010–2014.

5 Other pillars: administration, infrastructure, living environment, health care, education and human capital, and international positioning.

II. Current Situation

The recent increase in oil prices is having a favorable impact on the economy of Kuwait, and public expenditure is in a good position to continue with planned investments in the economy. Kuwait's per capita income over the years has moved hand-in-hand with global oil prices. When the oil price is high in the international market, the government supports economic growth by using the higher revenue to increase public expenditure. That, in turn, encourages more spending in the economy by absorbing the national labor force into larger, active economic sectors. During a high oil price situation, the government can invest heavily in fiscal and external buffers. After the collapse in global oil prices in 2014 and continuing until 2017, Kuwait's external and fiscal accounts have been unfavorably affected, resulting in a slowing of both general economic growth and non-oil real GDP growth. However, the oil prices for Kuwait have recently begun to stabilize, allowing the authorities to increase their planned fiscal support for the ongoing progress of the economy.

Progress to date

There have been ongoing developments and progress on achieving objectives of the seven pillars of New Kuwait, ensuring the country's longer-term strategic transformation into an excellent business and cultural location. This is reflected in its improvement from 90 to 59 in a global ranking of government spending wastefulness, from 75 to 62 in a global ranking of market regulation quality and from 108 to 90 in a ranking of burden causing government regulation. These figures appear in the Global Competitiveness Report 2017/18. The World Bank's Ease of Doing Business 2018 ranking report also showed improvement as Kuwait climbed from 102 in 2017 to 96 in 2018. Moreover, Moody's has recently rated the country's credit rating at a stable AA2 while FTSE Russell classified Kuwait as an emerging country.

A number of strategic projects are currently progressing well. Notable successful areas (as of March 2018)[6] include: an increase in the number of companies with limited liability through the Kuwait Business Center; the fact that Al-Zour Refinery's Olefins-Aromatics complex is on track to supply petrochemicals and diversifying products by adding specialized products of 945,000 tons per year of polypropylene, 1.4 million tons of aromatic paraxylene, and 421,000 tons of benzene; Kuwait Petroleum Corporation's Kuwait Integrated Petroleum Industries Co (KIPIC) imminent expansion of production to 615,000 barrels per day and Clean Fuels Project, increasing of oil production and development of reserves. Additionally, Sheikh Jaber Causeway will serve as link between Kuwait City and Sabiya, reducing traffic jams; the Mubarak Al Kabeer Port will have a capacity of 8 million containers when complete; Kuwait International Airport is expanding to accommodate up to 25 million passengers upon completion; and the Municipal Solid Waste Treatment plant is expected to service 50 percent of total municipal solid waste produced in Kuwait protecting the environment and land resources by generating alternative power sources from the waste. The projects presented here are examples in which public infrastructure projects and private industries are developing well as a result of increasingly healthy economic and political conditions.

In addition, renewable energy sources are expected to provide 15 % of Kuwait's power supply by 2030. To this end, the Shagaya Renewable Energy Project is reaching completion, at which point it will have a 70-megawatt capacity. It will supply directly to the national grid to meet a part of electricity demand in the country[7].

Economic diversification initiatives will integrate the shift to a knowledge-based economy in Kuwait. The country is planning to increase government spending on R&D to be over 1% of the total GDP from the current level of 0.3%. This will strengthen the role of the private sector's capacity to improve its activities[8].

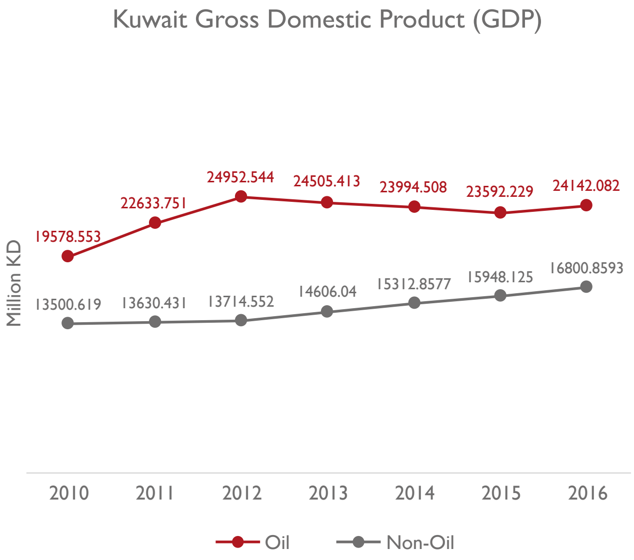
The economy, private sector and production activities

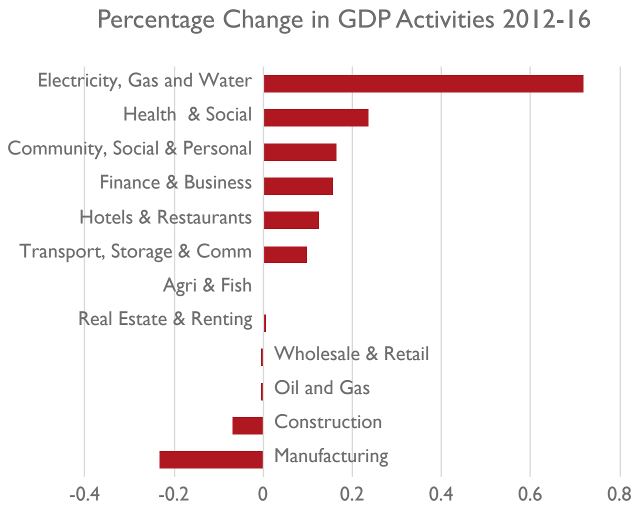
Gross Domestic Product (GDP) at current prices is reported to be KD 36.4 billion (about US$120.2 billion) in 2017 which is an increase of 8.7 % from the previous year as reported by the Central Statistical Bureau[9]. International oil prices have been higher recently compared to 2014 and this is having a favorable impact on the economy.

6 http://kif.kdipa.gov.kw/wp-content/uploads/At-KIF-2018-Ministers-outline-progress-of-New-Kuwait's-key-pillars-in-first-public-presentation-on-the-vision-March-22-2018.pdf
7 https://www.kuna.net.kw/ArticleDetails.aspx?id=2703316&language=en
8 http://kif.kdipa.gov.kw/wp-content/uploads/Kuwaiti-youth-catalyse-the-nation-towards-a-full-fledged-knowledge-economy-March-22-2018.pdf
9 http://news.kuwaittimes.net/website/kuwait-gdp-increases-by-8-7-percent-at-current-prices/

FIGURE 1

Gross Domestic Product and Sector Activities





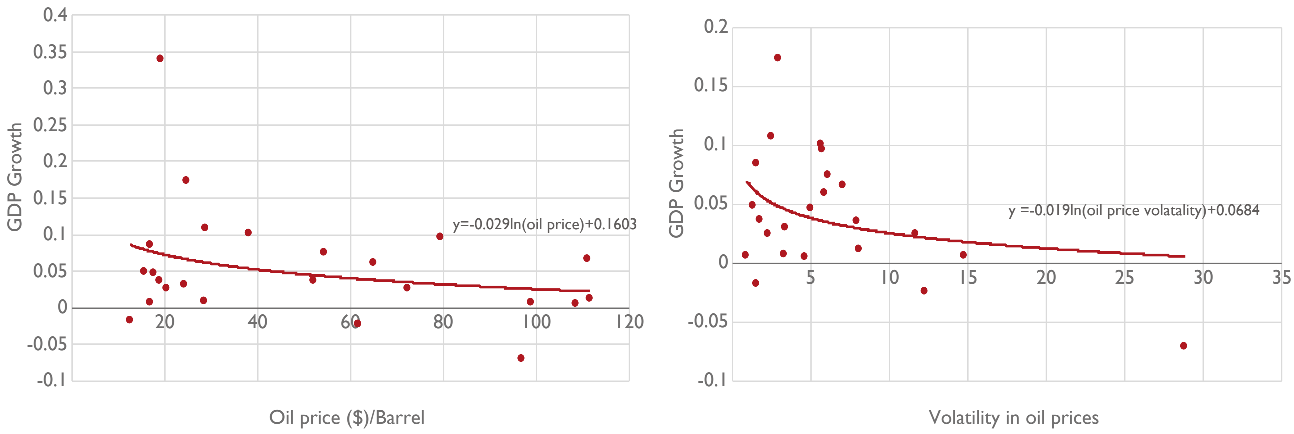
Source: Author. Based on data from Kuwait Central Staristical Bureau. Note: GDP at Constant price, 2010=100.

Since the 2014 collapse in global oil prices, Kuwait's external and fiscal accounts have been unfavorably affected, making government support of economic growth harder and similarly slowing non-oil real GDP growth[10]. The hydrocarbon sector in Kuwait accounted for 60% of real economic activity in 2015, while oil revenue as a percentage of total government revenue was 68% in 2015/16[11]. When the oil price is high in the international market, public expenditure – as a result of higher revenue – allows the government to support growth by encouraging spending in the economy and absorbing the national labor force in wider active economic sectors. During a high oil price situation, the government can accumulate a large part of revenue generated from oil into fiscal and external buffers generated from high oil prices.

10 IMF (2017)
11 Central Statistical Bureau, Kuwait

FIGURE 2

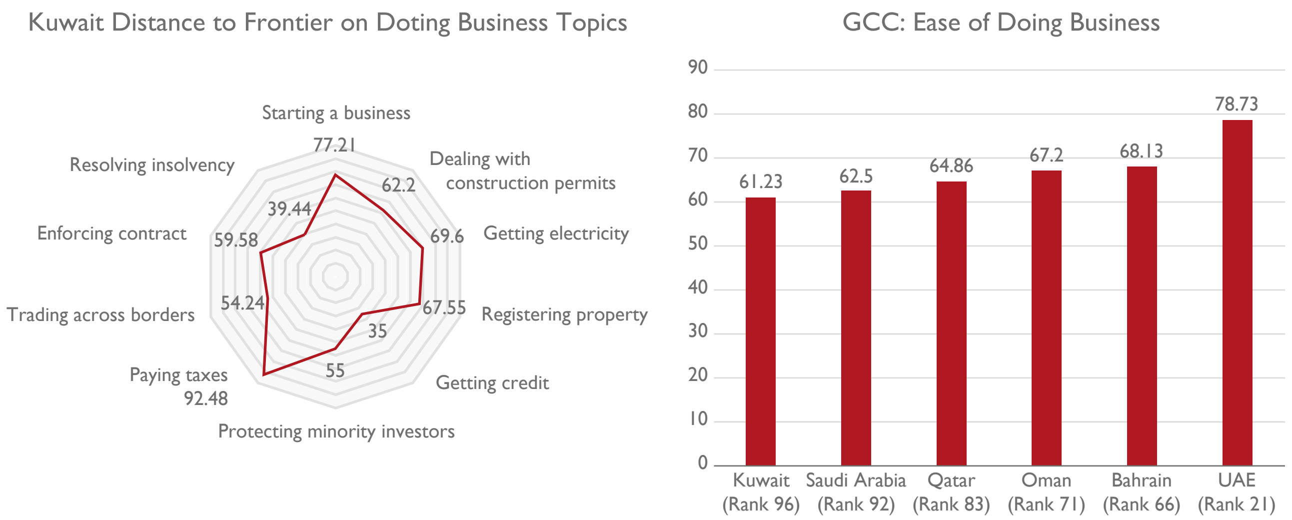
Oil price, volatility and GDP growth rate in Kuwait over 1992-2015



Source: Author. Oil price data from Reuters and GDP growth calculated from WDI. Volatility has been based on the periodic data points over the year.

FIGURE 3

Doing Business Indicator in Kuwait and GCC - 2018



Source: Author. Based on WB (2018). Doing Business 2018: Reforming to Create Jobs. The World Bank.

Global Indicators

A number of global indicators available show the business and economic performance of Kuwait and its potential to develop and support private sector competitiveness. Two prominent indicators are the Doing Business indicator[12] by the World Bank and the Global Competitiveness indicator by the World Economic Forum.

A healthy business environment enhances market forces and ensures that the private sector is effectively contributing to the economic activities of a country. The private sector business environment in Kuwait is challenging terrain, as measured by international indicators presented by the World Bank's Doing Business indicator[13]. This is reflected in Kuwait's low ranking in the 2017 World Bank rankings, coming in at 102 out of 190 countries. Perhaps more pressing is the fact that Kuwait ranked 98th in 2016, demonstrating a downward trend in the health of its business environment, which runs starkly counter to its aspirations of private sector development. Kuwait ranks the lowest among the Gulf Cooperation Council (GCC) countries for private sector health and competitiveness. However, in 2018 there was slight improvement as Kuwait moved up to 96th in the aforementioned World Business Ranking. The improvement of the ranking has been due to improvements in mainly two areas. First, starting a business has become easier through the establishment of a one-stop shop and improvements in online registration. Second, registering property has been made easier by reducing the number of days needed to register property and by improving the transparency of the land administration system[14].

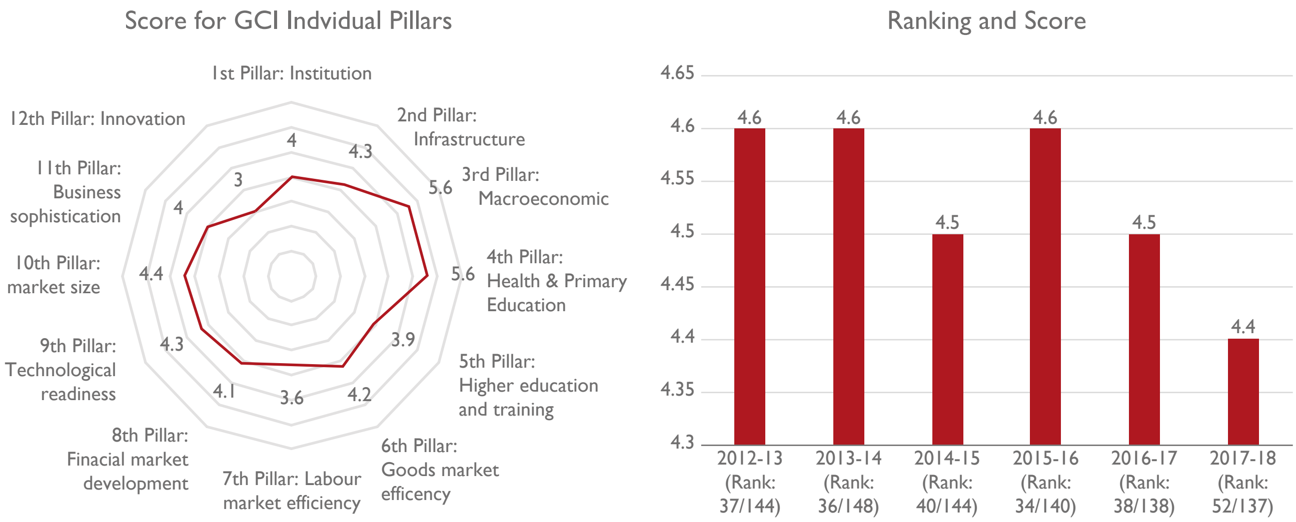
12 The **Doing Business** project looks at domestic small- and medium-size companies and measures the regulations that apply to them throughout their life cycle. (See World Bank Doing Business 2018. Reforming to Ctreate Jobs)

13 **Doing Business** provides an aggregate ranking on the ease of doing business, based on indicator sets that measure; and benchmark regulations applying to domestic small- to medium-size businesses throughout their life cycle. Economies are ranked from 1 to 190 by the ease of doing business ranking. Doing Business presents results for two aggregate measures: the distance to frontier score; and the ease of doing business ranking. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to two decimals. An economy's distance to frontier score is indicated on a scale of 0 to 100, where 0 represents the worst performance and 100 the frontier.

14 See issues on the methodology at http://www.doingbusiness.org/Methodology/Common-Misconceptions

FIGURE 4

Global Competitiveness Index and ranking for Kuwait



Source: Author. Based on WEF (2017). The Global Competivinness Report 2017-2018. **Note:** score out of 7.

The Global Competitiveness Index (GCI) ranked Kuwait 52 out of 137 economies for 2016[15]; this ranking slipped from 38 (out of 138 economies) from the previous year. Kuwait's GCI "Technological Readiness" ranking for the year 2016 was 68. Kuwait was ranked 64th in the world out of 137 countries in terms of the overall quality of its infrastructure, behind Bahrain (33rd), Qatar (13th), Oman (36th), Saudi Arabia (29th) and UAE (5th). In 2015[16], Kuwait research and development (R&D) expenditure to gross domestic product (GDP) was 0.3%, which is low compared with Finland (3.17%), Ireland (1.52%), Singapore (2.1%, 2014), Estonia (1.44%) and UAE (0.7%).

15 in the 2017–18 report
16 World Development Indicator

III. The Economy Pillar Framework – Analysis and Policy

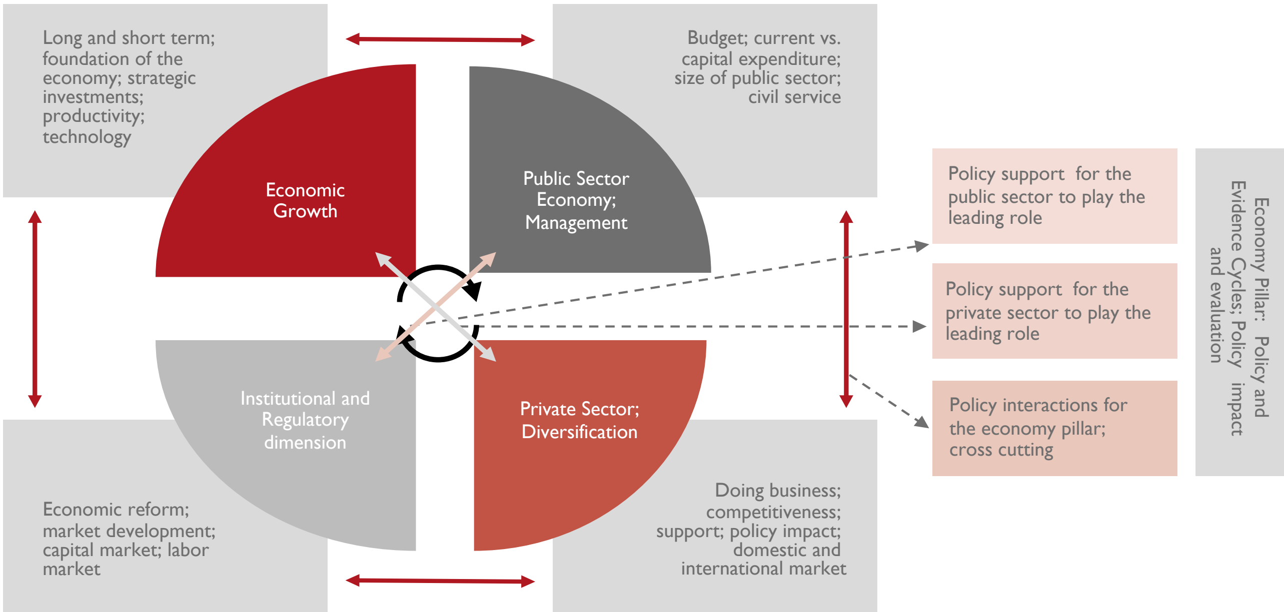
The framework for analysis for this paper is developed based on findings from the recent literature on economy of Kuwait; the priorities of the government; and the New Kuwait Vision initiative. The framework is further developed based on research by the author in earlier studies. The framework for analysis here has been kept non-technical to make it accessible for non-technical readers.

The focus of this white paper is on how the private sector can lead economic growth toward sustainable economic prosperity for Kuwait, achieving the New Kuwait Vision. The analyses and recommendations are based on available databases on the economy, private sector CEO interviews and other available resources. This paper contributes to what is currently available to support economic growth policies for Kuwait within a more formal growth framework.

The framework is used to develop policy and analysis for Kuwait from three perspectives: first, economic growth, in both the short- and the longer-term; second, private sector development and accelerating the contribution by developing the sector; and, finally, diversification of the economy. Diversification of the production base of the economy is cross-cutting across economic growth and private-sector development. The framework for analysis and policy can be viewed through interactions with key players and ingredients as presented in the chart below. The arrows are primary linkages between the factors

FIGURE 5

Key drivers for analysis and policy priorities



Source: Author.

in the economy pillar and the key influences, which are presented in the rectangles that support each of the linkages. Overall, the framework covers economy pillar inter-linkages across sectors and policy dimensions.

Features in this framework

- In most cases data sources are used from Kuwait Central Statistical Bureau when possible.
- Both oil and non-oil sector growth will remain important to enhance economic growth in the country. However, non-oil sector growth is one of the most important objectives in the current plan, and the main issue with economic growth in Kuwait national planning is the lack of a dynamic, non-oil tradable sector.
- The aim of business regulations and of developing a business environment is to develop the market, correct market failures, and encourage firms to establish businesses that generate private-sector growth. Less bureaucracy in business can foster economic growth and generate higher profits.
- Institutions and policy frameworks encourage competition and ensure that firms receive good returns on investments. Flexible capital and labor markets ensure labor productivity, and the diffusion of innovation drives growth. Moreover, evidence from other countries suggests that high-growth firms[17] can play a key role in driving growth in their respective countries.

[17] High-growth firms here: Those that achieve annual growth rates in turnover or number of employees of over 20% for three consecutive years.

- The challenge is to ensure that mitigating measures within the policy cycle eliminate or minimize the risk of a negative impact. A best practice to ensure that this occurs is to go through a thorough and systematic policy and regulatory impact assessment. Impact assessments can also incorporate impacts on a number of areas, such as the impact on small businesses and the environment.
- The economy pillar is wide and broadly encompasses other pillars. The overlaps to a number of other areas have been addressed here, but the discussion is limited to where those connections are most relevant, which allows policies for the other six pillars to be developed separately.
- The most important drivers of growth are: accumulation of capital; the growth and quality of the labor force; and the contribution of the growth of total factor productivity (TFP). The framework for analyzing economic growth and how this disaggregates into short- and longer-term growth provides a direction for policy formulation specific to economic growth. In this framework growth and development of the non-oil sector is the prime objective for economy diversification in Kuwait.
- Short- and medium-term GDP growth is driven by aggregate demand; both fiscal expansion and government expenditure play important roles by creating new demand in the economy, leading to further spending and creating income, which can be captured by the multiplier effect. For Kuwait, government expenditure plays a more important role compared to many other countries as the government makes significant expenditures in the economy. Economic growth from the supply side relies on capital, labor and productivity that, in turn, depends on the quantity and quality of the inputs and the efficiency with which these inputs are put to use, i.e. total or multi-factor productivity (TFP).

IV. Economic Growth, Management and Public Finance

Policy areas for economic growth from both the demand side and the supply side are to be integrated into national planning. Public sector spending makes a high impact on the aggregate demand in the economy of Kuwait. Longer-term economic growth is influenced by factors affecting production, labor and capital production, where productivity is the key driver for sustained economic growth. Alongside this, the private sector can accelerate growth and contribute to inclusivity by helping to effectively distribute the benefits across society by creating employment opportunities for all.

Development of a strong and dynamic private sector is crucial to accelerating economic growth. A private sector operating under properly regulated and competitive market conditions can generally use resources more efficiently than a public sector, meeting demand and creating job opportunities. The public sector should ensure a conducive policy and regulatory environment for businesses, and only intervene when there is a clear economic rationale. Public sector investments should be strategic, making effective and sturdy foundations on which the private sector can accelerate its growth.

The public sector, regulatory areas and economy management

The Kuwait National Assembly approved the budget at the end of June for the 2018-19 fiscal year that started in April[18]. The budget projects a deficit of KD 6.4 billion and this includes about KD 1.5 billion transferred to the Future Generations Fund, an intergenerational savings platform created in 1976 and managed by the Kuwait Investment Authority (KIA). The deficit comes on revenues that are estimated to hit KD 15.1 billion, which is 12% higher than estimates last year, with oil income projected at KD 13.3 billion or 88% of total public revenues. Around 18% of spending for the year will be on development projects. Expenditures are estimated at KD 21.5 billion, which is around KD 1.7 billion higher compared to the previous fiscal year. Oil income assumes a consistent price of $50 a barrel and a daily output of 2.8 million barrels. Oil revenues are expected to be higher at the end of the year 2018 because market oil prices are much higher in mid-2018. Kuwaiti production is expected to rise as the recent OPEC deal eases output cuts and increases pumping. In addition, this also means that the budget deficit will be lower than projected.

Public spending has been capped at KD 20 billion. Spending on development projects will constitute 14.7% or KD 2.5 billion of the budget[19]. Capital spending has increased by 3.4% compared to the previous budget[20]. Another report suggests that ongoing capital spending in the budget and the development plan is focusing on the infrastructure, water and energy sectors. About KD 5.2 billion has so far been spent on construction projects, roads, airport and power in the 2018-2019 budget year[21]. In the 2018-19 budget, subsidies increased by 12.4% compared to the previous budget, reaching KD 3.433 billion. Salary for public sector workers in the budget is KD 11.23 billion, an increase of 3.4% compared to the previous budget[22]. On generating revenues from non-oil sources, Kuwait will not implement Value Added Tax before 2021, despite it originally being due to start this year.

The economy of Kuwait is largely dependent on revenue from the oil sector and as such, economic growth is dependent on favorable international oil prices. Macroeconomic management covers a number of areas, most importantly inflation (monetary policy), public finance (fiscal policy) and external sectors (international trade and finance). Effective coordination of the delivery of policies and, most importantly, effective economic management during low-oil price scenarios should be the prime policy objectives for improving the nation's economy. It is challenging to forecast oil prices, although effective management of public finance under alternative oil price scenarios – for example, when the prices in the international market do not increase as expected - is vital for long term planning. An additional challenge here is that the public sector dominates the economy and, as such, private-sector business activities largely rely on activities related to public investments and procurements. The public sector can take the initiative to reduce its size in the economy by identifying those areas in which private sector expansion would be advantageous.

Fiscal expenditure in Kuwait aims to run the public sector, develop the private sector and distribute oil revenue to its citizens. Public spending benefits public sector workers with good payments, and subsidies benefit private sector development and a wide variety of institutions central to the life of the citizens, for example healthcare subsidies and education scholarships.

18 Kuwait Times, June 2018
19 Kuwait Finance Minister estimates 18-19 budget deficit at KD6.5 billion
20 Kuwait Times
21 Kuwait Times, May 27, 2018
22 Kuwait Times

However, when specific subsidies are not based on a good economic rationale, those subsidies can impede competitiveness, disincentivize private investment, reduce consumption and negatively impact growth.

Fiscal expansion or government expenditure creates new demand in the economy, which leads to further spending and income creation. Fiscal multipliers are normally lower in emerging- and low-income economies as compared to advanced economies. One reason for the lower impact is due to inefficiencies in government spending. Fiscal multipliers are larger for capital than for current spending.

The Central Bank of Kuwait manages monetary policy in the country[23]. One of the main tools it has used to influence policy is the discount rate. The rate has been increased four times since 2015 and it has been unchanged four times, all in an attempt to support economic growth in the country by appropriately reacting to the changes in the global market. Another means to this end was the recent pegging of the Kuwaiti dinar to a basket of selected currencies rather than the US dollar alone. In March 2018, the rate was increased by a quarter of a point - from 2.75% to 3%[24].

Bouresli et al (2017) presents research based on firms in the Kuwait Stock Exchange (KSE) on the implementation of the new Capital Market Authority Law (CMAL) in 2010 and the Kuwait Companies Law (KCL) introduced in 2012, to explore the possible effects of applying the new laws on the performance of the firms listed in the KSE. The authors find that the KCL is more effective in enhancing performance indicators of the firms than is the CMAL. All the performance indicators of the sample were found to be influenced by CMAL had negative coefficients in the models, indicating lower performance, where this can serve as an evidence of how harmful stringent reforms can influence firm performance. The authors recommend that the regulators in Kuwait review the current version of CMAL and amend it according to best practice standards, as the findings suggest that the Kuwaiti market did not positively receive the capital market authority law.

Policy Priorities – Fiscal Policy and Economy Management

There are ongoing policy initiatives to manage public finances. Examples include:

- Initiatives to increase capital spending
- Work on non-oil revenue sources - introducing Value Added Tax (VAT) is a priority
- Removal of subsidies and increasing the fuel, electricity and water prices – correcting for market distortions
- Review of spending programs. This covers subsidy reforms and other current spending and involves, for example, establishing expenditure ceilings
- Ongoing work on the Medium-Term Fiscal Framework to develop a roadmap for fiscal performance and macro-related issues

23 Monetary policy in Kuwait is set in accordance with the Law No. 32 of the year 1968 and had been amended few times after that. See the Central Bank web site (reference)

24 Kuwait Times, 27 June 2018

The fiscal policy should be broadened to integrate the following priority areas:

1. **What:** Public financial management within national planning should be embedded in policy in coordination with other public entities. This ensures that economy management policies for economic growth take on board a low-oil price and scenario planning, doing sensitivity analysis in this context for public finance forecasting, and operate within the context of a budget deficit. Cost-reduction options for public entities are also required to better manage public finances. **Why:** Policy should have clear guidelines for every public entity on how to manage spending during a low oil price situation and on how to gradually minimize the size of the public sector. **How:** Instigating a planning and economic policy that integrates growth, support for citizens, economic stability and achieves the New Kuwait vision objectives. Contained in this is the necessity of ensuring fiscal discipline by expenditure control and the proper allocation of resources across national priorities. Public finance should improve on efficiency though minimizing cost per unit of output delivery, that is to say, reliably achieving the outcome for which the output has been planned. It is also necessary for the Kuwaiti authorities to introduce clear fiscal rules in economy management policies based on various, alternative price scenarios. Of most importance here is the inclusion of a plan of action for times of low oil prices in the international market. Last, for the reasons previously outlined, it is vital for the nation to aim to reduce the size of its public sector.

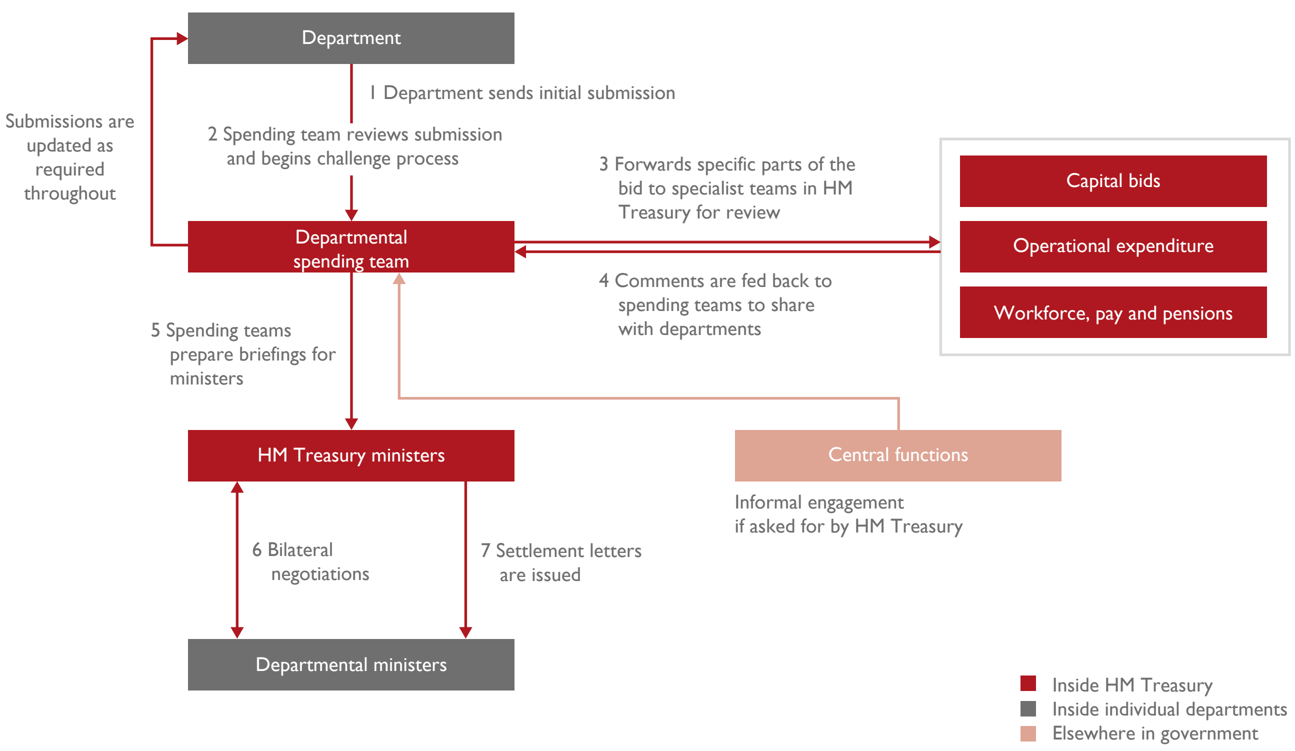
2. **What:** A clear policy for comprehensive spending reviews within national planning in which each of the public entities should come up with spending priorities to consolidate fiscal spending. **Why:** Within the context of national public finance planning, spending reviews are to prioritize and manage revenues, expenditure and deficits, in order to allocate funding across the policy areas, with a view to ultimately expanding the private sector. This should set limits on spending and establish links to national KPIs to achieve New Kuwait objectives, ensuring efficiency and effectiveness of public expenditure. This is a systematic tool to plan expenditures and an opportunity to reform the way services are provided. **How:** On a routine basis, the policy should be that each of the public entities lists their spending across core, top priority and general projects. Core projects would include those spending areas that must be delivered for a specific reason, national security being one example. Top-priority projects would be those that deliver maximum returns. Finally, general projects would be those projects in which spending can be delayed or reduced.

3. **What:** Manage, maintain agreed capital spending and reduce current spending. National-level approved policy guidelines on public finance – based on economic rationale - should underpin remaining subsidy measures; cost-cutting measures to make public finance more efficient should be implemented across public bodies. **Why**: Public expenditure on capital spending has a higher impact on the economy than current spending. When high-impact and high-growth areas are identified and prioritized, capital expenditure will contribute to growth. **How:** Clearly distinguish current and capital spending. Protect, increase and prioritize capital spending. A high budget deficit within macroeconomic policy management was one reason Kuwait's ranking dropped in 2017 in the global competitiveness report. Fiscal policy should prioritize public expenditures that have the greatest impact on the economy. Within current expenditures, identify areas that can be reduced. During times when there are problems with the budget, such as in periods of low global oil prices, government revenue will be impacted. Therefore, protecting and prioritizing capital expenditure would be of considerable benefit.

4. **What:** Ensure that all subsidy policies, in cases in which subsidies are maintained and in cases in which they are removed, have a clear economic rationale; any negative impacts on the private sector must be managed effectively. **Why:** Some subsidies are used to redistribute oil revenues and correct for destructive market forces. Where social benefits are higher than benefits perceived by the private sector, the use of subsidies might be justified. Education, health and environment are three of the sectors that ought to be protected. However, subsidized wages in the labor market distort the market, which harms the private sector by increasing public sector wages. Authorities must be aware that unplanned subsidy removal has the potential to make private business unsustainable. **How**: Integrate three overlapping areas, including: first, it is important to reduce current expenditure by improving cost cutting measures and second, it is vital to develop a clear rationale for subsidies across economic sectors and remove subsides from those sectors that are hindering efficiency. Of equal importance is noting that when removing subsidies, mapping the impact on the private sector will minimize any negative impact on profitability, focusing on relative prices. Third, the final point to make here is that when subsides are used as a tool to redistribute oil revenues to the citizens, they should be used across different sectors of goods and services, preferably those in which prices are the least elastic and the demand most stable, such as food, education and health. In addition, the removal of subsidies should be spread out across the wider economy so that relative prices are not affected.

FIGURE 6

An example process for spending review – the UK Example



Longer-term economic growth

Economic growth from the supply side relies on capital, labor and productivity that, in turn depends on the quantity and quality of the inputs and the efficiency with which the inputs are put to use, i.e. total or multi-factor productivity (TFP). Higher productivity and physical capital help absorb the growing labor force into productive economic activities and contribute to long-term economic growth. Three types of investment are particularly important for spurring growth: physical capital, notably infrastructure; human capital, such as education and training; and technological innovation, built upon research & development.

Some academic studies argue that the recorded GDP for oil-rich countries (e.g. Kuwait, Oman, Saudi Arabia and UAE) represents the extraction of existing resources without any value being added. Thus, the GDP does not fit in standard growth models[25]. The growth analytical framework for the oil-rich countries should follow a broader framework outside standard growth equations and consider ways to support the non-oil sector within these economies, which can contribute to longer-term growth.

Factor accumulation, both labor and capital, has generated economic growth in the non-oil sector in Kuwait, as it has in other GCC countries. Productivity, however, has not improved. Empirical studies suggest that the total factor productivity is the most important driver of high and sustained economic growth.

In an economic growth framework, the reason for declining productivity (TFP) may include: a high initial per capita income; an oversized government; an unstable macroeconomic environment; restrictions on trade; declining terms of trade; and poor institutions (as in institutional economics). For Kuwait, an oversized public sector has been the main cause of low productivity in the economy. Poor quality of institutions and volatility in the region also play a role in this regard (Espinoza et al. 2013).

The main issue with economic growth in Kuwait and other GCC countries is the lack of a dynamic non-oil tradable sector. Market failure, rather than government failure, is slowing diversification toward a dynamic non-oil sector. The main factor in all of this is the unfavorable incentive structure in the economy. The incentive structure of the economy must be changed to encourage individuals to work in the private sector and to encourage private-sector firms to sell their products beyond domestic markets.

Improvements in the overall business environment and lower regulatory burdens can provide incentives and confidence to invest in the economy and increase the productivity of firms. Well-established business regulatory frameworks, favorable macroeconomic conditions – in particular low and stable inflation – and well-developed financial markets are important ingredients for growth, as they serve to increase investor confidence and encourage innovation.

Foreign Direct Investment (FDI) for Kuwait is less about financing projects and more about the positive effects that can be gained from new technologies, skill sets and business structuring. FDI in Kuwait can help enhance technology and productivity by introducing new knowledge and technologies, working methods and management skills.

[25] A Contribution to the Empirics of Economic Growth. N. Gregory Mankiw, David Romer, David N. Weil. Quarterly Journal of Economics, 1992

Policy Priorities ñ Longer-Term Economic Growth

There are ongoing policy initiatives for longer-term economic growth. Examples include:

- Six-point economic reform plan and investment projects in the ongoing mid-range plan
- Planned increase of capital spending and ongoing investments, such as marine port, airport, renewable energy and other infrastructure
- Plan to boost national R&D spending

5. **What:** Develop an overarching productivity improvement policy across government entities for economic sectors. Further develop policies to boost productivity and ensure that they are working as the key drivers of growth in Kuwait. This is most important for the non-oil sector as economic diversification holds the key to sustainable growth. **Why:** Total factor productivity is the most important driver of high and sustained economic growth. Over the last few decades, the contribution of productivity to economic growth in Kuwait was either zero or otherwise negligible. **How:** First improve the business environment and competitiveness by enhancing regulatory frameworks for the private sector, reducing trade barriers and developing a favorable environment for international trade. Second, reform the labor market to reduce public-sector dominance and combine reform for both the sectors, ensuring it covers both the public sector and private sector within the labor market. Ensure that the private sector can absorb higher employment, and that employees have the right skill sets to be more productive. Third, improve Kuwait's human capital by developing and educating low-skilled workers to fill skill gaps. A vital aspect of this is identifying the economy's needs within the country, as well as developing the education sector and allocating more funding to it from primary schools all the way up to higher education institutions. Fourth, improve on R&D and STI activities and ensure funding is available where there is high potential and an economic rationale.

6. **What:** Prioritize public investments based on high-socioeconomic-impact projects centered on economic growth and the private sector. Ensure clarity on the assumptions and criteria involved in the prioritization of projects by carrying out economic appraisals for each of the projects. **Why:** Investment projects should be seen as a part of a growth strategy. One example is infrastructure investment. Kuwait ranks low in its region for international infrastructure. Infrastructure does not necessarily translate into higher long-term growth, and the challenge is that infrastructure investment must be in areas that will boost the supply potential of Kuwait's economy, enhancing long-term growth. The international infrastructure rankings published by the World Economic Forum provide a way of comparing the performance of Kuwait's infrastructure with that of other countries. Kuwait was ranked 64th in the world out of 137 countries in terms of the overall quality of its infrastructure in 2017–18 behind: Bahrain (33rd); Qatar (13th); Oman (36th); Saudi Arabia (29th); and UAE (5th). **How:** Prioritize investments in good-quality infrastructure, which offers benefits to the private sector. This would improve private sector economic efficiency. As discussed before, through increasing employment, wealth creation and the availability of a larger range of competitively-priced goods and services, a stronger private sector can, in turn, improve the welfare of the country's citizens.

7. **What:** Improve on FDI policy and promotion to enhance capital accumulation and technological progress. Refine FDI policy to integrate promotion to match with other GCC countries, facilitate intervention by regulation and openness in dealing with foreign investment, ensuring local partners can benefit from the projects. **Why:** The main priority for Foreign Direct Investment policy should include: transferring technology and skills into Kuwait; building a knowledge economy; and supporting the private sector to take the lead in promoting economic growth. Investment promotion activities are more aggressive in neighboring competing countries. **How:** Provide additional incentives to high-growth FDIs to ensure technology can be effectively transferred through this channel. Identify and list all incentives and activities to attract FDIs across public bodies, to coordinate and effectively deliver the objectives and minimize public-sector resources. Periodically carry out a comparative analysis on investment promotion initiatives across the GCC countries and the wider region to determine the main competitors when it comes to attracting regional FDIs in their respective countries.

8. **What:** Develop a comprehensive technology, innovation and knowledge policy to ensure maximum benefit to the private sector and allow the public sector to play a role where and when there is a case for intervention. **Why:** There is a rationale for the public sector to play a key role in this area. R&D, technology and innovation are the key drivers of growth and technological progress is the key driver for private sector real growth. Kuwait's GCI "Technological Readiness" ranking for the year 2016 was 68, so there is much improvement to be made here and, from the reasons outlined above, much incentive to make it. **How:** Public sector support should be given to those areas in which there is a risk of market failure that may be detrimental to the well-being of the population. Enhanced support for innovation and technology, including funding to support these initiatives in all sectors of the economy, is similarly important. Funding support will involve attracting funding applications from a diverse range of areas in the economy and approving them based on set criteria, front and center of which ought to be any potential benefit for economic growth.

V. Private Sector Development – Supporting and Expanding

This section presents an analysis and policy suggestions for the private sector, based on information compiled from the CEO interviews. Analysis of the interviews and the CEOs' views were further scrutinized and compared with the aims of the New Kuwait Vision. In this way, our methodology was to extract the key views of the private sector as a whole, excluding any company-specific objectives, the overall objective of which was to compile a useful white paper on economic growth for Kuwait.

The CEO interview initiative was planned, designed and delivered between February and April 2018. Initially, 23 companies were selected to participate; in the end, 10 CEOs made themselves available for face-to-face interviews. The workforce of each CEO's company ranged from 42 to 60,000 people, totaling around 100,000 people across the 10 companies. This provides a good representative view of the private sector in Kuwait and covers a number of areas in the economy, including the chemical industry, real estate, health, holding companies and consumer retail.

The analysis presents policy interpretations that would enable the private sector in Kuwait to take the lead in accelerating economic growth in the country. The views of the private-sector CEOs expressed during the interviews were analyzed further in order to take on board the policy issues and recommendations that would support the private sector as a whole.

The analysis showed that developing a policy and regulatory environment to support the private sector and reducing bureaucratic procedures for businesses at municipal and national levels are the major areas that require improvement. Establishing clear objectives at the policy development stage and looking at the impact on the wider economy can help to reduce adverse impacts on the private sector at an early stage. In addition, further development of automation for receiving business approvals from local- and national-level public services will benefit the sector. There also has to be senior-level ownership of a policy or regulation when a government intervention is required.

Labor market reform has been one of the areas discussed in national policy papers. The public sector will remain as the dominant sector for employing people in the near future even after labor market reform has been implemented. Labor market reform including both the private and public sector should facilitate the mobility of workers toward the private sector.

A supportive framework for small- and medium-sized enterprises (SMEs) is required, and this has to be integrated into the overall private-sector development plan. SMEs can contribute to employment, worker training and technological development, and selected high-performing SMEs can mature into larger organizations.

During our conversations with private sector CEOs, we discussed key challenges and gaps identified in Al-Mahmood (2017), as well as that paper's recommendations to assist private-sector-led economic growth in Kuwait. The interviewees accepted most of the recommendations proposed, though some required caveats to the recommendations. For example, while most of the interviewees agreed with subsidy removal from all sectors of the economy, all thought it should be done gradually, and one CEO in the manufacturing sector believed that subsidy removal would make non-oil sector businesses untenable, reducing overall non-oil sector GDP in the country.

It is often argued that the electricity subsidy is the most important reason that certain non-oil industries are still profitable. If that subsidy were to be removed from all sectors in the economy, these industries would be the first of many to collapse. Subsidies can be eliminated gradually, but this has to be done systematically and only when there is an economic rationale for doing so. Each subsidy should be removed in a way that ensures that other policies designed to assist the private sector can mitigate any loss sustained, ensuring profitability is maintained.

Bureaucracy is one of the major issues hindering the ability to do business in Kuwait. In line with this, the business environment and competitiveness in the private sector have worsened over the last few years. Low levels of technological innovation and productivity are prevalent in the economy and are slowing the progress of private sector growth.

Clarification is needed on some of the issues discussed with the interviewees. The private-sector CEOs did not think that access to finance is an issue for them. However, all agreed that financial regulatory frameworks should be improved. The interviewees also did not think that the quality of education and skills are issues in Kuwait. This is a separate issue to the problems in the labor market, where the private sector is having difficulties in keeping pace with public-sector recruitment due to better salary package in the public sector for a similar job.

The private sector CEOs stressed the importance of looking beyond Kuwait to the wider region in order to broaden the market for the sector. Some areas of support the private sector is likely to require for the next five to ten years are discussed in the report. Oil is still one of the main sectors as Kuwait will continue to remain a major supplier to the world market in the future with the potential to develop further its downstream and oil is also a key ingredient in the petrochemical industry. Other major sectors for future growth in the economy are health, education, real estate and infrastructure. Other areas include retail and consumer products, logistics, financial services, power and renewable energy, the chemical industry and tourism. When it comes to sectoral development, views of the interviewees on tourism as a potential sector ranged from those who though it has no potential at all to those who believed it has high potential. Two of the interviewees who did not think that tourism could help the economy also believed that it does not fit well with the country's social landscape. The agriculture and food sector received support from the CEOs, who believe that this is a good sector to focus on, keeping in mind the environmental challenges for the sector in the region.

Key features and findings from the CEO interview initiative

Priority sectors

The petrochemicals sector is one of the main sectors outside of the core oil sector and, as such, is a major non-oil export for Kuwait. The interviewees were asked to identify key opportunity sectors for the private sector in Kuwait over the next five to ten years. Key opportunity sectors for Kuwait are presented in Table 1.

TABLE 2

Key opportunity sectors in the next 5–10 years – CEOs view

Sectors	Response	Selected comments
Oil	2	• Despite much oil revenue and continued development opportunities in the sector, it is still not operating to its full potential. • There is a reluctance to enable domestic companies to take the lead, improve efficiency, quality of products and competitiveness. Increasingly, foreign companies are taking advantage in the sector. There are barriers to entry into the industry for local companies, e.g. local companies need political influence to enter into the industry. • Develop downstream businesses and upgrade hydrocarbon products.
Real Estate and Infrastructure	5	• There is a petrochemical export market in Turkey, but it takes a long time to transport products to the country due to unfavorably poor road conditions from Kuwait.
Financial services	2	
Health	6	• Health. A number of respondents mentioned that the government is taking a lead here, yet its management is inadequate. The private sector can play a role here to improve matters.
Education	6	• Education in the private sector - high potential for Kuwait, yet also for the region as a whole. • Government should not compete - e.g. while ensuring establishment of private universities, government should not simultaneously establish public universities.
Chemical; Petrochemical	2	• The market for chemical products for the oil industry and water industry in Kuwait is small so it should be broadened within the GCC. • There are potentials for using new technology for chemical development for the industry. While developing chemicals for water treatment is relatively easier, developing chemical agents for the oil industry is more difficult and should be done in collaborations (with partners) to develop new chemical products. • Petrochemical products add value to the main natural resources in Kuwait by further processing hydrocarbon products. The value can be increased by multiple factors. • Both chemical and petrochemical products have a good export market. Over 60 % of non-oil sector trade revenue comes from petrochemical exports. Due to its obvious importance, the government should think of different and effective ways to support the petrochemical sector.
Logistics	2	• Logistics can support the region and Kuwait
Power and Renewable energy	2	• Openness on support from the government (policy areas)
Technology, Digital, AI and innovation	2	
Tourism	2	• The islands of Kuwait could be developed into more significant tourist destinations. Also, more resources should be spent in attracting tourists from neighboring countries, including health tourists.
Retail, fashion and food	2	• Covering Kuwait and neighboring countries • Retail and consumer products and services are high-growth sectors

Source: Author.

National planning, policy development and stakeholder engagement

There are a number of areas where national planning, policy development and stakeholder engagement can be improved. For example, over the last 10 years, stock market regulations have improved to support stock market investments, but further stock market reform in order to support future stock market investment activities is needed.

National planning and policies should be developed in a transparent manner, with effective coordination between each of the policy-making public authorities, especially where these policies have an impact on the private sector; Kuwait's vision can only be achieved by systematically and objectively developing policies and setting up priorities.

In addition, for selected strategic policies, there should be policy and regulation impact assessments at the stage when a policy or regulation is developed, so that risks can be identified and any impact on businesses, small or large, can be minimized at an early stage. This will also ensure that the new policy area is sufficiently developed to support the new or updated policy, keeping it consistent across the economy.

The private sector CEO interview initiative was a way to consider the views of the private sector. Engaging with the private sector at different stages of policy and regulatory development is vital to ensuring that the economy is favorable to developing the private sector. This will result in the role of the state being able to ensure a favorable business environment for the private sector.

Engagement with the private sector and the primary decision-makers in the government is very much a nascent enterprise in Kuwait and one that needs time to evolve. Decisions are often made without discussion or consultation with the private sector, and this often adversely impacts new policies. Allowing both sides at an early stage to propose initiatives would lead to the development of more effective new policies. Throughout the policy and regulatory development process, the rationale for government intervention in the economy should be clear.

Market, data and statistics

Business planning requires access to regular market and trend data in order to make better investment decisions. Regular market monitoring of global and regional markets, in addition to local markets, can help businesses. The economy of Kuwait is small and so the domestic market is small. As a result, Kuwait has to rely on regional or international markets. For example, national statistics should contain information on the demand and supply of domestic and regional infrastructure, where private sector real estate and commercial space construction industry require comprehensive information on the availability of inputs of production in the country such as cement, and longer-term trends on potential of these non-oil requirements for the country and the region.

To establish a business in Kuwait, foreign entities must work in partnership with a national company. This has two potential problems. In general, it may make the Kuwaiti partner less motivated to work. As well, this does not actually encourage the Kuwaiti private sector to take the lead or to develop, but instead makes the sector reliant on foreign partners.

Public sector, public finance and bureaucracy

The private-sector view is that it should work together with the public sector on economic development – but that the private sector must take the lead to promote sustainable economic growth and diversification for Kuwait.

The process for obtaining approval for projects from the public sector, such as from municipalities, is very slow, overly bureaucratic and lacks transparency. The views of the private-sector CEO interviewees on working with the public sector were similar to those expressed in the report entitled Most Problematic Factors for Doing Business published the World Economic Forum's Executive Opinion Survey for Kuwait[26]. This is the case despite the fact that no reference to the survey was provided during the interviews.

Both public-sector investment and private-sector investment are important and should work dovetail effectively to achieve high economic returns to benefit the country. Most of the private-sector CEOs supported gradually withdrawing subsidies from the economy, and some suggested removing subsidies only when the public sector can work efficiently. However, there were views that removing subsidies from some of the sectors, such as utilities in manufacturing, could potentially make production unfeasible in some sectors, undermining non-oil sector growth significantly.

Kuwaitis moving into more private-sector jobs

Public sector employment levels in Kuwait currently are very high. Moving more Kuwaitis into private sector jobs is a key national policy.

Skills and human capital

There are skill gaps in the market and, as such, human capital should be developed further to cover professional jobs in Kuwait. In some cases, it can be difficult to find in a timely manner Kuwaitis who are suitably trained for a specific job.

Public vs. private sector and the labor market

The private sector cannot compete with the public sector when it comes to attracting people for numerous reasons: public sector benefit packages are consistently superior; the jobs are more secure; job performance reviews are less rigorous; accountability is less extensive, and working hours tend to be shorter. Any initiative encouraging the private sector to hire Kuwaitis is not consistently applied. For example, when public-sector salaries are increased, the private sector cannot keep pace, even with financial support from the public sector to cover the new gap.

The labor market should be reformed to ensure that benefit packages and working conditions in both the sectors are compatible. In addition, public-sector recruitment hiring should be reduced, making the government smaller and adding a framework for further accountability and performance management processes in the public sector.

26 http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017–2018.pdf

Labor market issues

There will be skill gaps in some areas in the economy over the long term. For example, hiring expatriate medical doctors will continue to fill a local market gap in the demand and supply in the health sector. The private sector will have to rely on highly-skilled and technical expatriate workers to deliver some of the high-growth projects in Kuwait such as healthcare projects.

Local labor market issues are often tied to social benefit systems. Reforming the labor market alongside adjusting social benefit systems should be part of adjusting labor market regulations. In addition, improving education quality and skill sets will enhance professionalism in the market.

SMEs

All of the CEOs supported a healthy SME sector in Kuwait and thought that more SMEs will benefit the country through contributions to the GDP. However, views differed on the best ways to develop the sector. SMEs are untapped opportunities because they lack the kind of legal and financial frameworks that would allow them to thrive; SMEs are currently not considered sufficiently integral to the economy to merit support. The current framework and regulation of SMEs is not working. A different funding model for SMEs in Kuwait should be developed.

Real estate, land and related regulations

A lack of land for business and real estate development is holding back private- sector progress, as land is one of the key ingredients in business. In Kuwait, most of the land is owned by the state and land regulations make it complicated for the private sector to acquire land for property development and business.

Improving land regulations and the availability of land for real estate development and other private-sector developments would enhance business opportunities and allow private sector businesses to develop longer-term commercial business plans involving more effective resource use.

A number of areas can be developed, and they include:

- One-stop service for land-related services for the private sector.
- Early announcement of proposed public-sector land-based plans, such as island projects and urban plans. Clear guidelines on private sector involvement could foster the advanced development of business plans. When needed, the plans could be developed and clarified in discussion with public authorities.
- Creation of a regulatory framework for expatriates buying and selling property. This will have two results: the further development of the real estate market; and an increase in spending within Kuwait by expats along with a decrease in money transfers to home countries. In addition, there are potential capital gains for Kuwaitis by selling properties from the housing market to expats.

PPP, public-sector contracting process and procurement

Public-sector investment and procurement is an important business interest for the private sector and a growth enhancer.

Reversal of tenders at a later stage, inconsistency in terms and conditions, policies that are often contradictory, and a lack of transparency in tender decision making are key issues in public contracting and procurement procedures.

In many cases in a tender evaluation, the local private sector receives no differential treatment over bidders from other GCC countries. From a market competition and pricing viewpoint, this makes sense. In many cases, however, the GCC companies get relatively favorable treatment in their production processes from their own governments - in comparison to local Kuwaiti companies - which means that they can make a lower offer and win the contract. In such cases, the GCC companies are operating under different market terms and conditions than are the Kuwaiti companies.

Public-sector procurement guidance should be clear, less burdened by bureaucracy, and tendering processes should be transparent. Tenders are often canceled during the later stages of development, after private-sector contractors have spent considerable resources on researching, developing and submitting them. This is often because the project appears at this stage to not be as feasible as it appeared at the initially. In these cases, in addition to loss of resources in the financial and social sense, there is a country business reputational risk for foreign investors in Kuwait, who often submit tenders in partnership with local firms.

It takes a long time to get approval, and the process is tedious and bureaucratic and without any clear guidance on next steps or what to do in case of a new area/issue arising unexpectedly. For example, when an uncommon issue emerges, and the guidance is either non-existent or lacks clarity, it becomes very difficult to identify the right person who can resolve the issue. It can take a business a long time to receive approval to set up utility services such as electricity and gas, and the public-sector team or the private-sector industry applicant typically receives little clear guidance.

The PPP framework in Kuwait is still evolving with regards to enhancing the private-sector contribution to economic growth in Kuwait and should be developed further. Public authorities in Kuwait have experience in EPC projects but technical expertise in the public sector is still required for PPPs to support those who develop and evaluate PPP tenders. The PPP framework for supporting the private sector can be further developed by ensuring transparency in the process and minimizing risks for investment. PPPs should follow accepted international best practices where that is consistent within the region. Improvements are needed in the development of clear guidance on the process and timeline and business-minded support for the participants. In addition, public-sector investment in the projects should be viewed from a commercial, business-minded perspective.

International trade and the regional market

The market for products and services within Kuwait is relatively small. Kuwait has a strategic location, which it can benefit from when accessing the regional market. Some private-sector companies are benefiting by extending their businesses into the regional market, covering not just the GCC countries but also other, neighboring regional markets. For example, one non-oil sector Kuwaiti company employs 60,000 people from 120 countries, of which 13,000 people are employed in Kuwait. Yet, it is successfully carrying out about 90% of its business outside of Kuwait, in countries such as Turkey and Russia[27].

There are often formal campaigns that showcase the benefits of accessing certain regional markets. For example, the recent International Conference for Reconstruction of Iraq in February 2018 was a way of informing Kuwaiti private-sector investors of the opportunities in Iraq. As security improves and the level of political instability declines in neighboring war-torn countries, the Kuwaiti private sector will benefit from investing in these countries. Exporting non-oil products to the regional market is another area. Given the geographically strategic location of Kuwait, with easy access to the GCC and neighboring counties Iran and Iraq, there is the potential to export items by adding further value additions to semi-processed products.

Policy Priorities – A Thriving Private Sector

There are ongoing policy initiatives in support of the private sector. Examples include:

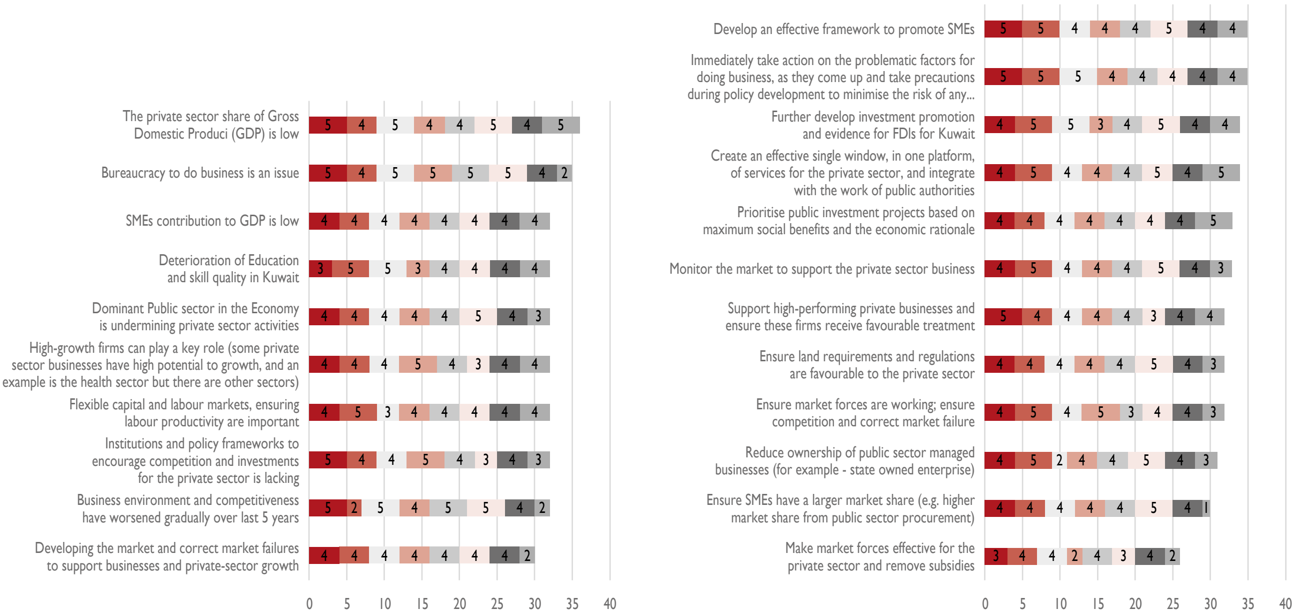
- High-level initiatives on privatization priority of key sectors
- Initiatives and support for selected public private partnership projects
- Key public entities such as the Ministry of Commerce and affiliated bodies are developing initiatives
- GSSCPD ensure working between partner entities in cohesive manner, contributing to creating an innovative, inclusive and resilient economy according to 2035 Vision and non-oil economic diversity and enabling citizens to achieve economic independence.

The following stacked bar charts are presented using the Likert Scale[28] of agreeing or disagreeing on the issues and recommendations. This is based on earlier research (see Al-Mahmood 2017), and is used to show which ideas would best benefit private sector growth.

27 Based on a face-to-face interview with the Executive Chairman of the company.
28 (1) Strongly disagree; (2) Disagree; (3) Neither agree nor disagree; (4) Agree; or (5) Strongly agree.

FIGURE 7

Economy and the Private-Sector Development – Supporting and Expanding



Source: Author and CEO Interview. **Note:** Each color represents a respondent; Numbers are Likert scale as (1) Strongly disagree; (2) Disagree; (3) Neither agree nor disagree; (4) Agree or (5) Strongly agree

The main points that emerged from the responses presented in the above are as follows. The points have been refined from the interview responses removing those elements that are zone-specific to individual companies and are considered as policy priorities aligned to the New Kuwait objectives:

9. **What:** Improve on bureaucratic processes when supporting the private sector; ensure a clear rationale for intervention by the government and do impact assessments for high-profile and strategic projects to get clarity on benefits and ways to manage risks. **Why:** Analyses from private sector CEOs show that developing policy and regulatory environments to support the private sector and reducing bureaucratic procedures for businesses at municipal and national levels are the major areas that require improvement. Bureaucracy is one of the major issues hindering doing business in Kuwait. In line with this, the doing business environment and competitiveness in the private sector have worsened over the last few years in the country. International indicators also suggest that bureaucracy is an issue. How: Improve at every step the delivery of services to support the private sector. Setting up clear objectives and rationale at the policy development stage, and looking at the impact on the wider economy, can help reduce any adverse impact on the private sector at an early stage. In addition, further development of automation for receiving business approvals from local and national-level public services will benefit the sector. There also has to be senior-level ownership of a policy or regulation when an intervention is required.

10. **What: Labor market reform:** National policy papers regularly discuss labor market reforms. The public sector will remain the dominant employment sector in the near future, even after the implementation of labor market reform. Labor market reform combining both the private and public sectors should facilitate the movement of workers from the public to the private sector. **Note:** The overlap between labor market issues and diversification will be discussed in that section.
11. **What: An effective policy framework for small and medium enterprises (SMEs):** A supportive framework for small- and medium-sized enterprises (SMEs) is required, and this must be integrated within the overall private-sector development plan. SMEs can contribute to job creation and selected high-performing SMEs can mature into larger organizations. Note: Overlapping with the diversification sector and discussed in that section.
12. **What: Overarching policy issues:** Improve on fundamental and foundational areas in the economy. Note: Overlapping with fundamental and foundational areas in the diversification sector and discussed in that section.
13. **What: Gradual removal of subsides that lack an underlying economic rational while minimizing the impact on relative prices in the economy:** It is often claimed that the most important reason industries are still profitable is that there is a subsidy on electricity, and if the subsidy is removed from all sectors in the economy, the non-oil sector GDP will collapse. Subsidies can be eliminated gradually, but this has to be done systematically and only when there is an economic rationale for doing it. Subsidies should be removed in a way that ensures that other policies help the private sector manage any loss by ensuring profitability can still be achieved. Note: Overlapping with public finance management and discussed in the previous section.
14. **What:** Streamline financial sector regulations and other market regulations in the economy for the private sector. **Why:** While access to finance is not an issue for competent private businesses, financial regulatory frameworks should be improved. For example, some business processes are often dubious and the stock market not sufficiently supportive of domestic private sector companies (see Bouresli et al 2017). **How:** Develop the regulations further. Private-sector views should be considered when policy is developed and, hence, a proper consultation process for regulatory development is vital.
15. **What:** Enable policies to provide additional support for the private sector to ensure high levels of growth, especially in potential sectors. **Why:** (1) There are high growth potential sectors. (2) The private-sector CEOs stated that they believe that it is important to look beyond Kuwait and to the region in order to broaden the market for the sector. Some of the sectoral support areas for the next five to ten years required by the private sector are discussed in the report. Key areas include health, education, real estate and infrastructure. Others include retail and consumer products, logistics, financial services, power and renewable energy, the chemical industry and tourism. When it comes to sectoral development, views of the interviewees on tourism as a potential sector ranged from no potential at all to high potential. Two of the interviewees who did not think that tourism is one of the areas that can help the economy believed that it does not fit well with the country's social landscape. The agriculture and food sector received support from the CEOs who believe that this is a good sector to focus on, keeping in mind the environmental challenges for this sector in the region. **How:** provide technical support and incentives for the sectors. Integrate with other policies.

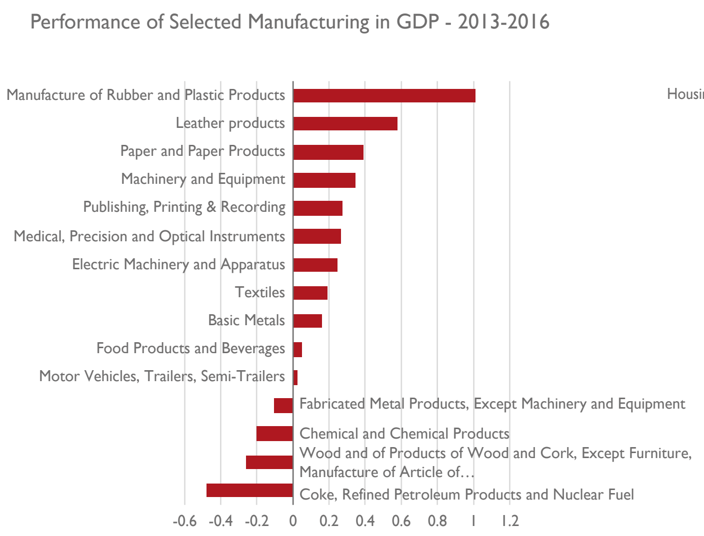
16. **What:** Improve on policy for Public Private Partnership Projects (PPP), making it more attractive to the private sector and at the same time achieving New Kuwait objectives from the perspective of public finance. **Why:** Financial attractiveness and bankability: Making investment projects such as PPP projects financially attractive is one of the important challenges facing the private sector. The private sector companies involved in the project should be able to attract equity finance from shareholders and reach the required amount of debt (bankable). In addition, cancellation of a project at a later stage, after passing the technical evaluation stage, for example, adds to risk and to the loss of time and resources, which serves to further discourage private sector investors. Operating with these uncertainties and financial risks is in itself a reputational risk for Kuwait and undermines the potential to attract FDIs from large, reputable investors from across the globe. **How:** At an early stage, any issues around the bids and the process to approve PPP, should be addressed and solutions agreed upon, as a private sector company could stand to lose a lot of resources if a project is cancelled during its later stages without provisions and potential solutions put in place beforehand. The process should consider bankability and financial attractiveness issues of the project at an early stage and not at a later stage when the private sector bidders have already spent resources on the project proposal. Engage with the private sector investors early, alerting them to the risks and challenges by communicating effectively. In addition, doing a realistic feasibility study with a clear project specification; finding ways to minimize resource implications for the private sector and bringing in key private sector investors and the public sector financiers for the project in working meetings can be some of the ways to deal with the issues around financial attractiveness and bankability of projects. In addition, there should be an effective dispute resolution process between the public and private sector for PPPs. When there are any issues regarding PPPs, such as cancellation of a PPP project without a good reason, the private sector companies involved should be able to discuss the issues with government authorities. Just as importantly, there should be no changes to the project document after the bidding process ends by the PPP entity, as this can have major cost implications.

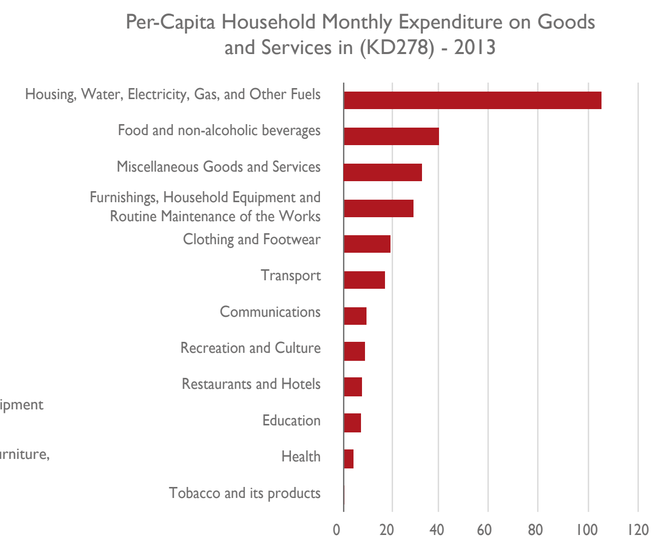
VI. Diversification of the Production Base and the Private Sector

Economic diversification for an oil-rich country that relies heavily on revenue from oil exports is challenging. In Kuwait's economy, the dominant sector in the production base is the oil and oil-producing sector. Manufacturing in the non-oil sector contributed to just over 5% of GDP and growth was negative at 11% in the manufacturing sector in the 2014–15 fiscal year, a time of low oil prices. Comparing pre- (2013) and post- (2016) recent low oil price situations in the chart below, some of the manufacturing sector performed negatively. Sectoral contribution outside oil is low. For example, the agriculture and fisheries sector makes a small contribution to GDP - at less than 1% - and makes up only 3% of total national employment.

FIGURE 8

Kuwait – Performance of the manufacturing sector and household spending sectors





Source: Author. Based on data from Kuwait Central Statistical Bureau. **Note:** GDP at Constant price, 2010=100.

Long-term sustainable growth has a high dependence on the competitiveness of the manufacturing industry, which is also an indicator of the competitive capacity of a country. The Competitive Industrial Performance (CIP)[29] index by the United Nations Industrial Development Organization (UNIDO, 2016) is a way of assessing how Kuwait is performing in the manufacturing sector in comparison to other GCC countries.

There are ongoing initiatives to encourage diversification. For example, Kuwait's Public Authority for Industry (PAI) plans to set up a multi-purpose industrial city with total expected investments of $6.6 billion, where the government would invest in the infrastructure of the city at an estimated cost of US$600 million and would target around US$6 billion in investments from the private sector to develop the bulk of the project[30].

International experience

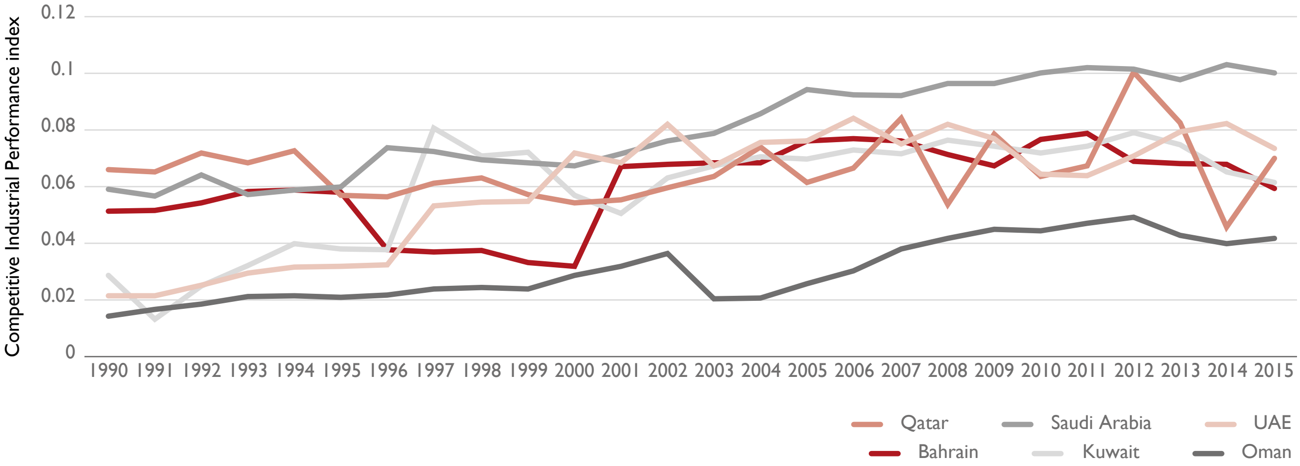
There are small countries outside the Gulf Cooperation Council (GCC) which have been successful in promoting economic growth and transformation. These experiences can provide useful examples for Kuwait. Finland, Ireland and Singapore have successfully transformed their countries' economies from low technology-based economies to exporters of high-tech products. They adopted growth strategies that diversified the production base in the area of exports of electronics, telecommunications, software, chemicals and pharmaceuticals. The countries benefited from identifying new products and tradable services.

29 The Competitive Industrial Performance (CIP) index by UNIDO (2016) is a way to see how Kuwait is performing in the manufacturing sector in comparison to other countries. The CIP index is a performance indicator based on outcome and not a potential for competitiveness process indicator. It focuses on industrial competitiveness and structural economic variables e.g. technological learning.

30 Reuters

FIGURE 9

UNIDO Competitive Industrial Performance (CIP) index for Kuwait and GCC



Source: Author. Based on data from Kuwait Central Statistical Bureau. **Note:** GDP at Constant price, 2010=100.

Except for Bahrain and the United Arab Emirates, the region's manufacturing exports are concentrated in chemicals. The chemicals sector is likely to be oil-related, so diversifying other areas will decrease reliance on oil.

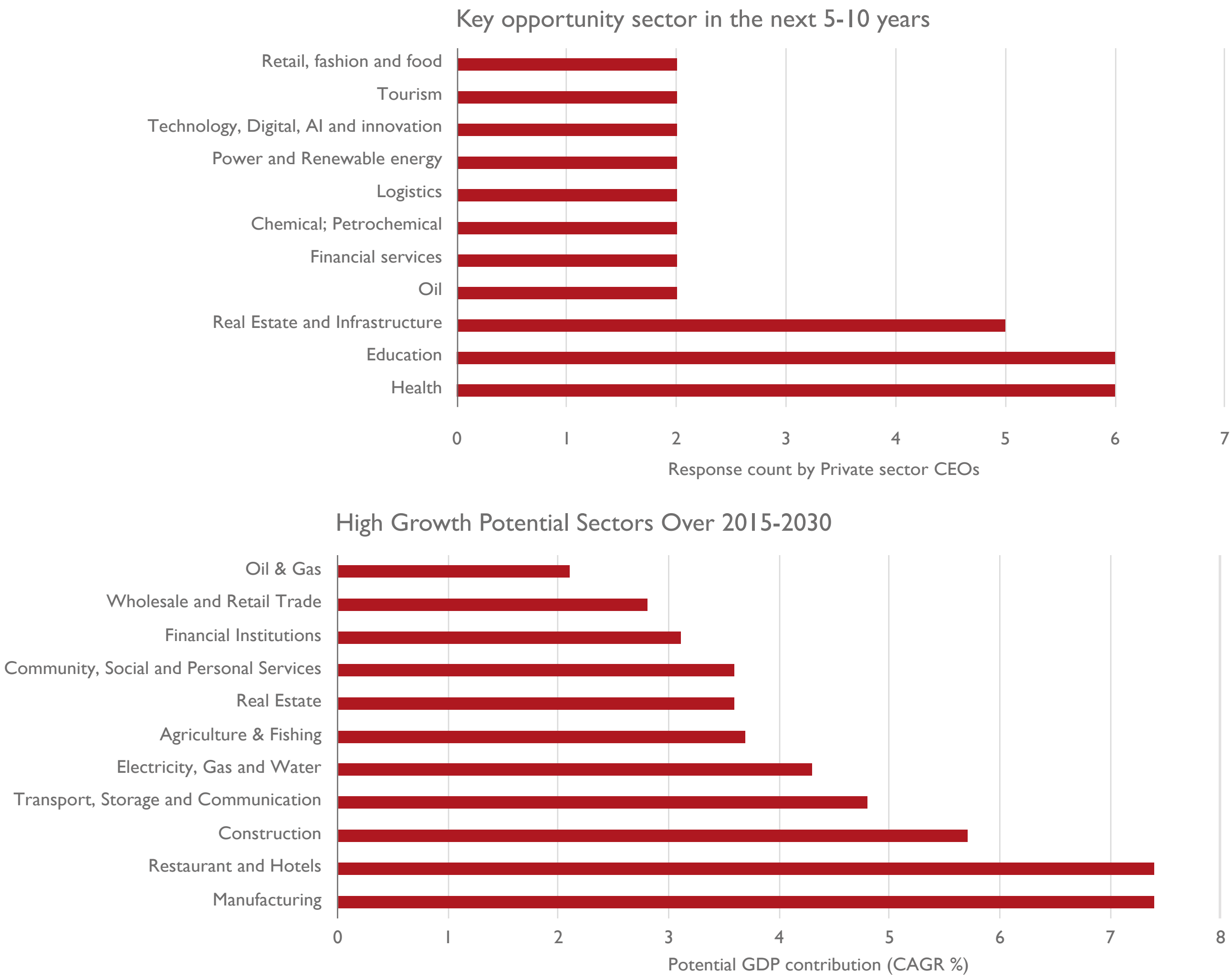
Some countries outside the GCC - most importantly Malaysia, Indonesia and Mexico – have successfully transformed their economies. No longer are they largely reliant on oil exports; today, their economies are based on they export of a diversified range of goods. Malaysia, starting in 1970s, took two decades to gain product sophistication to compete at a global standard. To succeed, the countries provided incentives to export firms and developed skills within their existing labor market for potential industries.

Investment in high-productivity industrial sectors in Malaysia has been important. Development of the supply chain contributes, as well. In Malaysia, diversification has been aided by downstream and upstream activities based on rubber and palm oil, In Mexico, the supply chain to the automobile sector has been developed to enhance diversification. In both of these countries, FDI-accelerated technological transfer and support in the form of export subsidies and tax incentives has encouraged businesses to move toward export diversification. Successfully investing in training ensured the availability of highly-skilled workers in Malaysia, Singapore and Mexico. Singapore has been successful in attracting highly-skilled labor to the country.

High-performing and high-productivity sectoral investments

FIGURE 10

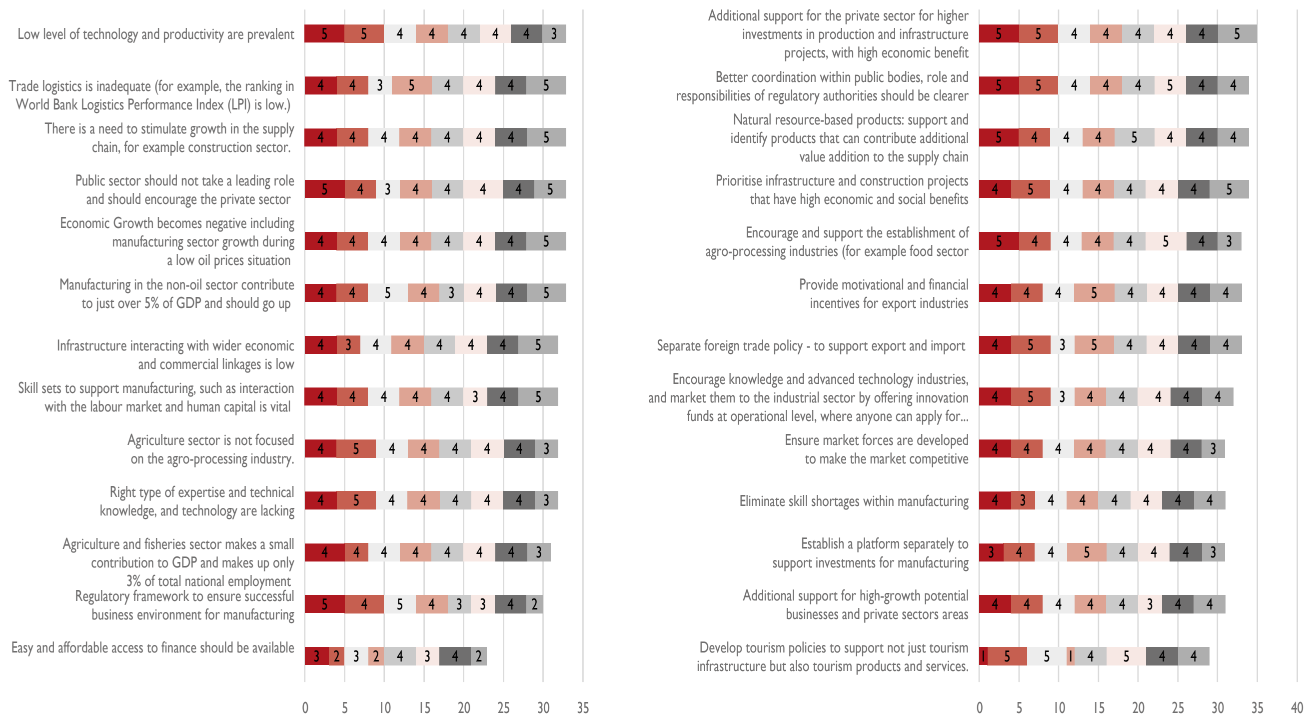
High growth and potential sectors for Kuwait



Source: Interviews of private sector CEOs by the author. **Source:** Marmore (2017).

FIGURE 11

Economy and Diversify the Production Base – Issues and Recommendations



Source: Author and CEO Interview. **Note:** each color represents a respondent; Numbers are Likert scale as (1) Strongly disagree; (2) Disagree; (3) Neither agree nor disagree; (4) Agree; or (5) Strongly agree.

Policy Priorities – Diversification of the Economy

There are ongoing policy initiatives for support of the private sector. Examples include;

- Removing subsidies to contribute toward correcting distortions in the market
- Supporting the SMEs through a National Fund
- Diversifying through the delivery of health services in different ways for future
- Completing the Shagaya Renewable Energy Project
- Establishing a multi-purpose industrial city overseen by the Kuwait Public Authority for Industry (PAI)

17. **What:** Integrate and align policies to ensure development of fundamental sectors for the economy and businesses. **Why:** Literature and country experiences suggest that this is one of the core areas. Providing a foundation for economic growth and production diversification is a key area of international indicators. **How:** There are ongoing initiatives at the national level to ensure these areas are covered within the overall management of the economy. Macroeconomic stability, improved competitiveness, better business environment, labor market development, access to and use of technology, instigating the right policies to support businesses and emerging opportunities, providing quality education and applied skills training, and developing

linkages to international markets are the key fundamental ingredients for diversification in the case of Kuwait.

18. **What:** Specific policies to offer incentives for high-growth value-added tradable[31] sectors. **Why:** There are potential high-growth sector opportunities in Kuwait and, as such, potentially many incentives for investment. Developing the private sector should encourage these sectors with high-performing growth. **How:** Policies and their implementation should ensure no negative consequences impact on other sectors while focusing on the high-profile sectors. First, Kuwait firms can profit from government procurements, as the public sector is the dominant sector in Kuwait. This is a low-risk business opportunity where the firms can gain from the oil revenue public sector spending and the abundance of available low-wage, low-skilled workers in the labor market. For government procurements, provide incentives to those firms that are actively planning to expand their tradable businesses as they prepare for the export market. Second, provide effective incentives to Kuwait businesses to encourage expansion into the export market. This should include financial and regulatory incentives. The support should cover: offering export insurance guarantees; business support services enabling venture capital industry; linking with domestic and international research institutes for new technologies; and taking initiatives to foster links with international multinationals, developing the export sector.

19. **What:** Develop a comprehensive international trade policy to secure the benefits of international trade for the private sector. This will lead to economic growth, and the aligning of regional and global business opportunities. **Why:** International trade is a key ingredient for private-sector-led economic growth. There are many projects and activities currently in operation to attract FDIs. Kuwait also makes international investments. However, one current drawback is the number of disparate import/export policy concerns not currently well integrated into one easily manageable area. By this we mean policy concerns involved in international and regional trade and, more specifically, the feasibility of producing some of the products that are currently imported and, most importantly, the potential for diversifying exports of non-oil products into the global market. International trade overlaps two pillars, namely the economy pillar and the global positioning pillar. Policy action should be to integrate all these areas under one banner of trade policy. **How:** The trade and export diversification should get additional priority in the International Positioning strategy of Kuwait. First, provide incentives and develop the tradable sector for export. Provide incentives, financial and regulatory, to high-value added and strategic products that are currently being imported from other countries. Health sector products are a good example in this regard as health has been identified as a high-growth potential sector. Second, develop trade logistics to cover domestic and international markets. Trade logistics have an impact on costs for business and commerce, and cost reduction would impact productivity and growth.

31 Tradable sector: the industry sectors whose output in terms of goods and services are traded across the border, manufacturing for example. Non-tradable sector: local services, retail and education for example

20. **What:** Policy to provide support for traditional and non-traditional sectors for private business. **Why:** traditional and non-traditional sectors for private business should be integrated into non-oil sector growth. How: First, encourage knowledge and advanced technology industries, and market them to the industrial sector by offering innovation funds at the operational level (e.g. physical, managerial) and supporting them at both the top level and the ground level. Second, encourage and support the establishment of the agro-processing and food industries. Support the private sector by encouraging higher investment in production and infrastructure projects with high economic benefits. Land can also be made more easily available to further encourage investment. Third, horizontal and vertical diversification should be encouraged. Fourth, as infrastructure capacity increases over the next few years, policies should be integrated so that the economy can absorb the emerging capacity.
21. **What:** Update policy for SMEs, ensuring the right funding and technical support, and set independently derived procurement targets for the SMEs across government departments. **Why:** Due to the nature and size of SMEs, they find it challenging to benefit from economies of scale and do not have much to contribute to economic growth and GDP value. However, SMEs contribute to employment and some of them can mature into larger companies. In addition, small technology SMEs can supply much-needed skills to support innovation-driven product development in the economy. Policy developments should recognize these aspects. **How:** First, develop the SMEs that are doing business in tradable and high-growth potential sectors by providing financial incentives and support on a step-by-step basis. This can have the effect of evolving SMEs into mature larger businesses specializing in export industries. Second, reduce the monopolistic structure of larger, private businesses and state-owned enterprises in the market so that easy market access is available to everyone, ensuring competition in the market. Third, develop the SMEs within an industrial cluster, where the public sector can invest in the infrastructure.
22. **What:** Integrate a human development or capital policy within the labor market focused on the development of specific skills and applied knowledge. This will support diversification in the economy. **Why:** Diversification policies should be well integrated with the pillar that covers labor and human capital development. First, public sector employment in Kuwait offers better benefits, job security and fewer working hours compared to positions available in the private sector. Reduce public sector recruitment and ensure that the benefit packages in the public sector are in line with those in the private sector. In addition, the skill set required for specific public-sector jobs should be similar to their comparable private sector jobs. Second, current low or unskilled foreign laborers should be encouraged to move to productive roles in the tradable sector. **How:** There is a need to integrate reform into the low-skilled workers segment of the labor market. Likewise, there is an imperative to develop a mechanism for easy mobility of these laborers to productive sectors. In addition, those countries that currently supply low-skilled laborers to Kuwait can also supply semi-skilled laborers that can fill in the required roles in the tradable sector. This can be achieved by developing bilateral agreements with the countries in question.

VII. Policy Interactions with Other Pillars and Cross-Cutting Areas

The economy pillar has a number of cross-cutting policy and impact roles, flowing both ways from and to the six other pillars, namely - Administration, Infrastructure, Living Environment, Health Care, Education and Human Capital, and International Positioning.

Policy issues around infrastructure and education are discussed in other sections. While the indigenous population of Kuwait is well-educated, the overall population, which includes expats from many countries, has a lower average level of education and useful skill sets. The situation has to be improved to positively impact economic growth.

Policies should ensure transforming the non-skilled or semi-skilled expatriate labor force for the benefit of the economy. It should also ensure attracting and retaining a highly-skilled labor force to contribute to the ambition of securing knowledge-based economic growth. While the migrant and expatriate labor force issues are politically sensitive, development of a clear migration policy deciding who, what and how to include or exclude expats across public and private sectors would benefit the economy. These proposals also have the potential to increase expatriate spending in the country.

Kuwait, along with other GCC countries, apparently did not experience traditional Dutch-disease problems, which could have held back the development of the non-oil tradable sector. The reason is due to expatriate labor being available at low wages in the region and that, despite significant oil-based revenue, wages in the private sector have not been pushed up. As result, Dutch-disease effects did not occur (Callen et al 2014).

A number of reports in the literature suggest that migrants have a positive impact on the economies of the oil-exporting countries in which they work as well as a favorable effect on the real exchange rate. Policies should ensure the transformation of the non-skilled or semi-skilled expatriate labor force into more highly skilled workers to increase benefit to the economy. It should also ensure attracting and retaining highly skilled labor force to contribute to the ambition of a knowledge-based growth driver of the economy. While migration and expatriate labor force issues are understandably politically sensitive, a clear migration policy - agreed upon by all parties - would benefit the economy. That policy would outline who, what and how to include or exclude expats across public and private sectors.

Some of the GCC countries are seeking policy changes to attract and retain expatriate workers. For example, Saudi Arabia announced a plan for a green-card like program in 2016 to be implemented over five years that would help to reduce the kingdom's reliance on oil. Qatar, in this respect, is even more radical and reported in 2017 that it plans to introduce permanent residency to attract investors and some skilled workers. The main areas of interaction with other pillars are presented in the next table.

TABLE 3

Key interactions of the Economic Pillar with other Pillars

	Economy: Develop a prosperous and diversified economy to reduce the country's dependence on oil export revenues		
	Economic Growth: Developing National Economy Management and Increasing Investment Rates	**Supporting and Expanding the Private Sector:** Increase Private Sector Share of GDP; Increasing Private Sector Investments	**Diversifying the production base:** Manufacturing; Developing the Oil sector; Financial; Commercial and Agriculture
Global Position: Enhance Kuwait's regional and global presence in spheres such as diplomacy, trade, culture and philanthropy.	• FDI Contribution	• Technology transferred through foreign products and services	• Trade Openness – Increase Export and encourage producing imported products domestically
Infrastructure: Develop and modernize the national infrastructure to improve the quality of life for all citizens.	• Technology readiness • Increasing private sector investments in water and electricity production • Increasing total production capacity for water distilling plants • Developing facilities and services at Kuwait International Airport • Developing sea ports' services and increasing their capacity • Adding highways and interior roads in regions • Removing trade & transport logistics impediments	• Improving services' efficiency and performance - based on principles of commerce and competition • Increasing the available capacity of electric power plants • Involve the private sector in the water and electricity sector by establishing public joint-stock companies • Separating operators from regulators in the transportation sector • Promote and encourage competition and investment in communications and IT sectors • Modernizing infrastructure and technological development in the media and culture sector	• International Linkages • Marine and air to diversify services and access new markets • Connectivity
Human Capital: Reform the education system to better prepare youth to become competitive and productive members of the workforce.	• Human capital economic activities on advanced technology with right type of labor, improve productivity • Achieve excellence in education and improve Kuwait's ranking on international assessment tests • Achieve standards of quality and excellence at institutions of higher education • Improving scientific research quality • Embed a culture of scientific research and innovation in society • Increasing youth creativity and innovation	• Increase workforce contribution to private sector relative to public sector, with balance between the sectors in terms of conditions, work hours, wages, bonuses, and other benefits • Training programs to support need of private sector • Encourage and support private sector participation in the educational field • Increasing the capacity of institutions of higher education and correlating their output with the needs of the labor market • Supporting private Sector participation in higher education, meeting development needs • Develop the training system and community service in various fields • Develop the training needs necessary for the skills required so as to direct the workforce towards achieving the state's Vision • Reinforcing youth leadership capabilities and empowerment	• High skilled labor • Produce and absorb technology • Develop human capital with right type of skill set

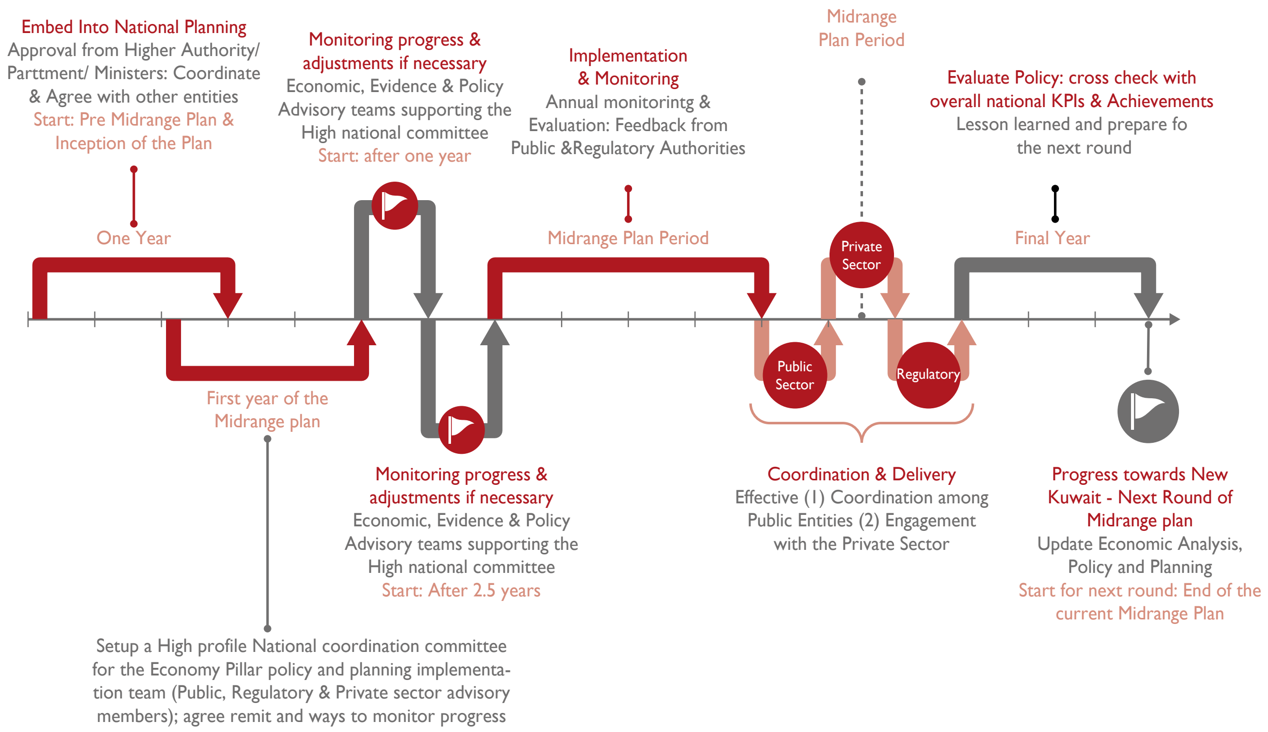
	Economy: Develop a prosperous and diversified economy to reduce the country's dependence on oil export revenues.		
	Economic Growth: Developing National Economy Management and Increasing Investment Rates	**Supporting and Expanding the Private Sector:** Increase Private Sector Share of GDP; Increasing Private Sector Investments	**Diversifying the production base:** Manufacturing; Developing the Oil sector; Financial; Commercial and Agriculture
Public Administration: Reform administrative and bureaucratic practices to reinforce transparency, accountability, and efficiency in the government.	• Increasing capital spending out of total government spending. • Regulate government expenditures, cancel any non-essential expense, and combat waste in public spending . • Review, rationalize and restructure current subsidy practices. • Check large government project costs by putting in place an expert system. • Planning and Public Policy Making. • Legislation, tools, methodologies, and planning and follow-ups; develop standards for selecting projects.	• Projects for the transition to electronic government. • Regulate and standardize the legislative aspects of government procurement procedures • Administrative reform, develop public services and business services in the public sector, and expand private sector participation • Fight Corruption and Promote Transparency and Accountability in the Public Sector • Cooperation between the legislative and executive branches and all development partners • Expand electronic government applications & civil information systems	• Rationalize public expenditure • Removal of subsidies and by doing so, create a market to diversify products (e.g. alternative energy source) • Favorable legislation • Reform in public sector employment
Healthcare: Improve service quality in the public healthcare system and develop national capabilities at a reasonable cost.	• Healthy lifestyle	• Develop a health system promoting the private sector's role	• Promote healthy lifestyles, with participation from all sectors of society (e.g. innovation in health care, preventive medicine)
Living Environment: Ensure the availability of living accommodation through environmentally sound resources and tactics.	• Supply of living environment e.g. Housing construction	• Provide new housing alternatives in new and advanced styles to keep pace with global changes in construction principles	• Develop a model of housing provision through private sector participation in providing housing for citizens. • Involving private sector in different ways in construction to housing products; Greener environment"

VIII. Policy Implementation

Kuwait is a relatively new country compared to many other countries that have achieved similar or higher growth objectives, albeit over many years. Kuwait has also been initiating economic development plans and developing a vision to support its citizens. The national objective of moving away from dependency on oil revenues to run the country is a challenging one. However, it will be possible to achieve the objective of sustainable economic prosperity when the right types of policies are developed and a willingness to work together is fostered.

FIGURE 12

A Plan Toward Sustainable Economic Prosperity



Source: Author. **Note:** timeline is not to scale and overlapping across the planning process.

A number of policy priority areas are identified in this paper alongside the initiatives currently ongoing in Kuwait. The chart above presents a high-level implementation plan that should be taken forward by the national leadership team in conjunction with key players.

Policy delivery and implementation will require a joint effort among all parties in order to achieve economic growth, private sector development, and the New Kuwait vision. Each of the public entities should report progress to the high committee each year during the mid-range plan. A template is proposed next.

TABLE 4

Monitoring progress of the Economy Pillar

Reporting framework for Midrange National Planning - by all Public Entities

Annual Progress, Impact and Monitoring of Policies for the Economy Pillar for year [xx]

New Kuwait		Policy statement of the Public Entity	Achievements so far for the current mid range plan	Links to National Planning and Programmes (list)	Any cross cutting areas with other pillars (Name of the pillars)	New Initiatives (non - Policy/ Regulations (s) for the Year, if any)	New (s) fo
Economic Growth - Short, Medium and Long term	[coverage areas - defined by the public entity]						
Private sector - Developing and Expanding	[coverage areas - defined by the public entity]						
Diversification of the Production Base	[coverage areas - defined by the public entity]						
Cross cutting	[coverage areas - defined by the public entity]						

Policy/ Regulations r the Year (if any)	Reduction of any overlapping policies across pillars (to reduce bureaucracy) (if any)	Impact on Employment (net; numbers)	Impact on National Gross Value Addition (GVA)	Risks of not achieving and mitigating measu-res; any lessons learned	Any other comments

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