

Economic Diversification In Kuwait For A Sustainable Economy

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I. Introduction

Oil and gas extraction is still Kuwait's most prominent economic activity, earning the country considerable foreign exchange and profits. Like other GCC countries, the government of Kuwait has long understood the importance of economic diversification to support a more stable economy in the future (Sharafuddin, 2023, 2). However, economic diversification has been easier said than done in Kuwait due to its various challenges. The government of Kuwait has launched multiple projects. It plans to achieve measures to ensure economic diversification and future stability due to the volatile nature of the oil and gas industry. Other unique concerns apart from volatility in income, lower employment rates and current affluence. Diversification of the economy is significant in supporting a stable economy, improving the employment rates and better labour participation in Kuwait (Sharafuddin, 2023, 3). The over dependence on the oil and gas industry is unsustainable due to the volatile nature of oil and gas that is affected by demand and supply. Therefore, economic diversification is needed to set the foundation of economic growth in Kuwait and improve the living conditions of its citizens. This will also ensure economic stability by providing a thriving economy and stable income. This paper will outline the current state of Kuwait's economy, the challenges of oil dependency and the various opportunities for economic diversification for a sustainable economy.

II. Literature Review

The Concept of Economic Diversification

The main aim of economic diversification is to develop a sustainable economy by reducing the risks and maximizing the returns. Economic diversification also utilizes the available human resource capacity and provides competitive prices for locally produced goods and services. According to Lashitew, Ross and Werker (2021, 164), economic diversification is one of the critical aspects of promoting development, especially for developing nations and regions. The need for economic diversification for a sustainable economy has also been recognized as an essential international development goal. Despite the lack of proven empirical studies showing the link between economic diversification and economic improvement, an evidence-based approach with reflections and analysis can connect the two. The available literature on economic diversification needs to answer whether this is the key to a stable economy. Diversification strategies are sometimes seen as specialization strategies. Diversification and specializations are considered crucial for economic growth. Diversification creates different types of activity and multiple sectoral growth, whereas specialization creates market leadership in other sectors, thus promoting economic growth.

Current State of Kuwait's Economy

Kuwait is a rich country that has created a welfare state for its citizens with a high per capita income. The country's economy grew by 8.9% in 2022 due to the rise in oil and gas prices; however, Kuwait experienced negative economic growth in 2023 due to the fall in the prices of hydrocarbons (Lloyds Bank, 2023). Kuwait's GDP is expected to grow to 3.6% in 2024 due to the expansion of the country's refining capacity, thus increasing the exporting capacity of crude oil and other refined products (Lloyds Bank, 2023). In terms of the public finances, Kuwait's Ministry of Finance anticipates a 13.5% decline in the country's budget deficit for the fiscal year 2024-25 (Lloyds Bank, 2023). The expected deficit is about USD 19.5 billion or KWD 5.89 billion, with a total revenue of approximately KWD 18.6 billion, which marks a 4.1% decrease from 2023 (Lloyds Bank, 2023). Oil revenues are also expected to drop by 5.4% from 2023, showing the volatile nature of the country's main economic activity and foreign exchange earner. According to the latest survey by the Public Authority of Civil Information, the country faces unemployment challenges, with approximately 31,831 jobless people (Lloyds Bank, 2023). With an unemployment rate of 1%, Kuwait needs to diversify their economy to provide more jobs and an economic shield from the volatile oil and gas industry.

Challenges of Oil Dependency

Historically, oil dependency has been the foundation of Kuwait's economy since the first commercial discovery of hydrocarbons in the 1930s, thus shaping the country's economic growth (Mutawa, 2023). Oil has become the primary source of revenue and foreign exchange earner, contributing heavily to Kuwait's GDP and economic development for more than 90 years. Kuwait produces approximately 3.2 million barrels of oil daily and holds about 7% of the world's oil reserves (Mutawa, 2023). The oil revenue quickly pushed Kuwait into an era of economic growth and modernization that has propelled it into a welfare state for its nationals with high living standards and good social welfare programs.

However, oil dependency has also provided various challenges and vulnerabilities to the current and future of Kuwait's economy. The over-reliance on oil revenue makes Kuwait's economy vulnerable to fluctuations in global oil prices (Mutawa, 2023). The volatility of Kuwait's economy has affected the economic stability and planning of the nation. Oil dependency has resulted in an imbalance where the economy is susceptible to various external market forces, such as the supply and demand of the product. Over-reliance on oil has also impeded the growth of non-oil sectors.

The Concept of Sustainable Economy

Theoretically, a nation's economy supports society and the well-being of its citizens. The economy is a societal system where limited resources like capital, labor and capital are managed sustainably and fairly (Ruggerio, 2021). The main goal of economic growth and sustainability is to enhance the living conditions of individuals in their daily lives. The economy is a crucial part of society which drives it rather than supporting it.

The concept of a sustainable economy arises from limited resources in society and other external forces that support economic systems. A stable economy for a nation gives the citizens the most significant levels of well-being using the least resources while protecting the environment (Ruggerio, 2021). In economics, a sustainable economy is one where the demand for natural resources does not exceed its demand. In terms of Kuwait, one of the factors that may impact the country's economic stability is the supply and demand of its dominant source of revenue, which is its oil reserves.

Case Studies of Successful Economic Diversification

There are various case studies among the GCC states and other countries worldwide that can serve as an example for Kuwait to follow. The United Arab Emirates (UAE) is currently considered the most economically diversified economy among the GCC states (Shadab, 2023, 415). Over the recent decades, the UAE has implemented plans and strategies that have significantly reduced its over-dependence on the oil and gas sector for government revenue and GDP growth. The contributions of the oil sector to UAE's GDP have dropped considerably from about 46.9% in the 1980s to 16.75% in 2019 (Shadab, 2023, 420). As a result of UAE's Vision 2021, announced in 2010, the country has implemented various diversification and development initiatives.

The country is mainly focused on becoming the most significant world's business, tourist and financial hub. The UAE is also the fastest-growing investment hub in the Middle East. Other notable strategies the UAE has used to diversify its economy are imposing indirect taxes like excise taxes and VATs to generate non-oil revenue.

Another case study of a successful economic diversification that Kuwait can emulate is the case of Norway. The Norwegian economy is one of the most inclusive and diversified in Europe and the entire world. Over the decades, Norway has diversified its economy across different sectors to move from over-reliance on oil and gas revenues (Ulleberg and Hancke, 2020, 1201). This initiative has created more jobs and reduced poverty for its population. The government has invested in other long-term economic activities worldwide through the Norwegian Sovereign Wealth Fund, which manages the revenues from its oil and gas reserves. The government has mainly invested in education, innovation, business exploits, closing the gender gap and environmental sustainability (Ulleberg and Hancke, 2020, 1203). The Norwegian government has focused on education by promoting, Science, Technology, Engineering and Mathematics (STEM) subjects to enhance innovations. On the business front, the government has invested in research-based innovation programs. Norway has identified its weaknesses, like the fluctuations in oil prices and harnessed its strengths to provide a diverse and stable economy.

Another excellent case study of successful economic diversification is the case of Singapore. Following its ejection from Malaysia in 1965, Singapore began its growth and development initiative (Kumar and Siddique, 2020). In the late 1960s, the country started plans and strategies to create jobs and sustain its economic growth. The government invested in the business sector and the need to become an export-driven economy with the need for domestic demands. The country attracted foreign direct investments, developing a robust export manufacturing industry.

Opportunities for Economic Diversification for a Sustainable Economy in Kuwait

Like the UAE, Norway, Singapore, and other countries worldwide, Kuwait has various opportunities for economic diversification for a sustainable economy. The following are some of the opportunities that Kuwait can focus to diversify its economy.

Investment in Renewable Energy

Kuwait has used its oil revenues in the fossil fuel sector and other significant investments to reduce its dependence on oil and gas. One of the major plans in Kuwait's Vision 2035 is increasing its electrical production by building a d using clean and renewable energies (Bahman, 2023). The Kuwaiti government expects to produce approximately 15% of its total electricity requirement from renewable energy by 2030. This ambitious plan and goal entails implementing significant projects like the Abdali Solar Park and the Shagava Renewable Energy Park (Bahman, 2023).

Investing in renewable energy can significantly reduce Kuwait's over-reliance on oil revenue. This ambitious initiative is expected to save the country approximately USD 2.5 annually on electricity production (Bahman, 2023). With the world shifting to sustainable energy, Kuwait is diversifying its energy mix through this ambitious initiative. One of the main reasons for this initiative is to satisfy the growing domestic consumption and demand for electricity. The growing industrialization and demographic growth have increased the demand for electricity at a worrying rate for the government of Kuwait (Bahman, 2023). The Kuwaiti government can invest more in power generation through renewable sources like wind and solar to meet these demands. As a result of the massive investment in renewable energy, the micro economy will benefit through creation of new jobs and attraction of foreign experts and investments, thus leading to economic growth.

Attracting Direct Foreign Investment

Another opportunity for Kuwait to diversify its economy is attracting direct foreign investment like the case study of Singapore. Kuwait has always been open to direct foreign investment and is still open for more foreign capital (Rani, Ramachandran and Nair, 2021, 30). However, compared to other countries in the Middle East region, direct foreign investment in Kuwait still needs to be developed, thus posing an excellent opportunity for the country in terms of economic diversification. According to the World Investment Reports published by UNCTAD in 2023, the direct foreign investment inflows to Kuwait increased by 33.6% (Rani, Ramachandran and Nair, 2021, 33). A significant part of the FDI inflows is mainly injected into the oil and gas sector, real estate, and financial services. The amount directed towards the oil and gas sector is meant to finance major infrastructure initiatives and facilitate other parastatals. A considerable part of Kuwait's FDI comes from the United States of America and China.

According to Kuwait's Vision 2035, the country has an ambitious plan to raise more than USD 200 million from other foreign nations and companies for economic diversification (Rani, Ramachandran and Nair, 2021, 34). Kuwait should attract direct foreign investments to become the global trade and finance hub using its oil revenue. Other key sectors where the government can attract FRD include renewable energy, communication technology, healthcare, education, water, electricity, and tourism.

Tourism

Tourism plays a significant role in economic diversification, especially in single-resource countries. Following the discovery of oil in the Gulf region, most GCC countries have amassed considerable wealth, which has become the main source of economic development and diversification. In Kuwait, the tourism sector is not as prominent as in other Gulf countries and thus has enormous potential for building the nation's microeconomy. According to Hilal (2020), the country is currently undergoing an economic revolution by shifting from the oil sector towards tourism, hospitality, and technology. This can be achieved through investing in infrastructure, promoting cultural heritage, and providing a healthy business environment for microbusinesses. Lakshminarayanan (2019) explains that providing amenities would encourage local and international tourists to enjoy facilities, thus promoting social-cultural enrichment, traditions, and religious practices.

Tourism contributed to economic growth, job creation, and improved living standards. Employment opportunities and revenue from taxes help the country flourish in the long term since tourists require services such as transportation, entertainment, and hospitality (Hilal, 2020). In addition, it can boost private sector industries like construction with the increased demand for hotels, malls, amusement parks, and others. Since tourism is labor-intensive, it contributes to reducing the unemployment rate in Kuwait, thereby promoting the country's micro-economy.

Education

Education is largely considered a vital component of solving socio-economic problems. In line with the country's New Kuwait 2035 vision, the government has created educational reforms and incorporated them as

one of its policy pillars in its quest to become a knowledge and technological powerhouse (Alhashem and Alhouti, 2021). The increased expenditure in the educational sector seeks to expand its vocational, technical, and higher education institutions to cater to the high demands of the workforce. The country offers free public education to Kuwaiti nationals who cannot afford to take their children to private and international schools. The country has adopted an education development framework that focuses on quality curriculum, effective teaching from qualified and motivated teachers, and a quality learning environment incorporating ICT as a learning tool (AbduallahMaryam et al., 2015). Despite the effort by the government, there is a need to invest more in the sector to improve the quality of education and attract more students from foreign countries. This lead to increased revenue in the education sector.

Kuwait's educational system should also focus more on student learning and engagement. Research conducted in Kuwaiti universities revealed a change in students's mindsets, with an overwhelming majority opting to pursue entrepreneurship over employment (Sharafuddin, 2023). This enables capacity building and systemic improvement since the majority of the workforce will be skilled. By nurturing a well-educated labour force, it empowers Kuwaitis with the creative and critical thinking skills that help them solve their problems. Sharafuddin (2023) states that most businesses in Kuwait start with small and driven financial goals, as well as independence, Kuwaiti nationals will no longer be dependent on employment.

Agriculture and food security

Kuwait is one of the least agricultural countries due to a lack of arable land, water scarcity, and harsh climatic conditions. One of the primary goals of every country is to achieve high economic status. Agriculture is vital to transforming economies, along with other vital development goals such as food security and boosting nutrition. By making current technology accessible to all farmers, the extra labour force will shift from rural farms to urban manufacturing (Saboori, Alhattali, and Gibreel, 2023). Nonetheless, the government plays a great role in agricultural research and design. This is due to the difficulties private firms face in fully realising the benefits of creating such technology.

Due to the geographical and climatic implications of Kuwait, domestic food production differs greatly from global prices. The country is heavily reliant on irrigation, given the constraints of the country's dry natural environment. One way to combat this is through the efficient use of land through modern techniques such as vertical farming and hydroponics (Saboori, Alhattali, and Gibreel, 2023). These methods require considerably less land and water compared to traditional farming. The country should aim to enhance food security and promote sustainable agriculture through innovative technologies (Gelan, Hewings, and Alawadhi, 2021).

Healthcare

Healthcare reforms are also crucial in Kuwait's Vision 2035, the government's economic development plan for diversification. Kuwait's Vision 2035 is a comprehensive plan to reduce the overdependence on oil revenue and become a regional cultural and financial hub (Olver-Ellis, 2020). The Kuwait Direct Investment Promotion Authority (KDIPA) has listed the healthcare sector as one of the major areas that provide substantial investment opportunities. Kuwait's Ministry of Health currently runs the public healthcare system, one of the largest ministries in the government.

Therefore, Kuwait's government has started implementing different reforms to expand the country's healthcare system and infrastructure. The government mainly focuses on controlling chronic and lifestyle diseases that are on the rise. Some of the reforms currently implemented by Kuwait's government in the healthcare sector include expanding the healthcare infrastructure. Some of these development projects include the development of 8 new hospitals at an expected cost of USD 1 billion (Olver-Ellis, 2020). The Ministry of Public Works has also allocated an extra USD 4.2 billion to build nine more hospitals. Increased investments in such mega projects will create new employment opportunities for Kuwait nationals Kuwait is also planning to enhance medical tourism by developing world-class healthcare facilities and systems. This will also reduce the number of Kuwait nationals seeking specialized healthcare abroad hence saving the country billions of dollars.

Cultural and Creative Industries

The cultural and creative industries also provide an excellent opportunity for the Kuwaiti government to invest in and create more jobs and economic prosperity. According to the World Bank Group, creative industry contributes approximately 7% to the global GDP which is expected to grow to 10% annually (The World Bank, 2020). Cultural and creative sectors sell expressions, skills and creativity, such as the arts, media and design. Despite the limited focus on Small and Medium Enterprises (SMEs) in this sector, the Kuwaiti creative industry is still within other developed and high-income countries. Kuwait's cultural and creative sector currently has approximately 35,000 individuals, earning the country millions of Kuwait dinar in taxes such as VAT (The World Bank, 2020). This industry is one of the most significant non-oil sectors in the country, and it still offers a wide range of opportunities for expansion in future.

According to research conducted by Lattanzio Consortium, Kuwait's cultural and creative industry has exceeded the food and beverage industry by 1.5 times while it has become five times bigger than machinery manufacturing in the country (The World Bank, 2020). This research shows the available opportunities and strengths of the Kuwaiti creative industry due to the available demand and interest in the country's creative and cultural heritage. The government has a vast potential for improving the artistic and creative sector, creating more jobs and providing economic prosperity.

Infrastructure Development

One of the key objectives outlined in Kuwait's Vision 2035 is to transform the country into a cultural, business and financial hub through infrastructure development. The government intends to provide adequate infrastructure and services to satisfy the growing needs of businesses and citizens (White and Alkandari, 2019, 552). The government has a huge task to provide the technical requirements and finances to support infrastructural development in the country. The limited ability faced by governments in this situation has often affected the efficiency of the projects and delivery of services. Additionally, as the projects are becoming complex and mega, they become risky and require increased investments from the private sector.

To make the various infrastructure projects economically viable, the Kuwaiti government should focus on enhancing the bankability of the new infrastructure projects. This can be done by being rigor regarding how these projects are selected, prioritized and implemented (White and Alkandari, 2019, 552). The government also need to be thorough in derisking and procuring the projects. The Kuwaiti government has provided all the necessary designs and financial support for different ministries led by the Ministry of Public Works to begin different strategic projects. By doing this, the government will generate the needed interest from the various sectors, including the private sector and other international institutions, to finance these projects. Ultimately, this will lead to better and high-quality infrastructure, improving the economy and way of life.

III. Conclusion

Kuwait is a typical example of an oil-driven economy; therefore, it is usually underpinned by the production and export of petroleum. This has made it susceptible to oil price changes that affect its whole economy, as seen with the rise of the oil price in 2022 following the slump caused by the COVID-19 pandemic. The oil sector accounts for more than 90% of its exports. Economic diversification entails lowering its significance and reliance on the petroleum sector. It also implies reducing the direct role of the public sector and expanding private sector operations. Diversification encourages the interaction of different sectors since the output of one sector becomes the input. The country's economic policy is centered on initiatives involving different industries, such as tourism, renewable energy, and infrastructure, to address the country's economic imbalances that have resulted in an overreliance on oil. To address these disparities, the government has implemented Vision 2035 in order to diversify Kuwait's economic foundation and encourage the development of the private sector. To achieve its goal of becoming economically sustainable, Kuwait must address problems such as a lack of a skilled labour force and the technological capabilities necessary to expand its economic portfolio. By solving such challenges in line with its new diversification strategies, Kuwait is poised to become a prosperous country in the coming years, in the coming years, ensuring the country's long-term sustainability.