

Kuwait and the United Kingdom: Economic Cooperation in the Context of Globalization

It is indeed a pleasure to be here in London to address this distinguished gathering. I thank the Kuwait–British Friendship Society which organized this conference and provided me with this opportunity to meet with you and exchange views on issues of mutual interest, to improve our understanding of these issues and explore means for continuing and strengthening cooperation between Kuwait and the UK in the new millennium.

I would like to begin by pointing out that Kuwait–UK relations, which go back far into history, are special and distinguished. They have been firmly established by time and experience, and continue to thrive and flourish nowadays in a variety of ways. Important milestones in our past relations include, for example, the role of the British oil companies in developing our oil resources, the establishment of the Kuwait Investment Office (KIO) in London, the UK's assistance in the liberation of Kuwait, and the role of the Bank of England during the Iraqi occupation in support of the operations and activities of the Central Bank of Kuwait in exile.

Many other events and examples symbolize the very close ties that exist between Kuwait and the UK; the list seems inexhaustible. Nevertheless, the present era, which is characterised by a forceful drive for globalization as a mainstay of international relations, requires us to focus primarily on the present and the future in order to safeguard the achievements of the past. It is therefore essential not to ignore past relations, but rather to rely on them to cement and sustain current ties, and build upon all that in order to chart future levels of mutual cooperation with maximum benefits to both of our countries.

Carrying present relations into the new century, through expanded economic liberalization and increased globalization, burdens the leaders and decision makers in both countries with the responsibility of maintaining existing strong ties through continued cooperation by

looking beyond immediate interests and trying to identify new levels of mutual advantage which will benefit both countries. This conference is certainly one such effort.

Let me now shed some light on certain areas that can have, in the context of globalization, a potentially significant role in sustaining and improving the existing close economic and commercial relationships between Kuwait and the UK.

Merchandise trade relations still thrive nowadays, though one must admit that they are far less commensurate with what our long historical relations warrant. The UK is one of the major exporters to Kuwait, but UK exports have averaged only US\$452 million per year during the last decade, which represents a meager 6.3% on average of Kuwait's total annual imports during that period. Moreover, Kuwait's exports to the UK during the nineties amounted to around US\$236 million per year, and that is less than 3% on average of total Kuwaiti annual exports. The UK's ranking among major trade partners of Kuwait fell from the 4th position in 1991 to the 8th in 1999. In addition, the merchandise trade balance is heavily tilted in favour of the UK.

To sustain merchandise trade relations - in a world where competition on the part of producers and choice on the part of consumers determine the source and destination of trade flows - it is imperative to find ways to mitigate this imbalance through cooperation in the context of economic liberalization and looming globalization. This cooperation should search for ways to boost overall bilateral trade and to rectify the imbalance, not only in terms of volume but also with respect to varieties of composition of both imports and exports.

Cooperation should also explore more avenues for economic relations beyond traditional merchandise trade. Tourism, medical care, education, e-commerce and financial services are just a few examples. Some high profile events have recently taken place in this regard. To name just a few, in November of last year, the "Britain in Kuwait"

exhibition was held in Kuwait, where British trade missions visited Kuwait to explore business opportunities. Then in March this year, the Kuwait Chamber of Commerce and Industry hosted a “Roundtable”, where British and Kuwaiti businessmen discussed ways of promoting more business. This London conference is another such example. Certainly, these are steps in the right direction. Hence, with dialogue among businessmen, and some assistance and guidance from governments, economic cooperation between Kuwait and the UK is bound to be fruitful.

Another area where enhanced UK intervention within the globalization context may effectively sponsor economic development in Kuwait is that of technology transfer through Foreign Direct Investment (FDI). Nowadays, FDI is a main aspect of the growing integration of the world economy, and a key element of what is termed “development-based diplomacy”. Kuwait makes a very suitable recipient of FDI flows with its ongoing economic reforms to enhance the efficiency of the economy, its excellent physical infrastructure including the newly-established Free Trade Zone, and its sound banking and financial system.

During the nineties, the growing phenomenon of pervasive investment banking was noted in many countries. In Kuwait, investment companies have been growing in number and activities. Although their total assets by the end of last year were only about 25% of the total assets of local banks, they held private managed funds off-balance-sheet of more than half of the total private deposits at local banks, and double the off-balance-sheet assets of all local banks. These funds (around US\$14 billion), which are managed on behalf of their clients, consist of direct and portfolio investments, both local and external. This area of investment activities offers itself as a potential ground for developing working relations with the UK’s financial institutions. These relations could prove fruitful and long-lasting should they focus on, and link their activities to, the real sectors of the local economy.

As you may know, Kuwait is an open economy in essence, as well as in principle. However, some of its economic sectors are considered to be restricted. The oil sector is the main source of income in our economy. Since the discovery of oil, the state has been responsible for developing this economic resource. The government's dominance of the oil sector has grown over time, because the establishment of an oil industry required huge capital investments. It is now almost the only player in both upstream and downstream activities in the local oil sector. The financial sector in Kuwait had been open in the 1940's and 1950's, with the British Bank of the Middle East being the first foreign bank to establish a branch in Kuwait, in 1941. Starting from the late fifties, many national banks were established. This infant domestic national industry needed to be nurtured; therefore, restrictions were introduced. We believe that our banks are mature enough now, and justifications for these restrictions have become invalid.

In addition, due to the excessive involvement of the government in domestic economic activities over the last few decades, certain price distortions have evolved, and some structural imbalances have appeared. We realize that increasing economic efficiency through competition and foreign partnerships and joint ventures, for example, would also lead to deepening our economic relations with our trade partners. Hence, there is a need for the deregulation of these restricted sectors, and the implementation of reforms in order to enhance efficiency and eliminate existing distortions in our economy. We further realize that structural economic reforms are important, since the reduction of the government role in domestic economic activities and the opening up of these restricted economic sectors are necessary if we are to claim a place in the new century with forward-looking countries.

As you may know also, economic liberalization in Kuwait is progressing steadily. Many important achievements have already been accomplished. The government is committed to a structural economic reform program to reduce its dominance over the economy in order to

enhance the role of the private sector. There is a general consensus in Kuwait about the need for structural economic reforms. A permanent high-level committee has been established to handle policy issues and their implementation. This committee is headed by H.E. Sheikh Sabah Al-Ahmed Al-Sabah, the First Deputy Prime Minister and Minister of Foreign Affairs.

In May 2000, the National Assembly passed Law No. 20/2000, allowing foreigners to own shares in listed Kuwaiti companies; thus foreigners are now allowed to trade freely and directly in the Kuwait Stock Exchange, which has a market capitalization of around 22 billion US dollars. Moreover, the National Assembly passed the Foreign Direct Investment (FDI) Law (No. 8/2001) in April 2001, which is expected to be implemented within a few months. The program of selling government-owned shares in various local companies to the private sector is moving ahead now after a brief pause during 1999. The government resumed the program last month by offering its share holdings in MTC (Mobile Telecommunication Company) for public subscription. Total revenues generated by this program since its inception in September 1994 have exceeded US\$3 billion.

In addition, the government is currently relying more and more on the private sector in carrying out public projects. Recent examples are the Sulaibiya Wastewater Treatment Project, given to a private consortium of local and foreign companies on a Build-Operate-Transfer basis (BOT), as well as some phases of the Waterfront Development Project. Similarly, the government is currently outsourcing the production of some public goods and services to the private sector, especially in areas where the private sector can smoothly substitute the public sector in the production of these goods and services.

The privatization of national industries, utilities and corporations, such as telecommunications, sea ports, Kuwait Airways, power and water production, is currently being debated in the National Assembly. The

value of these privatization projects amounts to billions of US dollars. Many believe that such privatization requires adequate regulation in order to avoid the creation of monopolies and job losses among the national labour force. Although some might view our progress as being slow, we view it as being sure and steady.

For an active and efficient economy, it is vital to have strong and competitive financial intermediation. The operations of these financial intermediaries can facilitate the flow of funds and services among lenders and borrowers, savers and investors, and manufacturers and merchants. They can also facilitate smooth relations between local and foreign business partners. Therefore, the banking and financial sector not only facilitates and improves economic relations, but is also considered to be a lucrative venue for foreign investors who are looking for partnerships and investment opportunities. In Kuwait, this sector has come a long way during the last decade in terms of efficiency and growth. In fact, it is currently witnessing a historical golden era of unprecedented performance surpassing all previous records. The Central Bank of Kuwait (CBK) has built over the past several years a comprehensive supervisory system in order to assess the stability and soundness of the banking and financial institutions under its supervision. This system has enabled the CBK to develop an early warning system which can detect any weaknesses or potential future problems in these institutions, so that timely pre-emptive actions, if necessary, can be undertaken.

The CBK is always keen on strengthening its supervisory oversight of local banks and financial institutions in line with international standards and practices, and in accordance with the recommendations of the Basle Committee on Banking Supervision concerning core principles for effective banking supervision. Measures related to capital adequacy, credit concentrations, credit classification and provisioning, internal control guidelines, risk management systems, and liquidity requirements have already been upgraded and are constantly under review. These efforts by the CBK have contributed positively to the improved credit ratings given to Kuwaiti banks by the

international rating agencies, with the National Bank of Kuwait attaining the highest rating in the entire Middle East. For instance, the average capital adequacy ratio of Kuwaiti banks had reached 22.2% by the end of year 2000, compared with the 12% minimum required by the CBK, and the 8% recommended by the Basle Committee. The profitability of Kuwaiti banks has been on the rise during the last decade, increasing from 0.6% of total assets of local banks in 1989 to 2% in the year 2000, with total assets of local banks growing by 32.5% during that period. Net profits of all local banks (excluding the Kuwait Finance House) increased by around 24% during the year 2000, totaling around US\$752 million, against US\$610 million in 1999.

Moreover, the CBK is undertaking legislative action as part of its drive to improve the regulatory framework of the financial sector. Two draft law proposals have been submitted by the CBK to the government to be sent to the National Assembly. One of these proposals calls for additions and changes in certain articles of the CBK Law in order to allow the CBK to exchange supervisory information in appropriate circumstances with foreign supervisory authorities, license branches of foreign banks to operate in Kuwait, and assign some responsibilities to external auditors of local banks. The other proposal pertains to the regulation of banks operating according to Islamic principles and provisions.

In conclusion, one could say that although the domestic sector of the Kuwaiti economy is not very large, a foothold here could serve as a springboard to other neighboring markets in the Gulf and Central Asia. In this era of globalization and increasing liberalization, the nations of the surrounding area may be viewed as a prospective market for any potential enterprise. It is our view that sustainable trade relations need to be based on long-term commitments, rather than on short-term trade and capital movements.

There is an abundance of ideas on how to improve economic relations between Kuwait and the UK. It is the concern of the continued

dialogue, consultations, and contacts to produce a convergence of these ideas. That is how cooperation works. In a world where barriers are continually coming down, we cannot afford to miss out on any chance for cooperation. In addition, the long history of good political relations between Kuwait and the UK provides further impetus for improved economic relations between our two countries.
