

***Closing Remarks on the Seminar on Economic
Liberalisation: Efficiency, Growth and Employment in
a Kuwaiti Context***

It is an honour to have been invited to participate in this seminar, and also to have had the opportunity to listen to wide-ranging speeches delivered by such a distinguished panel of speakers. In addition, we have been able to listen to these contributions in the comfort of such a fine yacht. As you know, much of Kuwait's history has been associated with the sea through trade, pearl diving and fishing, though I suspect our Kuwaiti forbears did not experience the luxury we have enjoyed today.

It is a special pleasure to see HRH the Prince of Wales in Kuwait again. We are particularly grateful that he has been able to find time in his busy schedule to make this visit. I was especially pleased to welcome him to the Central Bank of Kuwait in 1989 on the occasion of a seminar we hosted on behalf of the British Invisible Export Council. He provided us with a very thought-provoking speech then, as he has again today.

The intervening period since His Royal Highness's last visit has not been without its challenges for any of us, but Kuwait's experience has been perhaps the most traumatic, with the impact and fallout from the brutal Iraqi invasion of August 2, 1990. I hope our guests have seen that Kuwait has completed much of its recovery. The buildings, infrastructure, etc. have virtually all been repaired or replaced. It is important that we now take the opportunity to plan for future years, and identify the direction Kuwait needs to take.

From this perspective, this seminar is taking place at a particularly appropriate time, and has been structured to highlight some of the main areas, which will influence Kuwait's economic future. It has also, if I may say so, provided a series of valuable speeches on these important subjects.

The time I have available clearly constrains how much I can cover, but I would like to give you two points of view, and then make some remarks on each of the three main areas of the seminar.

The first view is related to the fact that economic liberalisation is not a newly born phenomenon, internationally or locally. I am sure that we still remember the enlightening thoughts on economic freedom of late 18th century classical economics. British economists, specifically, taught us at that time the importance of liberalised non-governmental economic activities to achieve efficiency and what is called “optimum allocation of economic resources”.

In reality, economic liberalisation has been implemented initially, though to different degrees, in developed capitalist economies, such as that of the UK, as Mr. Ali Al-Bader has indicated. This concept has been transferred to various developing countries under different terminologies, such as market forces or mechanism, economic openness and economic freedom. Lately, however, it has become internationally common to use the terminology of privatisation in connection with economic reforms. I must commend the British Embassy in Kuwait for using the precise agreed-upon terminology of economic liberalisation as the theme of this seminar, instead of using privatisation, which could mean different things to different people.

Advocates of privatisation and economic liberalisation often refer to history to indicate that economic progress, referred to quite often, as in this seminar, such as efficiency and growth should require the adoption of capitalism and a market oriented economy. This was the case, to a great extent, in the past for the developed industrial countries, and also for the more recent case of the newly industrialized countries of East Asia.

I have the conviction that economic liberalisation and privatisation for us should be tailor-made to suit our national economy. When considering the Kuwaiti situation, I must admit that we recognised the

need for economic liberalisation and privatisation for the State of Kuwait long before the Iraqi invasion, which interrupted our achievements and aspirations.

This conviction does not underestimate our need to benefit from the experiences of other countries. Nevertheless, the lessons that are learned from other experiences need to be taken in the light of the economic direction we wish to follow in the coming years, and our ability to accurately assess our present economic situation. In this context, I appreciate the thoughtful comments of the Earl of Home on privatisation and financial deregulation, especially the way we can learn from other countries' mistakes in this regard.

The second view is that privatisation cannot, and should not, work in isolation from other policies and regulations which aim at promoting free economic performance on the part of both the producers and resource holders, including local and foreign investments.

Here, I find it necessary to reiterate what I have said on previous occasions, that economic liberalisation in the State of Kuwait should not be confined merely to privatisation programs, and that privatisation should not be limited to the narrow scope of transferring government ownership in private commercial companies to the private sector. Instead, it should involve transferring government ownership in different utilities and economic activities capable of preparing the private sector for the take-off stage of an expanded role in the national economy.

This necessarily comprehensive approach to economic liberalisation justifies our using economic planning simultaneously with a call for more economic freedom and market forces to achieve an expanded private sector economy. I see no contradiction in having both planning and economic liberalisation, since planning here in our case is not centrally-oriented planning, i.e. our economic planning can enable us to have the proper framework for expanding the role of the private sector,

and the guidelines for allowing market forces to achieve this sector's continuous self-sustaining growth and prosperity.

Now, may I turn to the closing remarks on the three main areas of the seminar, namely the implications of deregulation for the oil sector, financial aspects, and employment in a Kuwaiti context.

On the level of the oil sector, there is obviously no more important subject for Kuwait than oil. Our history as traders has taught us the value of open markets and the benefits that can be obtained from joint ventures with like-minded partners. We have some experience of this already, which has so far gone well. As you will have gathered, we are cautious by nature, and take time before we enter into new arrangements involving our most valuable resource.

The importance of the oil sector to the Kuwaiti economy can be seen through recent data covering the last four years, where the oil sector accounted for an average of 38% of overall GDP, 94% of export proceeds, and 88% of total government revenues. This dominance of the oil sector over the national economy explains the emphasis given to economic liberalisation to enhance the non-oil sectors on one side, and to privatise certain areas of the oil sector on the other.

I was pleased to see Mr. Al-Sultan stressing the importance of the government's encouragement of private sector involvement in certain well-studied activities, investments, and technical services. This extended involvement calls for greater economic liberalisation, which would also facilitate commercialization and the creation of globally competitive oil companies. Mr. Browne's contribution provided some useful ideas on the globalisation of the oil industry, and it is encouraging that he is taking such an interest in Kuwait.

Furthermore, our oil resources are a source of enormous strength with a rising level of proven reserves and relatively low production costs. However, we do need to explore ways to diversify this business, and the possible development of downstream oil-related activities is one way to

achieve this. New thinking is required on our approach to the regulation of our oil sector and the extent to which we can involve the private sector. Certainly our aim is to expand the non-government sector, so that more of our people can be involved in the country's economic growth.

Moving to financial aspects, one may say that a crucial component in the development of the private sector is an efficient and supportive banking system. One of our main priorities since the liberation of Kuwait has been to restructure and revitalise our banks to enable them to support Kuwait's economic development, and to be able to compete domestically and internationally.

We have sought to do this by bringing our banks under the same Basle rules and accounting regulations as those of the Western world. For example, our banks achieved a high average capital adequacy ratio of 28% in 1995, against the minimum standards of 8% according to the Basle Committee on Banking Supervision. We have removed the financial support that local banks received prior to the invasion and, at the same time, removed many of the local controls under which they operated. This has promoted more competition among local banks, leading to greater efficiency and higher net profits, which increased to KD 129 million in 1995, representing a rise of 35.2% over the previous year, and showing the highest profits since 1984. As banks look forward and seek to maintain their levels of profitability, we are seeing these banks increasing their emphasis on new technology and the increasing capacity it brings.

I believe that the banking sector is now well placed to support the development of the private sector economy, which now contributes about 25% of the GDP. As with many countries, in Kuwait there are often legal and political matters to be resolved before privatisation can be implemented. The same is true of deregulation.

I think what is important is that we need to convince our people of the benefits of deregulation and privatisation and obtain their support. To

do this, we will have to explain fully the implications of the policy, and ensure that the wider issues that privatisation in particular raises are appreciated and the people's fears diffused. Privatisation in other countries has not always been a total success, and we need to fully explore and learn from other experiences. One area that seems to have been less effective is the role of the regulator of a privatised monopoly public service.

The regulator's main difficulty is to achieve a balance between the two conflicting targets of profits for the producer and low costs for the consumer. Not an easy route to follow, but one that I think is crucial in gaining the confidence of both sides.

In addition to a strong banking system, a prior requisite for successful privatisation is an active and well-organised Stock Exchange. Recently, the Kuwait Stock Exchange has introduced modern technology into its operations and a structure that provides confidence for investors. Privatisation will help to further develop capital markets in Kuwait, and we have the main supports in place to achieve this. It is important that the sale of government assets to the public is taken at a pace that can be absorbed by the market.

We are not opposed to foreign investors holding a significant share of our companies, but we are taking this gradually. As you will have gathered, I am much in favour of an evolutionary approach so that we can gauge the impact of change at each stage. In this way we can educate ourselves and the investing public as to the wider implications of the change, and deal with any difficulties as they arise.

Moving to the third area of our seminar, concerning the unemployment issue and its relations with the educational and training systems, I believe that one of our main challenges for the future is the need for good education and training, and the Baroness Perry's remarks on this topic were well-timed. One of our main concerns is the number of young people who are now looking for jobs, and the larger number of those who will be seeking employment in the next five years. Recent

January 1997 data reveal that 3232 Kuwaitis are looking for jobs, representing an unemployment rate of 1.75% of total Kuwaiti manpower. Although this rate seems low by international standards, it poses one of Kuwait's bigger social challenges, especially for the next five years, during which we will need not less than 50,000 job opportunities for Kuwaitis.

We are looking forward to seeing the private sector provide some of these job opportunities, especially as wages and salaries absorb about half of the state general budget, and 92.7% of the Kuwaiti manpower are working in the government sector, while national manpower in the private sector represents 1.7% of total employment. Dr. Nasser Al-Sanie was successful in identifying clearly the implications of this unemployment problem, and the efforts exerted to resolve it.

In addition to the possible negative impact of privatisation on Kuwaitis currently employed, we are already in a cycle where technology is rapidly reducing the number of jobs available, and our ability to find satisfactory work for those leaving school and university will be continually tested. Our best defence is to ensure that our young people are properly trained and sufficiently flexible to take on many of the jobs currently performed by non-Kuwaitis. Failure to find productive employment for the next generation may well lead to the social problems we have seen in the Western world. It is a major challenge and, as with all future problems, it is crucial that we take action now to ensure that our people are educated and trained to a sufficient level to enable them to participate more effectively in the Kuwaiti economy, and use their lives productively. With an adequately trained people, it will be quite easy to expand the economy to provide a range of jobs that young Kuwaitis can fill.

Before I close, I would also like, if I may, to congratulate you, Mr. Chairman (The Rt Hon Douglas Hurd MP), for your adept handling of the proceedings. We know you have been a frequent visitor to our country, and I hope that we will continue to have the pleasure of your company in Kuwait on future occasions.

Our appreciation goes to Ambassador Boyce and his dedicated staff at the British Embassy in Kuwait for organising this valuable seminar, and allowing us to discuss some of the main areas of current and future concern. I have found the contributions of the distinguished speakers very helpful in recognising the challenges that face us, and in finding proper solutions. Confidence is growing in Kuwait, and with the positive approach that comes with that, I believe we shall be able to implement the changes that are necessary for us to cope with the next millennium.

We are honoured by having Prince Charles in our country again, as well as our distinguished guests. I hope that you all enjoy your visit and that it proves to be rewarding. The value of personal contact cannot be underestimated, and we greatly appreciate the time His Royal Highness and our other guests have given to making this seminar such a success.
