## *International Trade from a Kuwaiti and Arab Perspective* [1]

It is a great honour for me to be invited by the Guild of World Traders to give the Annual Tacitus Lecture, and I am pleased to be given this opportunity to speak to you about our views in Kuwait and the Arab World on international trade.

Obviously, I am not an expert on the technical details of world trade, but as a Kuwaiti and a central banker, the issue of trade is never far from my mind. Trade and finance are closely linked, and in our modern world they tend to determine a nation's balance of payments and, therefore, its economic fortunes.

These are momentous, crucial days for my country, and the outcome of the current efforts to enforce international legality in Kuwait will certainly have an impact on the flow of goods and services between our region and the rest of the world.

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International discussions on the world trade system have reached an important stage in recent years, as reflected in issues being raised under the umbrella of the GATT talks. There have been disagreements between the less-developed countries and the industrial countries about market accessibility. The importance of this dispute is reflected in its recurrence throughout most international and regional economic forums. In recent years, the issue of free trade, protectionism, and export subsidization have become major points of contention among the leading industrial countries. The growth of trade, current account imbalances among the major economies, and shifts in unemployment trends, have contributed to the resurrection of trade as an issue of disagreement among these economies.

National comparative advantage in the modern age goes beyond resource endowment. Technological achievements, coupled with other factors such as organization of production and labour management relations, have contributed to long-and medium-term shifts in the flow of goods and services among countries. These same factors have contributed to the polarization of trade relations between the industrial countries and the less developed countries, i.e. between North and South. This polarization has been reflected in a concentration of the economies of the South on the extraction and export of raw materials, while the North has concentrated on the export of manufactured goods, and, a disturbing sign, on the export of food to the less developed countries.

In spite of disagreements about the flow of trade, the total exports of the industrial countries have expanded rapidly during the past few years, from $1236 billion in 1985 to over $2000 billion in 1989, i.e. an increase of 61% within five years. The total imports of the industrial countries increased during the same period by 65%, from $1285 billion in 1985 to $2121 billion in 1989. Exchange rate developments and the emergence of new aggressive exporting countries in East Asia have contributed to this growth in the imports of the industrial countries. The steady expansion of the world economy during the past decade is largely responsible for this notable growth in international trade. However, large shifts occurred in the balances of trade and current accounts among the major economies, particularly the United States, Japan and Germany, i.e. the origins of the international payments imbalances have shifted from the oil exporting countries in the 1970s to shifts in the flow of manufactured goods among the industrial countries in the 1980s. As a counterpart to these trade imbalances, the international flow of funds also shifted during the past decade.

Several developing countries, mainly in Asia, have managed to depart from the trend of concentration on raw materials exports, and have become important exporters of manufactured goods. These countries tend to be ones such as South Korea and Taiwan, that have adopted a market economy and utilized their comparative advantage in organizing production and in cost competition. Such factors as exchange rate policies and import policies have also contributed to the expansion of these countries' exports.

The extended period of healthy growth in the world economy in the last decade was reflected in the expansion of the trade surplus of various groups of less developed countries, especially those in the Middle East and the Western Hemisphere. As a result, the overall trade surplus of these countries as a group increased noticeably in the second half of the 1980s, although these countries have consistently had large deficits in their balance of services with the rest of the world.

Another important shift in world trade has been in the currency composition of trade, as the US dollar has expanded its role in trade finance over the past few decades, to become the predominant currency. Of course, the use of the dollar as the unit of pricing or valuation for crude oil, and as a means of actual payment for oil transactions, has enhanced its role in trade finance.

**Trade and the Arab World**

The Arab World has depended heavily on trade throughout its history. During different periods, a combination of resource allocation and a degree of economic development have ensured an important role for external trade in the economic history of our region. Four major factors can be identified. First, our region is a bridge between three major continents, Europe, Asia, and Africa. Naturally, it has represented one of the most important trade routes in history.

Secondly, during a certain period of history, our region was the developed part of the world. Therefore, many manufactured goods of that period were exported from the Arab World to other parts of the world. Thirdly, in more recent history, the region's natural and geographic resources have played an important role in international trade. Oil, of course, is the most important natural resource of the area, while the Suez Canal is the most obvious example of the importance of the region's geography to the world economy. A fourth important factor in this regard has been a tradition of free trade and adherence to an unimpeded market economy throughout history of most Arab countries.

One unusual feature of our regional trade has been that our external commerce has been mainly with the outside world, while inter-Arab trade has represented a small share of the overall trade of the Arab countries. For example, inter-Arab exports in recent years have not exceeded 6-7% of the total exports of the Arab countries, while inter-Arab imports reach a maximum of 8.4% of total imports in 1985. Such an imbalance is mainly a result of resource allocation and product distribution in our region. Regional economic activity is concentrated on services, extraction of raw materials, and on low technology manufacturing, while demand for manufactured goods, and some food items, is met by imports from the industrial countries.

We can classify the Arab countries into four major trade groups: First, the member countries of the Gulf Cooperation Council (GCC), of which Kuwait is a member, represent the most open and trade-dependent economies in the Arab World. The characteristics of the GCC domestic markets and the pattern of resource endowment, in addition to a commitment to open markets that goes back into history, have made our region a strong adherent of the concept of free trade.

The exports of this group of countries have been very unstable over the last two decades. This instability has been due to shifts in the world demand for our predominant export, crude oil, and to changes in its price. Some members of this group, including Kuwait, have been seeking to stabilize their economies through diversification of the economic base, and through expansion into downstream oil activities in various parts of the world.

Second, the Northern Arab countries, including Syria, Lebanon, Jordan, Iraq and to some extent Egypt, are characterized by large populations and medium levels of per capita income. Some elements of central planning have tended to reduce the degree of openness of some of these economies during the past two decades. Third is the group of low-income countries of the Southern Arabian Peninsula and East Africa, which are characterized by low levels of income and, in recent years, by state control of various aspects of economic life and trade. A fourth group, consisting of the Arab countries of North Africa, has traditionally had strong trade relations with the countries of Southern Europe, and negligible commercial relations with the rest of the Arab World.

Although the small share of inter-Arab trade has much to do with resource allocation and degree of development, it is also true that there has been little serious effort to promote such trade in the past.

In the past two years, inter-Arab financial organizations, especially the Arab Monetary Fund, have worked with Arab central banks to develop an arrangement to facilitate financing of inter-Arab trade. I believe such efforts are very useful in cases where economic fundamentals tend to sustain inter-Arab trade, and where there is a need to clear up any financial impediments. However, all Arab countries are still heavily dependent on the importation of manufactured goods from the industrial countries, and they tend to finance these imports through exports of raw materials and some services.

## A Kuwaiti Perspective on Trade

Foreign trade has always been an important element in Kuwait's economic life. During the pre-oil era, Kuwait developed into a regional trade centre, based on its geographical location and its large fleet of pearl-diving and trading ships. The Second World War led to a prolonged interruption of trade, but the commencement of oil exports in 1947 fundamentally altered the structure of Kuwait's foreign trade, and indeed its whole economy. On the export side, oil has since been predominant, forming about 90% of our total exports. The oil trade also created conditions that have changed the structure of Kuwait's imports. Increased oil revenues created a boom economy, with higher consumer purchasing power, and a rush to build and adequate infrastructure for development. Therefore, demand for both consumer and capital goods has expanded rapidly.

In recent years, Kuwait's foreign trade has been concentrated in three geographic regions: Europe, Asia, and North America. Trade with the Arab world has been limited, for the reasons mentioned earlier. Total imports of goods and services had declined steadily from the early 1980s, but started to rise again after 1987, and is estimated to have reached over $23 billion during 1989, as compared with $19.8 billion in 1987.

The share of the US dollar in financing Kuwait's imports roughly reflects its share in world trade, as has accounted for around 60% of Kuwait's total trade. The US dollar is also the overwhelmingly predominant currency of our exports.

To sum up here, foreign trade has been Kuwait's lifeline. In 1989, the ratio of our exports to GNP was 36%, while the ratio of our imports to GNP was 20%. Kuwait's per capita imports of goods and services, at over $12,100 during 1989, closely reflects the population's purchasing power, as reflected by per capita GNP of $14,800 in the same year. Our per capita imports can be put in better perspective if compared with the figures for other countries, for example,

$4,987 for the United Kingdom and $1,534 for South Korea, for 1989.

Before the Iraqi invasion, Kuwait had started taking steps to revitalize its role as a regional trade and financial centre. In terms of the trade sector, measures were introduced early in 1990 to facilitate the imports and re-exports of Kuwait. Studies on restructuring and reforming the financial sector of Kuwait were well under way by last summer (1990).

The Iraqi invasion and subsequent occupation led to the immediate cessation of Kuwait's external trade. There has been serious damage to the ports and storage infrastructure, although its exact extent is not known. This may lead to the creation of some bottle-necks in the early period after the restoration of Kuwait. However, given the needs of reconstruction, and the immediate resupply needs of the population, we expect the port and storage facilities to receive priority treatment for rebuilding.

I believe that the severe damage to our infrastructure will lead to a shift in our import pattern in the coming period. There will be more concentration on capital goods, spare parts and machinery. Increases in imports of consumer goods will take a more gradual path, as the population starts to re-enter the country and as its purchasing power grows with the expansion of activities.

However, there are certain given fixed factors that ensure that Kuwait will quickly resume its traditional role as a regional financial and trade centre, in spite of the present interruption of external trade. These factors can be summarized as:

First, Kuwait has been, and will become again, a surplus economy. Although our trade surplus declined in the middle 1980s to $1.98 billion in 1986, our estimates indicate that it grew to about $ 4.9 billion in 1989.

Second, Kuwait has had a long and consistent tradition of economic freedom with minimal restrictions on external trade. This tradition will certainly continue, and the usual openness and the competitiveness of our economy will enhance trade in the near future.

Third, the Kuwaiti private sector had accumulated decades of experience in trade and finance even before the oil period. Our imports not only met domestic demand, but we were also actively re-exporting to neighbouring countries. This experience will be very helpful in the post-reconstruction period.

We are confident that our commitment to free international trade will continue into the future. Our strong commercial and financial relations with the rest of the world will resume, for the mutual benefit of all parties. However, the events of the past few months have severely undermined the stability of our region as a whole. We all know that stability is of the utmost importance in creating the proper environment for the growth of trade and finance, which are closely interlinked. It is therefore of paramount importance to ensure that stability prevails in the future in the Gulf and the Arab World. Such stability will depend on the close cooperation of all countries in the region and the support of the international community.