

# Strategic issues facing Kuwait

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**A**s we enter a new year and with a new parliamentary election this December, Kuwait faces important and exciting strategic issues and choices. While its role on the international and regional scene may be more familiar to outsiders, Kuwait is also getting ready to address some momentous internal decisions that will set the stage for its economy for the years to come.

Today, along with its fellow GCC members, Kuwait stands relatively insulated from the financial travails of the rest of the world. The region should continue to outperform the rest of the world. The region is expected to grow 5 per cent or better in real non-oil GDP terms for the coming years. We anticipate real steady oil prices, near or above US\$100, and a very strong fiscal position that will allow Kuwait options and flexibility that can only be envied by the large debt and deficit ridden countries. And Kuwait will need this flexibility to address its strategic issues, especially in today's fast-changing environment.

## International role

Of course Kuwait is well known as a major oil producer, sitting on the 6th largest reserves in the world with an estimated 102 billion barrels of oil. As the 9th largest world producer, it produces 3 per cent of world production or near 3mbpd. Its internal stability and steady oil production, especially following its liberation from the Iraqi invasion of 1991, has allowed it to flourish; guaranteeing its population one of the highest per capita incomes in the world (US\$47,000). At the same time, large regular oil revenues have helped it build one of the largest sovereign wealth funds in the world, estimated at well over US\$300 billion, nearly twice its current GDP.

Kuwait's large financial resources enable its sovereign wealth fund to be a major, albeit discreet, player in international financial markets. The fund saw an opportunity in helping rescue some major troubled banks in the aftermath of the 2008 financial crisis. It has currently secured permission from the Chinese authorities to invest in the newly opening Chinese money market. Kuwait's international oil investment agency is planning or already building oil refineries in China and Vietnam.

## Regional role

Those financial resources also enable Kuwait, directly or via institutions like the Kuwait Fund for Arab

Economic Development, to assist fellow neighbours in the MENA region. For example, it provides aid to poorer MENA countries like Jordan and Lebanon, and recently pledged participation in a GCC effort to assist the economies of Oman and Bahrain. Kuwait has historically been a major aid donor. Kuwait will likely rise further to the occasion should a more concerted and larger effort see the light. This could be a regional or international 'Marshall Plan' that we think may well be needed, in the medium term, for the MENA region or some of the countries currently going through political and economic transitions.

## Kuwait planning big changes

Its resources notwithstanding, Kuwait is still heavily dependent on oil production and related products, as these make up more than half of its GDP. It also has a somewhat bloated public administration that is today the major employer of the Kuwaiti labour force. For those reasons, it was not surprising that Kuwait would make the strategic choice to diversify its economy away from oil and from a large public sector.

The ambitious 30-year initiative, known as the Amiri vision, is to turn Kuwait into a trade and finance hub, without however neglecting the oil sector. That is the big strategic challenge facing the country and it includes: upgrading the whole infrastructure (oil and non-oil), expanding the private sector via reforms, privatisation, and a slew of public-private partnerships. There will also be a major effort to improve housing, education, and health services. As one can easily see, this very tall order should provide opportunities for virtually every line of business. In anticipation, local companies have or are in the process of teaming up with foreign ones, especially when it comes to areas where local expertise is wanting (e.g. metro, railway, environmental).

## New life for the plan

This long term effort, which was started by legislation passed in 2009, had until recently met with delays which slowed its implementation. These delays and obstacles (political, bureaucratic, lengthy feasibility studies etc) appear on the wane. Time was needed to set up needed new institutions such as the Capital Markets Authority (CMA) and the Partnership Technical Bureau (PTB); these are now in place. More importantly, a reinvigorated governmental will

has emerged in the past few months. And it was very encouraging for banks and the rest the investment and business community to see those accelerated steps, as they are crucial to finally setting Kuwait on its path to implementation and execution of its long-term plans.

The first 4 years of the plan, 2010-2014, initially called for spending US\$110 billion. So far, because of the aforementioned delays, it appears that less than one third of that amount has been spent. There is therefore a lot of catching up to be done. Certainly, some of that unrealised spending will have to spillover into the subsequent 5-year plan and add to that spending.

While some questions have been raised about financing, from our perspective, there is no financing issue. About 50 per cent of these monies will be financed by the government, which has more than enough revenue and resources, and is about to post its 14th consecutive budget surplus this year. The remaining 50 per cent should be readily financed locally, regionally and internationally in a world flush with liquidity and desperate for investment opportunities and attractive yields, let alone investments with of solid government backing. In particular, Kuwait banks, which are very well capitalised (capital adequacy ratio of 18.4 per cent in 2011) and who benefit from very ample liquidity, are eager to be part of this national effort and to deploy their local market expertise.

#### What are some of these projects?

Of the US\$110 billion dollar projects, some will be undertaken and operated by joint public-private partnership companies. The so-called PPPs are a way

of inviting private sector ownership and expertise. The accompanying table shows some of the largest projects on tap. Two of those are scheduled to start execution by early next year, the Subiya Causeway and the Al-Zour North IWPP (Independent Water and Power Plant) which will have private and public ownership as a PPP. Kuwait University is already under construction while other projects (railway and oil refineries) are in the early study/consulting stages.

#### Beyond business and borders

However one should not look at these ventures in purely dollar and dinar terms. As was mentioned earlier, Kuwait has embarked on a journey not just to build roads and plants but also to build a new economy that will improve the quality of life of its citizens and provide much needed private sector jobs. Kuwait is also working more closely with its GCC partners in order to integrate their economies. Kuwait and its GCC partners, with their very strong balance sheets and their ambitious plans, will continue to help create business and jobs for themselves but also for the rest of the MENA region, for the oil importing countries. Looking further ahead, and depending on regional developments, the time may come for Kuwait and the other GCC countries to widen their current regional support and aid if the conditions are right. There may then be further investment opportunities for resource-rich countries, as well a chance shore up the weaker or less developed economies of the region. Such coordination and cross-investments would also boost synergies in the region, further enhancing the growth prospects of Kuwait and the region at large. ■

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Major planned infrastructure projects

Project	Sector	Cost (US\$ billion)
<b>PPP</b>		
Khairan City	Housing	14.0
Al-Zour North IWPP	Power and water	8.4
Kuwait Railroad	Transport and communications	7.0
Kuwait Metro	Transport and communications	7.0
Failaka Island	Tourism	5.0
<b>Non-PPP</b>		
Clean Fuels Project	Oil and gas	18.5
Al-Zour new refinery	Oil and gas	15.0
Kuwait University City	Education	6.3
Subiya Causeway	Transport and communications	3.7
Boubyan Port	Transport and communications	2.1

Source: Meed Projects/NBK estimates