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K.E.S.

November 2018

KUWAIT AND CHINA

AREAS OF PARTNERSHIP FOR FACILITATING SUSTAINABLE ECONOMIC DEVELOPMENT

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About KES

The Kuwait Economic Society (KES) was founded in 1970 in Kuwait as a civil society organization. KES aims to be an active and influential partner in the economic development process by supporting the reformist policies of the state, enhancing the competitiveness and transparency of the Kuwaiti economy, and providing economic and financial consultations and studies for the public and private sectors. KES strives to empower professionals and businesspeople to build a knowledge-based society with the focus on the role of the human element while acting as a facilitator to ease communication with international economic institutions.

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Table of Contents

Executive Summary 05

Chapter 1
Kuwait-China Relationship: The Background 06

Chapter 2
Kuwait-China Strategic Agreements of July 2018 09

Chapter 3
Framework of Kuwait's Economic Diversification Goals 10

Chapter 4
Need of Foreign Investments for Diversification 15

Chapter 5
Benefits Kuwait can Draw from the Strategic Trade Concepts like the Belt and Road Initiative (BRI) 21

Chapter 6
Technology Transfers and Skill Development Potential 24

Chapter 7
Positioning Kuwait's SMEs to Derive Advantages from the Agreement 28

Chapter 8
Conclusion 31

Appendix 32

Executive Summary

There is a growing realization among governments of the GCC countries that dependence on the West and hydrocarbons as the source of revenue may not prove reliable in the long run. This has led to these countries adopting the Look East Policy, through which they aim to diversify their economic links and leverage the benefit of cooperation with Asia's rapidly growing economies, especially China. One of the primary reasons for this phenomenon is the growing strength of the Chinese economy. Since 1980, the Chinese economy averaged a growth of around 10% per year. Chinese influence on world economy has steadily increased in the past two decades. The country now accounts for almost 15% of global economic growth, and is perceived as an important global growth driver. The country's massive industrialization process has increased its energy requirements and hence its dependence on the Gulf countries.

Civil trade between China and Kuwait began as early as 1955, and investments and trade between Kuwait and China have grown over the years. Dignitaries from Kuwait have visited China to reinforce the bilateral ties, and have entered into several agreements on economic and technical co-operation, oil and natural gas and environmental protection to mutually support and benefit. Since then the total trade between the countries has increased from USD 1.6bn in 2006 to USD 12.04bn in 2017.Further the sovereign wealth funds of GCC have made significant investments in China. China's "Go Outward" policy complements Kuwait's current requirements of diversification. Kuwait's oil wealth and China's thirst for oil coupled with the prospects of high returns on investments in China lay strong foundation for the bilateral relationship of the two countries. In the light of the series of strategic agreements signed between the two countries in July 2018, this paper evaluates the areas of partnership between Kuwait and China and prospects of sustainable economic development.

Chapter 1

Kuwait - China Relationship: The Background

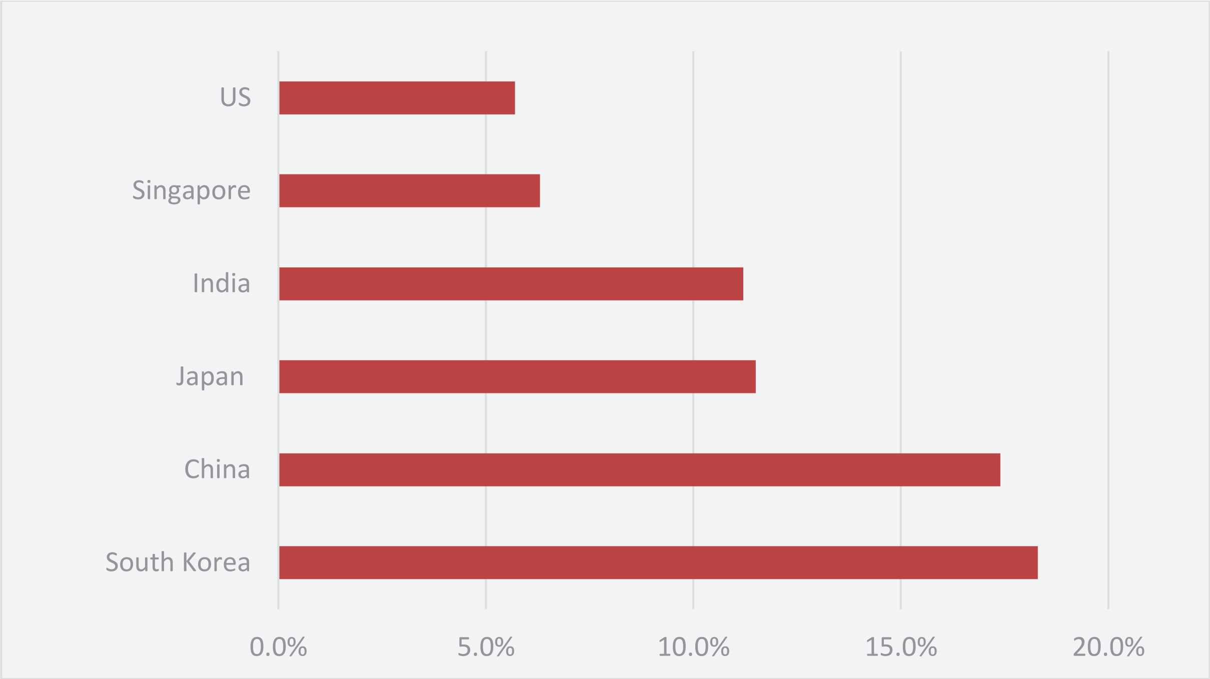
The Look East Policy and the need for economic diversification gained momentum within the GCC Countries post the global financial crisis and the oil price shock of 2014. In this regard, the prospects of economic ties between Kuwait and China, that would lead to a mutually beneficial cooperation between the two countries is a widely discussed topic.

Exhibit 1.1: Key Trade Parameters (2017)

	China	Kuwait
Exports	US$ 2.26 trillion	US$ 54.09 billion
Imports	US$ 1.84 trillion	US$ 29.36 billion
Trade Balance	US$ 8.7 billion	US$ 24 billion

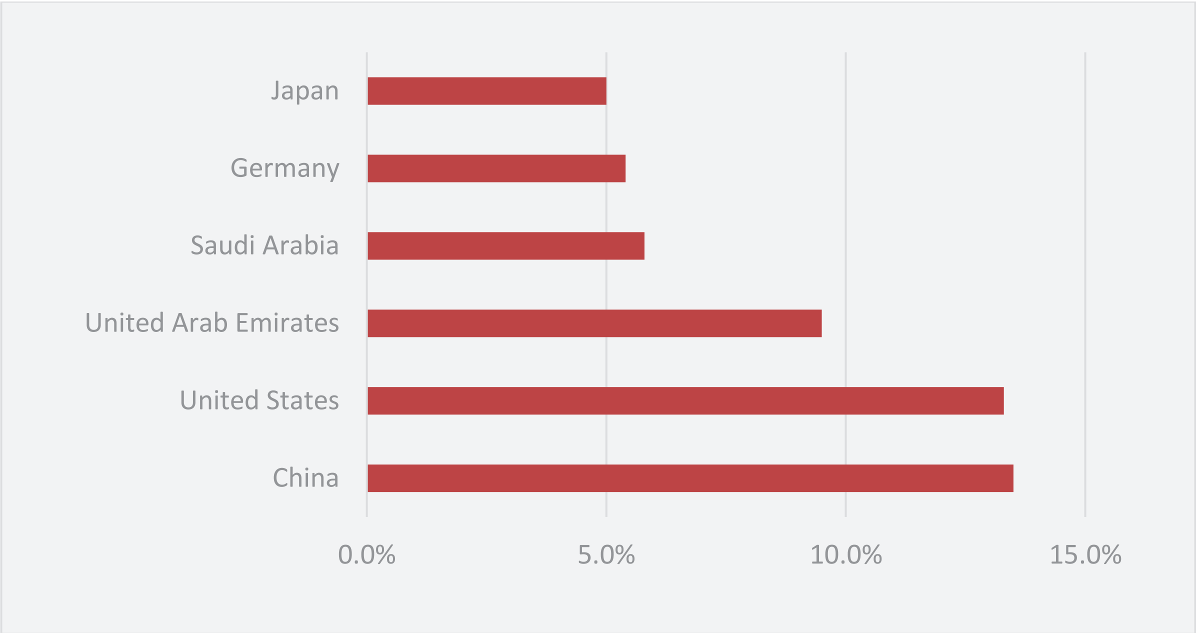
With exports valuing at US$ 8.7 billion, China is Kuwait's second biggest export partner after South Korea. Kuwait majorly imports automobiles (cars & trucks), machinery, electrical equipment and electronics, base metals, chemicals and related products and vegetables. China is the largest import partner for Kuwait, accounting for almost 16% of imports. Other key import partners include U.S, Japan, South Korea and Germany. Kuwait recorded its highest imports worth US$ 5.5 billion from China.

Exhibit 1.2: Kuwait's Top Export Partners, 2017



Source: UNCTAD

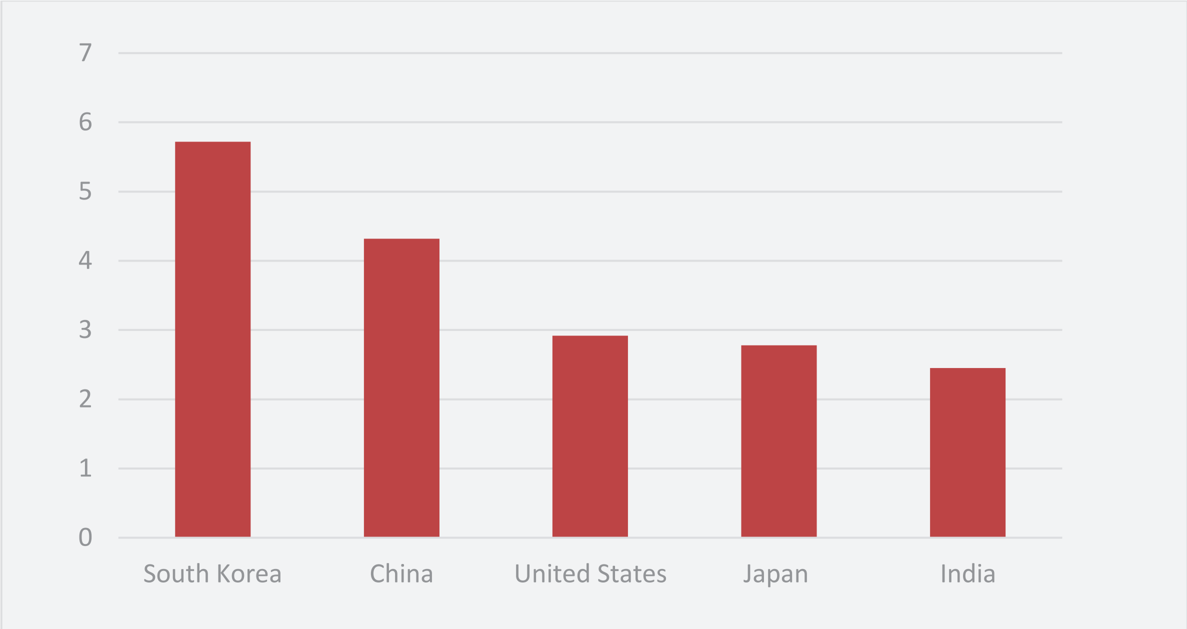
Exhibit 1.3: Kuwait's Top Import Partners, 2017



Source: UNCTAD

Kuwait's exports are led by Crude Petroleum which represents 63% of the total exports of Kuwait followed by Refined Petroleum which account for 17.7%. Accounting for 17% of the exports, China is the second biggest buyer of Kuwait's crude petroleum.

Exhibit 1.4: Top Buyers of Kuwait's Crude Petroleum, 2016 (USD Billion)



Source: Marmore Research

Opportunities in the Kuwait infrastructure sector, has led Chinese companies, in collaboration with domestic firms, bid and execute major construction work. Recently, China's largest bank, ICBC inaugurated its branch in Kuwait. China's Sinopec signed a USD 9bn oil refining and petrochemical joint venture with Kuwait Petroleum Corporation (KPC), and that remains the landmark deal between the two countries. Kuwait Investment Authority (KIA) leads Kuwait investments in China, and to capitalize on the opportunities offered by China, it has opened a representative office in Beijing. Further, Kuwait is the biggest foreign investor in China's renminbi market, with a total of USD 2.5bn investment quota. Kuwait's oil wealth and China's thirst for oil, as well as the prospects of higher returns on investments in China underline the key to the rapidly growing economic relationship between the two countries. Kuwait could benefit from the lessons of China's growth on the foundations of investments in education, and research and development. Automation in manufacturing, development of service sector, improvements in healthcare are other areas where Kuwait could learn from its Asian trade partner.

Kuwait has had a healthy relationship with the Chinese government as witnessed in the number of high-level state visits over the years. Over the years, Kuwait has awarded a handful of infrastructure projects to Chinese conglomerates operating in the region. One among the high profile projects awarded to Chinese companies includes the new refinery project at Al-Zour. In 2015, a consortium formed by Sinopec Engineering Group ("SEG"), Spanish Técnicas Reunidas, S.A. and Korean Hanwha Engineering &Construction (the "Consortium") were awarded an Engineering, Procurement, Construction and Consulting (EPCC) - Turn Key Contract for a new refinery project in Al-Zour. The estimated contract value is USD 4.24Bn. SEG owns 40% in the Consortium. Previously Kuwait and China had signed 10 co-operation accords which included an agreement to co-operate with China on the "One Belt One Road" initiative.

Kuwait - China Strategic Agreements of July 2018

In July 2018, Kuwait and China signed several agreements and Memorandums of Understanding (MoUs) with the aim of boosting economic and trade relations between the two countries. The signing of series of agreements between the two countries is regarded to have extreme strategic value that will lay the course of bilateral relations. The available details of the agreements are given below:

Exhibit 2.1: Details of Kuwait- China Strategic Agreements, July 2018

Nature of Agreement	Purpose	Kuwaiti Personnel/ Authority	Chinese Personnel/Authority
Co-operation Protocol	To boost defense industry	Foreign Minister Sheikh Shabah Al-Khaled	Executive at the Chinese State Administration of Science, Technology and Industry for National Defense Zhang Youxia
Bilateral cooperation agreement	-	Minister of Social Affairs and Labor and Minister of State of Economic Affairs Hind Al-Sabeeh	Vice Chairman of the Chinese National Development and Reform Commission (NDRC) Zhang Yong
Memorandum of Understand-ing	E-commerce cooperation	Minister of Commerce and Industry Khaled Al-Roudhan	International Trade Representative and Deputy Minister of Commerce Fu Ziying
Memorandum of Understand-ing	To encourage investment	Director General of Kuwait Direct Investment Promotion Authority (KDIPA) Sheikh Mishal Al-Jaber Al- Ahmad Al-Sabah	Chairman of the China Council for Promotion of International Trade (CCPIT) Jiang Zengwei
Cooperation agreement	-	Kuwait Petroleum Corpora-tion(KPC) CEO Nizar Al-Adsani	China Export and Credit Insurance Corporation (Sinosure)'s Wang Yi
Memo	To develop smart applications for Kuwait's Al- Harir City	Chairman of the Board and CEO of Kuwait's Communi-cation and Information Tech-nology Regulatory Authority (CITRA) Salem AL- Othainah	Chairman of Huawei Technology Liang Hua

Source: Kuwait Times

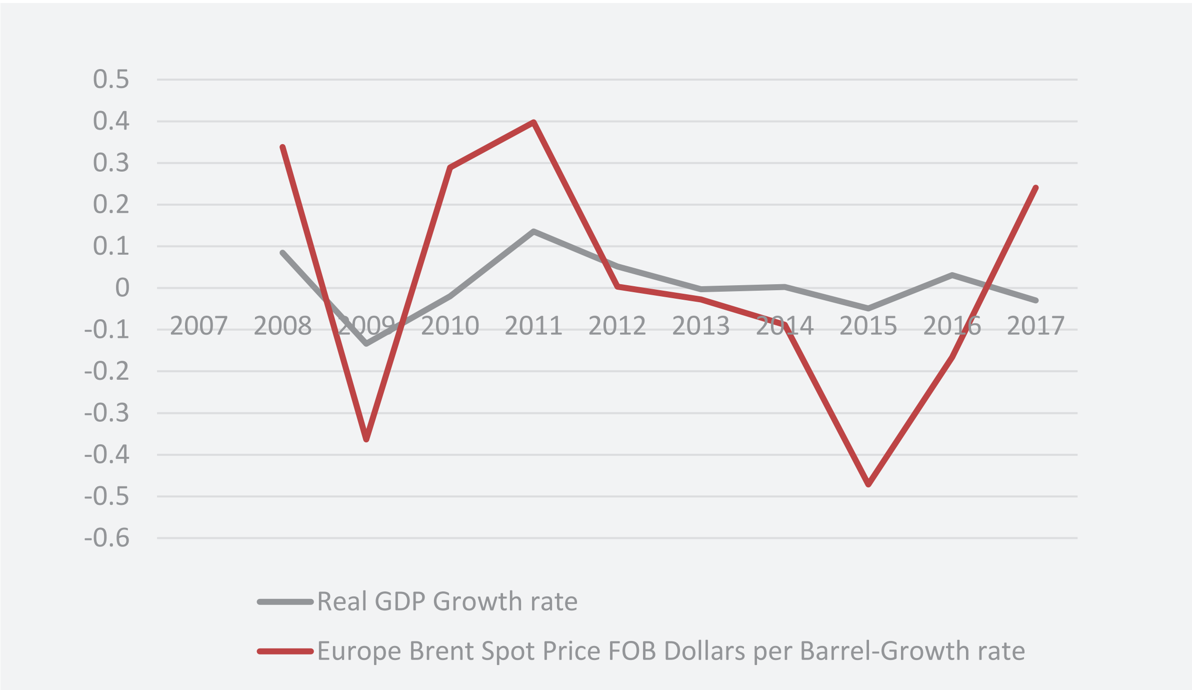
Chapter 3

Framework of Kuwait's Economic Diversification Goals

Kuwait's economy, like its neighbors is heavily dependent on oil. With reserves amounting to approximately 104bn barrels, accounting for 60% of GDP and 92% of export, the oil revenues have led to the development of strong public finances, consecutive budget surpluses and a comprehensive welfare system. However, the price shock of 2014 served as a harsh reminder of the fact that crude oil is a finite resource. After registering strong surpluses for 16 consecutive years, Kuwait experienced a budget deficit in 2015/16.

The graph below shows that Kuwait's GDP is strongly interlinked with the oil revenues, thus indicating that extent of economic diversification is still limited.

Exhibit 3.1: Kuwait remains oil-dependent despite diversification efforts



Source: Marmore Research

Framework of Kuwait's Economic Diversification Goals

To tackle oil price volatility uncertainties, GCC countries have been increasingly diversifying into sectors like infrastructure, tourism, and finance to reduce their dependence on hydrocarbons. Kuwait Vision 2035 outlines the country's economic development plan focusing on long-term sustainability. The New Kuwait 2035 program launched in 2017 aims to increase the state revenue from a forecasted US$43.63 billion (2018) to US$ 163.96 billion by 2035, reducing expatriate population to 60% of the population, developing country's tourism sector, showcasing the country as an international destination for petrochemical manufacturing, improving prime utility, renewable and transport infrastructure and boosting foreign investment by 30%.

The major challenges that Kuwait face in terms of diversification are competition from its neighbors in the GCC, challenging labor market dynamics, and a weak business environment. Presently, Kuwait ranks 96 out of 190 countries in the World Bank's Ease of Doing Business. Its ranking fell further to 149 in terms of starting a business, indicating that there are bureaucratic hurdles for entrepreneurs and new ventures. The Kuwaiti regulations demand a large capital requirement from aspiring entrepreneurs which often hinders the process of soft setting up the new business. The Heritage Foundation, a Washington think tank gives Kuwait an Economic Freedom score of 62.2, making it the fourth freest in the region. The scores of other GCC countries are below:

Exhibit 3.2: Economic Freedom Scores of GCC Countries

Countries	Score
United Arab Emirates	77.6
Qatar	72.6
Bahrain	67.7
Kuwait	62.2
Oman	61
Saudi Arabia	59.6

Source: www.heritage.org

Kuwait's overall score is above the world average, which is a starting point for the nation that has given utmost importance to diversification.

The steps towards diversifying revenue sources have taken various forms. IMF reports that the country's non-oil economy recorded a growth of 2.5 % in 2017, compared to 2.0% in 2016. The key non-oil sectors that Kuwait targets as part of its economic diversification are as follows:

- ## Financial Institutions

Kuwait's financial institutions are propelling the growth in an economy committed to diversification. The banking sector is set to transform into a more modernized and user friendly one with the adoption of mobile banking and contactless payments. It is becoming more technology-intensive with the Kuwaiti youngsters demanding digital banking services and on-demand assistance.

- ## Human Resource

The Kuwaiti Government plans to leverage its young population to drive the diversification goals. Demographically, 50 percent of Kuwaiti citizens are below the age of 25. However, with its current workforce dynamics of more than 85% of Kuwaitis employed in the government sector, this is unsustainable in the long run. As more and more Kuwaiti youth begin to join the labor force, the positions in the public sector are rapidly filling up, thus increasing unemployment. Government spending on public sector accounts for more than 50 percent of Kuwait's annual budget. Expenditure on wages and salaries amount to 19 percent of the country's GDP. Further, the young population gives Kuwait the advantage of a huge consumer base. There arises a pressing need to move from the consumption culture to a production culture. Development of a thriving private sector capable of absorbing the growing Kuwaiti youth population is a major focus.

- ## Project Opportunities

Kuwait also offers enormous project opportunities. Some examples are given below:

» Infrastructure

Kuwait government has pledged US$100 billion for infrastructure investment. The Northern Gulf gateway mega-city plan is estimated to add US$220 billion to the country's GDP and aims to attract $200 billion in foreign direct investment from American, European, and Chinese investors. The project aims at creating 400,000 jobs as well as attract between there and five million visitors annually by opening up new investment opportunities in tourism, hospitality and leisure sectors.

» Tourism

The Silk City (Madinat Al Hareer) project is a multi-phased development project at the core of the Vision 2035. It is considered the largest marine front project that will accentuate Kuwait's tourism prospects. The Silk City spans over a total area of 250 square kilometers in Sufiyan and is estimated to be completed within 25 years at the cost of US$86 billion. The major attraction is Mubarak Al-Jabir tower at a height of 1001 meters with the capacity to house 7000 people. The Jaber Bridge is a significant aspect in establishing and developing the free economic zone in Northern Kuwait where five islands would be developed. Silk City will comprise an Olympic stadium, natural reservation area of two square kilometers, and a new airport. It will be segmented as a financial village, leisure village, cultural village and ecological village.

How does China fit into the picture?

Kuwait was one of the first countries within the GCC to have diplomatic relations with China. China, being one of Kuwait's most important trading partners with the bilateral trade value at US$ 12 billion in 2017, the strategic partnership lays foundations for promoting mutually beneficial growth. Further, Chinese companies can support in capacity enhancements in various sectors including manufacturing and infrastructure development that will help diversify Kuwait's economy. At the recent bilateral conference, the leaders of the two nations highlighted the fact that the Belt and Road initiative complements Kuwait's 2035 in fostering development in several core sectors. Kuwait's Silk City and the five- islands development is one of the key projects in the Belt and Road initiative that will strengthen Kuwait-China relations.

China is pursuing an open strategy that will be mutually beneficial to the two countries and win-win result to promote the construction of the Belt and Road initiative. Jiang Zengwei, chairman of China for the Promotion of International Trade (CCPIT) claims that China is expected to import US$24 trillion of goods, absorb $2 trillion of foreign direct investment and make overseas investment worth of US$2 trillion in the next 15 years.

Within the framework of the Belt and Road Initiative and the Five Islands Development Project (Boubyan, Warbah, Failaka, Maskan and Aouha), the Sino-Kuwait relationship will be elevated while deepening the bilateral energy cooperation. CCPIT, China's largest trade and investment promotion agency will coordinate exchanges with relevant Kuwaiti agencies with the objective of building a platform for companies from both the countries and enhance their cooperation.

The agreements signed with Huawei directly target the implementation of the smart cities strategy in the country. It is composed of four sections connected with the development of intelligent infrastructure networks, security, virtual systems and the digital transformation of various industries and central managements in Kuwait. The memorandum discusses the development of Mubarak seaport, proposed to be built in Boubyan Island, northeast of Kuwait as an initial starting point for the smart cities project. It also covers aspects such as exchange of expertise, technological innovation, general design and advisory to transform Mubarak seaport into a multifaceted facility. Huawei will bear the cost of consultation and design.

Banking, tutoring and healthcare are the industries that have received enhanced attention of China's policymakers and its international investors. Over the last two years, the Chinese bureaucrats have looked to services to counteract the slowdown in manufacturing sector. This approach seems to have paid off – China's services, boosted by consumption, accounts for 51% of the GDP (2015) as against 44% in 2011. Kuwait could benefit from the experience of its Asian partner, in developing its own service industry, and making the transition to a service-oriented economic model.

Among the financial services in China, Fintech (financial technologies) has gathered rapid traction among younger and older Chinese citizens. The rise of Chinese Fintech has been largely underpinned by the country's e-commerce sector. By 2017, data from Tech in Asia suggest China's shoppers will be spending more than USD 1.2Tn online (up from USD 670Bn in 2016). Because of this, coupled with China's widespread smartphone and internet usage, consumer-unfriendly banking system and an accommodating regulatory environment, a number of leading Chinese players have taken the lead in global Fintech innovation. Conventional banks are also rising to the Fintech challenge by collaborating with start-ups, creating their own Fintech subsidiaries and improving their retail banking and small-business-focused offerings. When it comes to assessing Fintech disruption, these are increasingly pertinent factors.

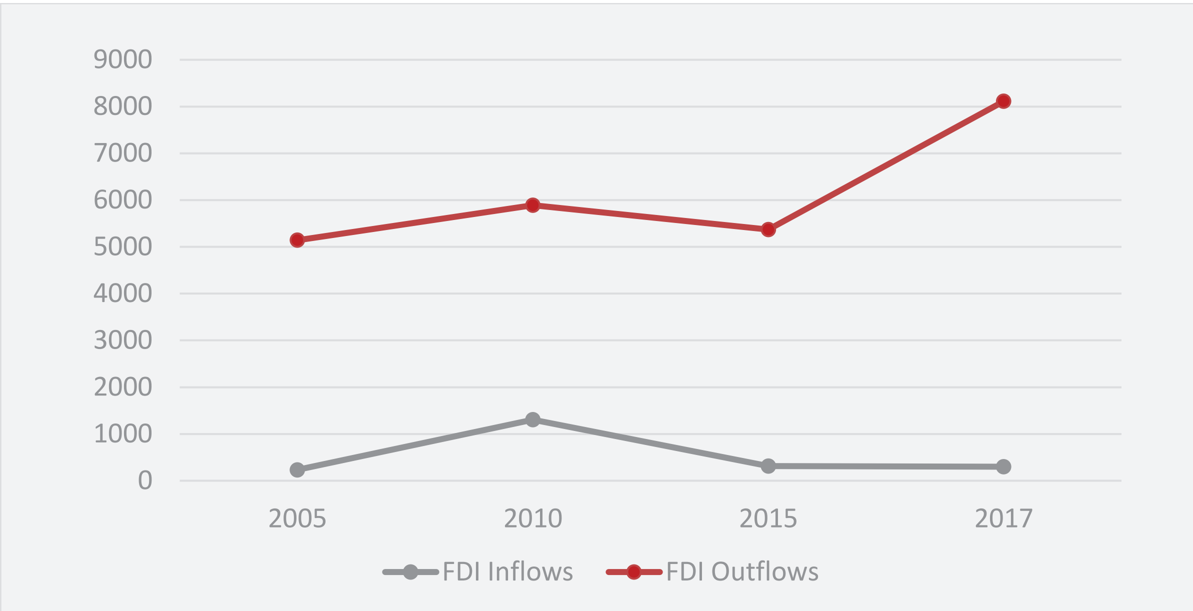
Kuwait offers an environment that is well-suited for development of Fintech start-ups; higher than average per capita income, widespread mobile usage, connectivity and the tendency to spend on high value goods. Adoption of Fintech would give a big boost to e-commerce in the region. Moreover, China, while looking for self-sufficiency in petrochemical production is also open to the prospect of getting access to specialist feedstocks or to proprietary technology. Kuwait could look for cooperation in developing customized feedstocks and products. Customized polymers are expected to have great demand in the future driven by the development of composite materials. Collaborating with China would also help Kuwait to gain unique insights into newer feedstock methods used by China. China's petrochemical industry is gradually migrating from naphtha (predominant in the Kuwait and MENA region) as the core feedstock, towards coal, which it has in abundance.

Need of Foreign Investment for Diversification

Foreign Direct Investment (FDI) is a key source of non-oil revenues. The Kuwait Direct Investment Promotion Authority (KDIPA) was set up in 2013 to enhance the FDI environment in the country. Legislative moves such as 100 percent foreign ownership and incentives such as tax holidays of up to 10 years and customs exemptions aim at bringing in investments. Investors are encouraged in sectors such as information and communications technology, renewable energy, urban development sector, housing, healthcare, education, transport and tourism.

Kuwait has a high capital reserve. Therefore, its emphasis is on high quality direct investments that would enable attracting new technologies and innovations that add value to the economy and assist in the transition to a knowledge economy. KDIPA reports that it has attracted investments worth more than US$2bn since 2013. The graph below shows the foreign investment trend in Kuwait since 2005.

Exhibit 4.1: Kuwait's Foreign Investment Trend (USD million)



Source: UNCTAD

The top sectors for Greenfield investment in Kuwait over the past five years are business services, real estate and financial services. To contribute to the value addition in the economy, more investment is needed in the fields of research and development and technology. Reports indicate that the Greenfield investment projects in Kuwait are dominated by service activities since 2013. Four high-end design, development and testing projects have been recorded in this time, most related to the energy and power sector[1].

In September 2017, the FTSE upgraded the Kuwait Stock Market to 'emerging market' category. It is estimated that this new status can attract an increased number of foreign investors and boost the inflows into its equity market by up to $822 million.

After contracting -2.9% in 2017, Kuwait's GDP growth accelerated 1.6% YOY in Q1 of 2018. Foreseeing a future of low oil prices, the Kuwait government has conceptualized the 'New Kuwait' as its vision to develop the tourism, transportation and power sectors. It is forecasted that spending will reach US$71 billion, up 8.5% from 2017. This is expected to be utilized in massive infrastructure development including the Silk City and investment incentives. Policy makers are keen on introducing new foreign investment rules that can ease the process for investors and generate a higher capital influx. A huge share of resources are allocated to industrial development and investment, especially in the high-potential chemicals and plastics segments.

Investment Engagements between Kuwait and China

Kuwait was the first Arab country to invest directly in China. Investments have been made in sectors such as oil & gas, banking and industrials. Industrial and Commercial Bank of China (ICBC), biggest bank in China opened a new branch in Kuwait in 2014 to act as a liaison for Chinese companies operating in Kuwait. KIA has increased its investments in China in a bid to diversify its portfolio as it gradually shifts from West to East.

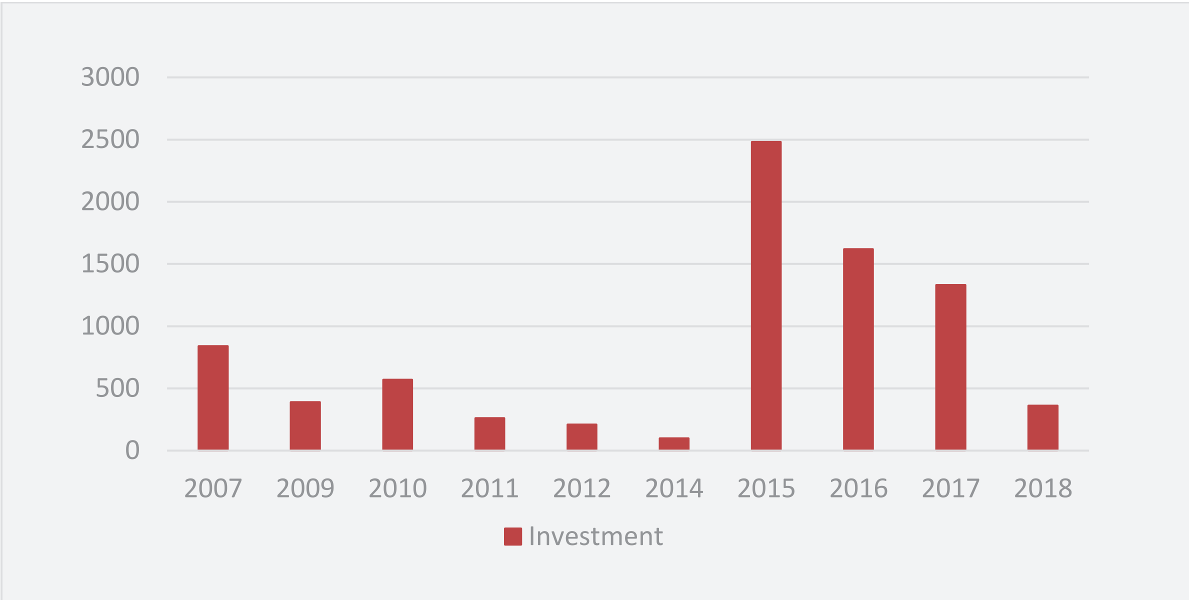
Kuwait has streamlined licensing procedures and modified foreign investment and Public Private Partnership (PPP) laws to boost investments in the country. Buoyed by the vast opportunities available in the Kuwait infrastructure sector as evidenced by the number of project and contracts awarded, a number of Chinese construction firms including, China State Construction Engineering Corporation have entered the market. In January 2016, Kuwait University awarded the USD 580mn contract for construction of administration facilities building to China State Construction International Holdings, which had bid along with Combined Group Contracting Company.

[1] *https://www.ft.com/content/960fc4c8-67fd-11e8-aee1-39f3459514fd*

Need of Foreign Investment for Diversification

The graph below shows the Chinese investment and construction contracts in Kuwait during the period between 2007 and 2018[2].

Exhibit 4.2: Chinese Investment in Kuwait, 2007-2018 (USD Million)



Source: aei.org, Marmore Research
Note: The value for the years 2008 and 2013 are negligible

Placing China's Investments in the Global Framework

China sees its overseas investment opportunity as a means to not only bolster its own economy, but also to utilize its economic strength to increase its influence at a global level. Records of American Enterprise Institute and the Heritage Foundation's China Global Investment Tracker (CGIT) categorize China's investment into Foreign Direct Investment (FDI) and construction contracts based on the receiving geographies. Investments go to the developed economies whereas construction contracts are concentrated in developing countries. From 2005 to 2017, low and middle-income economies received 83.9 percent of the US$734 billion spent by China on construction projects whereas high-income countries attracted 65.6 percent of Chinese FDI outflows. It may be noted that in the recent years, China has expanded its investment sectors from resources and raw materials to strategic acquisitions intended to raise the market competitiveness of Chinese products and companies.

The China-Pakistan Economic Corridor (CPEC), valued at $62 billion aim at connecting western China with Pakistan's southern coastal city of Gwadar through highways, high-speed train tracks, oil and gas pipelines etc.

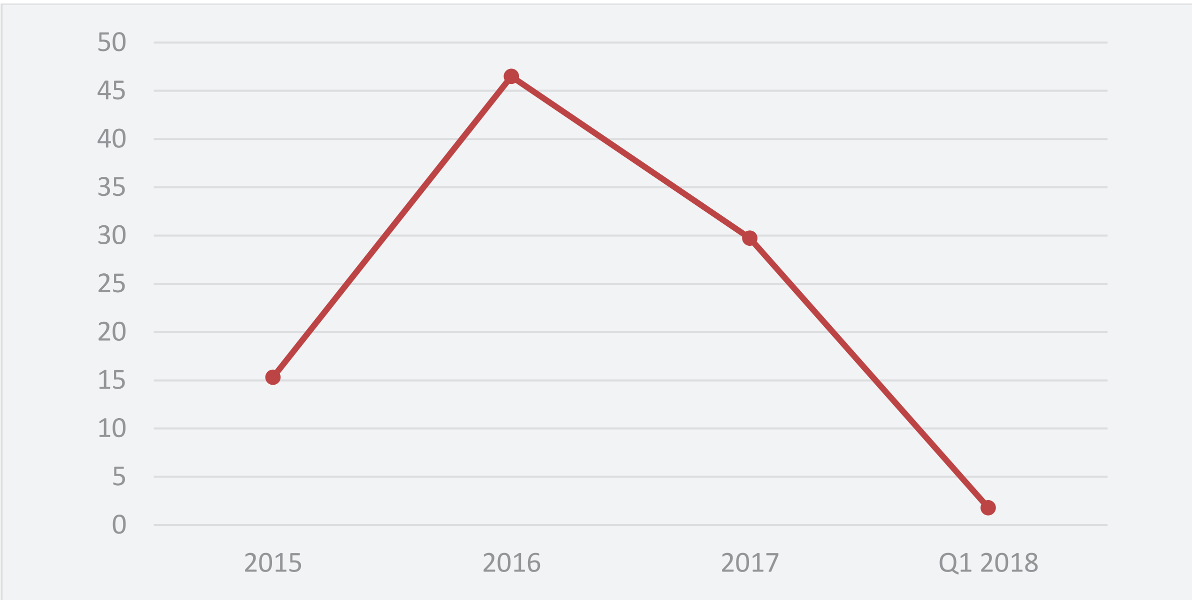
[2] *Detailed chart is attached in the appendixs*

Need of Foreign Investment for Diversification

Among the 22 projects within the CPEC framework, 18 are directly invested or offered aid by the Chinese and four use China's concessional loan. As many of the high-priority, early harvest CPEC projects are energy-focused, it is important to understand how the project can influence the regional energy economics. Also, Iran could benefit from the CPEC project in terms of building a natural gas pipeline with Pakistan that China is willing to finance.

The state-led industrial policy, "Made in China 2025" aims to utilize government subsidies, mobilize state-owned enterprises and pursue intellectual property acquisition to dominate global high-tech manufacturing. The main objective is to integrate big data, cloud computing and other emerging technologies into global manufacturing supply chain, thus reducing its dependence on foreign technology. The United States and other industrial powers view this as China's deviance from international trade rules and security risks. Trump administration's recent attacks on Chinese investment in US companies and start-ups hint at an escalating trade war. So far, the United States have imposed three rounds of tariffs on Chinese products this year, totaling $250bn worth of goods. The immediate effect of this is reflected in Chinese FDI in the US, the graph of which is given below:

Exhibit 4.3: Chinese FDI in US, 2015-17 (USD bn)



Source: Marmore Research

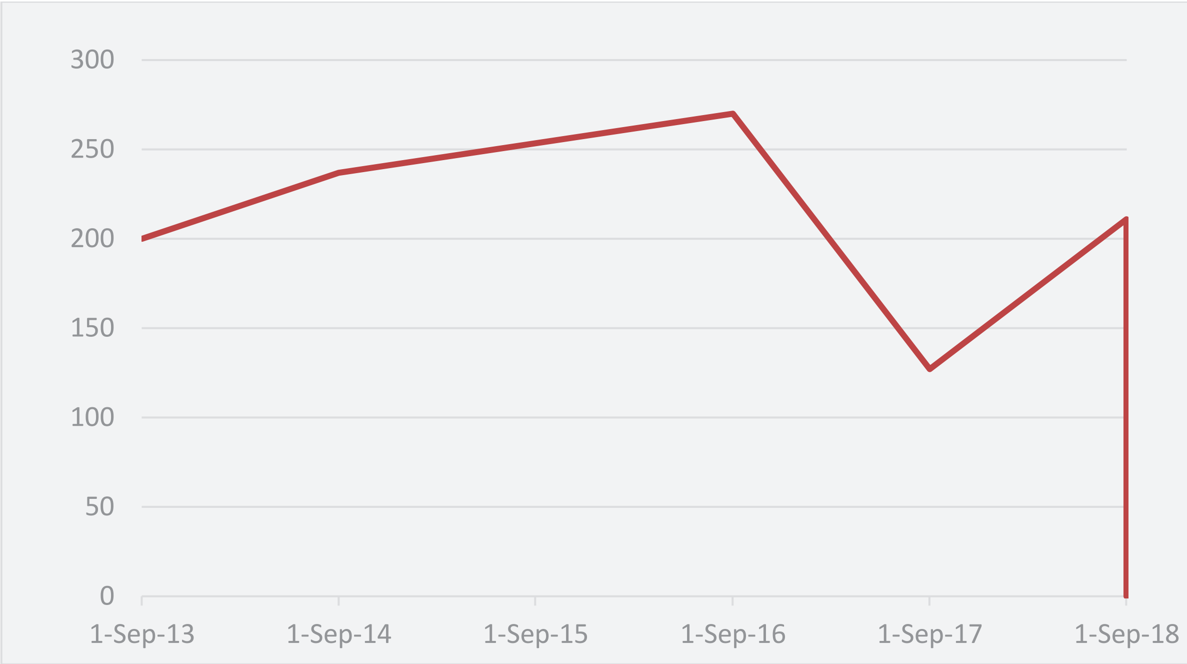
Translating US-China Trade war in the Arab World

Saudi Aramco has already started witnessing the result of Trump's stand on China. China seeks alternatives to American cargoes, thus increasing the sale of liquefied petroleum gas of the Saudi entity to 90% percent of all shipments in 2017. According to KPLER, Saudi shipments to China have risen to 970,000 tons so far this year, compared to 1.08 million tons for the entire 2017. The increased demand in Asian markets, particularly China and India, have led to price rise in cooking fuels and petrochemicals. Saudi Aramco raised contract prices for butane to US$570 a ton for July, 23% higher than in March. Propane price rose 16% to US$555 a ton over the same period.

Recent Development

In a recent development, Bloomberg reports the decline in Kuwait's crude oil shipping to the United States, owing to a boom in demand in the Asian markets. According to the U.S Energy Information Administration, US imports of Kuwaiti crude fell to zero in late September 2018. It is the first time that shipments have completely stopped since May 1992. The graph below shows the Kuwaiti crude oil shipment to the US from 2013 to September 2018.

Exhibit 4.4: Kuwaiti Crude Oil Exports into U.S (2013-2018)



Source: Bloomberg.com, Marmore Research

Need of Foreign Investment for Diversification

The Kuwaiti crude is diverted to the more lucrative Asian markets, where prices are higher for the type of high-sulfur crude that it pumps. Price of Kuwaiti oil in different regions are as follows:

Exhibit 4.5: Price of Kuwaiti Oil in Different Regions

Region	Price (US Dollar)/ Barrel
Asia	80
U.S	79
Europe	76

Source: Bloomberg.com

Chapter 5

Benefits Kuwait can Draw from the Strategic Trade Concepts like the Belt and Road Initiative (BRI)

The BRI is supposed to form multiple economic corridors that would encompass almost two-thirds of the world's population and a third of world GDP[3]. China considers Kuwait as a key country along the routes of the BRI as it is a link between maritime and land. Kuwait was one among the earliest countries to sign a cooperation agreement with China on the BRI. In Kuwait, there is the strategic consensus that the BRI accords with the Kuwait Vision 2035, so as to promote mutually beneficial cooperation in trade and infrastructure. The Kuwait-China strategic partnership which strongly points to a promising future in the framework of understanding attitudes and directions. Kuwait's central location plays a key role in building cross border supply chains that can ramp up trade and build a prosperous economy.

While China's move is to link its international trade with the world expecting to reduce the cost and their timelines. For Kuwait, returns are believed to be in terms of expertise, investments and economic growth.
The map below outlines China's Belt and Road Initiative.

Exhibit 5.1: Economic Corridors in Belt and Road

Image Source: Center for Strategic and International Studies (CSIS)

[3] *Geopolitical Futures*

Benefits Kuwait can Draw from theStrategic Trade Concepts like the BRI

The initiative projects to revive the country's northern region which borders Iraq through its vision for a multibillion phased development of the 250sq Km silk city and islands zone, including major ports, airport and tourism facilities. Developing the region could potentially become the maritime terminus for the Chinese Belt and Road Initiative and might transform Kuwait to a financial and commercial hub in the northern Arabian Gulf.

Exhibit 5.2: Kuwait Islands Project 2035

Image source: Arab times

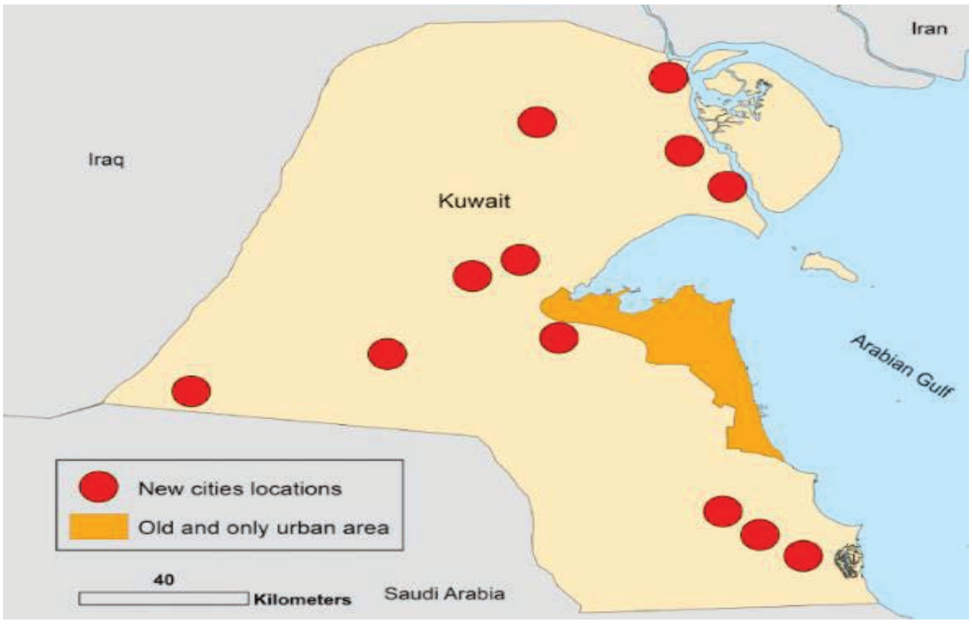
Islands development project and new cities

The Island development project costing up to USD 450 billion[4] is expected to attract huge investments from different parts of the world and encourage local manufacture, considering these islands are part of the Silk Road project[5]. The Island development program is projected to make Kuwait a global trade center by increasing the trade exchange activities, develop maritime transport, receive larger vessels and develop the northern part of the country. The Development of Islands Committee reported that once the project is

[4] *KUNA*

[5] *Arab times*

Exhibit 5.3: Map of New Proposed Cities



Source: Alghais and Pullar (2018) Projection for new city future scenarios- A case study for Kuwait.

completed Kuwait will earn around US$40 billion annually creating 200,000 jobs. The silk city project includes developing five Islands (Failaka, Miskan, Awha, Warba and Boubyan) and a port (Mubarak Al-Kabeer port). The Mubarak Al-Kabeer port which connects the northern part of the Kuwait to Kuwait city is likely to complete by 2019 is spearheading the development plan. The port's strategic location is considered vital for the international commercial exchange.

In addition to the Island development Kuwait is planning to develop new cities in the north (figure 2) close to the strategic Islands to cater future needs and also to address the current growth issues. As the oil refining, other oil-related industries and heavy industrial facilities are to the south of Kuwait City, the city is experiencing rapid urban growth. Developing new cities could address growth issues and specifically the urban issues of traffic congestion and housing shortage in Kuwait.

A recent study on the Kuwait's development of new cities finds that a reduction of 60% in traffic congestion compared to 2015 levels and no housing shortage before 2050 if the construction of new cities is completed without delays[6].

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[6] Alghais and Pullar (2018) Projection for new city future scenarios- A case study for Kuwait.

Chapter 6

Technology Transfers and Skill Development Potential

80 percent of the 23000 Kuwaiti nationals, who enter the workforce each year, join the public sector attracted by job security, lesser number of working hours and higher entry level salaries and other benefits. In tandem with the other GCC countries, private businesses in Kuwait hire mostly imported labor. The major challenge for employing Kuwaitis in the private sector is the wage discrepancy between the public and private jobs. However, to substantiate its diversification plans, the government is strongly favoring nationals over expats to take up the job opportunities in the private sector. The Kuwait government offers substantial financial incentives to nationals working in the private sector. In Kuwait has a capable, young workforce that can cater to the labor force requirements of a growing private sector. There is a stark mismatch between the existing job skills and the needs of business which pose as another huge challenge for the private sector employers. These businesses require vocationally trained labor to undertake specific tasks. A significant share of the Kuwaiti workforce is trained in les technical fields' that are not in high demand in a competitive labor market. The National Vision says that education must be more aligned with the labor market and the needs of the companies.

The government's Integrated Education Reform Programme 2011-19 was conceptualized with the aim of developing curricula, improving learning outcomes, encouraging efficient teaching and leadership and refining the accountability and efficiency of the education system. However, at the penultimate year, it can be noted that this program has fallen short of its objectives. The World Economic Forum's Global Competitiveness Index 2017-2018 ranks Kuwait 95th out of 137 countries for the quality of its higher education and training and 119th for labor market efficiency.

Building a knowledge economy and developing private business sector is difficult when government revenues are so volatile. Growing awareness of environmental degradation and resource insecurity also provide reasons for Kuwait to invest in human capital and thereby lessen its reliance on hydrocarbons. A transition towards a knowledge based economy affects all sectors- Research and development intensive manufacturing and services, and service industries such as business, high tech, financial, education and healthcare that utilize ICTs and employ skilled labor.

Emphasis on E-commerce

To fully grasp the significance of the MoU signed on e-commerce, we need to understand the background of internet usage and online purchase in Kuwait. The chart below shows the internet usage and internet penetration in GCC countries.

Exhibit 6.1: Internet Usage and Penetration among GCC Countries

Countries	Internet Usage(2017)	% Population (Penetration)
Bahrain	1,535,653	98.0%
Kuwait	4,104,347	97.8%
Oman	4,829,946	68.5%
Qatar	2,644,580	98.1%
Saudi Arabia	30,257,715	90.2 %
United Arab Emirates	9,385,420	98.4%

Source: internetworldstats.com

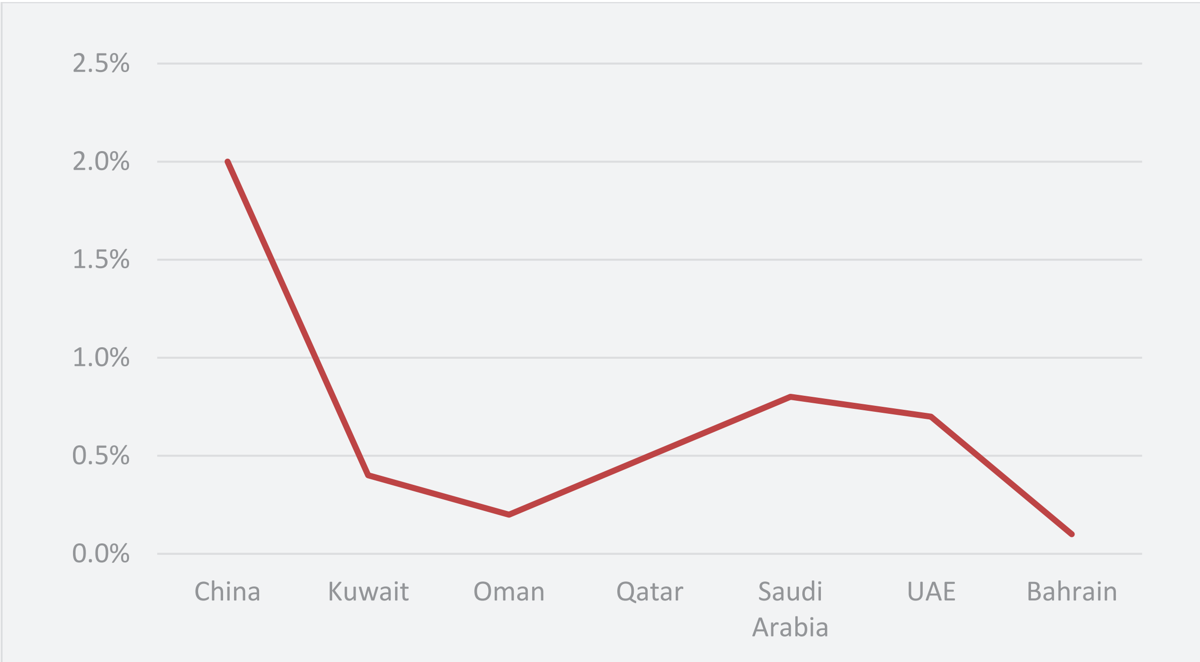
A high spending potential, developed transport and logistics networks, rising internet penetration and a growing tech-savvy youth population are factors that drive the e-commerce industry in the Middle East. The GCC e-commerce market is estimated to be worth US$41.5 billion by 2020. Kuwait's IT market is undergoing rapid transformation with an increased demand for the at least technologies such as analytics, mobility and cloud services. Analysts still consider Kuwait's e-commerce sector as a growing one. The important impediments in the growth of e-commerce in the region include concern for data security and privacy, difficulty in integrating with the existing system, lack of supporting law and lack of skilled manpower. The need to upgrade government policies to embrace the e-commerce models and integration of digital payment mechanisms like PayPal will serve as key steps towards this.

The MoU signed on e-commerce is aimed at enhancing cooperation in facilitating trade between the two countries and achieve sustainable development in the field. Conceptualized as a three year deal, it also focuses on boosting electronic trade in the fields of joint studies, sharing experience in making policies, facilitating partnership between private and public sectors and organizing join training courses. Further, the deal is expected to provide opportunities to develop small and medium sized enterprises in different sectors like tourism and recreation which will create more job opportunities.

Investment in R&D and Alternate Energy Resources

Kuwait like its counterparts in the region has abundant oil & gas reserves, and conducts its research through Kuwait Institute of Scientific Research (KISR) and Kuwait Foundation for the Advancement of Science (KFAS). Both of them have a number of tie-ups with various universities and scientific bodies around the world including the United States. Deepening scientific partnership in areas such as petrochemical research would go well with the long-term objective of diversification.

Exhibit 6.2: R&D Spending of China and GCC Countries (% of GDP)



Source: Marmore Research

Kuwait could look at possible tie-ups with Chinese universities for research and development activities. R&D funding is essential now when Kuwait is looking to diversify its industries. Saudi Arabia's SABIC already has a tie-up with Dalian Institute of Chemical Physics, a research institute under the Chinese Academy of Sciences and China National Petroleum Corp, for the research of catalyst and development of conversion of methane into olefins, aromatics and hydrogen. Petrochemical sector serves as an ideal diversification from the oil and gas sector that Kuwait currently depends on. Oil prices and petrochemical prices differ significantly, as the end users range from construction, healthcare, electronics and packaging.

Chinese investment in renewable energy is US$ 102.9 billion or 36% of the world's total. As Kuwait is looking to diversify its economy into sectors other than oil, development of industries in the country would be a game changer in the direction for which skill development and education of Kuwaiti youth population would be a prerequisite. China has a population of 1.4 billion and it would be beneficial for Kuwait to study its power generation and consumption trends. As China moves towards renewable energy, per unit cost of generating electricity will come down. Kuwait could stand to gain from such a move as it has adopted an ambitious vision to generate 15 percent of its total energy needs by 2030. Chinese experience in commissioning projects in record time could serve as the right tool in order for Kuwait to achieve its vision.

Chapter 7

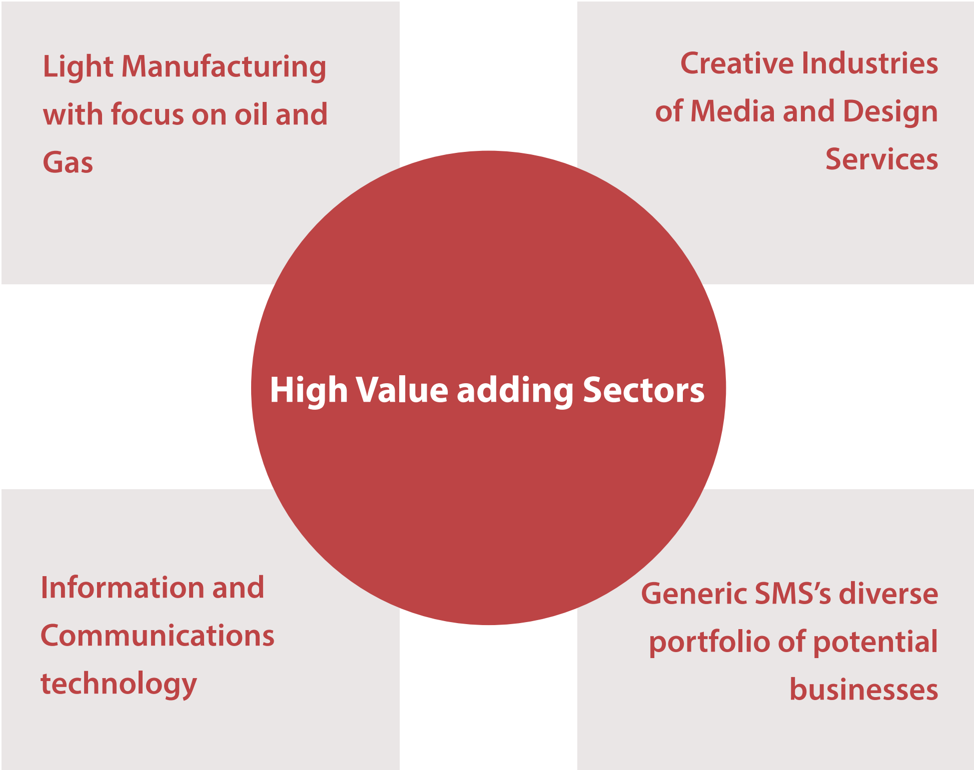
Positioning Kuwait's SMEs to Derive Advantages from the Agreement

To reinvigorate its diversification plan, Kuwait government needs to develop a robust business sector focusing on the creation of Small and Medium sized enterprises (SMEs). Kuwait has a vibrant SME environment, particularly in the retail and non-financial services, but their contribution to the overall GDP remains low – just 3% of the GDP. In contrast, SMEs contribute to an average of 50% of the GDP in high-income economies and accounts for 46% of the workforce. The need to push for SMEs that are focused on the technological sector is also of paramount importance, in terms of strengthening the nation's innovation capabilities. Like its neighbor, Saudi Arabia, Kuwait can start to build SMEs around key strategic industrial sectors, such as automotive and materials technology. An early start will not only strengthen innovation, but allow manufacturing SMEs to tap into regional markets faster, before other countries begin the catch up race. The current key impediments to the growth of SMEs in Kuwait include business licensing and permits, labor regulations, regulatory and policy uncertainties and lack of a skilled workforce. Building a favorable ecosystem for SME development is considered critical to promoting long-term economic-diversification in Kuwait.

The Government of Kuwait established a National Fund for SME Development in April 2013.It is created as an independent public corporation with a total of US$ 7 billion in capital and aims to create productive jobs for Kuwaiti nationals, increase private participation in the economy and increase non-oil revenues.

National Fund has prioritized 4 sub-sectors to maintain relationship between start-ups and SME's throughout the course of National Fund support mechanism.

Exhibit 7.1: Priority Sub-sectors according to the National Fund



Automation could be a critical tool in building a vibrant ecosystem of SMEs in Kuwait, as the governments have identified the vital role they play in creating jobs for next generation of Kuwaitis. A unique advantage that Kuwait has with automation is that it does not have a well-developed manufacturing industry, and as a result, the employee disposed owing to automation would be minimal. Automation, effectively would help leapfrog the traditional model of labor entry, instead, automation would create high-paying, high-level jobs that would pay on par with the government jobs.

Automation in Kuwait could also reduce the country's dependence on foreign laborers, which would reduce the outgo of valuable forex reserves. It would also open-up new business opportunities in the region – assembling of cars, household items and even defense equipment. Most of the region's defense exports come in as completely built units and the entire amount spent on defense goes to the partner country. Kuwait has one of the highest defense spending per capita, investing part of its defense spending, in setting up an automated assembling center would have multiple benefits – create jobs for locals and possibly serve as defense weapons assembling outpost for other GCC countries. The protocol related to the defense industry aims at the promotion of cooperation in purchase and transfer of equipment, spare parts and raw materials related to weaponry and technology, joint research and development and providing logistic and technical support for military equipment.

The Chinese firms possess advanced technologies, strong financial positions and hence are highly competitive. The MoU signed in the field of e-commerce will extend to the activities of small and medium sized enterprises and promote the investment of emerging technology companies. The agreement will serve to support emerging businesses in the e-commerce sector and in turn lead to the building of strong brands. The provisions of the Memorandum include the expansion of SME activities outside the boundaries of sale and purchase, investment of emerging technology companies, and service of small and medium enterprises that operate through electronic commerce.

China has proven its advancement in technology, particularly e-commerce with giants in the field like Alibaba. Therefore, this memorandum will serve Kuwait in the form of exchange of experiences and training of national cadres on the subject through workshops.

Chapter 8

Conclusion

The agreements signed between Kuwait and China in July 2018 is a huge step in the country's goals of economic diversification and facilitating a sustainable economic development. It is envisioned to cover a wide spectrum of key economic activities. The two countries would jointly consult and coordinate over regional and international issues, along with boosting strategic collaboration on Belt and Road Initiative as it is in line with Kuwait's Vision 2035.

China's transition to its service sector is something that Kuwait is also looking to implement in order to diversify from its dependence on oil. Increasing the service sector's contribution to GDP aligns with Kuwait's objective of diversification and job creation. Kuwait could initially look at petrochemicals or downstream sectors, which will still feed into the oil sector and could slowly move towards other areas such as FinTech and other areas. The non-oil sectors, such as services sectors or financial services, are much more human intensive, rather than capital intensive, so educating the workforce and improving their quality to international standards is imperative. Technology is a potential area as well, and we have seen success stories in the e-commerce platform from Kuwait.

Appendix

Chinese Investment into Kuwait, Sector-wise

Year	Chinese entity	Quantity in Millions	Transaction Entity	Sector
2007	State Construction Engineering	$430		Real Estate
2007	China Communications Construction	$410		Shipping
2009	Sinopec	$230	Kuwait Oil	Energy
2009	Sinopec	$160		Energy
2010	MCC	$570	MAK Group	Real Estate
2011	MCC	$260	KAK	Education
2012	Power Construction Corp	$210		Real Estate
2014	Sinomach	$100	Kuwait National Petroleum	Energy
2015	State Construction Engineering	$460		
2015	Power Construction Corp	$210		Energy
2015	Sinopec	$1700	Kuwait National Petroleum	Energy
2015	Power Construction Corp	$110		Transport

Appendix

Year	Chinese entity	Quantity in Millions	Transaction Entity	Sector
2016	State Construction Engineering	$580	Kuwait University	Other
2016	China Railway Engineering	$200		Transport
2016	Minmetals	$310		Transport
2016	Minmetals	$530	Daman	Health
2017	China Energy Engineering	$710		Real Estate
2017	State Construction Engineering	$120		Other
2017	Minmetals	$500		Transport
2018	Sino Great Wall	$220		Real Estate
2018	Sinopec	$140	Petrofac	Energy