

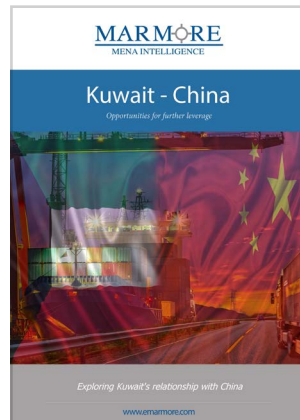
Kuwait - U.S.

Opportunities for further leverage



Exploring Kuwait's relationship with the United States

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ECONOMIC RESEARCH REPORT

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Executive Summary

Sharing values on democratic traditions, the Kuwait-U.S relationship started from 1961 when Kuwait gained independence from British colonization. Kuwait, like its regional partners in Gulf cooperation council maintains a cordial relationship with the U.S in areas encompassing trade, investments and defence.

The United States is Kuwait's largest supplier of goods and services after China accounting for 12% of Kuwaiti imports. Kuwait exports mineral fuel and oil related products to U.S. and imports motor vehicles and parts from the U.S. Commercial relations between the United States and Kuwait have expanded at a brisk pace, with trade volumes growing by more than 175 percent from USD 5.7bn (2010) to USD 15.7bn (2013). However, this has fallen to USD 7.2bn in 2016, mostly due to fall in fuel exports. The U.S ranks second in terms of

FDI in Kuwait, investing close to USD 2.5bn over the Jan'03 and May'15 period. Around 41 U.S companies have invested in Kuwait in 45 projects.

Machinery and transport equipment amount to USD 505 Bn, Chemicals and related products was the second major export commodity from the US amounting to USD 197 bn in 2016. Engineering firms are largely involved in the execution of infrastructure development projects. Companies such as Fluor Corporation, General Electric, and Dow Chemical have been operating in Kuwait for few decades. Most of these are joint ventures with local Kuwaiti companies.

Recently, in October 2016, U.S. and Kuwait agreed on a roadmap for deepening mutually beneficial partnerships taking the long-standing relationship between the two countries to the next level. An estimated 30,000 Americans reside in Kuwait and

most of them provide military, diplomatic and intelligence assistance to Kuwait.

The U.S serves as a bastion of free-market economy. Private individuals and business firms make most of the decisions, and the federal and state governments buy needed goods and services predominantly in the private marketplace. While a full-fledged private enterprise driven market might not be possible in Kuwait, the U.S offers valuable insights on how to encourage the private sector as Kuwait look towards moving to a market-based approach.

For instance, the U.S. has a vibrant startup culture, which Kuwait should try to emulate. The U.S. startup culture could offer great insights into the regulations that need to be put in place for promoting a Kuwaiti startup culture, fostering entrepreneurship and creating an ecosystem on which the startups could grow.

Research work that is undertaken at the likes of leading scientific institutes is what helps the U.S in staying ahead of the other countries in terms of scientific progress. The U.S has a mix

of both government and private company funded research; Department of Health and Human Services (HHS) is a regulatory and service agency that operates one of the nation's most active centers of scientific research, including the National Institutes of Health, the Centers for Disease Control and Prevention, and the Food and Drug Administration.

The United States invests the most in research and development (R&D), produces the most advanced degrees in science and engineering and high-impact scientific publications, and remains the largest provider of information, financial, and business services. Kuwait like its counterparts in the region has abundant oil & gas and conducts related research through Kuwait Institute of Scientific Research (KISR) and Kuwait Foundation for the Advancement of Science (KFAS). Kuwait's vast oil reserves gives it ample scope to diversify into petrochemical research especially in areas such as creating customized polymers and compounds.



Kuwait-U.S. Relationship

	Current Engagements	Future Possibilities
Exports	Petroleum, Fertilizers, Oils, Non-Ferrous base metal, Telecom Equipment	
Imports	Personal motor vehicles, Transport motor vehicles, Arms and Ammunition, Chemical products, Industrial Apparatus	
Bilateral Agreements	Trade and Investment Framework Agreement, FATCA,	U.S. Kuwait Free Trade Agreement
Others	Defense Ties, Key Weapon Supplier, Student Exchange Program, Tourism, Medical Treatment etc.,	Protection of Critical infrastructure and Cybersecurity

Source: UNCTAD,

Potential area of leverage

Lessons from the USA	
Free Market Philosophy	Greater business flexibility would be a key in improving Ease of doing Business
	More scope for private sector companies to grow and innovate
	Build their ability to deal with problems
Support for Start-ups	Improving Kuwait SMEs and increasing their contribution to the economy
	Entrepreneur friendly regulations to support the start-ups
Research Univerisities	Private sector funded commercial and conventional research projects
	Government sector funded research in obscure and niche areas
Potential Tie-Ups	
Developing Start-ups	Promoting entrepreneurship culture within the country and to nurture them
	Create a strong network of among start-ups to support and mentored other start-ups
	Conducting regular meeting or a Q&A session with such entrepreneurs that would help in nurturing and mentoring potential local champions.
Entrepreneurship	Developing grass root entrepreneurship and help the local SMEs to achieve their potential
	Setting up Bi-national entrepreneurship programmes
Scientific Research	Creating Ph.D scholars through international students programmes
	Commercialising the research to take the research project from lab to the marketplace

Sectors of interest

Finance	Create strong legal rights for shareholders; international investors balk at partial treatment and avoid investing altogether
	Creating a local bond market in conjunction with NYSE bond market
	Harmonizing stock- market regulations with global standards similar to the U.S. GAAP and IFRS convergence
Manufacturing	Automation in Kuwait could also reduce the country's dependence on foreign labourers
	Open-up new business opportunities in the region including exporting to Europe and Asia
Management Consulting	Establish secondary service industries including; human resources; market-ing; process, physical distribution, and logistics; environmental; and other scientific and technical services.
	Reduce the government obligation to take on more graduates as they finish college
Retail Services	Franchising model to take small and medium Kuwait businesses to a global stage
	Transforming Kuwait into a global food tourism and gourmet destination

Source: Marmore

Key Connecting Points between Kuwait & U.S.

Trade Relations (2016)	
Exports to U.S.	USD 3.4bn
Imports from U.S.	USD 3.8bn
Trade Balance	USD -0.5bn
Investments (Jan 2003 – May 2015)	
Inward (from U.S.)	USD 97mn
Outward (to U.S.)	USD 9,264mn
Net Outflow	USD 9,167mn

Source: UNCTAD, Central Statistics Bureau (CSB), FDI Intelligence, Financial Times, World Bank, bq magazine; Note: Investments represent FDI flows during the period of Jan '03 to May '15.

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Kuwait – U.S: An Introduction

Though Kuwait and U.S. enjoyed a friendly relationship from the 1960's, their partnership reached heights after U.S.'s support for Kuwait's sovereignty during the gulf war. Trade, investments and military relations developed mainly in the 1990's and after 2000. Kuwait and U.S. signed the new Trade and Investment Framework Agreement (TIFA) in 2004. United States-Kuwait Council on Trade and Investment was established in which officials from both countries work towards strengthening trade and investments.

Kuwait, which was once a coastal desert village, has transformed into a modern city-state with a per capita income of USD 25,141¹. It has about 104 Bn barrels of proven crude oil reserves, which amounts to almost 8% of global oil reserves. Oil & gas industry accounts for nearly half of its economic activity, 88% of exports and 71% of government revenues². Propelled by high oil prices, Kuwait's economy grew rapidly in the past decade. Kuwait registered budget surpluses for consecutive years and built up sizeable reserves. Global financial crisis and the recent drop in oil prices have stymied the pace of investment and development activities. Kuwait exports which primarily consist of oil and its related products (crude oil, refined petroleum, petroleum gas & cyclic hydrocarbons) amounted to USD 55bn in 2015³. Key destinations include South Korea, India, Japan, U.S. and China. In 2015, exports to U.S. accounted for

11% of total Kuwait exports, predominately crude oil. A central feature of the U.S. economy is the economic freedom afforded to the private sector by allowing the private sector to make the majority of economic decisions in determining the direction and scale of what the U.S. economy produces. The U.S. economy represents about 20% of total global output, and is still larger than that of China. This has led to larger trade for the U.S. economy with many other nations in the world. US exports cars, airplanes and spacecraft to Kuwait, which account for 35% of total exports from U.S. to Kuwait.

Diplomatic Ties – Historical Perspective

The relationship between the two countries began in the early 20th century, when H.E Sheikh Mubarak Al-Sabah, invited the Reformed Church of America to open a medical center in Kuwait. However, the relationship improved gradually only in the 90'S after Kuwait's recovery from Gulf war. Since then, Kuwait and U.S. have come a long way in terms of trade relations and business. The visit of H.E. Sheikh Sabah Al Khaled Al-Ahmad Al-Sabah to the U.S. for launch of the U.S. – Kuwait strategic dialogue in October 2016 is aimed at expanding strategic relationship, especially in security and defense matters pertaining to the Middle East region⁴.

Timeline of Key Events & Visits

1911	Sheikh Mubarak Al-Sabah, invited the Reformed Church of America to open a medical center in Kuwait
1930	Kuwait Oil Company was formed as a joint venture between the British Anglo-Persian Oil company and the American Gulf Oil company.
1951	U.S. opened a consulate in Kuwait
1987	Implementation of a maritime protection regime
1991	U.S. and Kuwait signed Defense cooperation agreement (DCA)
2004	Trade and Investment framework signed between U.S. and Kuwait
2008	Dow Chemical company and Petrochemical Industries company (PIC) signed a joint agreement
2013	A Free Trade Agreement (FTA) will be signed between the U.S. and Kuwait
2016	Assistant Secretary Rose travelled to Kuwait to discuss security topics of mutual interest.
2016	Sheikh Sabah Al Khaled Al-Ahmad Al-Sabah visits U.S. for the launch of U.S. – Kuwait strategic dialogue

In February 2014, United States and Kuwait Sign Trade and Investment Framework Agreement. The Trade and Investment Framework Agreement (TIFA) established a United States-Kuwait Council on Trade and Investment in which high

level officials from each country would meet to advance trade and investment issues. The Office of the U.S. Trade Representative and the Kuwait Ministry of Commerce and Industry chaired the Council.

¹ IMF, 2016 estimate

² IIF, IMF

³ Kuwait Central Bank

⁴ KUNA

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Kuwait's Trade Relationship with the U.S.

In 2016, total U.S. trade with foreign countries was USD 3.7Tn⁷. That was USD 11.45 trillion in exports and USD 2.25 trillion in imports of both goods and services. The United States was the world's third-largest exporter, after China and the European Union (EU). It is the world's second largest importer after the EU⁵.

What does U.S. export?

Goods make up more than two-thirds of U.S. exports (USD 1.4trillion). One-third of exported goods are capital goods (USD 519bn). The largest sub-category is commercial aircraft (USD 121bn). Other capital goods include industrial machines (USD 51 bn), semiconductors (USD 44 bn), and telecommunications (USD 41bn). Electric apparatus (USD 42 bn) and medical equipment (USD 35bn) are also significant contributors. Another third of exported goods is industrial supplies (USD 398bn). The largest sub-category is chemicals (USD 71 bn). Next are petroleum products (USD 51bn), fuel oil (USD 30bn) and plastic (USD32 bn). Non-monetary gold is USD 20bn. Only 13 per cent of exported goods are consumer goods (USD 194bn). This includes pharmaceuticals (USD 53bn), cell phones (USD 24bn) and gem diamonds (USD 21bn). Automobiles make up 10 per cent of all exported goods. In 2016, that was USD 150bn. Just 9 per cent of exported goods are foods, feeds and

beverages (USD 131bn). The big three are soybeans (USD 24bn), meat and poultry (USD 17bn) and corn (USD 11 bn).

Export of Services

The services sector comprises a broad array of industries and segments, such as financial services, travel and tourism, retail and wholesale trade, healthcare, entertainment and education. The United States is the largest services exporter in the world, both in overall commercial services and in most major services categories.

Services contribute one-third of U.S. exports (USD 750bn). The largest single category was travel services, at USD 293bn. Computer and business services export USD 178bn. The next category was royalties and license fees, at USD 120 Bn. Other private services, such as financial services, added USD 120bn. Government and military contracts added USD 20bn.

The top export destinations of the United States are Canada (USD 266 Bn), Mexico (USD 231 Bn), China (USD 116 Bn), Japan (USD 633.3 Bn), UK (USD 55.4 Bn) and Germany (USD 4949.4 Bn). The top import origins are China (USD 463 Bn), Mexico (USD 294 Bn), Canada (USD 278278, Japan (USD 132 Bn) and Germany (USD 114 Bn).

Economic Complexity

Being the largest economy (nominal terms) in the world, the U.S scores highly on the economic complexity index. The economy of the United States has an Economic Complexity Index (ECI) of 1.8 making it the fifth most complex country. The United States exports 450 products with revealed comparative advantage (meaning that its share of global exports is larger than what would be expected from the size of its export economy and from the size of a product's global market).

In 2016, the United States exported about 5.2 mbMMb/d of petroleum to 101 countries. Most of the exports were petroleum products. The resulting net imports (imports minus exports) of petroleum were about 4.9 mbMMb/d. The top five destination countries of U.S. petroleum exports in 2016 were Mexico (17%), Canada (17%), Netherlands (6%), Brazil (55%) and Japan (5%).

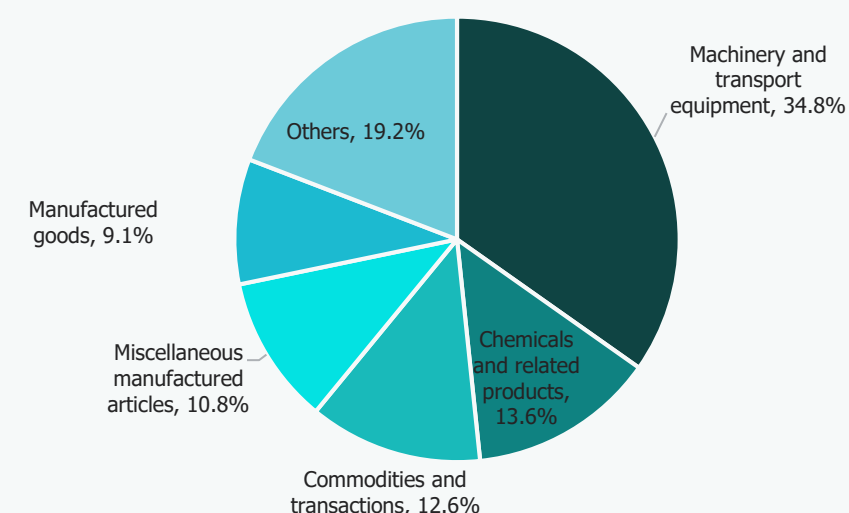
Motor vehicles, the second largest category of exports that accounted for 3.7% of the top five exports from the U.S. Several factors, such as high productivity and a favorable investment climate,

makes the United States a logical export base for vehicle manufacturers, even as the United States faces increased competition in attracting manufacturers from countries like Mexico. Select USA initiative, introduced in 2011, has helped in promoting a suitable investment climate for automobile manufacturers in the U.S. The success of the programme is that automakers have announced approximately USD 46Bn in investments in the United States from the beginning of 2010 through the end of 2014⁶. Of that total, USD 10.5Bn of the announced were made in 2014 alone.

U.S. exports to Kuwait

The total U.S exports to Kuwait amounted to USD 33.8Bn in 2016. The top exports to Kuwait were motor vehicles (personal use), motor vehicles (commercial use such as pickup trucks), and civil engineering plant & equipment. U.S exports to Kuwait account for less than 1% of the total U.S exports as of 2016. However, U.S is a major importer of crude oil and related products from Kuwait. In 2016, Kuwait exported close to USD 3.4Bn worth of products to the U.S , out of which petrochemical exports accounted for 93.2%.

U.S. 2016 Top Exports: Product Categories⁷



Source: UNCTAD

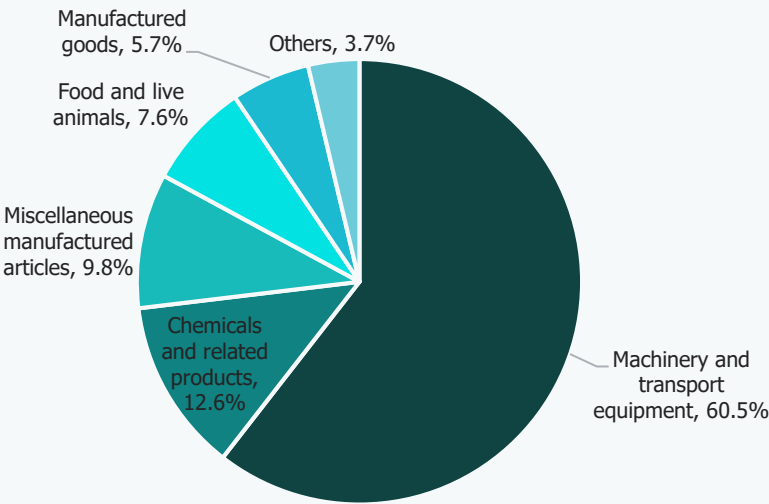
⁶ Centre for Automotive Research

⁷ Export numbers varies owing to classification difference between UNCTAD and the US Trade in goods and services

Kuwait is a significant importer of American automobiles, and is the eighth-largest U.S. export market for automobiles worldwide. The low cost of fuel, combined with local tastes and preferences, increases demand for large-sized automobiles. With U.S. automobile exports to Kuwait valued at around USD 975 Mn in 2016, this is the largest sector for U.S. exporters in the consumer market. Given Kuwait's leading position in supply chain and logistics services to Iraq and Afghanistan, companies such as Chrysler are selling large volumes of trucks to serve logistics companies catering to U.S. and coalition forces in the region. Most auto

dealers note that the utility vehicle market demonstrates tremendous volume growth. U.S. sold USD 33Bn in weapons to Gulf Countries in 2015. The U.S State Department has exported attack helicopters, ballistic missile defense systems and precision guided munitions to Gulf Cooperation Council states. However, most of the weapon sales have come from small arms and ammunition and large deals with Kuwait are currently under study by the U.S state department.

U.S. 2016 Top Exports To Kuwait: Product Categories



Source: UNCTAD

U.S's 2016 top 5 exports, (in percentage and USD), to the World and Kuwait

U.S's Top 5 Exports to the World	2016 (%)	(in USD bn)
Petroleum oils or bituminous minerals	4.4%	64.1
Motor vehicles for the transport of persons	3.7%	53.8
Parts & accessories of vehicles	3.0%	43.8
Telecommunication equipment	3.0%	43.6
Cathode valves & tubes	3.0%	43.1

U.S's Top 5 Exports to the Kuwait	(in USD mn)	As a % of Exports to Kuwait
Motor vehicles for the transport of persons	975	25.5%
Civil engineering & contractors' plant & equipment	141.9	3.7%
Miscellaneous chemical products, n.e.s.	136.5	3.6%
Motor vehicles for transport of goods, special purposes	132.6	3.5%
Engines & motors, non-electric; parts, n.e.s.	124.7	3.3%

Source: UNCTAD

GCC Trade relations with U.S (USD Mn) - 2016

	Exports	Imports	Trade Balance
KSA	16,395	19,835	(3,440)
UAE	3,973	22,550	(18,576)
Kuwait	3,378	3,830	(452)
Qatar	705	3,563	(2,858)
Bahrain	1,000	740	260
Oman	428	1,198	(770)
GCC	25,880	51,715	(25,836)

Source: UNCTAD

Bilateral Trade Relations

Post war, trade relations between U.S. and Kuwait has developed mainly for oil. The U.S. and Kuwaiti governments have signed a trade and investment framework agreement, providing a forum to address mutual trade concerns and needed economic reforms. Kuwait mainly imports cars and aircraft from the U.S, equipment, and equipments from sectors that have a competitive advantage requiring advanced technology, such as oil field equipment and services, electric power generation and distribution equipment,

telecommunications gear, consumer goods, and military equipment, which are other major import items for Kuwait.

GCC - U.S. Trade Relationship

In April 2016, U.S-GCC summit was held as an initiative for strengthening commercial relationships between the two sides. The expectation is to turn the Trade and Investment Framework Agreement into a free-trade agreement between the U.S and the six-nation Gulf Cooperation Council. However,

immediate signing of FTA with the U.S. is not possible due to demands by the U.S regarding laws concerning workers, copyright, competition, etc. Presently U.S. has separate FTA with Bahrain and Oman, implying that business laws in these two countries meet U.S requirements. This in turn created an advantage in attracting foreign direct investments in these two countries.

GCC countries imported products worth USD 52bn and exported products worth USD 26bn to U.S. The trade balance for the GCC countries was a deficit of USD 26bn.

Kuwait Exports to U.S.

U.S. is the fifth largest export destination for Kuwaiti products. Over 90% of the exports to U.S. comprises of crude petroleum. Kuwait exported an average of about 209,000 barrels per day of crude oil in 2016 to U.S., much less than the approximately 326,000 barrels per day exported in 2013. The drop in the export of oil to U.S. could be attributed to the

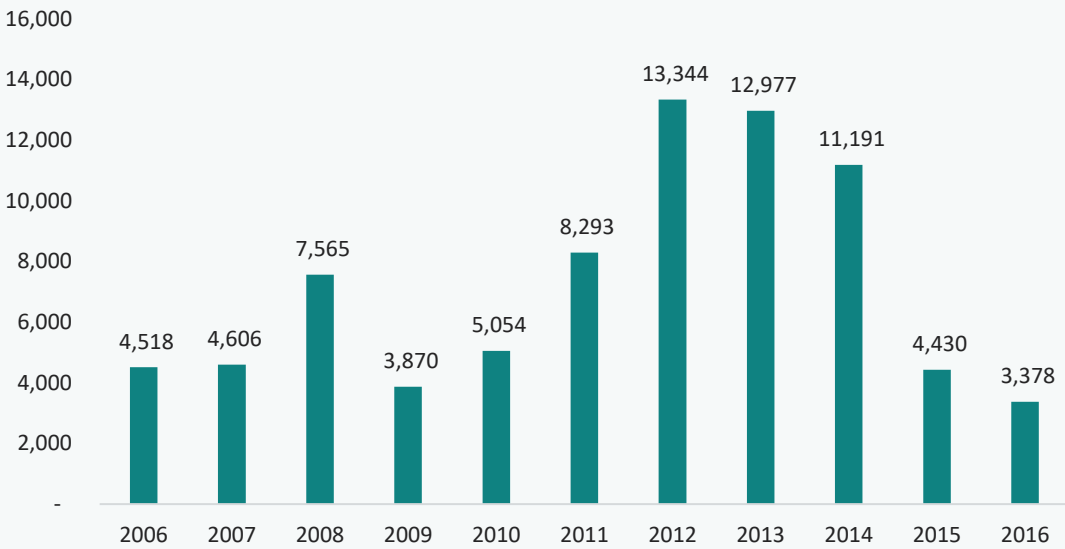
shale gas revolution in U.S. U.S imports from Kuwait during 2015 were USD 3.3bn of which Petroleum Oil accounted for USD 3.1bn. The top five export products to the U.S. include petroleum oil, fertilizers, and other petrochemical products.

The largest export categories in 2016 were Petroleum Oil (crude) (USD 3,148 million), and Fertilizers (USD 0.16 million). The export of oil dropped by 20% in 2016, due to fall in oil price and increase in U.S production.

U.S - Kuwait Oil Trade

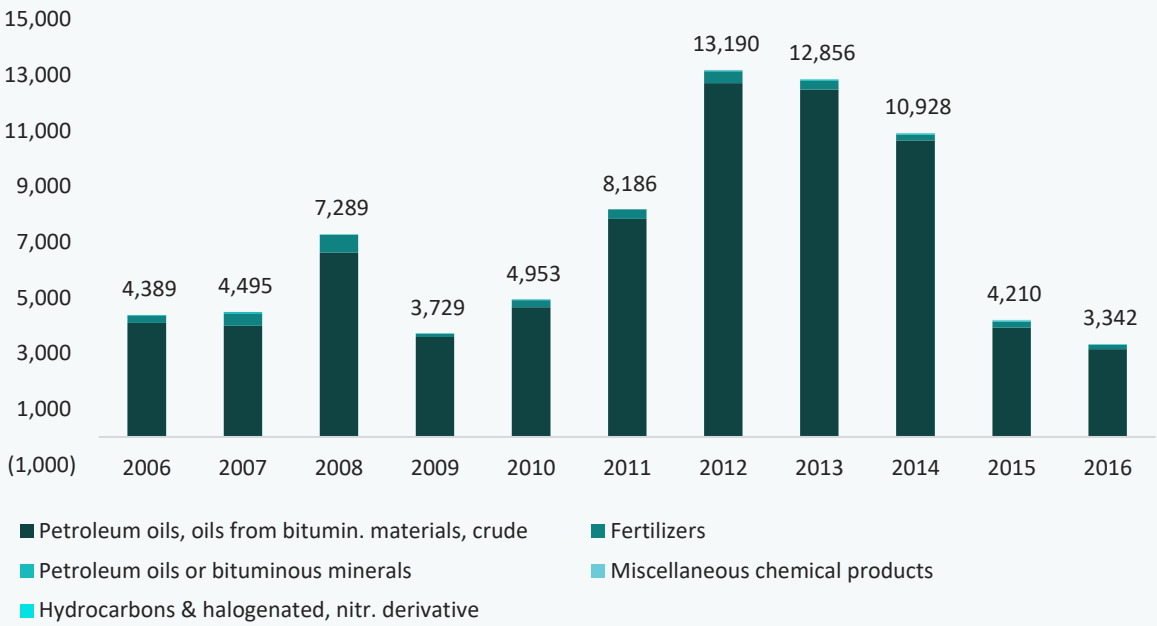
In 2016, the United States imported approximately 10.1 million barrels per day (mb/d) of petroleum from about 70 countries and exported about 55.2 mb/d of petroleum to 101 countries. This resulted in net imports (imports minus exports) of petroleum of about 4.9 mb9/d. The top five source countries of U.S. petroleum imports in 2015 were Canada, Saudi Arabia, Venezuela, Mexico, and Colombia. Kuwait accounted for 2.66% of the total oil imported.

Kuwait Exports to U.S. (USD mn)



Source: UNCTAD

Category wise Exports (top 5) from Kuwait to U.S. (USD mn)



Source: UNCTAD

U.S. crude imports by country (in '000s bpd)

Country/Region	2013	2014	2015	2016
Saudi Arabia	1,325	1,159	1,052	1,097
Kuwait	326	309	204	209
OPEC- Others	1,842	1,537	1,417	1,875
OPEC (A)	3,493	3,005	2,673	3,181
Non-OPEC (B)	4,237	4,339	4,690	4,697
Others	1,994	1,851	1,487	1,736
Total (A+B)	7,730	7,344	7,363	7,878

Source: EIA

U.S. started building Strategic Petroleum Reserves (SPR) since 1970s as a response to the Arab oil embargo and the subsequent impact on the U.S. economy. The Strategic Petroleum Reserve is a U.S. Government complex of four sites with 60 deep underground storage caverns created in salt domes, along the Texas and Louisiana Gulf Coasts that store emergency supplies of crude oil owned by the U.S. Government. Across four secure sites lies nearly 700 million barrels of oil – buried underground.

The SPR holds the equivalent of 149 days of import protection (based on 2015 net petroleum imports).

The U.S. plans to sell millions of barrels of crude oil from its Strategic Petroleum Reserve from 2018 until 2025. The proposed sale is equal to more than 8% of the reserves, held in four sites along the Gulf of Mexico coast. Sales are due to start in 2018 at an annual rate of 5mn barrels, rising to 10mn by 2023 and totalling 58mn barrels by the end 2025.

Kuwait Imports from U.S.

Kuwait's import from U.S. amounted to USD 3.8bn in 2016. Imports from U.S. have grown at a rate of 77.3% (CAGR) over the period of 2011-16. Imports from U.S. largely include motor vehicles and related products, which accounted for 25.55% of the

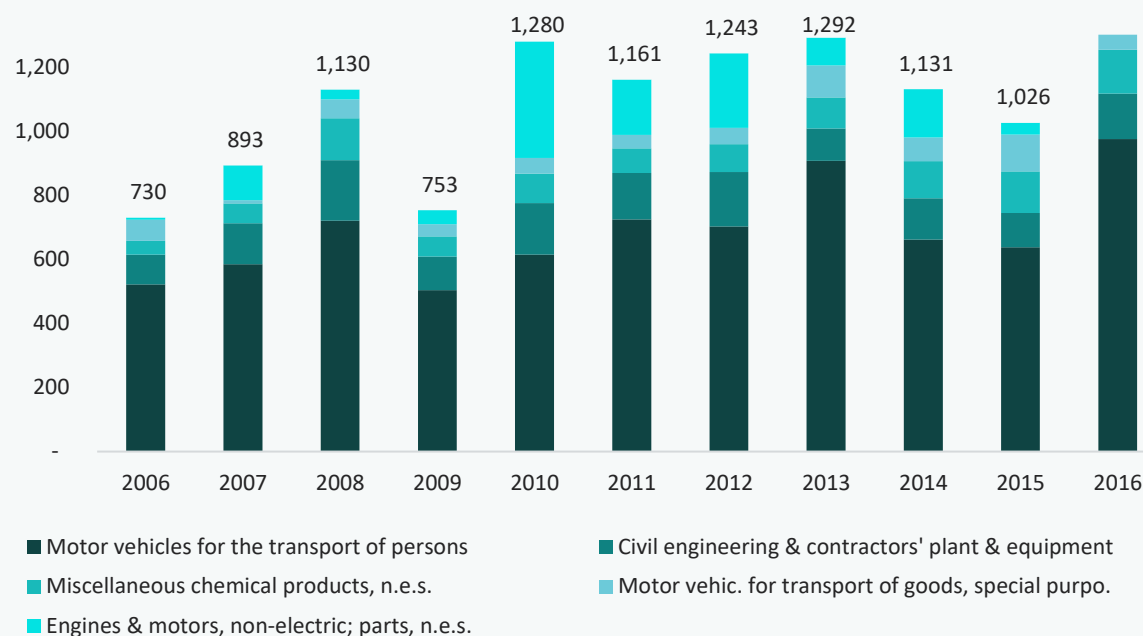
imports in 2016 followed by civil/civil engineering equipment (33.7%), and chemical products (3.6%). Other products include food, fertilizers, snack items and related products. Being an arable and non-cultivable land, most of the food related products are imported from other nations.

Kuwait Imports from U.S. (USD mn)



Source: Kuwait CSB

Category wise (top 5) Imports from U.S. (2006-2016) (USD mn)



Source: UNCTAD

3 Investments

In 2013, the United States and Kuwait initiated discussions toward a potential bilateral investment treaty. Discussions continued in 2015. Kuwait signed a Trade and Investment Framework Agreement (TIFA) with the United States in February 2004, which aims to deepen trade relations and to strengthen the overall U.S.-Kuwait economic relationship.

The United States and Kuwait look forward to the signing of a Customs Mutual Assistance Agreement before the end of 2016, which would allow greater information sharing, training and enforcement.

Infrastructure

Kuwait has attracted little FDI, in part because of legal and bureaucratic impediments. However, U.S. engineering firms such as Fluor are associated largely in the execution of infrastructure development projects. Fluor Corporation announced that Kuwait National Petroleum Company (KNPC) selected its joint venture team as the preferred bidder for two engineering, procurement and construction (EPC) packages of the Al-Zour refinery project. The USD 28bn project south of Kuwait City would be capable of producing 615,000 bpd.

General Electric has been operating in Kuwait since 1970s collaborating with both private and public sector to cater to the infrastructural requirements

of the country across segments such as the aviation, power, water, oil and gas industries.

Some of the major assignments of GE in Kuwait are

- GE constructed a new facility in Kuwait that will house a large generator and both steam and gas turbines. The inauguration of the GE Kuwait Technology Center in October 2016 was a major milestone in Kuwait's strategic effort to attract multinational firms to Kuwait with the objective of attracting technology, creating high value added jobs, and growing the ecosystem that promotes business formation. Markaz was the GE's financial advisor from concept phase of the project and helped formulate the business plan and the implementation road-map.
- GE is providing technology for expansion of the Sulaibiya Wastewater Treatment and Reclamation Plant.
- GE through its collaboration with the Ministry of Electricity and Water, powers 37% of Kuwait's electricity by supplying its advanced gas turbines to six different power plants across the country.
- GC has provided healthcare technologies to help Kuwaiti facilities diagnose non-communicable⁸ diseases.

⁸Non-communicable diseases (NCDs), also known as chronic diseases, are of long duration and generally slow progression. The 4 main types of non-communicable diseases are cardiovascular diseases, cancers, chronic respiratory diseases and diabetes.

Dow Chemical in Kuwait

Dow Chemical is the largest foreign investor and, through its Joint Ventures (JVs) is one of the largest private employer of Kuwaiti nationals in the petrochemical industry in Kuwait.

Dow has a local office and four industry-leading Joint Ventures:

- EQUATE Petrochemical Company
- EQUATE Marketing Company
- The Kuwait Olefins Company (TKOC)
- The Kuwait Styrene Company (TKSC)

Additional to the above-discussed JVs, Kuwait's Petroleum Industries Company (PIC) and Dow Chemical of the U.S signed a USD 17.4bn deal in 2008 to establish a joint venture. Dow was to hand over chemical plants and other assets in exchange for cash up front to the 50-50 joint venture, named KDOW. KDOW was expected to manufacture and market chemicals and plastics used in computers, food packaging and other consumer durables. Dow had planned to use the proceeds to repay a part of USD 13bn in debt post its acquisition of rival Rohm & Haas in 2009.

However, the deal met opposition in the Kuwaiti parliament and Kuwait pulled out of the joint

venture as the global economy sunk into a deep recession and triggered charges from Dow that it had violated agreements. Dow subsequently won USD 2.1bn in arbitration.

FDI Inflows in Kuwait

Kuwait's FDI inflows over the years have largely been restricted to its time tested trading partners – the UAE, the U.S, France and the U.K. These four countries accounted for 23%, 22%, 19% and 5.4% of the FDI inflows that came into the country over the period January 2003 to May 2015 respectively. The U.S ranks 2nd in terms of FDI in Kuwait investing close to USD 2.486bn over the same period. Around 41 U.S companies have invested in Kuwait in 45 projects.

FDI outflows from Kuwait

Contrary to the inflows, Kuwait has made very few investments in United States. In fact, the U.S attracted less than 1% of the total FDI outflows from Kuwait during the period Jan 2003 to May 2015. Kuwait's government has invested in eight projects creating 837 jobs at an investment of USD 245mn.

Outward Investment (FDI, Greenfield Projects) from Kuwait between Jan '03 to May '15

Rank	Country	No. of Firms	No. of Projects	Jobs Created	Value (USD mn)
1	China	6	6	3,341	9,264
2	Vietnam	3	6	3,342	9,186
3	Bahrain	26	40	17,217	7,176
4	UAE	44	62	21,138	7,039
27	U.S	4	8	837	245

Source: FDI Intelligence, Financial Times

Kuwait Investment Authority in the U.S.

According to U.S Department of Commerce, more than half of Kuwait's sovereign wealth funds are invested in the United States. The Kuwait Investment Authority (KIA) disclosed that over USD 300bn of its funds are invested in the U.S and mostly in real estate⁹. However, in 2015, the London branch office, the Kuwait Investment Office (KIO), of KIA, has expressed gradually reducing its overweight stance on U.S. assets after maintaining this stance for seven years. The KIO has changed to overweight stance on Europe because of the European Central Bank's decision in January to use quantitative easing

Other Aspects

Military requirements of Kuwait are largely met by U.S and EU. Annual military expenditure incurred by Kuwait is about 5.1% of its GDP¹¹. Kuwait and the United States have a formal Defence Cooperation Agreement (DCA) signed on September 19, 1991, seven months after the U.S.-led expulsion of Iraqi forces from Kuwait in the 1991 Persian Gulf War (Operation Desert Storm). Under the DCA, the United States maintains forces and pre-positioned military equipment in Kuwait. The United States provides security assistance to Kuwait through foreign military sales, as well as direct commercial sales.

Major U.S. Arms Sales to Kuwait

U.S. arms sales have sought to enhance Kuwait's capability and the inter-operability of its military with U.S. forces. Because of its ample financial resources, Kuwait is not eligible to receive U.S. excess defence articles. Major U.S. Foreign Military Sales (FMS) include

- **Missile Defence Systems:** In 1992, Kuwait bought five Patriot anti-missile fire units, which were delivered by 1998. The system intercepted Iraqi missiles launched at Kuwait in the 2003 war. Additionally, the Administration reported a

Inward Investment (FDI, Greenfield Projects) in Kuwait between Jan '03 to May '15

Rank	Country	No. of Firms	No. of Projects	Jobs Created	Value (USD mn)
1	UAE	57	79	10,027	2,620
2	U.S	41	45	4,325	2,486
3	France	21	21	3,561	2,230
4	U.K	20	20	1,921	602
5	Singapore	1	1	875	601
14	China	4	4	165	97

Source: FDI Intelligence, Financial Times

Expat Population

Kuwait, which boasts of a population of 4.2million, has a dominant expatriate community who account for almost 70% of its population. Kuwait depends extensively on imported workforce for its labour needs. Dominant expat communities are from India, Egypt, Philippines & Bangladesh. It is estimated that 30,000 Americans reside in Kuwait¹⁰. We believe most of them provide military, diplomatic and intelligence assistance to Kuwait. The annual remittance from Kuwait to U.S. has been stagnant at USD 9mn between 2013 and 2015.

⁹ <http://news.kuwaittimes.net/website/half-kuwaits-sovereign-wealth-funds-invested-us-counselor/>

¹⁰ <http://www.bq-magazine.com/economy/socioeconomics/2015/08/kuwaits-population-by-nationality>

¹² Al Masah Capital, Based on spending over the years 2001-2010

sale of 60 Patriot Advanced Capability ("PAC-3") missiles and 20 Patriot launching stations, and associated equipment, valued at USD 4.2bn in July 2012.

- **Combat Aircraft/F-18s:** In 1992, Kuwait bought 40 FA-18 combat aircraft that form the core of Kuwait's fleet of combat aircraft. Kuwait proposed to purchase at least 28 more F-18s, with an option to buy 12 more in mid-2015. However, there was a delay in the approval process for that sale.
- In February 2016, Kuwait announced it might instead buy 28 Eurofighters instead¹². There has been speculation that the Administration might approve the sale after it completes a 10 year Memorandum of Understanding (MoU) on U.S. security assistance to Israel¹³. In April 2016, the Administration approved the sale of 28 F-18s to Kuwait, with an estimated value of USD 3bn¹⁴.
- **Tanks:** Kuwait purchased 218 M1A2 tanks at a value of USD 1.9bn in 1993 and the delivery was completed in 1998.
- **Apache Helicopters:** In September 2002, Kuwait ordered 16 AH-64 (Apache) helicopters equipped with the Longbow fire-control system, valued at about USD 940mn. Moreover,
- Kuwait is planning to buy additional Apaches.
- **Air-to-Air Missiles:** In 2008, Kuwait bought 120 AIM-120C-7 advanced medium range Air-to-Air Missiles (AMRAAM), along with equipment and services, worth USD 178mn. In February 2012, the Administration reported Congress of a sale of 80 AIM-9X-2 SIDEWINDER missiles and related parts and support, worth USD 105mn.
- Defence Security Cooperation Agency (DSCA) announced on June 30, 2014, that the U.S. Army Corps of Engineers would construct a Kuwait Armed Forces Hospital in Kuwait worth USD 1.7bn.
- In November 2015, the United States approved a possible foreign military sale to Kuwait for Sniper advanced targeting pods and associated equipment, parts, and logistical support for an estimated cost of USD 115mn.
- In December 2015, Kuwait's government sought the approval of USD 200bn in additional funds for arms purchase from the National Assembly. The funds will pay for the combat aircraft that Kuwait pursues, as well as for additional U.S. Apache helicopters, French naval vessels and light armoured vehicles, and Russian-made missile systems and heavy artillery.¹⁵

4

How can Kuwait Leverage the relationship with the U.S.

The United States is the world's largest national economy in nominal terms and second largest according to purchasing power parity (PPP), representing 22% of nominal global GDP and 17% of gross world product (GWP). The United States' GDP was estimated to be USD 18.5Tn as of 2016¹⁶. The U.S dollar is the most widely used currency in the world as it is backed up the strength of the U.S government. Some of the developing nations even use their currency as their official currency or de-facto currency. The United States is a mixed economy that has maintained a stable overall GDP growth rate, a moderate unemployment rate, despite the slowdown caused by the financial crisis of 2009. Its seven largest trading partners are Canada, China, Mexico, Japan, Germany, South Korea, and the United Kingdom.

The United States has transformed and re-invented itself over the years. Once a bastion of manufacturing it slowly started outsourcing to China in the early 90s. Low cost of labor and economies of scale that China offered coupled with huge consumption appetite of the U.S affected both the economies positively. The tectonic shift in trade and business was seen in the sectoral mix of GDP – currently manufacturing contributes

close to 19.4% of the country's GDP while the service industry contributes close to 79.5% of the country's GDP and rest consists of agriculture. U.S based companies have been at the forefront of the technological innovations that is happening in the areas such as computers, pharmaceuticals, and medical, aerospace, and military equipment. Apple, Google, Microsoft, Amazon etc. have been the byproducts of the supportive ecosystem that exists in the U.S.

At some level, manufacturing has declined dramatically — as a direct employer of American workers. According to the Bureau of Labor Statistics, 12.3 million Americans had payroll jobs in manufacturing in June 2016. That is down about 30,000 from June 2015, off nearly 1.9 million from June 2006, and down 4.9 million from 1996. In the past 20 years, in other words, America has shed 28 percent of its manufacturing jobs. The transition from mostly oil to a service based economy is a strategy that is worth considering for Kuwait. While 40% of Kuwait's GDP comes from the service sector, revenues contribution from the sector remains low, oil and gas still account for 94% of the country's revenues, highlighting the necessity of improving the service sector.

¹² "Kuwait Says Sticks to F-18 Jets Despite Approval Delays." Reuters, January 21, 2016; "Kuwait to Sign Eurofighter Jet Deal with Italy: Minister. Gulf News, February 12, 2016

¹³ "U.S. Lawmakers Urge Action on Jet Sales to Qatar, Kuwait, and Bahrain." Defense News, July 13, 2016.

¹⁴ <http://www.reuters.com/article/us-boeing-fighters-gulf-idUSKCN11Y2TX>

¹⁵ "Kuwait Planning to Boost Military Capabilities—US, GCC States Eye Boots on the Ground Against ISIS." Arab Times, December 9, 2015.

¹⁶ U.S Bureau of Economic Analysis

Free market philosophy

The U.S economy stands as a great example of the free market philosophy. Private individuals and business firms make most of the decisions, and the federal and state governments buy needed goods and services predominantly in the private marketplace. U.S government and its policy makers' main job is to ensure that the innovations brought in by private enterprises are not stifled by the lack of regulation or burdened by insufficient regulations. Such a hands-off approach provides the U.S business firms greater flexibility than their counterparts do elsewhere in world in taking decisions to expand capital plant, to lay off surplus workers, and to develop new products. This free market philosophy leads to quick recovery from recession as business downsize quickly and recover at a rapid pace.

Robust Bankruptcy Laws

The U.S has strong bankruptcy laws that help companies shut down following poor performance. Effective bankruptcy laws ensure that the entrepreneurs are not discouraged by one failure and instead it helps them to correct their mistakes. Bankruptcy can take two forms – liquidation and restructuring. The former is simple as it involves breaking up the business and selling it to buyers and paying the proceeds to the creditors while the latter gives the business a temporary relief from the creditors as companies cut cost, reduce assets and return to profitability. Businesses are willing to take more risks and explore new areas that are often overlooked owing to such robust laws. In fact, bankruptcy laws played a vital role in the quick recovery of the American economy following the financial crisis of 2007-08. Many of the corporate heavyweights such as General Motors, Chrysler, Lyondell Basell filed for Chapter 11 following the financial crisis and emerged stronger following the restructuring.

Support for Startups

Silicon Valley in the U.S has known for its unique startup culture, and has given the world some of the most innovative companies – Ebay, Amazon, Apple, Google, Tesla, Microsoft, Salesforce etc. These companies exist today, as the startup culture prevailing in the region served as an ideal platform for new ideas and risk taking. Sometimes startups in the region precede the regulations that are already in place. There have been ample cases where federal and state governments update their regulations following the success of the product.

Uber, the cab-hailing application, is one such revolutionary product - started in 2009 and currently operates in 536 cities across 66 countries globally it has changed the way people travel in these cities. Interesting aspect about the startup culture is that the incumbents that have become big corporations are helping smaller startups through various programmes. Microsoft's BizSpark program supports 72,000 small businesses building on their various platforms. Oracle's partner network has a million companies. These massive eco-systems offer a sort of training grounds for entrepreneurial potential.

Google's and Apple's app ecosystem fueled a global bonanza in application development. These giants have acquired some of the apps themselves. GCC region's familiarity with smartphones is an area that is worth exploring. GCC region's higher spending capacity and its propensity to consume bodes well for mobile app development in the following areas – e-commerce, luxury retail and concierge services.

Research Universities

The U.S is home to one of the largest set of scientific and research institutes globally - Harvard University, Princeton University, Stanford University, University of California, John Hopkins

University, Massachusetts Institute of Technology, California Institute of Technology etc., are some of the most recognizable names that churn out huge number of research scholars. Research undertaken at the likes of these institutes helps the U.S in staying ahead of the curve in terms of scientific progress. Apart from private universities, there are also government level organizations that undertake research in niche and obscure areas; Private companies usually find these researches to be prohibitively expensive to undertake.

Department of Health and Human Services (HHS), the top-ranked government innovator in the U.S., is a cabinet-level department of the federal government tasked with protecting the health of American citizens. Although primarily known as a regulatory and service agency, the department's 11 operating divisions include some of the nation's most active centers of scientific research, including the National Institutes of Health, the Centers for Disease Control and Prevention, and the Food and Drug Administration¹⁷. In addition to this, there is the U.S Department of Energy, U.S Department of Veteran Affairs and the United States Navy that appear in the Top 25 ranks for 2015. As a result of

the spending the United States invests the most in research and development (R&D), produces the most advanced degrees in science and engineering and high-impact scientific publications, and remains the largest provider of information, financial, and business services.

Cooperating with the US to Strengthen Kuwait's entrepreneurship and private companies

The case of the U.S illustrates that the private sector participation in the economy must increase in order to achieve optimum diversification. The U.S has relied on its private enterprises and the free market principle, which has attracted a number of talents from around the world and has helped in keeping unemployment at lower levels. Kuwait can learn from the experiences of U.S, and could collaborate with the latter to support the development of characteristics, albeit suited to local ethos, that would allow Kuwait to develop its own service economy potential more robustly.

University R&D budgets – Top 10 Universities

University R&D Budgets (000's)	Science	Engineering	Other	Total
John Hopkins University	1,233	860	13	2,106
University of Michigan - Ann Arbor	1,027	221	75	1,323
University of Wisconsin - Madison	917	114	139	1,170
University of Washington	961	104	44	1,109
University of California - San Diego	939	126	9	1,074
University of California - San Francisco	1,033	-	-	1,033
Duke University	946	59	5	1,010
University of California - Los Angeles	899	71	34	1,003
Stanford University	722	131	-	854
Columbia University in the city of New York	789	59	42	889

Source: Respective Universities, Latest available info

¹⁷ (Patents filed by these institutions list the name of their parent agency, so for the purposes of this list, Thomson Reuters ranked HHS instead of its subsidiaries.)

Some of the areas in which Kuwait and the U.S can actively collaborate are described below

- **Developing a Startup/ Private company ecosystem:** Kuwait has remained as a country where most of the projects are initiated and funded by the government. This approach is restrictive and takes up vital resources of the government – both in terms of time and money. As a result developing a completely new ecosystem for private companies is essential. However developing a completely private company ecosystem is not something that could be achieved in a year or two. It needs to have certain key ingredients for the ecosystem to foster. Kuwait could also look at tying up U.S. based Center for International Private Enterprise or even the U.S Chamber of Commerce for this.

- * **Culture of entrepreneurship** - It is essential to develop an entrepreneurial culture within a region, not only among the entrepreneurs themselves but also among all stakeholders. The regional mindset is that, despite its familiarity with “small businesses”, it struggles to understand how a “startup” is something altogether different. For many stakeholders, there is a learning curve in understanding the “scalability” and “innovation” required for a startup to deliver the kind of growth required to fulfill the promise entrepreneurship holds for economic development.

- * **Champions** – As Apple or Google did for the application development, an ecosystem needs a champion or a team of champions to provide a driving force and encourage potential entrepreneurs to take risks. Tala-bat, an online food delivery service, Careem, a cab rental service based out of Dubai, Paytabs, an online payment processing tool and UTURN, an online media outside focused on Arabic content etc., are some

of the budding startups in the GCC region. Kuwait could look at conducting regular meeting or a Q&A session with such entrepreneurs that would help in nurturing and mentoring potential local champions.

- * **Network** - Working in isolation, most ventures are doomed to fail. A strong and diverse network of other entrepreneurs, mentors, service providers, research institutes, doctorates, investors, etc. helps entrepreneurs to share ideas, access resources, receive encouragement and advice, overcome barriers, and learn about new opportunities. Sirdab lab is one such initiative that is taking place in Kuwait. It offers entrepreneurs with coCo-working space, training, networking, mentorship and access to funding, all of which are important for development of entrepreneurship. The government could look at mooted similar accelerator and incubator models for startups.

- **Developing Entrepreneurship and a robust SME network:** Developing grass root entrepreneurship should be a key priority for the Kuwaiti government. The number of Small-to-Medium Enterprises (SMEs) in Kuwait is high, particularly in retail and non-financial services, but their overall contribution to the economy is marginal - just 3% of GDP. Kuwaiti SMEs only employ around 23% of the country's total workforce, which is less than half of SME employment figures for both high income and emerging economies¹⁸. Business licensing and permits are a key concern for their growth; unavailability of skilled staff is another key concern for Kuwaitis. Building a vibrant ecosystem for SME development is seen as critical to promoting long-term economic diversification in Kuwait. In the next 20 years or so, the private sector is expected to play a leading role in creating jobs for the next generation of Kuwaitis. To achieve this, Kuwait can look at the U.S regulations that have

enjoyed a great deal of success in nurturing its private sector. Regulations surrounding the start of business needs a revamp and made more entrepreneur friendly.

For instance, the U.S conducts entrepreneurship programmes around the world through its Office of Commercial and Business Affairs. Through these programmes, the U.S aims to create new opportunities for investment, partnership, and collaboration. Such programmes contain workshops, panels, ignite talks, pitch competitions, mentoring, and networking sessions aimed to give participants customized opportunities to gain skills and relationships that will help their ventures grow. The U.S currently has a bi-national partnership with Mexico, which aims to bring together stakeholders from public, private, and nonprofit sectors to address entrepreneurial challenges that American and Mexican SMEs face. Kuwait could look at setting up a similar body in order to help the prospects of SMEs in the country.

- **Increasing scientific research:** Kuwait like its counterparts in the region has abundant oil & gas and conducts related 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. Petrochemical distillates and derivatives would serve as an area that could hold big potential owing to its relationship with oil markets.

U.S has recently signed an agreement with Pakistan to create a U.S-Pakistan Knowledge Corridor. The aim of the project is to produce 10,000 Pakistani Ph.D. scholars in various disciplines over the course of next 10 years. Kuwait could look into emulating similar models for its

country as increasing the number of PhD's in the country would have multiple benefits such as increasing the scientific stock of the country as well as enhancing Kuwait's global reputation. Kuwait employs most of its nationals in government positions and such a program could be introduced on a voluntary basis for them.

i. Scientific Research to Commercialization

One of the many challenges faced by bodies involved in research is moving the research project from lab to marketplace. Disconnect between the research institutes and the industry is one of the main reason behind this wedge. U.S National Science Foundation (NSF) has tried a different approach to solve this problem. This approach makes entrepreneurs out of scientists in the project. According to VentureWell, as of May 2016 the program has trained over 700 teams, which have raised more than USD 80 million from venture funding, government grants, and other sources. 81% of the entrepreneur teams are still active 13–21 months after taking the course.

Building on this success, the program has grown beyond the NSF, to similar programs at other agencies, such as the NIH, the Department of Energy, and the Department of Defense, as well as other countries, such as Australia and Singapore. Kuwait's KISR and KFAS could look at adopting this program that could potentially bring PhD's in the country into the limelight of global scientific community.

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.

¹⁸ <http://www.worldbank.org/en/news/feature/2016/03/01/building-kuwait-future-one-small-enterprise-at-a-time>

Startups are an important part of the U.S economy. In Kuwait, there is significant scope for the development of SMEs as they currently contribute only to 3% of the GDP. The promotion of SMEs for the twin purpose of diversifying the economy and creating employment is paramount. In this regard, the SME Fund with a capital of KD 2Bn was setup to provide funding for the SMEs in Kuwait. U.S expertise in the field of handling regulatory framework for the development of SMEs could be insightful to Kuwait. Kuwait could invite founders of various technology companies to its country in order to conduct workshops, trainings and skill development programs for the development of SMEs in Kuwait.

The key takeaway for Kuwait from the U.S experience is that a multi-faceted approach is needed to build the private sector and have a hands-off approach on regulations. While

total hands-off approach on regulations might not be possible in Kuwait, the regulations and licensing requirements for businesses needs to be overhauled. It takes 61 days to register a business in Kuwait as against the MENA average of 21 according to Ease of Doing Business rankings. Kuwait could set efficiency and performance targets that will bring down the time for starting such businesses. For instance, business permits and licensing, needs to be faster, bankruptcy laws needs to be overhauled and risk taking should be encouraged. Obtaining an operating license takes, on average, 41 days in Kuwait, they said. Further, dealing with other government regulations consumes anywhere from 14%-20% of a manager's time. Kuwait should also focus on drafting strong laws that would protect the consumers and end users.

5

U.S's Key Sectors – Lessons for Kuwait

Finance

The U.S financial market is the largest and most of liquid in the world. In 1950, the U.S financial sector accounted for 2.8% of the overall economy. By 2016, finance-related activity had grown by almost ten times, and accounted for 18% of the GDP. Given the U.S Dollar's status, as the world's most preferred reserve currency, low interest rate environment, a stable economy and good corporate governance the financial sector in the U.S has witnessed healthy rate of growth despite the financial crisis of 2007. Leadership in this large, high-growth sector translates into substantial economic activity and direct and indirect job creation in the United States.

Such a vibrant and liquid financial market facilitates and finances the export of U.S. manufactured goods and agricultural products and serves as a major employment generator. In 2016, the United States exported USD 119.6Bn in financial services and insurance, and had a USD 46.6Bn surplus in financial services and insurance trade (it has an overall trade deficit of USD 502Bn for 2016). Financial and Insurance sector owing to the sheer size is a major employer of the workforce in the U.S; with close to 6.08Mn employed in the sector, as of 2016. The securities and investment sector currently employs 920,700 people.

Robust financial ecosystem and strong corporate governance rules give significant advantages for companies. Close to 128 of the Fortune 500, companies have their headquarters in the U.S, in order to take advantage of the country's financial sector. Companies in the U.S have a wide variety of financial channels through which they could access a range of services – banking, asset management, insurance, private equity and venture capital.

Bond Markets: U.S. bond market is one of the most well developed bond markets. As of Q3 2016, the value of outstanding bonds stands at USD 40.8Tn making it twice as large as the U.S. stock market. In 2017, there has been USD 693Bn worth of bonds that were issued by public, private, municipal and treasury sources. U.S. treasuries serve as a global benchmark for borrowing and low interest rates prevailing all around the developed markets has resulted in lot of corporations issuing bonds for longer periods at low rates. Corporate credit is about USD 8.5Tn of this pie¹⁹. The high yield bond market is a growing piece, now at USD 1.3Tn domestically and USD 1.8Tn including all U.S dollar denominated bonds.

Lessons for Kuwait

The key take-away for Kuwait from the above would be the development of its capital markets. Kuwait

¹⁹ SIFMA Statistics

had one of the most vibrant, albeit unofficial stock exchange in the 1980's, which unfortunately crashed following a series of geo-political events in the region. Kuwait's stock exchange remains mostly illiquid owing to a number of factors including poor earnings performance, and poor investors' appetite (local and foreign). Kuwait's stock turnover ratio remains 10% as of 2016 and only Oman and Bahrain fair worse in the region at 9% and 2% respectively. Increasing the focus on developing the securities market of the country helps in two areas – diversification and job creation. Kuwait, like the other GCC countries in the region has been trying to decrease its dependence on oil, which still accounts for over half of its GDP and almost all of its export revenues. MSCI's market accessibility review highlights the following areas for improvement in Kuwait.

- **Improving minority Shareholder rights & Corporate Disclosures** - In general, the rights of minority shareholders are limited due to the presence of large strategic shareholders in Kuwaiti companies. Promoters are known to keep their stake slightly below the legal limit by which they have de facto control over the company. Increasing corporate disclosures and strengthening transparency laws would be a good area of improvement for Kuwait. U.S. Securities and Exchange Commission (SEC) is a dynamic body that frequently updates standards and procedures for betterment of investors. Kuwait Bourse should initiate frequent dialogues with SEC in this regard.
- **Creating a bond market** – Kuwait does not have a well-developed bond market. Banks or foreign institutions who continue to hold on to it to maturity lap up corporate and government bond issuances. As a result, there is very little trading that goes on in the secondary market. Creating a secondary bond market would provide a viable liquid route for the investors. Currently they depend on off-market selling for exiting their investment positions. The

GCC region also does not have a standalone secondary bond market; creating one in Kuwait would give it a major head start over other countries. Since creating a bond market from scratch takes a humongous effort, Kuwait Bourse initially could look at tying up with NYSE Bond Exchange for bond issues. This tie-up could look at an Operate and Transfer model whereby the operations of the bond market would be transferred to Kuwait Bourse after a few years.

Manufacturing

U.S. machinery manufacturing is one of the largest in the world, and remains as one of the most competitive sectors in the country. Exports fell sharply during 2009, but have recovered in recent years, with exports of capital equipment totaled USD 166bnbn in 2015. Canada, Mexico, China, South Korea, and Japan are the major export markets for U.S. manufactured goods. Germany, Taiwan, the United Kingdom, Australia, and Singapore round out the top 10 export markets. Taken as a whole, the European Union was the U.S. machinery manufacturers' third-largest market in 2015, after Canada and Mexico. Construction machinery, engine equipment, turbines and turbine generator sets, industrial process controls, and agricultural equipment led U.S. exports in 2015. Major competitors in global machinery markets include Germany, Japan, Italy, and China.

Robots are replacing workers, at an accelerating pace, and investments in automation and software has doubled the output per U.S. manufacturing worker over the past two decades. With increasing automation, the manufacturing industry has become more productive. From 2007 to 2016, the manufacturing sector experienced a productivity growth of 1.7% – the production of computer and electronic products rose 829%²⁰. As of November 2016, more than one million Americans were employed directly in machinery manufacturing. Jobs in the sector have stayed at roughly the same level, since 2006. However, the unemployment

rate for machinery manufacturing has dropped significantly from a mid-recession high of 14.2 percent in October 2009 to 4.1 percent in November 2016.

Kuwait currently does not have any large-scale manufacturing capabilities. It is currently restricted to small-scale manufacturing of petrochemicals, fertilizers, ammonia etc. These chemicals are traded as commodities and as a result, there is less pricing power for the companies that manufacture them. Automation of U.S. factories has been a major factor in increasing productivity and competitiveness of the U.S. manufacturing. Kuwait could look at setting up such automated factories, which would restrict the need for importing labor from developing nations. Reducing foreign labor would also keep costs of labor down, and keep remittances down. The cost savings could then be used to fund local projects, which would create jobs for the local population. Kuwait could exploit its potential of having greater access to the European and Asian market through both land and sea routes. European markets, as a whole is the third largest export market for the U.S. manufactured products.

Management consulting

In 2015, the industry had 165,000+ firms and employed over 1.1 million professionals. This subsector accounted for USD 257.6Bn in revenue during 2015 (a 10.1 percent surge from the prior year). Firms provided consulting services in administrative and general management; human resources; marketing; process, physical distribution, and logistics; environmental; and other scientific and technical services.

U.S. companies have been most competitive owing to the various support industries that help in running their businesses with minimal inefficiency. Encouraging local support of these industries could help Kuwait with their diversification initiatives. For this to take place, developing the business and IT skills of the youth of country is of paramount

importance. Kuwait government currently absorbs most of the nationals' workforce, with a significant amount of government's expenditure going towards payment of their salaries. Some of the most reputed consulting firms in the U.S include – Deloitte, McKinsey, Denison, KPMG etc., and all of them operate in GCC region. Kuwait should look at engaging these consultants to identify and develop areas in which Kuwait should focus on. If successfully implemented the support industry would ensure that future graduates do not have to depend on government to provide employment and would instead venture out on their own.

Retail Services

The United States has well-established distribution channels for retail services industry, and provides an openly competitive environment that fosters strong business operations, and spurs innovations that increase efficiency and reliability. Total sales from the more than 3.6 million retail establishments in the United States reached about USD 2.6Tn in 2015, and retailers supported more than 42 million jobs in the U.S. According to the National Retail Federation, retail industry sales for 2016 are expected to increase 3.1 percent from 2015.

Retailers: This subsector employs approximately one out of five Americans. According to the National Retail Federation, independent and privately held retail businesses account for about 95 percent of the retail industry. Retail stores are the face of the industry. However, on-line sales continue to drive the success of the retail industry, especially during the holiday seasons.

Franchisers: Franchising has provided businesses with great opportunities in the United States for more than a century. The model is widely used as it provides an established plan for business expansion and diversifies risk. Franchising also offers assistance and support for new business owners by passing on a proven business model, along with training and support, advertising programs, and

²⁰ As of 2012 – From the rise of the robots – Martin Ford

accounting and payroll management. Franchising offers products and services in over 300 business categories, including food and beverage, lodging, health and educational services, professional services, auto care, accounting and tax services, real estate, home services, IT services and retail products. As a leading job creator in both the U.S. and abroad franchising continues to prosper in markets all over the world, no matter their level of development or sophistication.

Franchising is a well-established business in Kuwait, which enjoys one of the highest standards of living in the world, making it a prime destination for retailers. Its 3.8m population indulges in a number of luxury and high street brand names, and the country's increased urbanization is driving growth

within organized retail. Years of consistent and solid performances in Kuwait's retail sector have helped to drive up the number of outlets and brands opening their doors. The state's largest shopping mall, The Avenues, has grown to accommodate 800 retail units, with the luxury wing, Prestige, completing phase three of its expansion in 2013 while the Gate Mall opened for business in 2014. Kuwait needs to use its experience with franchising to increase its stature in the international food and beverage industry. In recent years, the gulf state has become hub of food tourism and it aims to be the food capital of the world by 2030. Kuwait's previous experience with franchising needs to be tapped in order to take small and medium sized restaurants to a global scale.

6

Conclusion

Kuwait has made many improvements over the last two years to improve the country's overall investment climate and international appeal. In 2013, Kuwait came up with a Foreign Direct Investment law that aimed at easing the constraints on doing business in the country. The new law offers foreign investors with several incentives including the ability to own or increase ownership in a Kuwaiti company to 100% (restricted to 49%), to operate through a 100% foreign owned branch, and to benefit from income tax and customs duty exemptions. Other elements of the new law include the creation of the Kuwait Direct Investment Promotion Authority (KDIPA) that will function as a "one-stop shop" for the review of applications and approval of licenses and incentives.

Kuwait has ample scope to improve its financial markets. Boursa Kuwait, Kuwait's stock exchange, has recently introduced market-making model and came out with detailed regulations during December 2016. Market making is considered as a crucial tool that serves in boosting liquidity of securities listed in the stock market, as well as generally in enhancing efficiency of the market as well as in activating its tools. Applying market-making principals to Boursa Kuwait is a major milestone towards developing the Kuwaiti capital market as a major regional trading hub, which will benefit Boursa Kuwait and the Kuwaiti economy

in general. In addition to market-making Kuwait should also strengthen its corporate governance framework, which would put foreign investors and local investors on equal footing.

Kuwait should focus on upgrading itself to an emerging market status from its frontier market status. Emerging market status would initially attract passive index funds, which would provide much needed initial momentum for stock-market volumes. Kuwait should also look at conducting investor introduction shows in major financial markets around the world. These events would provide the much-needed visibility for Kuwait markets and increase the confidence among potential investors.

Developing a bond market would be beneficial in many ways. None of the GCC countries has an active secondary bond market, which is a great business opportunity for Kuwait. Increasing private and public debt issuances in the region augurs well for a development of a secondary bond market. Kuwait could start the initiative of developing a secondary debt market focused initially focusing on the domestic issues and could even look at tapping the pan-GCC debt issues in the future.

Other major lessons that could be learned include the promotion of SMEs in Kuwait. Small and medium-sized enterprises (SMEs), firms with

fewer than 500 employees, are the backbone of U.S. economy. They make up 99 percent of all firms, employ over 50 percent of private sector employees, and generate 65 percent of net new private sector jobs. SMEs account for over half of U.S. non-farm GDP, and represent 98 percent of all U.S. exporters and 34 percent of U.S. export revenue. In Kuwait, there is significant scope for the development of SMEs as they currently contribute

only to 3% of the GDP. Credit and cash flow are some of the major requirements for success of SMEs. Kuwait government must also earmark funds on an annual basis that would be used for the promotion of R&D in the country, especially in the STEM fields, and both prioritize and incentivize education in these fields.

Appendix

1. List of Prominent U.S. Companies in Kuwait

- The Dow Chemical Company
- General Electric
- Fluor Corporation
- Raytheon
- AIG Insurance
- Lockheed Martin
- Chevron
- Boeing
- Citi
- E&Y
- Honeywell
- Microsoft
- Hill International
- Berkeley Research Group

Statistical Appendix

U.S. Economic Snapshot

U.S.	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP (%)	2.2	1.7	2.4	2.6	1.6	2.2	2.1
Nominal GDP (USD bn)	16,155.3	16,691.5	17,393.1	18,036.7	18,561.9	19,377.2	20,250.8
General Government Balance (as % of GDP)	-7.9	-4.4	-4.2	-3.5	-4.1	-3.7	-3.3
Current Account Balance (as % of GDP)	-2.8	-2.2	-2.3	-2.6	-2.5	-2.7	-2.8
Investments (as % of GDP)	19.4	19.8	20.0	20.3	19.8	19.8	19.9
General Government Debt (as % of GDP)	79.4	80.8	80.3	79.8	82.2	82.3	82.1
Inflation, Avg. consumer prices	2.1	1.5	1.6	0.1	1.2	2.3	2.6
Population (in million)	314.4	316.7	319.1	321.6	324.0	326.2	328.4
Per Capita Income (USD)	52,520	53,670	54,400	54,960			
Lending rate (% p.a.)	3.25	3.25	3.25	3.50			
Deposit rate (% p.a.)	0.40	0.32	0.32	0.32			
Real deposit rate (% p.a.)	-1.67	-1.15	-1.3	0.2			

Source: IIF, IMF

Kuwait Economic Snapshot

Kuwait	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP (%)	7.9	0.4	0.6	1.1	2.5	2.6	2.6
Nominal GDP (USD bn)	174.1	174.2	162.7	114.1	110.5	124.9	134.3
General Government Balance (as % of GDP)	33.3	34.3	28.1	1.7	-3.5	3.2	3.8
Current Account Balance (as % of GDP)	45.5	39.9	33.3	5.2	3.6	8.4	8.8
Investments (as % of GDP)	12.8	14.4	16.3	25.0	23.5	21.5	21.0
General Government Debt (as % of GDP)	6.8	6.5	7.5	11.2	18.3	22.4	26.6
Inflation, Avg. consumer prices	3.2	2.7	2.9	3.2	3.4	3.8	3.6
Population (in million)	3.8	3.9	4.0	4.1	4.2	4.3	4.5
Per Capita Income (USD)	45,988	44,776	40,684	27,756	26,143	28,758	30,095
Lending rate (% p.a.)	4.8	4.5	4.3	4.3	4.6		
Deposit rate (% p.a.)	2.0	2.0	2.0	2.4	2.7		
Real deposit rate (% p.a.)	-1.1	-0.6	-0.9	-0.9	-0.6		

Source: IIF, IMF

Kuwait Import by Origin, Top 15 (in 000's KD)

Countries	2011	2012	2013	2014	2015	Q1, 2016
China	1,024,735	1,007,870	1,115,569	1,266,863	1,532,589	354,561
U.S	741,657	762,775	824,445	860,397	903,931	217,943
U.A.E	442,308	554,300	730,038	817,829	895,930	195,356
Japan	458,399	598,951	631,047	638,226	650,759	167,113
Germany	457,590	488,018	562,127	597,579	537,185	160,128
Saudi Arabia	398,019	401,544	398,374	433,836	476,171	110,419
India	412,222	364,677	332,152	368,469	419,559	125,810
Italy	265,946	362,962	354,878	342,681	326,694	92,096
S. Korea	263,738	342,845	323,987	354,294	291,705	85,863
U.K	186,600	235,713	235,682	232,294	272,790	61,718
France	153,313	178,506	212,190	224,597	190,812	46,753
Turkey	115,614	109,092	130,730	150,813	180,908	36,389
Australia	183,457	160,049	162,276	185,898	176,703	41,181
Switzerland	109,952	127,169	166,200	172,764	173,965	35,094
Vietnam	19,179	53,189	67,500	113,663	164,886	41,420
Total	6,938,065	7,631,699	8,308,846	8,829,318	9,600,112	2,304,220

Source: CSB

Kuwait Exports by Destination, Top 15 (in 000's KD)

Country	2011	2012	2013	2014	2015	Q1, 2016
KSA	189,984	197,418	197,228	208,344	256,277	58,982
U.A.E	189,331	204,834	236,750	217,369	246,033	44,986
China	228,982	234,962	293,407	293,984	242,839	39,092
India	176,321	182,187	202,694	247,729	235,516	36,227
Iraq	15,839	24,664	160,043	193,882	129,126	18,331
Turkey	62,939	67,673	84,214	38,373	71,609	1,803
Qatar	39,340	47,022	45,745	53,552	71,568	28,552
U.S	51,766	80,890	56,704	35,289	66,320	13,220
Pakistan	68,177	63,726	62,986	56,991	46,502	9,075
Jordan	31,458	33,559	33,892	35,018	42,329	11,432
Indonesia	35,233	94,281	52,506	51,631	37,934	11,953
Bahrain	22,894	31,616	27,239	24,959	35,467	7,702
Egypt	16,539	17,968	12,885	18,962	31,611	2,521
Free Trade Zone	1,424	8,753	4,173	11,031	31,191	5,138
Oman	22,841	52,859	36,469	30,219	26,296	10,529
Total	28,339,860	32,051,281	32,363,342	28,636,494	16,591,266	2,714,096

Source: CSB

Kuwait Exports by Broad Categories, Top 5 (in 000's KD)

Categories	2011	2012	2013	2014	2015	2016-Q1
Fuels and lubricants, primary	18,989,499	21,951,962	22,586,101	19,677,323	10,275,651	1,695,024
Motor spirit	7,887,931	8,436,103	7,927,011	7,163,709	4,508,755	655,258
Industrial supplies not elsewhere specified, processed	1,034,175	1,133,493	1,184,932	1,061,202	944,396	172,080
Passenger motor cars	54,966	118,456	133,713	154,171	196,228	35,325
Consumer goods not elsewhere specified, durable	50,192	62,671	106,545	83,668	88,958	18,468
Total	28,339,860	32,051,281	32,363,342	28,636,494	16,591,266	2,714,096

Source: CSB

Kuwait Imports by Broad Classification, Top 5 (in 000's KD)

Categories	2011	2012	2013	2014	2015	2016-Q1
Industrial supplies not elsewhere specified, processed	1,849,406	1,903,268	2,124,568	2,231,802	2,206,033	511,595
Capital goods (except transport equipment)	1,052,532	1,064,789	1,092,278	1,262,434	1,494,903	382,192
Passenger motor cars	763,352	1,052,363	1,147,810	1,098,764	1,071,569	232,810
Food and beverages mainly for household consumption	618,797	629,205	683,371	727,738	791,604	186,684
Consumer goods not elsewhere specified, non-durable	490,692	553,085	613,253	653,178	755,388	174,653
Total	6,938,065	7,631,699	8,308,846	8,829,318	9,600,112	2,304,220

Source: CSB

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