



THE ABSORPTIVE CAPACITY OF KUWAITI ECONOMY: Analysis of Size and Determinants

Mohammad Ali Rammadhan

Kuwait Institute for Scientific Research (KISR)

Abstract:

This paper discusses the absorptive capacity of the Kuwaiti economy. It offers an analytical framework of absorptive capacity and gives indicators of its limitations in the case of Kuwait. The paper also discusses absorptive capacity constraints and the effort of the Kuwaiti government to remove some of these constraints.

I - Introduction:

The Kuwaiti economy is characterized overwhelmingly by public sector and heavy dependence on oil both in terms of value-added and revenue. Over the years, however, the dependence on oil has somewhat declined. Between 1970 and 2000, the shares of the manufacturing and services sectors in GDP increased from 4.2% and 31.8% to 10.2% and 41.6% respectively. On the other hand, the share of the petroleum sector in the GDP declined from 60.3% to 46.6% during the same period. Kuwait's exports of oil and gas accounted for 92.1% of export earnings in 2000. It may be noted, however, that the decline in the relative importance of the oil sector over the last three decades is not due to the faster growth of the non-oil sector but to the slump in oil prices and the reduction in the volume of exports (see Table 1).

During the oil boom (1976-1982), Kuwait enjoyed huge surpluses in its balance of current account and in the government budget. Large sums were invested in income-producing assets overseas⁽¹⁾. This

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(1) Even though Kuwait invest large proportion of its surplus overseas, there is a high liquidity in the economy estimated around 8.16 Billion K.D. in the year 2000 measured by M2.

supported the widely held view that Kuwait's economy has a limited absorptive capacity. The situation has changed radically following the downturn in oil prices in late 1982. The Iraqi invasion in August 1990 reversed the current accounts position and resulted in huge budget deficits.

The aim of this paper is to study the absorptive capacity of the Kuwaiti economy. The paper is divided into six sections. Section two outlines the theoretical framework of the study. Section three examines the indicators of the limitations of Kuwaiti absorptive capacity. Section four investigates the absorptive capacity constraints. Section five sheds some light on the future outlook of the country's absorptive capacity. Finally, section six summarizes the main findings of the paper.

Table 1
Kuwait Gross Domestic Product by Economic Activity (1970-2000)
(Millions of K.D.) at Current Prices

	1970	%	1980	%	1989	%	2000	%
Petroleum and Mining	618.8	60.3	5086.3	66.1	2780.8	38.6	5583.2	46.6
Agriculture	2.9	0.3	14.1	0.2	46.8	0.7	39.2	0.3
Manufacturing	42.8	4.2	430.2	5.6	999.7	13.9	1225.4	10.2
Electricity, Gas & Water	7.2	0.7	-73.9	-1.0	-27.1	-0.4	-89.5	-0.7
Construction	28.1	2.7	278.1	3.6	134.2	1.9	233.1	1.9
Wholesale, Retail Trade	81	7.9	595.3	7.7	651.9	9.1	667.8	5.6
Transport & communication	29.3	2.9	181.2	2.4	296.1	4.1	544.9	4.5
Financial Institutions	20.4	2.0	167.2	2.2	183.4	2.5	622.9	5.2
Insurance	0.5	0.05	14.9	0.2	11.6	0.2	17.3	0.1
Real Estate	-	-	340.9	4.4	690.2	9.6	736.7	6.2
Community and Social Services	195.3	19.0	659.8	8.6	1429.2	19.9	2395.4	20.0
GDP at Producers Prices	1026.3	100	7694.0	100	7196.8	100	11976.4	100

Source: Annual Statistical Abstract (2001), No. 38, Ministry of Planning, Kuwait.

Note: The year 1990 was not considered because of lack of complete data due to the Iraqi invasion of Kuwait.

II. THEORITICAL FRAMEWORK

Many definitions have been put forward for the concept of "absorptive capacity". Perhaps the most broad definition is the one

suggested by Stevens (1971): “The absorptive capacity of a country is the ability of the domestic economy to absorb resources at an acceptable rate of return within a given period”. Unfortunately, there is no agreement among economists as to the nature of resources and what constitutes an acceptable rate of return. Some economists interpret absorptive capacity, in the context of oil producers, in terms of the ability to utilize foreign exchange effectively (Soliman, 1976). To the extent that oil revenues in these countries accrue to the governments in the first instance, the concept of absorptive capacity becomes the ability of the government to spend the oil revenue within a given productivity criterion.

Another problem with the broad definition of absorptive capacity given above is what constitutes an acceptable rate of return (Adler, 1965). It is recognized that the relevant rate is the “social rate of return” which ought to be determined by policy makers. The social well-being of Kuwait must depend on how successful the policy makers are in investing the surplus funds in projects, which would finance themselves in the long-run, and also generate sufficient funds for future development. Consequently, a more productive way to expand the absorptive capacity of the small Kuwaiti economy is to allocate resources effectively and increase the marginal efficiency of investment of most projects by systematically improving the quality of complementary factors of production (El-Mallkh and Atta, 1981).

El-Mallkh and Atta (1981), using the simple system of national income identities, explained the conceptual issues:

$$Y = C + I + G + X - M \quad (1)$$

$$Y = C + G + S \quad (2)$$

where,

Y	=	Gross domestic product
C	=	Private consumption
G	=	Government consumption
I	=	Total domestic investment
S	=	Total saving

M = Total imports

X = Total exports

Identities (1) and (2) indicate the uses to which the resources may be put. From these relations, we obtain:

$$C + I + G + X - M = C + G + S \quad (3)$$

Which, after collecting the terms becomes:

$$I = S + M - X \quad (4)$$

The above expression means investment is financed through domestic saving and net capital inflow (M-X). Since the Kuwaiti economy has, in most years, a surplus in the balance of payments, the expression which more appropriately describes its situation is the following equation, derived from rearranging equation (4):

$$S - I = X - M \quad (5)$$

The excess of domestic savings over investment is equal to the net capital outflow.

$$\text{From equation (2), } S = Y - C - G \quad (6)$$

Hence, if S is known, or one is not interested in applying the absorption criterion to private and government consumption, then a study of the absorptive capacity reduces to the determination of I.

III. INDICATORS OF THE LIMITATIONS OF KUWAITI ABSORPTIVE CAPACITY

The Kuwaiti absorptive capacity can be measured in two ways. The first measurement of absorption capacity depends on the following equation:

$$AC = C + I + G \quad (7)$$

where, AC = Absorptive Capacity

C = Private Consumption

I = Total Domestic Investment

G = Government Consumption

Absorptive capacity according to this definition refers to domestic

absorption (World Bank, 1996). The economy is said to have a limited absorptive, when it persistently has a positive resource balance; i.e.

$$X - M > 0 \quad (8)$$

where X = exports of goods and non-factor services

M = imports of goods and non-factor services

This implies that:

$$S_d > I \quad (9)$$

where S_d = gross domestic saving.

It can easily be seen that in this case

$$S_d - I = X - M \quad (10)$$

The last equation indicates that when domestic absorptive capacity is limited, the economy seeks outside outlets for its surplus saving.

The second measurement of Kuwait absorptive capacity refers to the excess foreign exchange over the country's needs. The country obtains its foreign exchange from exports of goods and services and spends foreign exchange on its imports of goods and services and expatriate workers' remittances. A country is said to have a limited absorptive capacity if its foreign exchange earnings persistently exceed its foreign exchange requirements, i.e.

$$X' - (M' + R) > 0 \quad (11)$$

where X' = exports of goods and (factor and non-factor) services

M' = imports of goods and (factor and non-factor) services

R = workers remittances

When applying the conditions specified in (10) and (11) to the Kuwaiti economy over the period (1973-2000), we obtain the data in Tables 2 and 3. The data in Table 2 indicates that:

1. The absorptive capacity of the Kuwaiti economy, as measured by domestic absorption, has been increasing steadily over the years.

2. Kuwaitis enjoyed a positive resource balance over the last three decades. This is an indicator of absorptive capacity limitations.
3. Domestic saving exceeded gross domestic investment in each year during the last three decades. The excess saving is equal to the resource balance.
4. Gross national saving has been much greater than gross domestic saving.
5. The share of government consumption in Kuwaiti absorptive capacity has been increasing at a much faster rate than other types of domestic spending. This government spending represents merely spending on education, health and social welfare.

Table 2
Kuwait Domestic Absorption and Resource Balance
(Millions of US\$) at Current Prices

Year	C	I	G	Domestic Absorp- tion	X	M	Re- source Balance	SD	SN
1973	1653.5	575.3	809.0	3037.9	4350.2	1340.6	3009.6	3584.9	1464.6
1976	3522.2	3230.8	2005.3	7173.4	10234.9	4275.4	5958.2	8132.1	9325.8
1979	6445.2	3380.3	2765.2	12590.7	19307.1	7135.6	12171.4	15552.1	18180.4
1982	11522.3	5436.7	4158.7	21180.2	11761.9	11299.9	462.0	5898.7	10959.9
1985	10259.7	4044.9	4805.9	19110.4	11515.0	9170.1	2344.9	6389.8	9961.7
1989	12469.1	2991.2	6176.8	21637.1	12744.5	10061.5	2683.1	5674.3	12427.2
1993	8409.4	5130.2	7210.1	20749.7	11932.9	10255.7	1677.2	6806.1	9721.4
1996	13055.7	3683.9	8710.5	25450.0	16308.7	10774.5	5534.2	9318.3	10954.9
1999	14877.8	3731.8	8097.5	26707.1	13928.4	10962.0	2966.4	6698.1	-
2000	15416.9	4211.2	8379.9	28007.9	21663.5	11806.9	9856.6	14067.8	-

Notes: C = Private consumption; I = Gross domestic investment; G = General government consumption; X = Exports of goods and non-factor services; M = Imports of goods and non-factor services; SD = Gross domestic saving; SN = Gross national saving

Sources: World Bank, World Tables, Washington, 1998.

- International Financial Statistics Year Book, IMF, 2002.

The data in Table 3 suggests that Kuwaiti foreign exchange earnings exceeded its imports of goods and services plus workers'

remittances each year over the last twenty years. The Kuwaiti economy has a persistent foreign exchange surplus. This is a clear indication of its limited absorptive capacity. The data also suggests that the absorptive capacity limitations were more apparent during those years when oil revenues were large due to high oil prices and/or big quantities of exports. Thus the largest foreign exchange excess occurred in the years 1979, 1989, and 2000; while the year 1982, when the oil markets collapsed, witnessed a huge decline in foreign exchange surplus. The foreign exchange surplus has also declined in the 1990s due to both the increase in imports and low oil prices.

Table 3
Kuwaiti Absorptive Capacity according to Foreign Exchange Surplus
(Millions of US\$) at Current Prices

Year	Exports of goods and (factor and non-factor) services	Imports of goods and (factor and non-factor) services	Worker's Remittances	Foreign Exchange Requirements	Excess Foreign Exchange
1973	4660,0	2038,0	212,6	2250,6	2409,4
1976	11864,4	4398,3	275,8	4674,1	7190,3
1979	22871,9	7551,6	531,9	8083,5	14788,4
1982	18450,1	12055,8	875,3	12931,1	5519,0
1986	16614,2	9415,2	1084,0	10499,2	6115,0
1989	21894,0	10507,9	1283,3	11791,2	11103,8
1993	16674,4	11522,7	1229,1	12751,8	3922,6
1996	16308,9	10774,5	1348,9	12123,4	4185,5
1999	20169,0	13104,0	2102,0	15206,0	4963,0
2000	21632,5	11790,3	1686,6	13476,9	8155,6

Sources: as table 2.

IV. ABSORPTIVE CAPACITY CONSTRAINTS

The ability of Kuwait to undertake investment at a rate of (social) return considered desirable or to absorb foreign exchange through increased imports has been limited by a number of constraints on both the demand side and the supply side. The most important of these

constraints are market limitations and lack of human resources. Cochrane and Struthers (1983) indicated that countries classified as having low absorptive capacity (including Saudi Arabia, United Arab Emirates and Qatar) have, in general, smaller populations, limited skilled manpower, few natural resources apart from hydrocarbon, and small domestic markets. Ezzati (1978) expressed similar views.

A very serious constraint on Kuwait's absorptive capacity is market limitations. In the year 2000, Kuwait's total population was estimated at 2,217,258. Out of these, 841,790 are Kuwaitis and 1,375,468 are non-Kuwaitis⁽²⁾. The purchasing power of the two types of population differs significantly. The basic (and perhaps only) source of income of the non-Kuwaiti population is the compensation of employees of foreign labor. There were 871,321 expatriate employees in 1995 whose total income was approximately US\$5,915m, i.e. non-Kuwaitis have an average income of approximately US \$4,730 per annum compared to an average income of Kuwaiti nationals of approximately US\$29,290. However, the income distribution amongst the Kuwaitis is highly skewed. The income per capita for the country, as a whole, is US\$13,608. Thus the domestic market of the Kuwaiti economy is not only limited by the small size of the population but also by the relatively low income of the majority of the population which are expatriates. This has some serious implications for large-scale industries and highly priced products which must be produced in large quantities for efficient operation.

The second most serious constraint is lack of human resources. Foreigners dominate the Kuwaiti population. In 2000, 37.9 per cent of total population were Kuwaitis and 63.9 per cent were non-Kuwaitis. However, Kuwaiti nationals contributed only 19.4 per cent of total labor force in the same year. Kuwait depends heavily on foreign labor, for each Kuwaiti employed in 2000 there were approximately 4.5

(2) Institute of Banking Studies (2001), Economic and Financial Data Base for Bankers, Economic Research Unit, IBS, Kuwait.

foreign employees. The percentage was much higher for men than for women. Thus, for each employed Kuwaiti man in 2000, there were 5.5 foreign men employees while for each employed Kuwaiti woman in the same year, there were less than three employed foreign women.

There is also a significant difference between the sectoral distribution of the Kuwaiti and non-Kuwaiti labor force as can be seen from the data in Table 4. This table suggests that the bulk of the Kuwaiti labor force is concentrated in the social services sector. The preference of Kuwaiti nationals for white-collar jobs has put a real constraint on the absorptive capacity of the economy and also put a real pressure on the budget. Well-over 94 per cent of the Kuwaitis are employed in the public sector. This is mainly due to the huge wage differentials between the private sector, which employs mainly expatriates at less than one-third of the cost of national labor, and the public sector which offers very attractive conditions of employment including tenure and generous social allowances.

Table 4
Sectoral Distribution of Labor Force in Kuwait in 2000

	Kuwaitis		Non-Kuwaitis		Total	
	No	%	No	%	No	%
Agriculture and Fishing	46	0,02	19337	2,02	19383	1,63
Mining and Quarrying	4266	1,85	2995	0,31	7261	0,61
Manufacturing Industries	6924	3,00	69445	7,26	76369	6,43
Electricity, Gas and Water	5276	2,29	2463	0,26	7739	0,65
Construction	820	0,36	108292	11,33	109112	9,19
Trade and Finance	15650	6,78	273470	28,60	289120	24,36
Social Services	194680	84,35	417509	43,66	612189	51,57
Unclassified	3139	1,36	62688	6,56	65827	5,55
Total	230801	100	956199	100	1187000	100

Source: Economic and Financial Data Base for Bankers, Institute of Banking Studies, Research Unit, Kuwait 2001.

Some economists (El-Mallakh and Atta, 1981 and Al-Qudsi;

1993) believe that the policy of employing Kuwaiti nationals in the public sector has limited the absorptive capacity in the private sector. This however, is not entirely true. The facts are:

- (i) The private sector is reluctant to pay international wages to Kuwaiti nationals despite the fact that the producers sell their goods and services at international prices (Metwally, 1997). The entrepreneurs in this sector have unlimited supply of cheap (though not necessarily highly productive) labor from neighboring countries. As a result (of selling at international prices while paying poor countries wage rates); the operating surplus in the Kuwaiti private industries is extremely high relative to the compensation of employees (Bridge, 1974).
- (ii) The Kuwaiti nationals would not, probably, accept blue collar jobs in the private sector (plumbers, mechanics, carpenters, painters, etc.) even if they were paid international wages.
- (iii) The private sector would not accept to offer Kuwaiti nationals similar conditions of employment as the public sector. For example, the private sector will not accept to offer tenure or allow a slack employee to continue work (Said, 1996).

The market limitations and unavailability of factors inputs have put real constraints on the development of various productive sectors as will be shown below. The government adopted numerous measures to expand the productive capacity of the economy. The outcomes, to say the least, have not been too impressive. And this is perhaps one main reason for seeking outside outlets for the excess foreign exchange.

1. Constraints on Developing the Industrial Sector

Both positive and negative factors in the Kuwaiti economy influence the process of industrializations. The World Bank has commented as follows:

In most countries, industries have grown naturally from the exploitation of diverse indigenous raw materials or because of a technically cheap competent work force. In Kuwait, however, industrializations must be based on some negative elements, namely, lack of alternative opportunities in agriculture and the governments

redundant work force, as well as such positive factors as plentiful oil and gas resources and cheap and abundant capital (IBRD, 1965).

The following are the main constraints on industrial development in Kuwait:

1. Smallness of domestic market.
2. Difficulties in breaking into international market for manufactured goods.
3. Inadequate supply of indigenous entrepreneurs.
4. Inadequate financial resources available to the private sector.
5. Lack of technology.
6. Dependence on expatriate labor.
7. Dependence on imported raw materials.
8. Inefficient labor force.

Changing global market dynamics presents a constant challenge to the decision makers and industrialists to evaluate and reshape the Kuwait's industrial development strategy. Competitive forces are creating both new challenges and opportunities for the government and industries. To overcome these challenges and utilize the opportunities, industrial planning must undergo fundamental reform. This includes the adaptation of a new systematic and proactive approach. For example, imports substitution industrial policies which were implemented in the late 1970s with no positive results, must be abolished in favor of aggressive strategies that can increase efficiency, allocation of resources, and utilization of capital and labor "export led growth".

2. Constraints on Developing the Agricultural Sector

The agricultural sector is the least important of all economic activities in Kuwait. The contribution of this sector to GDP was less than 0.5 per cent in 2000. In terms of employment, however, agriculture (including fishing and hunting) contributed 1.63 per cent in the same year, which is almost three times the contribution of the mining and quarrying sector. Although Kuwait imports a significant proportion of its food requirements, the absorptive capacity of this

sector is limited. The land utilization ratio is very low in Kuwait. Out of its total area of 17,818 km², about 1,532 km² or 8.6 per cent is cultivable. Also, expansion of annual production and fishing faces many problems. In general, the absorptive capacity of the Kuwaiti agriculture sector is constrained by the following factors:

1. Lack of cultivable land
2. Deficiencies of soil
3. Scarcity of irrigation water
4. Harsh climate
5. Inadequate technological infusion
6. Ecological and physical constraints

3. Constraints on Developing the Service Sector

The services sector is the largest sector in Kuwait. It comprises wholesale and retail trade, restaurants and hotels; transport, storage and communication, finance, insurance, real estate, and community and social services. This sector employed over 73 per cent of total labor force and contributed 41.6 per cent of GDP in 2000. Most industries in this sector enjoy a low incremental capital-output ratio (Sami, 1980).

As to the absorptive capacity of this sector, we notice that the services provided by the government (education, health and economic services) have consumed a large volume of resources over the past few years. Spack Kuwait has created one of the most comprehensive welfare systems in the world. This has become possible because of increased oil revenue. The government of Kuwait performs roles which are in excess of traditional functions often assigned to governments in Western societies. The government of Kuwait believes that it is its duty to disburse the oil revenues which accrue to the state treasury in the first instance, among the citizens as extensively as possible. In pursuant of this, policies have been undertaken to provide educational and other social services; to institute general subsidies to raise the standard of living; to make available liberal loans for houses; to redistribute land; to create institutions to care for the orphans, the aged and the infirm; and even to give outright grants to the needy.

Government spending on education and health has contributed to

the building up and maintenance of human capital, which raised the productive capacity of the economy. The Kuwaiti governments spending on education has increased substantially over the last three decades. In 1998/99, the government spent approximately US\$1,500m compared to US\$115m in 1972. In real terms, this represents an average annual increase of 12.9 per cent over that period. The investment in human resources in Kuwait has paid very well. The ratio of Kuwaiti skilled labor force to total Kuwaiti labor force is currently over 90 per cent. The corresponding percentage for the non-Kuwaiti labor force is 39.5%. Thus Kuwaitis dependence on foreign skilled and semi-skilled labor is declining continuously due to investment in human resources.

Kuwait, being the first country in the Gulf to initiate a comprehensive, free health-service program, has been a model for the rest of the Arab World and other Gulf countries. As a result, the annual per capita health expenditure has increased from US\$82 in 1973 to US\$410 in 1999. Indeed the health services in Kuwait are comparable to those existing anywhere in the western world. Investments in education and health services, like all types of human investment, take time to yield dividends, and the future needs not be all gloomy. The governments dynamic health and educational policies have already begun to pay off and will ultimately raise the absorptive capacity of the economy and the total welfare of the population.

Among economic services provided by the government to at low prices are: public housing, communication, roads and highways, water, electricity, information, and tourist services. Although most infrastructure projects have been completed, there is no limit to welfare spending. However, the real question is weather this type of spending result in an acceptable rate of social return. It may be argued that a disproportionate share of oil revenues was used for the expansion in public goods. The non-oil economy became biased towards service-based activities to the neglect of output-based activities. A similar pattern would seem to have occurred in other oil producers, eg Nigeria (Struthers, 1990).

The non-government service sector is dominated by small-sized

establishments and producers services mainly for the domestic market. The Kuwaiti economy is almost saturated with these establishments, some of which, particularly in the retail trade, is overstaffed and, because of intensive competition, does not realize too much daily turnover.

Kuwait has six commercial banks; one industrial bank and one real estate bank. These financial institutions seem to be servicing the economy fairly well. The financial sector in Kuwait is highly regulated by the Central Bank of Kuwait. Foreign banks are not allowed to operate in Kuwait because of fear of competition in a small domestic market. There is one Islamic (interest-free) bank, namely Kuwait Finance House and seven investment companies. There are also four insurance companies, which seem to be struggling in doing business in a small economy whose consumers do not believe too much in insurance.

V FUTURE OUTLOOK

The above analysis suggests that the limitations on the absorptive capacity of Kuwait are likely to continue in the near future unless some radical measures are taken to create new investment opportunities in the economy. The government of Kuwait has taken some important steps towards achieving this aim:

- (1) The country joined the GCC (Gulf Cooperation Council) in 1979. The GCC market should overcome, to some extent, the problem of market limitations, through the creation of access to neighboring Gulf markets. It is recognized, however, that these markets are themselves too small and, to be successful, a high degree of coordination between the members of the GCC must be implemented. In this regard, the full implementation of the GCC Custom Union by the year 2005 is an optimistic step that should enhance intra-trade between the GCC members.
- (2) Kuwait is taking serious measures to bring the multinational corporations into the scene as the most appropriate and efficient way in transferring technology and managerial skills and know-how. The MNCs are powerful engines of growth and can

significantly increase the absorptive capacity of Kuwait by easing its bottlenecks of some of the most important factors such as entrepreneurial and managerial capabilities, marketing, non-traditional export opportunities and even the availability of material and financial resources besides state-of-the-art technology.

- (3) Kuwait is adopting a new industrial strategy that aims to restructure the industrial sector around new export oriented manufacturing and service industries and abandons, gradually, the current import-substitution industrial policy. The process of being able to export quality products to the global market will have spread affect that will increase and improve the capacity of the industrial sector.
- (4) In preparation for the gradual implementation of the General Agreement on Trade and Services (GATS) in the year 2003, the Central Bank of Kuwait has actually been thinking of allowing the merger of some banks for efficiency reasons. Moreover, there are currently plans for deregulating the banking system and allowing foreign (or even GCC) banks to operate in Kuwait. The proposed plans will boost the financial sector and induce the growth of the non-oil GDP.
- (5) Measures should also be taken to attract and induce the expatriates living in Kuwait (65 % of Kuwait population) to spend and invest in the domestic market, in order to reduce the flow of foreign exchange (through remittances) abroad. Some of these measures include the right of foreigners to own apartments and houses in Kuwait, the relaxation of prerequisites for business ownership, and the ease of residency requirement particularly for business and real estate owners.
- (6) Kuwait may think seriously of implementing some of the radical business ideas. These include:
 - * The enhancement of the newly created free trade zone for a better competition with other zones in the region, particularly, the United Arab Emirates ones. This is likely to help re-

enforcing economical strength and stability of the country on both local and international level; increase the size of international trade and re-export activities, attract local, regional and international investments and flourish the freight and shipping industry.

- * The establishment of an international financial centre. This should promote the financial sector, opens the economy to new frontiers in trade and finance and sets Kuwait in its appropriate place in the global economy.
- * The building up of a home-based service industry, which relies on available skills and does not require too many factor inputs that can not be obtained locally. Examples of these services are international conventional centers, international health centers and international recreation facilities. These projects should sell its products to foreigners of neighboring and overseas countries.
- * The Kuwaiti government should continue to provide incentives to small-scale industries in terms of cheap utilities (electricity and water), fuel, land, financial resources, tax exemptions and generous deductions and depreciation allowances. These may put a heavy burden on the budget in the short-run, but would help expand the absorptive capacity in the long-run.

VI. CONCLUSIONS

The main findings of this article may be summarized in the following:

- (1) Kuwait has a limited absorptive capacity. This is evident from two facts:
 - (i) The Kuwaiti economy persistently has a positive resource balance. The country's gross domestic saving exceeded its gross domestic investment in each year over the last three decades.
 - (ii) The foreign exchange earnings of Kuwait exceeded its foreign exchange requirements in each year over the last three decades. Because of its limited domestic absorp-

tive capacity, Kuwait considered outside outlets for its surplus funds.

- (2) Kuwaiti limited absorptive capacity is due to both market limitations and lack of necessary inputs. The domestic market is limited by the small size of population and the relatively low income per head of the non-Kuwaiti population which constitutes approximately two-thirds of Kuwaiti residents.
- (3) Lack of human resources is a major constraint on Kuwaiti absorptive capacity. Over 92 per cent of the Kuwaiti labor force is employed in the Government sector as professionals, public servants and clerks. Only 8 per cent of the Kuwaiti labor force is employed in the production sector. The Kuwaiti nationals tend to favor white-collar jobs that carry tenure, security and fringe benefits.
- (4) There are a number of constraints on the development of almost each production sector. These constraints range from lack of skilled labor to lack of basic natural resources.
- (5) The Kuwaiti government has devoted resources in the development of the social sector (education, health and other services). This has paid off in terms of higher labor productivity and resulted in widening the country's absorptive capacity.
- (6) It is possible to expand Kuwaiti domestic absorptive capacity if some brave ideas are implemented. These include the invitation of multi-national corporations, the enhancement of Kuwait free trade zone, the establishment of an international financial centre, and the development of a home-based export industry. The Kuwaiti absorptive capacity is also likely to benefit from the creation of the Gulf Cooperation Council.

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Mohammad Ali Rammadhan: obtained his Ph.D. from the University Of Wollongong, Australia in 2000. He is currently an assistant researcher at Kuwait Institute for Scientific Research (KISR). His main duties include conducting economic analysis and evaluating public policy issues for client based projects. Main areas of research interest include: International Economics- GCC Economies- Energy Economics- Public Policy.
E-mail:muammad@yahoo.com