

MARINE RESOURCES OF KUWAIT
THEIR ROLE IN DEVELOPMENT OF
NON-OIL RESOURCES

by

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the University of London, (School of Oriental and African Studies)



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LIST OF ABBREVIATIONS

AD:	After the birth of Jesus Christ
AMPC:	Arab Maritime Petroleum Transport
BC:	Before Christ
BP:	British Petroleum
CC:	Cubic Centimetre
Co:	Company
Contd:	Continued
dwt:	Dead Weight
et al:	And other
FAO:	Food and Agriculture Organization
GATT:	General agreement on tariffs and trade
GRT:	General registered tons
KD:	Kuwaiti Dinar
KFTCIC:	Kuwait Foreign Trade, Contracting Investment Company
KIC:	Kuwait Investment Company
KIIC:	Kuwait International Investment Company
KOC:	Kuwait Oil Company
KPC:	Kuwait Petrochemical Company
KSC:	Kuwait Shipping Company
KTC:	Kuwait Tanker Company
LNG:	Liquefied Natural Gas
LPG:	Liquefied Petroleum Gas
MGD:	Million Gallon a day
MW:	Megawatts
MI/L:	Millilitres per litre
n.d.:	Undated
OAPEC:	Organization of Arab Petroleum Exporting Countries
ppm:	Part per million
TDS:	Total dissolved solids

UAE: United Arab Emirates
UASC: United Arab Shipping Company
ug/L: microgram/L
UNCTAD: United Nation Conference on Trade and Development
VLCC's: very large crude carriers

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ABSTRACT

Since the early 1950's Kuwait's economy has changed from one basically dependent upon marine enterprises to an oil-dominated one. Today Kuwait is completely dependent upon oil revenues and the traditional marine activities have declined in importance. However oil revenues will not sustain Kuwait's economy indefinitely and consequently it is necessary to begin to diversify the economy now so as to secure the country's future. The marine and trade sectors are likely to provide the forms for such diversification and the possibilities for developing these inter-related sectors form the basis of this thesis. The first chapter examines the role of oil in Kuwait's economic life and development, while the next chapter deals with the physical characteristics of the study area. Chapter three outlines the background to population and economic growth. The fourth chapter will discuss the historical background. The next five chapters form the core of the thesis and examine trade and invisible trade shipping and the fishing industry respectively. Finally, prospects for developing other parts of the marine sector are examined. It is shown that oil still dominates Kuwait's economy and that the prospects for developing agriculture and industry as alternative sectors are limited due to geographical constraints. Because of Kuwait's strategic location, the prospects for developing trade are greater, particularly certain aspects of invisible trade, such as banking and overseas aid and investment. The importance of regional co-operation in

this context is also stressed. Similarly, the prospects for developing the marine sector are also seen as considerable, particularly in fishing. Thus, it is concluded that with Kuwait's capital resources derived from oil, it should be possible for the country to achieve a sufficient level of diversification in the future to offset to some extent its complete dependence upon oil. Finally it is hoped that this study has shed some light on the importance of the trade and marine sectors to Kuwait, sectors which have hitherto been largely neglected, and will lead to further studies in this field.

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CHAPTER I

Introduction

1. General Consideration

2. The Study
 - i. Objectives of the Study
 - ii. Criteria for the Choice of the Study
 - iii. The Study Area
 - iv. Means of Data Collection
 - v. Problems of the Study

CHAPTER IINTRODUCTION1. General Consideration

In recent years Kuwait's rate of economic growth has greatly surpassed that of most other developing countries, running at 216% between 1946 and 1952, and averaging 49% annually between 1946 and 1968.¹ This was largely stimulated by increased revenues from oil, which rose steadily after 1961 at a rate of about 6% a year, increasing to 8% during 1972. During the fiscal year 1972-1973 Kuwait's total revenue amounted to about K D 548,470,000, of which KD 505,926,000 came from oil revenues (92.4% of the total). The total Government budget during the same year was KD 322,179,000. Thus, without oil income, the Government would face a deficit of expenditure over income of KD 283,579,000. A similar situation also applied to the following year, 1973/1974.² Such figures indicate that the strongest aspect of Kuwait's economy is also its weakest, because the economy is totally dependent upon one single primary product, oil.

However, oil is a finite resource and it is necessary for Kuwait to examine its potential for future development without oil. Estimates of the extent of the

-
1. The annual increase in oil income fluctuated. Between 1951 and 1952 it was 216%, 1958 and 1959 14%, 1961 and 1962 0.3% and in 1964 17%. These fluctuations were due to political and military events in the area.
 2. Kuwait's total revenue during 1973/74 was KD 588,008,000 of which about KD 543,986,000 came from oil (about 92.5% of the total).

country's oil reserves vary. One authority puts total reserves at 9 billion tons (about 11% of world reserves).¹ At present levels of production (150 million tons annually), this would give the Kuwaiti oil industry a productive life of a further 60 years. Chevalier estimates that the oil revenues are likely to last a further 66 years,² while official statements give a figure of about 90 years. These estimates seem to agree that oil will continue to be economically important to Kuwait for about 60-70 years. Mindful of the eventual exhaustion of oil supplies, in April 1972 the Government limited production to 2.5 million barrels a day (or 150 million tons a year). Originally this policy was in response to the decline in the rate of discovery of new viable commercial resources, but massive increases in Government revenue after 1973 made the policy even more viable. These increased revenues have exceeded the country's absorptive capacity, and it was felt wiser to keep the oil in the ground as a long-term investment than to hold financial assets that might be affected detrimentally by world inflation.

Even with such conservation measures, the importance of oil will decline eventually, either because it has run out or because alternative energy sources have been made available. It is, therefore, necessary for Kuwait

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1. H. Askari and J.T. Cumming, Middle East Economies in 1970s, A comparative approach, Preager Publishers, New York 1976, p.31.
 2. Reserves have been estimated at about 9,140 million tons. By measuring this amount in relation to annual production (138 million tons) it is estimated that oil reserves should last for 66 years. For further details see; J.M. Chevalier, The new oil stakes, translated by Rock, (Ian), Allen Lane, 1975, p.135.

to diversify its economy now, while the economy is still in a strong position. It is essential to turn the profits from oil into new economic assets and invest part of the huge revenues in the creation of new activities in: agriculture, industry, fishing, commerce, shipping, insurance and banking. This would help to ensure a reasonable production of renewable resources to support the Kuwait people, and also would maintain the country's steady foreign exchange earning capacity, which in turn would help to keep its balance of payments strong. Diversification in all these sectors will not be easy, because of Kuwait's small size in area, population and resources. Although the problems relating to Kuwait's economic development can be attributed to many factors, the problem of size¹ dominates all other factors. The development of agriculture is inhibited by the country's small area and also by a lack of water for irrigation and the general salinity of the soils. This will be examined in more detail later.

-
1. In defining the size of a country, it is not possible to rely upon one single criterion, for a country could be termed small or large according to physical area, population size or extent of its resource base. For example, a country like Canada or Australia may be considered large according to area, but small with respect to population density.

In economic terms, however, the size of a country depends on the size of the national economy and the per capita income, which reflects the magnitude of the country's purchasing power. This economic factor can be closely related to resources, as it is often a function of dependence on a single primary product. Even some large developing countries have such a dependence and according to such definition could be termed small-scale economies. In contrast, some countries are small in area and population, but rich in economic resources, and Kuwait provides an example of such a country. For further details see: International Economic Association, Economic Consequences of the Size of Nations in E.G. Robinson (ed.), MacMillan and Co. Ltd., London 1960, and S.S. Kuznets, Six Lectures on Economic Growth, the Free press, New York, 1968.

Industry, too, is hindered by the country's small size in several ways, although it has been viewed as a sector of possible diversification by several authorities. The country is short of cheap raw materials, with the exception of energy, due to the country's poverty of natural resources. The local market is very narrow, and the native labour supply is very limited. The development of a new industrial programme is dependent upon the help of imported skilled manpower. Indeed, at the present time, some 95% of the labour force in manufacturing is expatriate. Industry is also affected by the transient nature of much of the labour force, because a stable population is necessary for optimum efficiency. Furthermore, the cost of labour tends to be very high, because of the generally high wage rates in the country, which are necessary to attract immigrant labour from the surrounding countries. Consequently the cost of local Kuwait industrial products tends to be higher than that of its neighbours, making competition very fierce. All these factors suggest that the potential for industrial development in the future is rather limited, and this too will be dealt with in more detail later.

Kuwait has attempted to overcome the problem of small population by two means. First, it has a liberal immigration policy, allowing entry to a very high proportion of expatriates, and secondly, using the revenue from oil, the Government has expanded the educational programme with the purpose of increasing the national supply of skilled labour and the level of research,

particularly in technology.

Despite its scarcity of natural resources, population and area, Kuwait does have certain assets which could help it to diversify its economy away from oil. Chief amongst these are traditional skills in the marine sector; capital; and a strategic position on the world's main trade routes. Therefore, despite Kuwait's size and consequent limited possibilities for diversification into agricultural and industrial sectors, there is scope for diversification into marine activities and trade. The expansion of such sectors would be favoured not only by Kuwait's position and capital, but also by tradition, for the country was, before the oil boom, a centre of trade in the Gulf¹ area and greatly involved in marine activities, as will be shown in chapter IV.

Indeed, with oil wealth there has been an increase in per capita income, and a consequent increase in the import of various goods. A favourable balance of payments coupled with lack of import restrictions and low import duties (4%) could also serve to make trade a more important sector of the economy. At the present time more of the working population are employed in commercial

1. Because of the disagreement between the Countries on each side of the Persian, Arabian Gulf, as to its name, the writer refers to it as the Gulf.

occupations than in any other activities (most Government employees also have part time commercial occupations). At the same time, indeed, during the political and military crises in the area, these services have been extended to include Lebanon, Syria and Jordan. Thus, Kuwait is favoured by an established reputation in the field, but it is important that these activities be expanded immediately along with related activities, insurance and banking, so as to secure Kuwait's pre-eminent position in the area. Improved port facilities and transport returns will also serve to attract international companies and organisations to establish their Middle East headquarters in Kuwait. Thus, Kuwait could possibly become the regional centre for business and commerce, and banking and insurance operations. The city could also serve as a commercial distribution or a transaction centre.

The development of such sectors would create new activities and related trade enterprises, which in turn would increase the country's foreign exchange earning power. For example insurance is one of the most active sectors of trade, because the whole process of commerce is attended by a variety of risks so that protection by various methods of insurance must be considered.

Another possible field of expansion is transport, while there is certainly scope for large scale expansion in the fishing industry, a field where Kuwait has a long

tradition. Kuwait's fishing industry developed as a result of the country's geographical location at the head of the Gulf and its poor land resources, as well as the availability of capital for such investment. Kuwait has begun to develop this sector, but not only to increase the output of fish, but also to increase its participation in the country's GDP and to provide further employment opportunities. The development of subsidiary industries and occupations related to fishing, such as the provision of boat and fishing gear is also probable. A further possibility is the production of fish meal, which in turn could supply the country with a cheap source of animal feed. These aspects will be dealt with in greater detail in chapter VIII.

2. The Study

i. Objectives of the Study

The purpose of this study is to analyse the characteristics of Kuwait's economic geography, which are dominated by three elements:

- 1 - The export of oil.
- 2 - Heavy dependence on outside supplies for both consumer and capital goods.
- 3 - Very close ties with other Arab countries.

In view of this situation it is necessary for Kuwait to diversify its economy, and this study is an attempt to examine those areas where diversification away from the dependence on oil is possible, the capital and other requirements necessary for such diversification, and the

way in which Government and private funds can be invested in the correct areas.

Although it may be easy to point out sectors where the attention of planners and policy makers can be directed, it is necessary to assess to what extent such sectors could make a real and useful contribution to the economy and effectively replace oil. There is an abundance of capital in the country from oil revenues, and one of the main problems is how to use this capital to the maximum effect, in order to produce a viable and dynamic economy during the next few years. It is necessary to increase labour productivity by directing manpower into more productive sectors of the economy than Government service, and to encourage private investment. Thus Kuwait's objectives for the future may be summarised as diversification of the economy, together with the development of the human resources. The main prospect for both objectives appears to lie in the marine sector, and consequently this study will lay particular emphasis on that sector of the economy.

ii. Criteria for the Choice of the Study

The choice of this topic for study was affected by many factors:

1 - It was chosen mainly because of Kuwait's economic structure, which is highly dependent upon oil revenues. Other productive sectors have negligible influences on the GDP or balance of payments.

2 - Kuwait's physical conditions do not provide enough products or a suitable environment for a multi-

sectoral economy. Indeed Kuwait's physical character was a major factor behind the emphasis of this study on the marine sector.

3 - Marine enterprises in Kuwait were, and remain, the major sector where economic diversification is possible.

4 - The marine sector covers almost all the important economic sectors, outside oil, in Kuwait's economy either directly or indirectly, that is fishing, shipping, banking, trade and insurance.

5 - The marine sector is the major area that can overcome Kuwait's problems of size, because it extends beyond the immediate political boundaries.

These factors reveal that Kuwait does not face the problem of which economic sector should have priority, but is faced by a shortage of possible sectors for diversification. Because of this, and because oil is a diminishing asset which is subject to variations in demand, this study was undertaken. Thus, the study will examine the country's possible resources outside oil, with a view to indicating the directions in which economic diversification can take place, namely the marine sector, which can be considered the only renewable productive economic sector available to Kuwait in the long run.

Although oil has been the subject of much study, the marine sector has been relatively ignored. The studies which have been undertaken have tended to concentrate on physical aspects, and have not mentioned the possible economic importance of the marine sector,

except in connection with its history. Therefore there is the need for such an approach.

iii. The Study Area

Kuwait, within its political boundaries, is the immediate area under study, but because of the nature of the study, the Gulf area as a whole will also come under consideration. For example the study of marine resources in Kuwait was extended to cover the whole Gulf in order to measure the possible field for utilization of such resources. This study has also led the writer to discuss the historical background of the Gulf, which may be considered outside the immediate scope of this study, but the similarity in physical characteristics in the area and the possible competition between these countries in the future, determine the importance of such an approach, in order to give a clearer idea of Kuwait's importance within the area as a whole.

iv. Means of Data Collection

The data collected for the study fall into two types: general information and that of a more specific nature. Most of the general data came from various Government department publications and general reports on Kuwait's economy, while the historical information was derived largely from India Office Records. More specific information and data came from various economic studies, commissioned by the Government, to serve their different development programmes. Examples include reports from the Ministry of Public Works, Kuwait Institute for

Scientific Research and the Kuwait Port Authority.

The author spent four long periods involved in field work in Kuwait times during which the greatest allocation of time was given to interviews with as broad a cross section of the government authorities, the banking community and businessmen as possible. A random sample of these groups was not possible since the universe occupied by them is difficult to define, but every effort was made to question all those senior officials of the government involved in any way with policies towards the economy, leaders of the banking groups and a selection of Kuwaitis engaged in private sector activities. Much of the findings of these interviews have been incorporated in the text that follows. In most cases, individuals asked not to be mentioned by name, which posed a difficult problem in demonstrating that field work was undertaken to back up the analysis presented in this thesis. An appendix (I) is included to indicate some of those interviewed. While this is not complete as a gesture towards those who specifically asked not to be mentioned by name, it gives some indication of the sources surveyed for purposes of assembling material for the thesis.

In assembling attitudes towards two critical questions posed in this thesis - viz. the degree to which the government in the past and at the present is adopting policies which positively foster the growth of non-oil economic activity and the optimum policies for the future development of Kuwait - implicit criticisms of the government had to be made, even by government officials, though none would give

answers which were capable of codification on a rational basis. In consequence, this thesis presents a number of apparently generalist statements concerning policies and practice in which the author attempts to synthesise the views of those interviewed but cannot present a useful set of tables suggesting a set of categories of approaches to problems. As will emerge from the text, Kuwait faces an acute crisis of confidence in the future yet has not come to terms with specific and dynamic development of its non-oil resources: each Kuwaiti official and businessman tends to reflect this ambivalence in his attitudes and practices, which defies simple classification and quantification but which provides an intellectually fascinating task of analysis in a state so poorly endowed with physical resources other than oil and an indigenous population so long successful in surviving on international trade and commerce.

v. Problems of the Study

Data from official sources is generally reliable, especially when confirmed by statistics from other sources. Furthermore, the author and interviewee were both familiar with the subject and the data. However one main problem was the lack of recent information, most available publications dating from the 1960's. In addition, most of the reports and data collections carried out on Kuwait, were conducted for particular ministries or department. As a result, most of these reports are unpublished and there is little indication of their existence. The tracking down of such

reports, therefore, involved the author in considerable additional work. Leading from the nature of these reports and presenting the greatest problem, was the confidentiality of much of the information received. Consequently, the author had to state the information would not be used for publication, but for academic research only.

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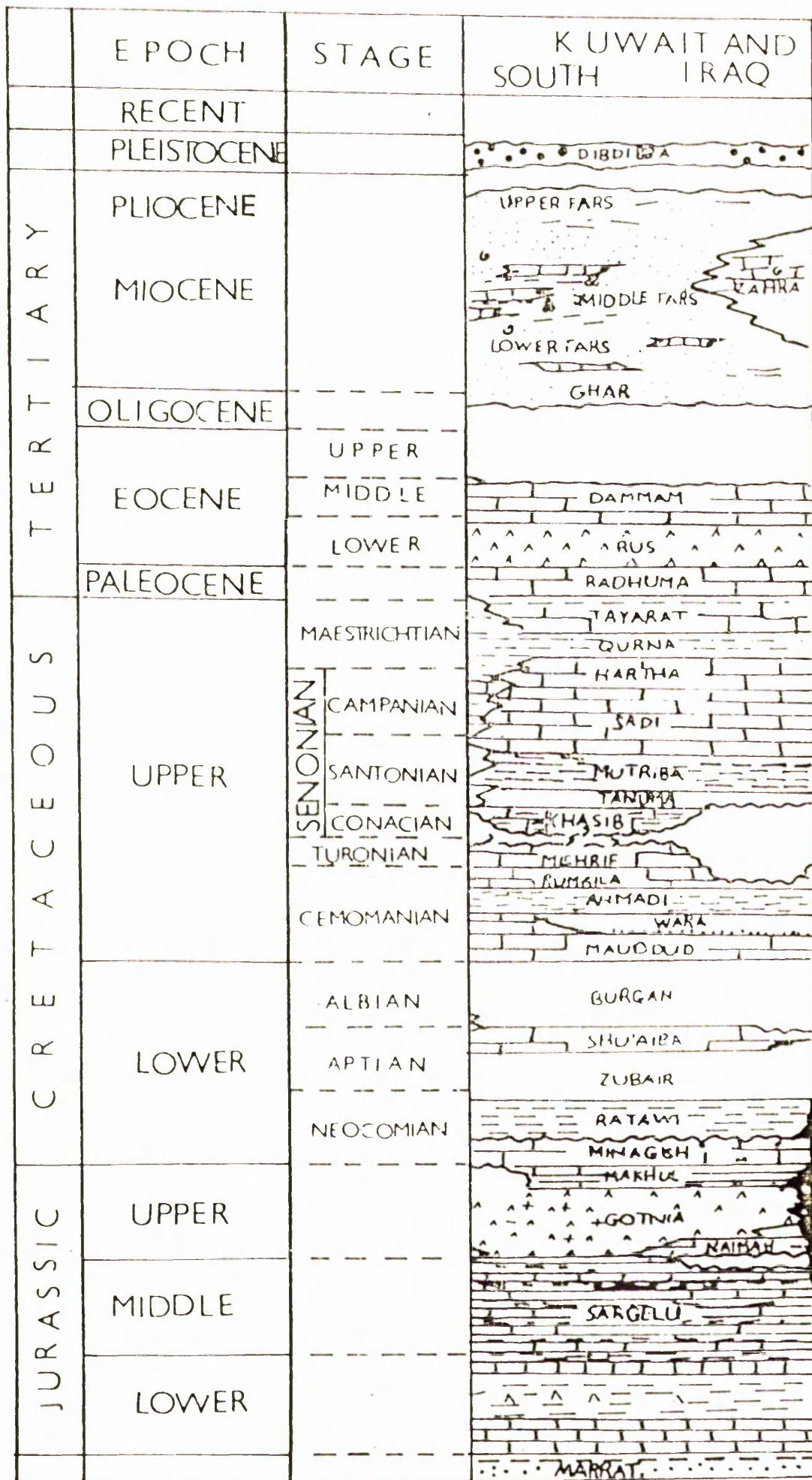


Figure 1

After; W. Fuchs, T.E. Gattinger and H.F. Holzer, 1968.

Stratigraphy of Kuwait & Southern Iraq

Chapter II

KUWAIT'S PHYSICAL CHARACTERISTICS

1. Kuwait's Physical Background

Although the main focus of this study is Kuwait's marine sector and its role in the economy, it is necessary to briefly examine the country's physical background, for it is Kuwait's paucity in land-based physical resources, which necessitates an emphasis on the development of marine resources.

Geology

Kuwait is underlain by part of the Arabian Shield, which consists of various metamorphic and igneous rocks of pre-Cambrian age. Kuwait itself has very simple structures, which were formed mainly in Middle Cretaceous times, though some formations may be as old as Upper Jurassic. Such formations include Manageesh, Rawdatain, and Umm Gudair groups.

The al-Ahmadi structure is believed to be an exception, being the result of tangential movement in the Eocene period. (Figure 1)

Topography

Kuwait's topography is characterised by a gently undulating plain, which forms part of the Arabian desert, interspersed with low hills and ridges, and shallow

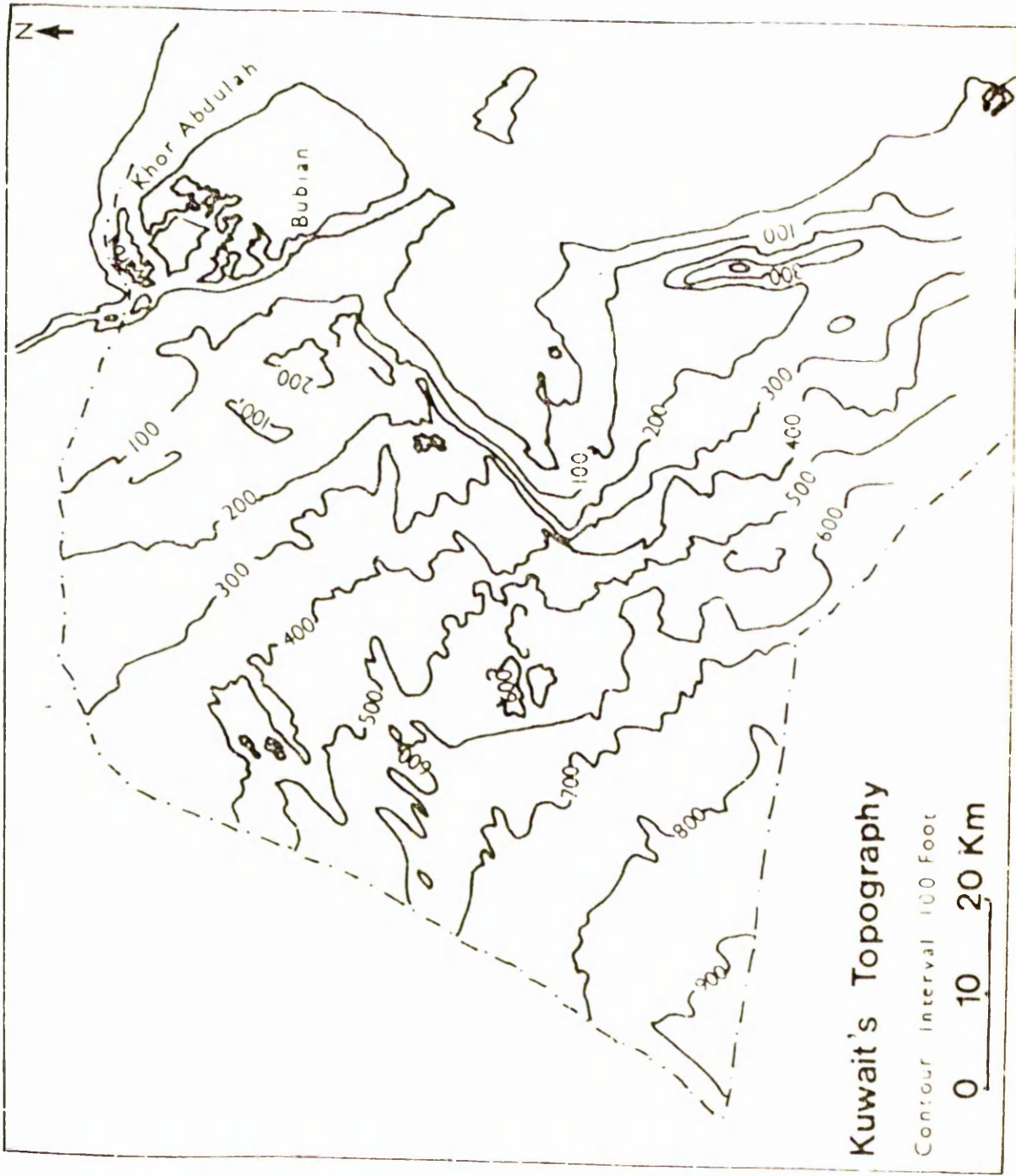


Figure 2

depressions, which are attributable largely to weather erosion. From sea level on the coast, the land rises to some 300 metres in the southwest corner of the country. The main ridges are the Jal-Azzor escarpment to the north-west of Kuwait bay, rising to about 145 metres above sea level, and the al-Ahmadi ridge lying between the coast and the Burgan plain¹ rising to about 115 metres above sea level (Figure 2). This ridge is marked by scattered conical hills, and is believed to be the result of horizontal compression during the post Eocene period.² The most prominent of the depressions is Wadi al-Batin, which follows the state's western boundary, and in places reaches 90 metres in width and 64 metres in depth. Running almost parallel to this depression is the Wadi al-Musannat, which crosses the southern border near Mannageesh.

In the north and north-west of the country there is a dense drainage pattern of small shallow wadis running across a thin layer of gravel. These flow towards either the Iraqi border or the al-Rawdatain depression. In the west the drainage system takes the form of parallel elongated depressions, trending north-east, separated by low gravel-capped ridges, only a few feet high.

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1. Kuwait's biggest oil field, lying south-west of al-Ahmadi.
 2. For further details see: W. Fuchs, T.E. Gattinger & H.F. Hozer, Explanatory Text to the Synoptic Geologic Map of Kuwait, Surface Geology of Kuwait and the Neutral Zone, The Geological Survey of Austria, Vienna 1968.

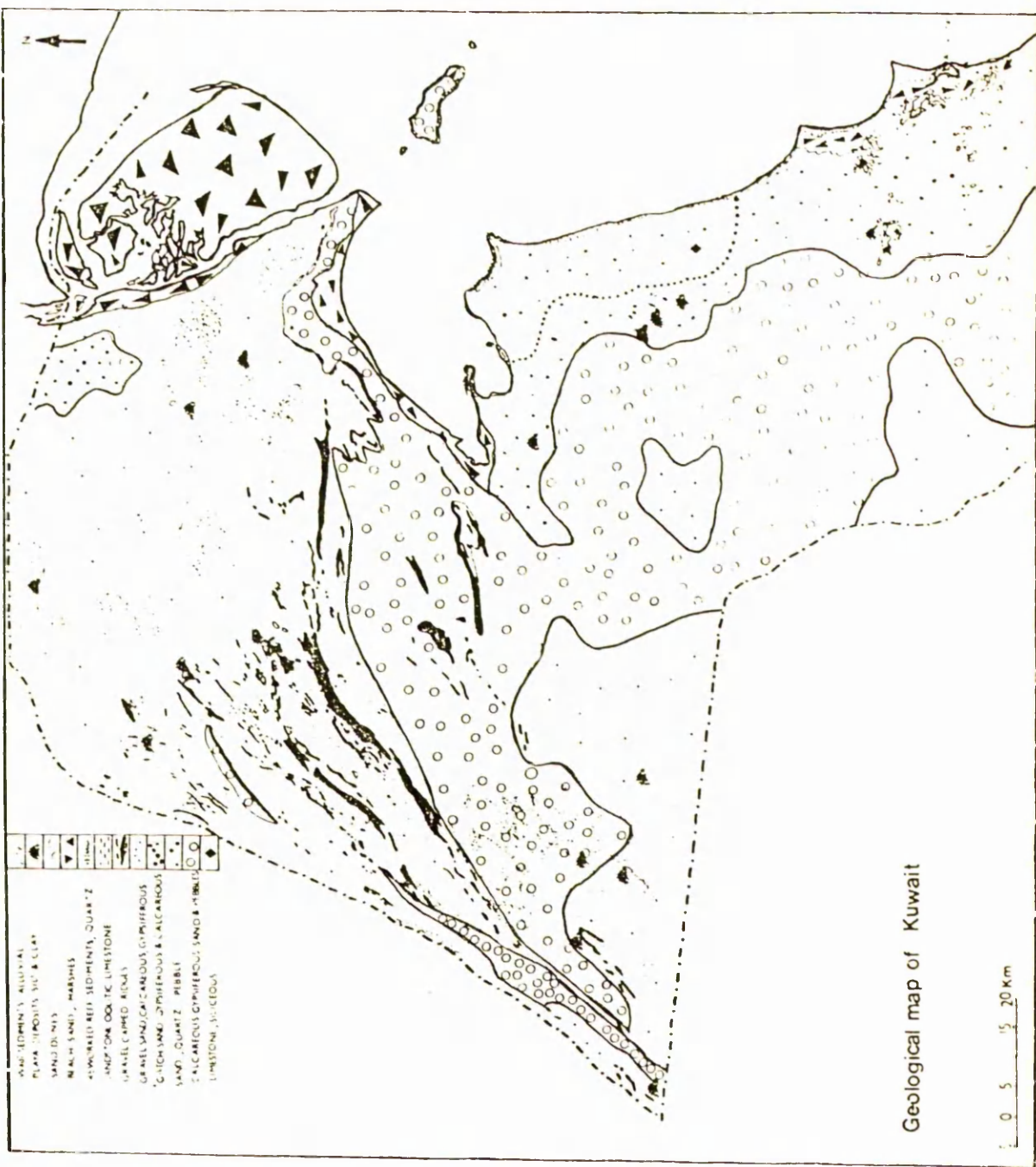


Figure 3
 After; W. Fuchs, T.E. Gattinger and H.F. Holzer, 1968.

Soil Characteristics

Soils in Kuwait are characterised by three main features: a sandy texture, high salinity and low organic matter content. The high salinity is a result of several factors:

1 - The coastal area in the south and around Kuwait itself was covered by sea water in the past. Several salt marshes still exist, as at Mesella and Julaiia. (Figure 3)

2 - The scarcity of rain.

3 - High evaporation rates.

4 - Leakage of sea water into the sandy area near the coast.

The sandy texture has some advantages, because of its low water holding capacity, which is helpful to desert plants, enabling them to find their water in the sub-strata and helping them to reduce evaporation. It is a positive disadvantage to agricultural development because it would make great demands on irrigation water.¹

In certain areas the soil also suffers from the presence of a hard-pan. This causes an upward movement of salt in the subsoil, which accelerates the accumulation of salts, and prevents plants from penetration deep into the soil.

1. An FAO expert identified four soil types: desert soil, lithosol soils, alluvial soils and desert soils. For further information see: H. Ueda & T. Ueda, The Preliminary Study on Agriculture in Kuwait, Institute of Kuwait for Scientific Research, 1968, No.1, and H. Ergun, Preliminary Report Reconnaissance Soil Survey, Rome, 1966. S. al-Mana'i, K. Ied, & others, Yearly Agricultural Book, Ministry of Public Work, Kuwait, 1963.

Climatic Conditions

Of all Kuwait's physical characteristics it is the climate which has the greatest effect on development, limiting agricultural production and human activities in general. Kuwait has a very hot and dry summer (the average daily maximum temperature is 45°C), and mild or cool winters (the minimum temperature may fall to as low as 1°C). There is a high diurnal range of temperature during spring and autumn, but this decreases somewhat in summer. The main factors behind this climatic regime are:

- 1 - Kuwait's position between 28°N and 30°N .
- 2 - The distribution of pressure zones in the area, with a high pressure zone over the peninsula in winter, and monsoonal low pressure zone over most of south Asia in summer.
- 3 - The influence of a low pressure zone passing through the area.
- 4 - The seas to the east of the country.

Temperature

Hot weather dominates Kuwait for most of the year, from the last week in April to the middle of October, with the hottest months being July and August, when the temperature can reach 49°C in the shade, although the average monthly temperature is about 44°C . In winter the Siberian high pressure zone reduces temperatures to about 13°C although the daily variation is quite large, and the minimum can fall to as low as 3°C .

Relative humidity

This is variable not only from month to month, but also from day to day, due to the changing direction of the wind. The highest relative humidity occurs in December, when it can reach 80%, but in summer it is appreciatively lower, June having on average the lowest figures of 27%.

Evaporation

Evaporation is very high for most of the year, but especially during the summer months, due to high temperatures, clear skies and the length of daylight. Dry winds from the north and north-west also serve to increase evaporation rates in summer, and in June it ranges between 6 and 18 mm. Only in winter does this rate fall and in December it ranges from 1-3 mm.

Rainfall

Being a desert area, Kuwait experiences very little rainfall, but not only it is scarce, it is also very unreliable, fluctuating both from year to year, and from month to month. The main rainy season is winter (November-January) when average monthly rainfall reaches 7-8mm., but this rain is dependent on thunderstorms reaching the area from the north and west. Even though Kuwait is such a small country it experiences regional variations in rainfall, which is also due to the sporadic nature of the thunderstorms (see Table 1).

Table 1

Distribution of Rainfall at
Different Stations (mm.)
(1968-1977)

	Shuwaikh	Experimental Farm	Ahmadi
Jan.	39.2	33.7	30.2
Feb.	12.9	17.3	19.6
Mar.	10.4	12.2	24.1
Apr.	22.6	25.8	44.0
Nov.	6.9	5.7	6.7
Dec.	23.9	26.7	25.7
Total	122.5	121.4	150.3

Wind

In addition to affecting temperature and rainfall the location of the pressure zones around the Gulf influences both wind strength and direction. Northerly winds dominate especially in summer with the shemal wind coming from the north-west. When the wind comes from the west it is characterised by dryness and can carry sand storms (Tauze).

In winter southerly and south-easterly winds predominate, for at this time of year the area is under the influence of the Siberian High Pressure Zone. These winds tend to be rain-carrying and, when they occur in summer, they tend to have high humidity and high temperature.

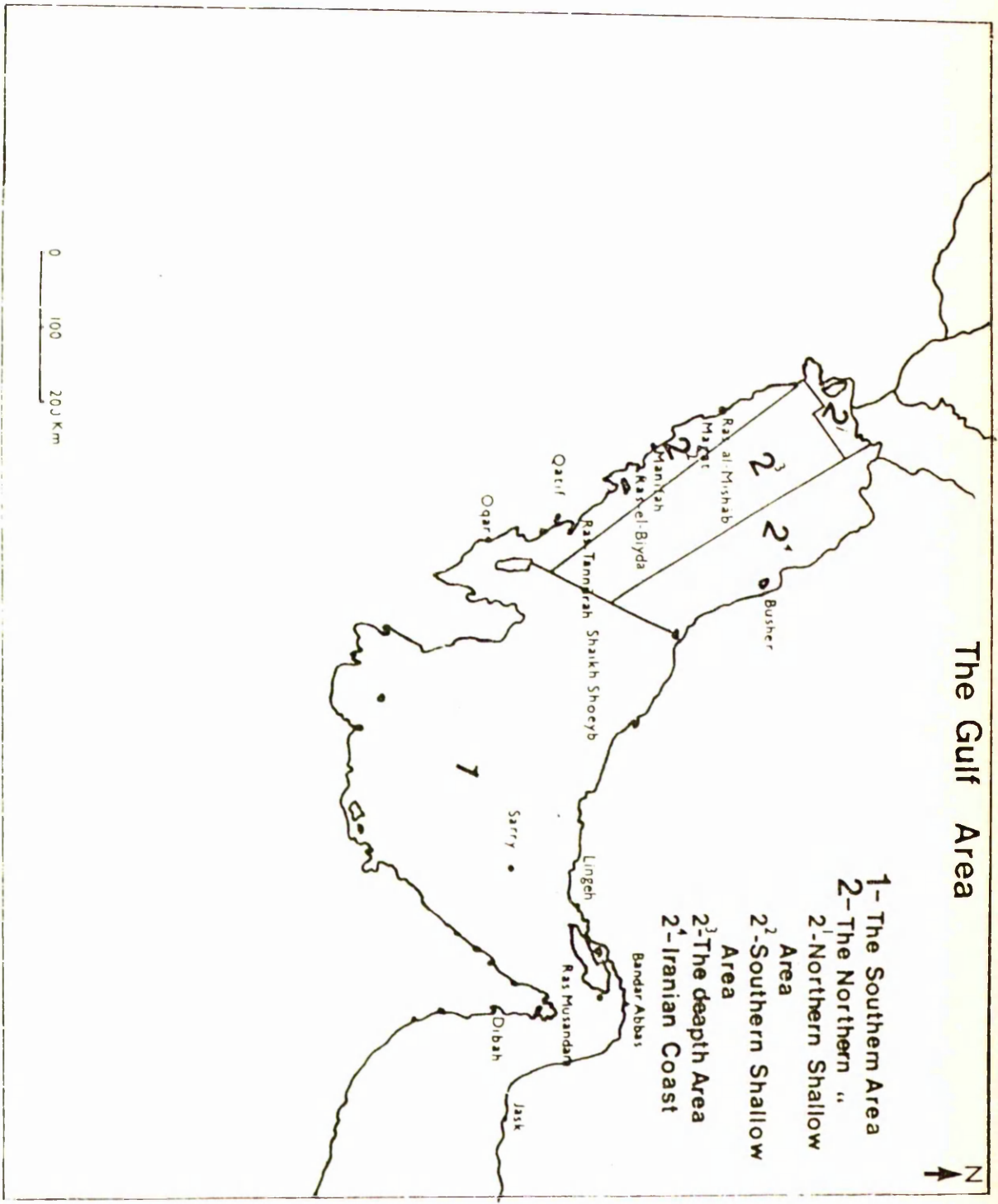
The preceding pages have shown the nature of Kuwait's physical background and demonstrate the harshness of its environment. It is these conditions that have limited Kuwait's agricultural production, but also they have directed the population's attention away from the land and towards the marine sector.

2. The Oceanography of the Gulf

Introduction

As this study is mainly devoted to Kuwait's economic utilization of marine resources, it is first necessary to examine the physical oceanography of the Gulf area. However, information concerning certain

Figure 4
After; F.A.O.



aspects of the Gulf's oceanography is very scanty and fragmentary, and at this point it is only possible to present a generalized impression of the situation. The exploitation of the marine sector will inevitably be affected by the biological structure of the mineral and chemical conditions of the waters, and the latter is strongly related to such oceanographic features as currents, temperature and salinity.

These features of the Gulf's oceanography are influenced by many factors:

- 1 - The Gulf's location and extent.
- 2 - The depth of water in the Gulf.
- 3 - Climatic conditions and their influence upon water density.
- 4 - Water currents and other elements of the water's movement.

The influence of these factors within the Gulf is variable, despite its limited area. Therefore it is important to subdivide the Gulf, which covers an area of some 240,000 Km², into the following divisions according to the similarity of their characteristics:

- 1 - The northern part or the head of the Gulf from 48° to 51° E. which is the shallowest area in the Gulf. The extension of this shallow area is wider on the Arabian side than on the Persian coast.
- 2 - The central region between 51° and 53°E. In this section there are two rich areas near Ras al-Mataff and Boshir, which is due largely to the tidal currents in this area (Figure 4).

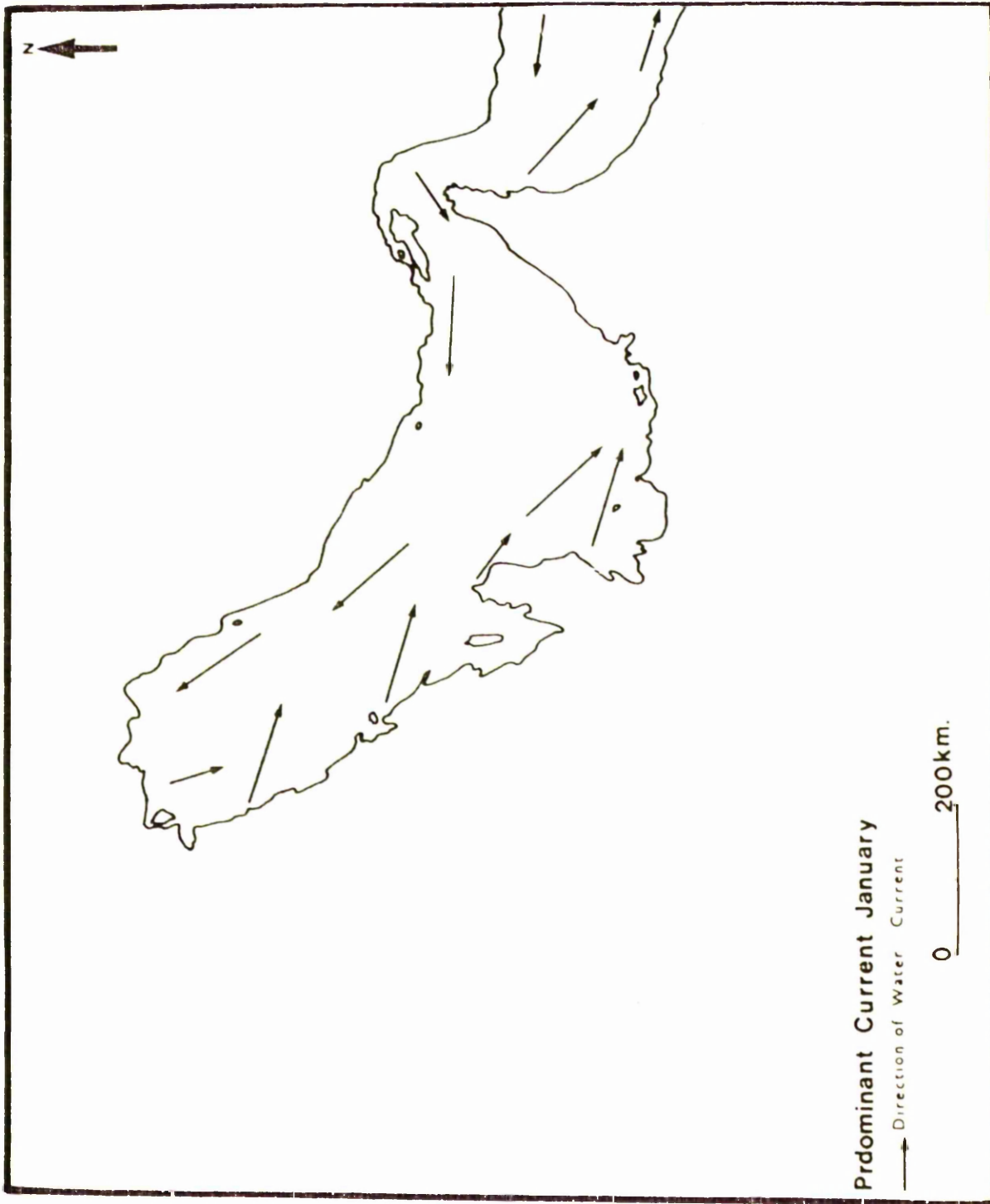


Figure 5A

After; The Admiralty, Persian Gulf Pilot, 1940.

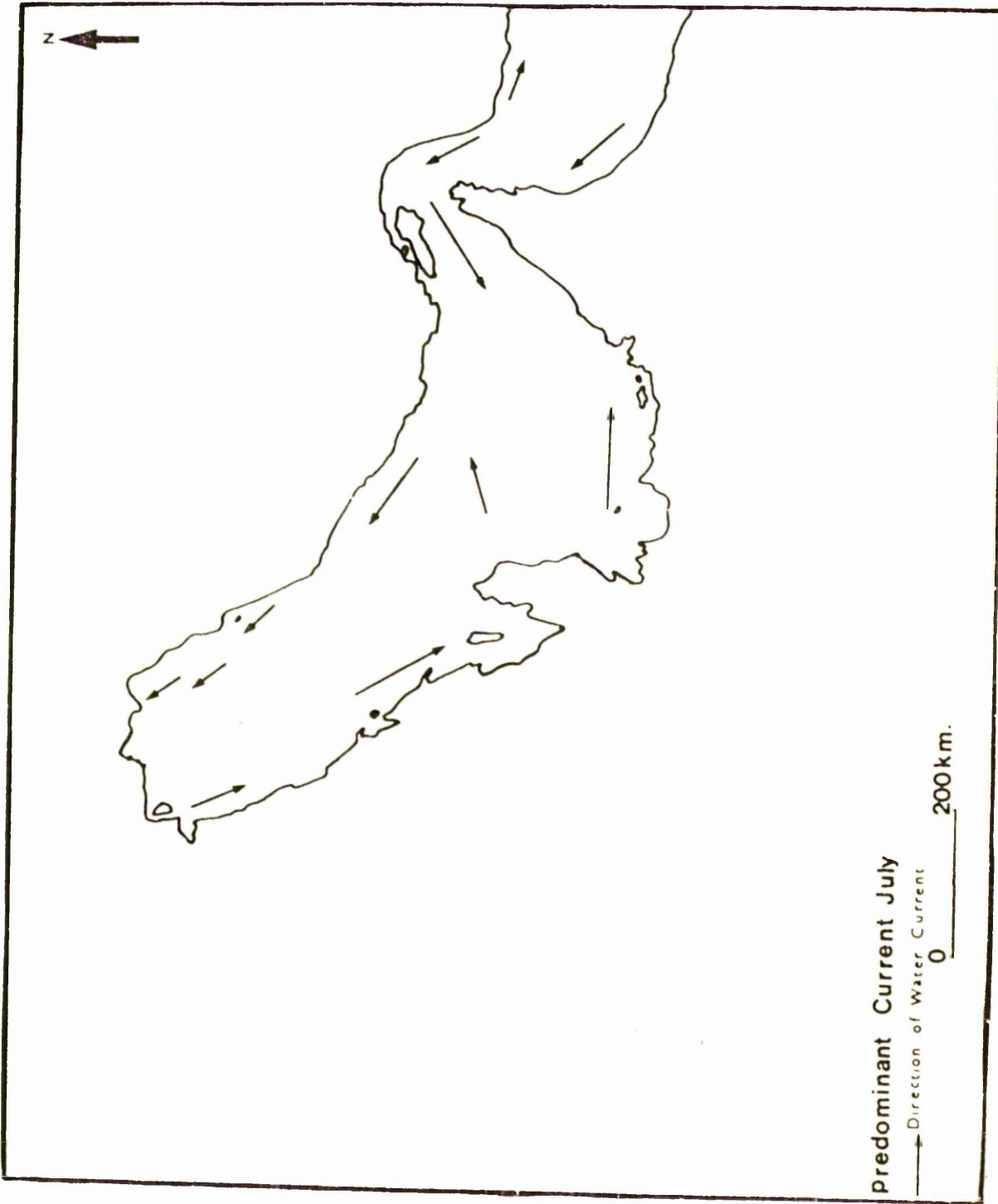


Figure 5B

After; The Admiralty, Persian Gulf Pilot, 1940.

3 - The south-eastern area between 53° and 55° E., is subject to the influence of water flowing from the Gulf of Oman. It is also influenced by the shallow water area to the south where there is the transition area between the waters of the Gulf of Oman and the shallow southern area. The second area has a very high productivity record for fishing activity.

4 - The area adjacent to the straits of Hormuz is where the Gulf waters meet the Gulf of Oman waters. Both of these seas have their own characteristics. Thus the currents around the Straits of Hormuz move in two different directions (Figure 5A, 5B).

In order to examine more closely the oceanography of the Gulf, each aspect will be dealt with separately;
Geology

The Gulf forms a shallow syncline stretching for 500 metres, which is interspersed by numerous islands of varying origin. Some are coral islands, some caused by sand deposition and others by structural forces. It is believed that the Gulf forms a recent geosyncline, whose extent northwards was formerly greater than at present, but which has been partially infilled by river sediments.¹ This syncline is believed to have originated in Tertiary times, and is surrounded on all sides by land masses, except to the south-east, where the Hormuz Straits form a narrow gap.

1. G.B. Cressey, Crossroads, Land and Life in South West Asia, Lippioncall, USA, 1960, p.386.

The relief of the seabed on the Arabian coast is rough, with many shallow banks, and the bottom consists of sand and clay. The Persian coast is irregular and is composed of cliffs rising several hundred feet above sea level. The seabed consists of silty clays with high proportions of carbonate (20%).¹

The seabed falls steeply on the Persian side of the Gulf and forms its deepest part, but on the Arabian side there is a shallow shelf less than 20 fathoms (36.5 metres) in depth, which has a complex topography, with sand banks, shoals and salt plugs all helping, along with coral, to form islands.

The coastal area between Kuwait and Ras Tannura is characterized by a low sandy plain, but between Ras al-Tannura and Qatar the coast is low and sandy with greater development of coral reefs. The coastal area between Mirtah and Watar is irregular with cliffs backed by dunes and volcanic cones, but the al-Batina coast, extending from Magat to Dibah, and forming an alluvial plain descending from the Oman mountains, is sandy in parts and has low cliffs in others.² Between Mussandam Peninsula and Mirfah there is a sandy low coast, with some shallow inlets and salt flats.

1. G. Evans, 'The Recent Sedimentary Facies of the Persian Gulf Region', Royal Society of London, A. Vol.259, London 1966, p.293.

2. For further details see: Admiralty, Naval Geology of Mesopotamia, its borderlands, London 1920, pp. 22-27.

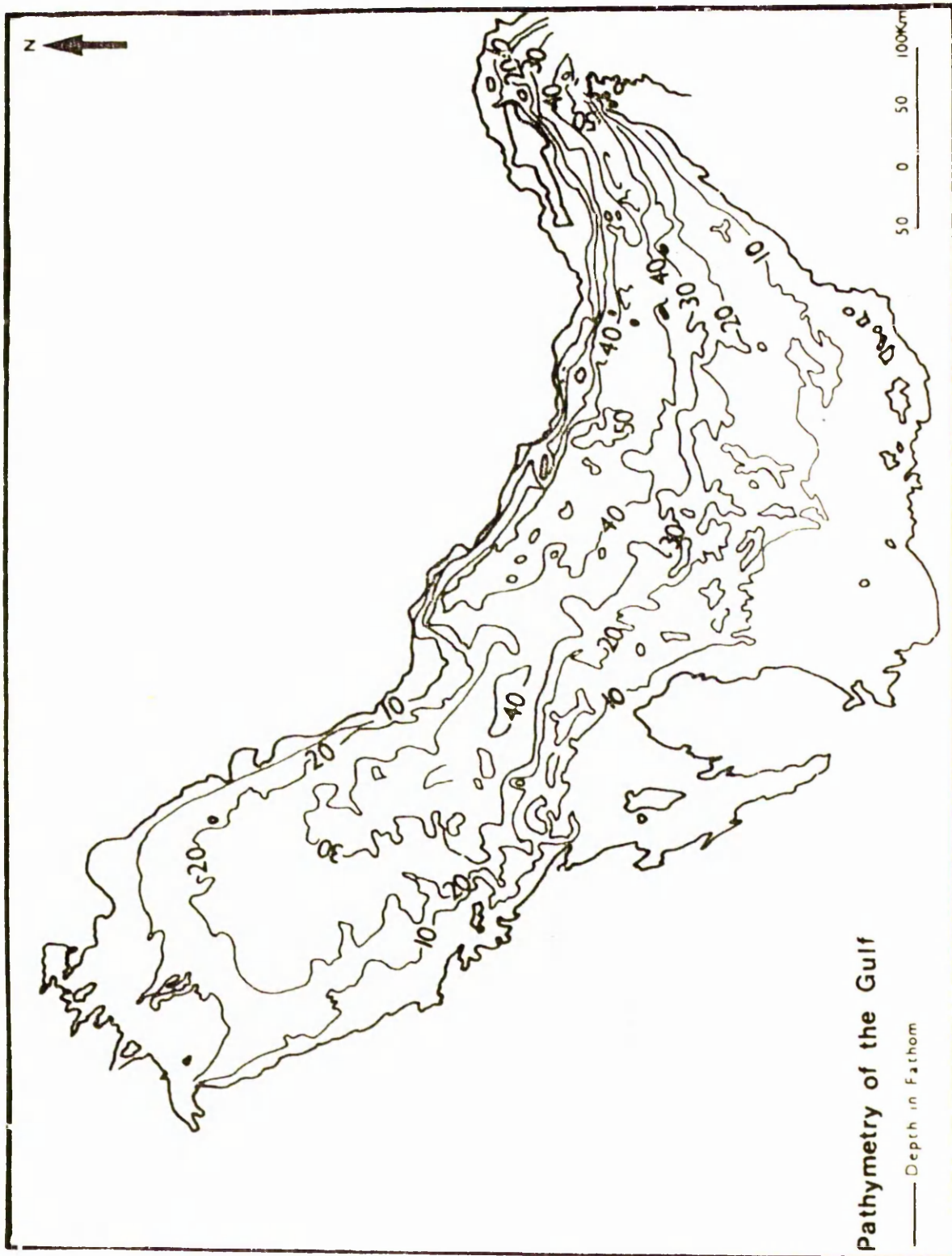


Figure 6

After; Encyclopaedia, Oceanography.

Geomorphology

The geomorphological base of the Gulf is influenced by the following factors:

- 1 - The geological structure.
- 2 - The climatic conditions in the area
- 3 - The stability of the flow of fresh water.

The Gulf has a rough complicated bottom, which varies considerably from area to area. Thus, there are scattered small islands and coral reefs, rocks and shallows, which are the main characteristics dominating the Gulf's sea bed.

The Geomorphological Characteristics of the Gulf

Before discussing this element it is very important to divide the Gulf into four areas. These areas are:

- i - The coastal area.
- ii - The shallows
- iii - The transitional area between the coast and the deep sea area.
- iv - The deep sea area.

i. The Coastal Area (continental shelf)

This extends from the sea shore to a depth of 15-20 metres, its width varying from place to place. It is at its narrowest on the Iranian coast (Figure 6) but it increases near the Bahrain Islands, where it reaches 48,280 metres. It is generally covered with coral reefs and rocks, which make it unsuitable for fishing by drift nets.

ii. The Shallows (continental slope)

This extends from 15-20 to 40-55 metres in depth. At its widest it extends over 160,935 metres² in the south and southwest of the Gulf. The sea bed tends to be rough but could be used for fishing by drift net. (Figure 6).

iii. The Transitional Zone

In this zone the sea bed is irregular and covered by a mixture of coral reef, mud and sand. The southern extension of this zone is somewhat smoother and can be considered suitable for fishing by drift net, where the depth is between 45 and 60 metres.

iv. The Deep Area (abyssal plain)

At the bottom of the U-shaped basin of the Gulf the maximum depth of 91 metres is reached. The depth decreases towards the head of the Gulf, and this area can be divided into two zones. In the north, where the depth ranges between 50 and 65 metres the sea bed is flat and covered by river deposits, although there are certain areas of coral reef. Such conditions are suitable for the use of drift nets. The southern zone ranges from 70-110 metres, but it has an irregular sea bed, except for the area round Shaikh Shuaib and Ghais, Sary Islands (Figure 4). The general roughness is a result of dolomite intrusion and coral reefs.

Overall the Gulf has an irregular sea-bed, but this cannot be considered a serious obstacle to fishing, and the best area for fishing seems to be between the depths of 15 and 55 metres.

Climatic Conditions

The Gulf may be considered a transitional area between tropical and subtropical climates. Changes in the meteorological conditions of the Gulf are very few compared with areas in a sub-tropical climatic region. While in summer conditions are less stable than in the area under a tropical climate. The Gulf is also influenced by the vast extension of desert around its coasts, and by passing winter cyclones formed above the Atlantic Ocean.

In summer the Gulf is dominated by the influence of high pressure conditions, with clear skies, high temperatures and sand storms. In winter the number of depressions reaching the area increases, and these are usually accompanied by cloudy or rainy weather and strong winds.

Table 2 The Difference Between Temperatures,
 of Water and Atmosphere

Weather temperature (C⁰)

Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
13.1	15.6	19.8	24.8	30.9	34.2	36.8	36.6
Sep.	Oct.	Nov.	Dec.	Average			
32.8	27.5	20.2	14.7	25.6			

Water Temperature (C⁰)

Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
15.9	16.8	19.8	23.6	27.8	30.2	31.8	32.9
Sep.	Oct.	Nov.	Dec.	Average			
30.8	27.5	22.6	17.6	24.8			

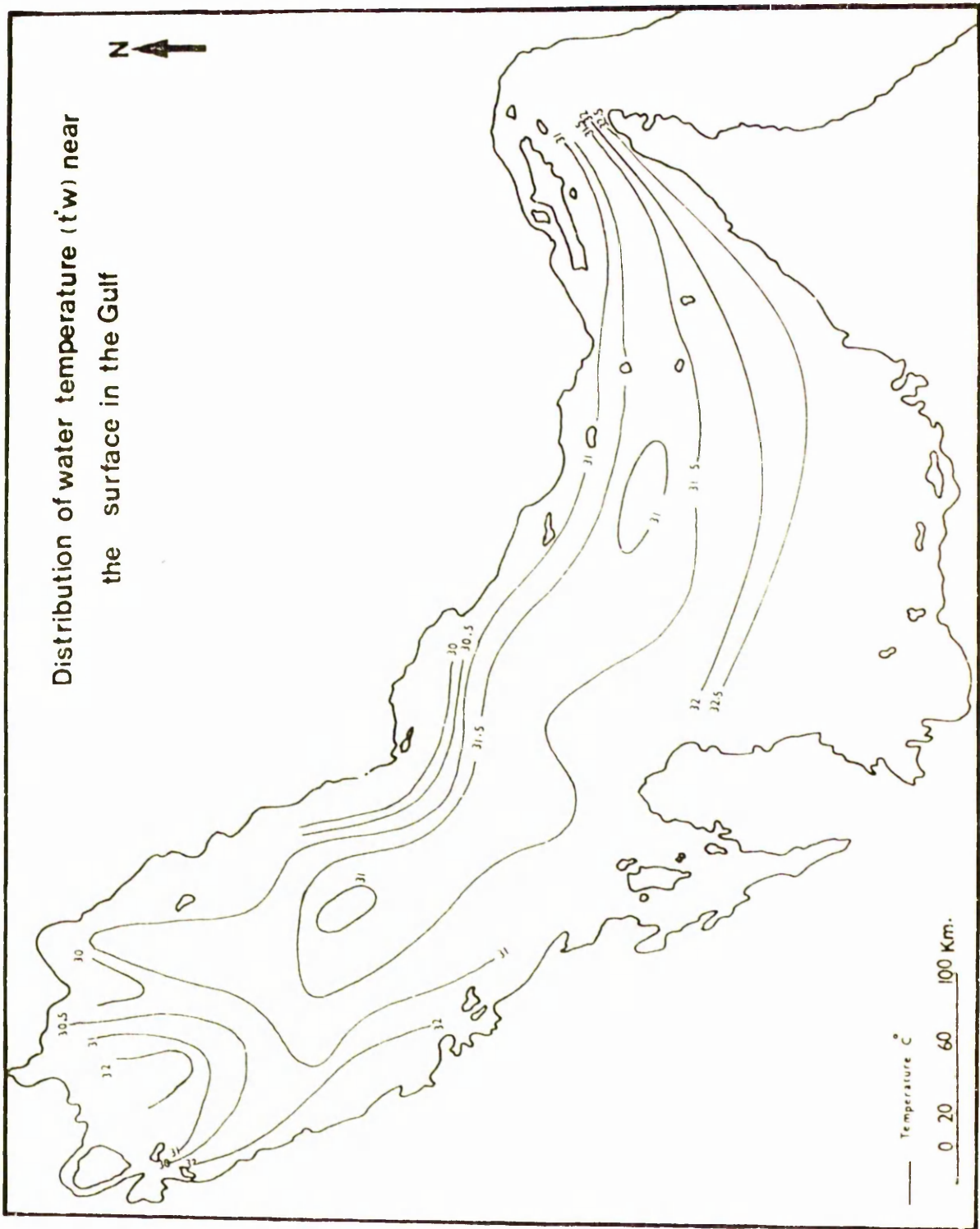


Figure 7A

After; F.A.O.

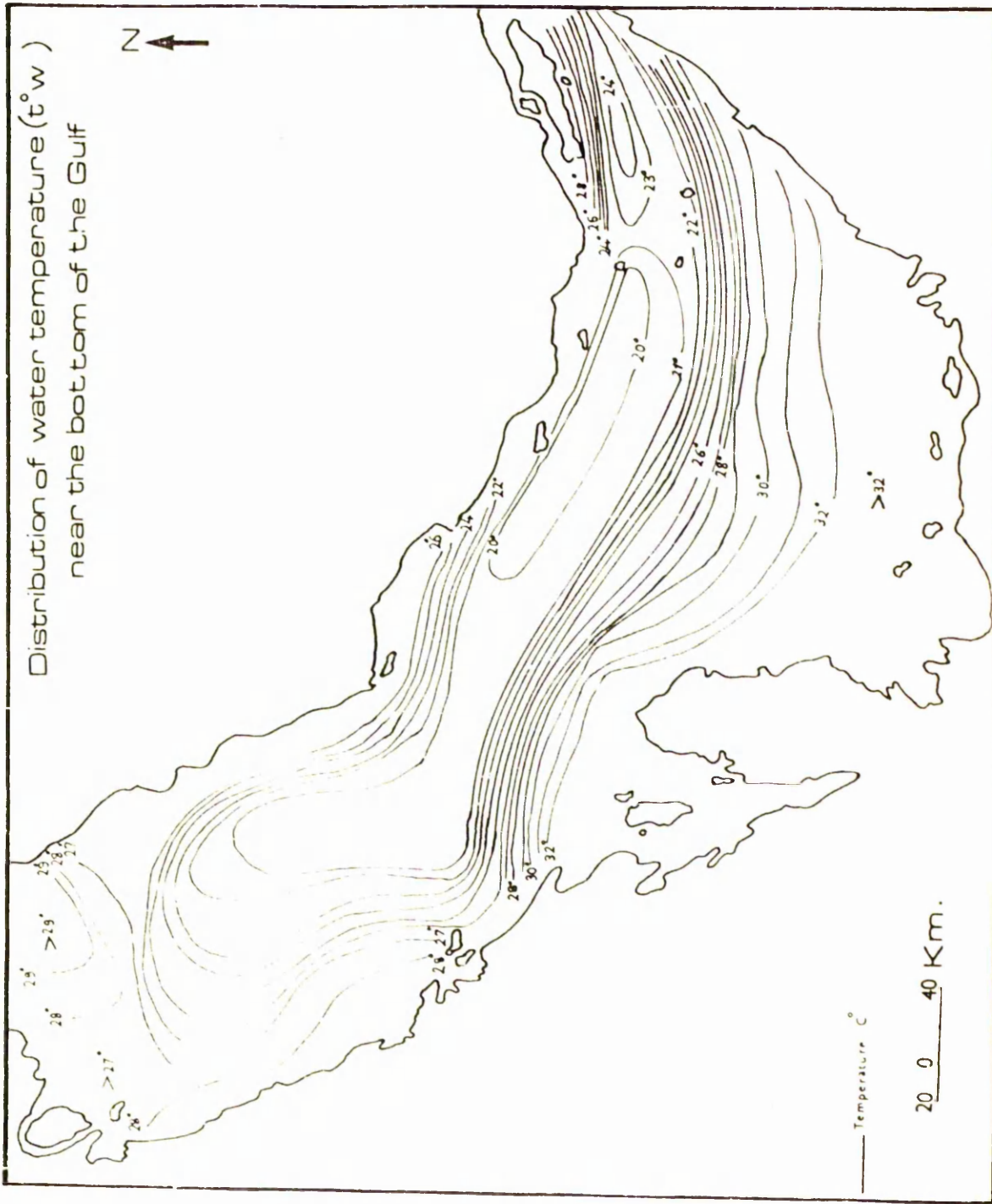


Figure 7B

After: F.A.O.

The difference between water and atmosphere temperatures is obvious from the above table (2). There is generally an equal amount of heat exchange between the air and the water surface. But between November and February the water surface starts to cool gradually.

The influence of the monsoon winds continues into March and April with the southern monsoon wind occurring about 60% of the time. The summer monsoon (April to October) is more settled than the winter monsoon and comes from the north-west. The lowest temperatures occur in the north (19°C), and the highest in the south (27°C). The difference in water temperature between the surface and the bottom is relatively small (Figure 7A, 7B). The temperature gradient is reversed during the summer, however, when the highest temperature occurs at the head of the Gulf.

In winter the temperature at the head of the Gulf reaches about 16°C , and the sea surface radiates heat, while in summer the temperature reaches 24°C , which results in seasonal difference of about 8°C at the head of the Gulf. During summer, which lasts for about six months, the sea surface absorbs heat. This has been estimated at about 2.300mm. of water evaporated from each square centimetre of the Gulf (about 230 cm^3 per year from each square centimetre).¹ Such conditions help to

1. Ministry of Public Works, Scope Thoughts on Fisheries Oceanography of Kuwait Coast, unpublished report.

alter salinity levels.

There are some differences in temperature between the Arabian coast and the Persian Coast, even in those areas which lie on the same latitude.¹ The surface temperature on the Persian Coast is generally warmer than on the Arabian Coast in winter and spring. This may be due to the difference in depth between the two coasts and the influence of the warm ocean water crossing the Straits of Hormuz. On the Arabian Coast cold water of 15°C or less flows from the Shatt al-Arab, passes Kuwait Bay and continues south along the Arabian Coast.

Thus during this time of the year the temperature averages 17°C in the vicinity of Bahrain Island, while it averages 21°C near Lignih, at the same latitude, on the Iranian Coast. During mid-summer temperatures can reach more than 32°C or 33°C in the central northern part.

The lowest surface water temperature occurs in February, and the highest in August.

Salinity

The Gulf's waters are characterized by a high proportion of salinity which in general are similar to, but lower than, other inland seas. This may be due to the

1. For further details see: A.Y. al-Temeemi, Carbonate Bottom sediments of the Arabian Gulf in Relation to Environmental Parameters, A Thesis in Geology, Ms.Sc., University of Kuwait, June, 1972, p. 10, and USA Naval Oceanographic Office, A summary of Temperature-Salinity Characteristics of the Persian Gulf, General series, Publication G4, Washington DC, 1964, p. 24.

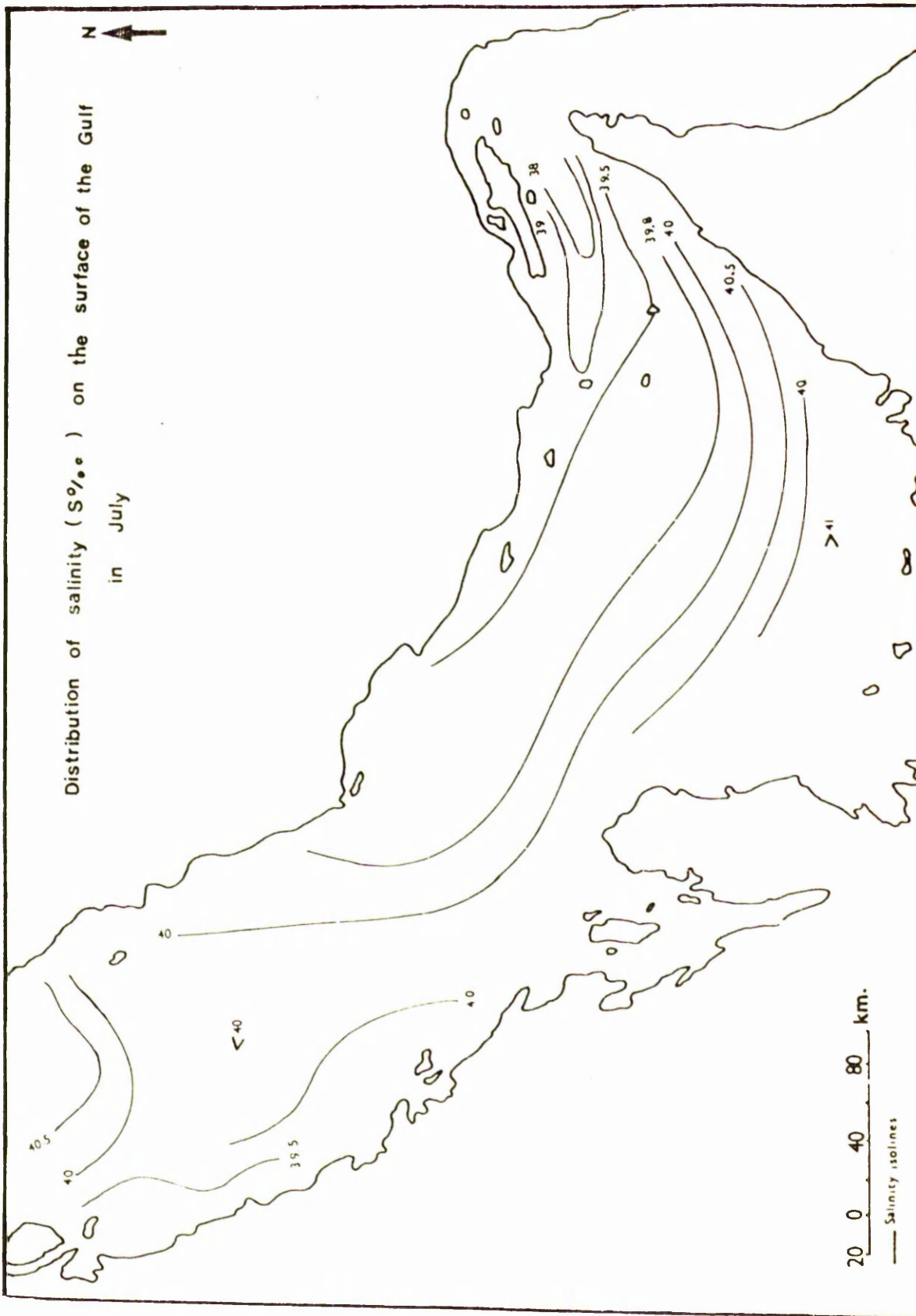


Figure 8A

After; F.A.O.

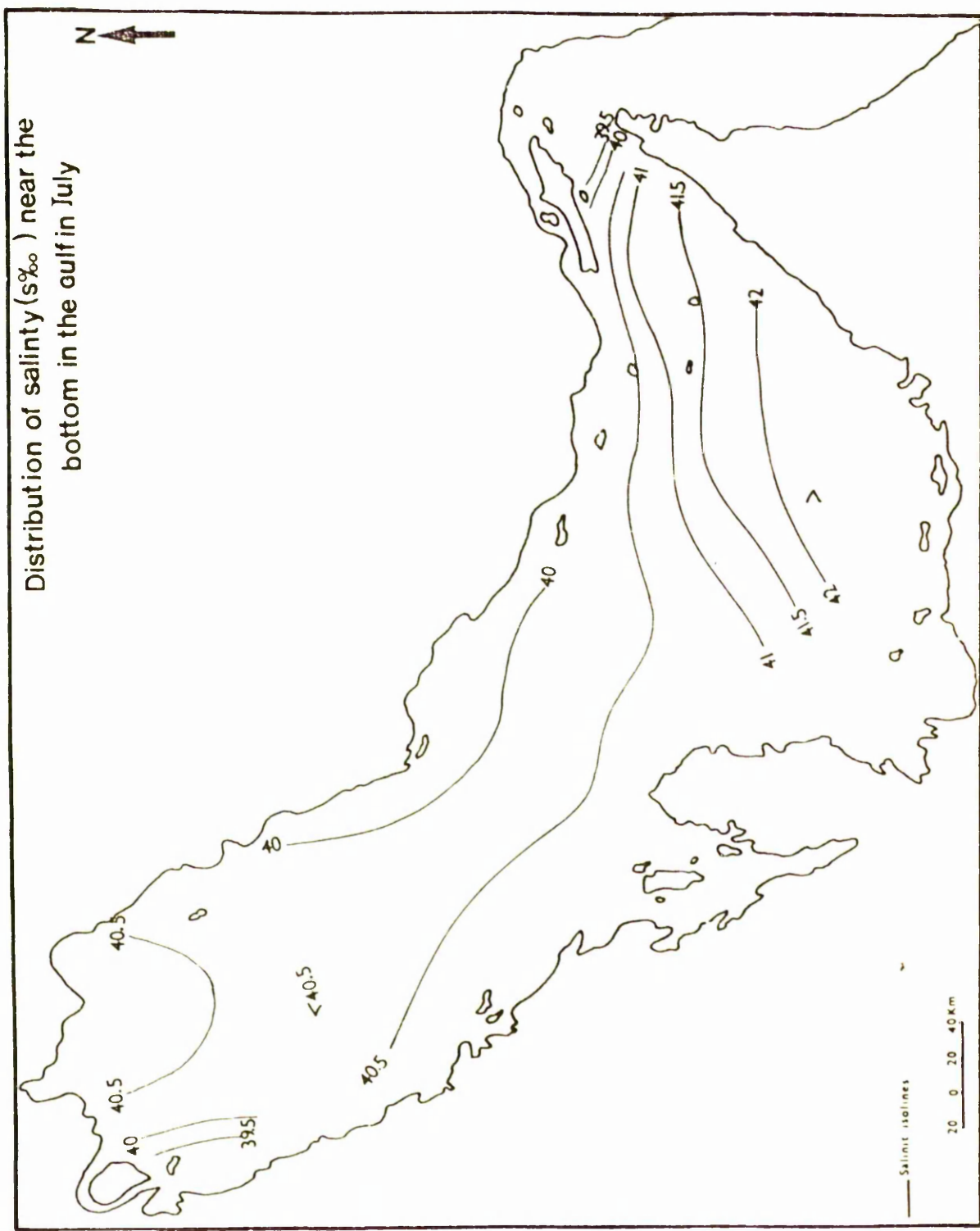


Figure 8B

After; F.A.O.

discharge of fresh water from the Shatt al-Arab, which flows during the summer months. This is one of the main factors reducing the concentration of salt during this particular season. The salinity declines from 40o/oo at the mouth of the river to 35-30o/oo in the area half way between Kuwait Bay and al-Fao.

Nevertheless, the Gulf is still considered to be an area of high salinity. This is due to the relatively small fresh-water inflow, and the high temperatures, which increase evaporation in excess of fresh water inflow. Salinity ranges from 37-38o/oo in the Straits of Hormuz to 38-41o/oo at the head of the Gulf.

The scarcity of rain even during winter, the variation in the amounts of fresh water from the Shatt al-Arab, and the variations in the rate of evaporation all result in seasonal changes in salinity.

Throughout the year part of the Gulf has a salinity continually exceeding 40o/oo. The size of this area reaches its maximum expanse during winter months (Figure 8A, 8B), but this area shrinks during spring and summer. Indeed, winter generally has much higher levels than summer.

The salinity of the deeper water does slightly differ from that at the surface, and consequently shallower areas tend to have higher salinity than the deeper ones. But the situation at the head of the Gulf is different, changes in the salinity of deeper water can

be attributed to dilution by fresh water from the Shatt al-Arab.

Most salt in the Gulf comes from the Arabian Sea and the Gulf of Oman, through the Strait of Hormuz, during winter months, but the Shatt al-Arab must contribute significant amounts, along with the artesian wells and springs near Ras Tannura and Bahrain. In addition there are extensive beds of salt, gypsum, and sulphur, and the region contains a number of salt domes. Thus a partial solution of these beds of salt and salt domes would increase the salinity of the water, especially if accompanied by the above-mentioned climatic and inflow conditions.

Water Currents

Although no full study of the currents of the Gulf has been attempted, it is necessary here to give a brief general account, because of the influence of currents on the ecology of marine life and on navigation, harbours and fishing. The Gulf has a narrow link with the Indian Ocean through the Straits of Hormuz. These straits are the most crucial area for currents, because they carry the Ocean's influence in to Gulf waters, and because here is found the greatest depth in the whole Gulf, 106 metres (350 feet). The straits also have the highest salt content.

Water moves in two directions through the straits of Hormuz, one leaving the Gulf to the Ocean (Gulf of Oman), flowing on the lower south western side because the Gulf water is warmer, while the other flows from the Gulf of Oman and forms the upper stream on the northern side. The high

temperature and the high rate of evaporation increase the salinity and density of the surface water. Thus the evaporated water is replaced by a surface current coming into the Gulf from the Gulf of Oman. The dense water sinks to intermediate depths. From this depth it goes from the Gulf into Gulf of Oman (Figure 5A, 5B).

Apart from these currents, the flow of water in the Gulf is influenced by the velocity and direction of winds, temperature differences, salinity density, and also the configuration of the Gulf, both along its coasts and beneath the sea.

During autumn and winter the influence of wind on water currents is clearly demonstrated, more so than in summer: South Easterly winds blow during the winter months and this is accompanied by the inflow of water from the Gulf of Oman through the Straits of Hormuz, adjacent to the Iranian coast. However, at the head of the Gulf the influence of the inflow of the Shatt al-Arab water is apparent, through the direction of the sea current, especially if north-westerly winds are blowing.

Tidal Currents in Kuwait Bay

Although tides have predominantly semi-diurnal characteristics in this area, there is some daily inequalities, causing the two successive low and high tides. The considerable ranges in tide from low water to high water and vice versa cause great transports of water in the form of tidal currents.

The flood tide sweeps around Ras al-Ajuza, as flood velocities are weak near the shore and increase as the distance increases from the shore line. The ebb current's strength decreases as soon as it has passed the narrow pass between the mainland and al-Akkaz Island and reaches the bay. The spring tide yields a maximum current velocities amount to $4M^3/sec.$ for flood and $35M^3/sec.$ for ebb.¹

Gulf Biological Conditions

As the biological conditions depend mainly on the availability of nutrient elements, it is essential to discuss in brief these elements before discussing the biological conditions. The main elements are dissolved oxygen, phosphate, silicate and nitrate.

Oxygen Distribution in the Gulf's Area

In relation to oxygen distribution there is a small difference between the southern and the northern parts, levels reaching 4.30 ml/L^2 in the former and about 4.90 ml/L in the latter. There is not much change between surface and deeper water. However, there are limited local differences in the amounts of oxygen dependent on local influences such as strong winds, as occurred in Kuwait bay in 1970, when the dissolved oxygen level in the area in July rose

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1. Ministry of Public Work, Report of the Hydraulic Survey Kuwait Waterfront Development, unpublished report, p. 17.
 2. ml/L: millilitres per litre.

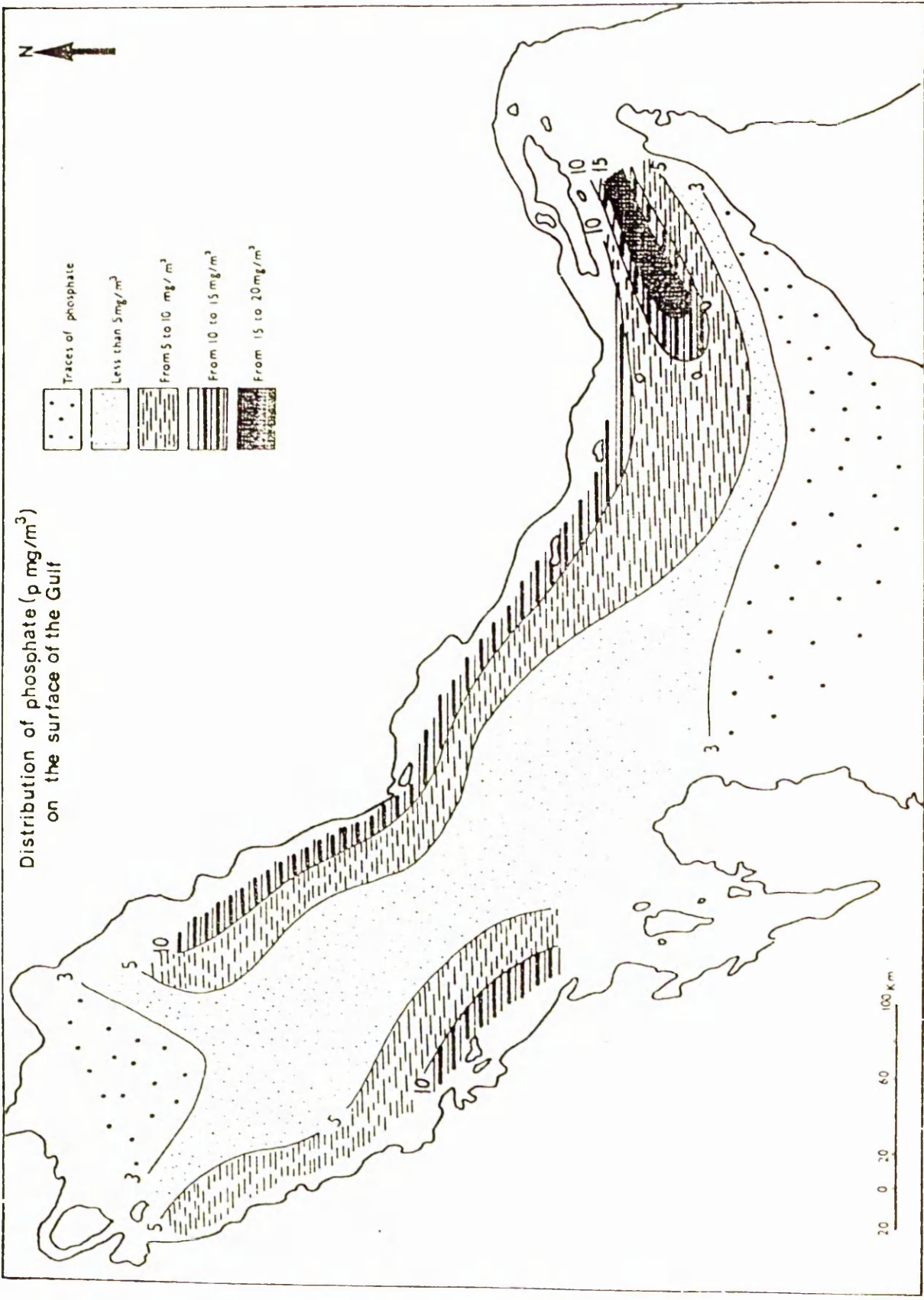


Figure 9A

After; F.A.O.

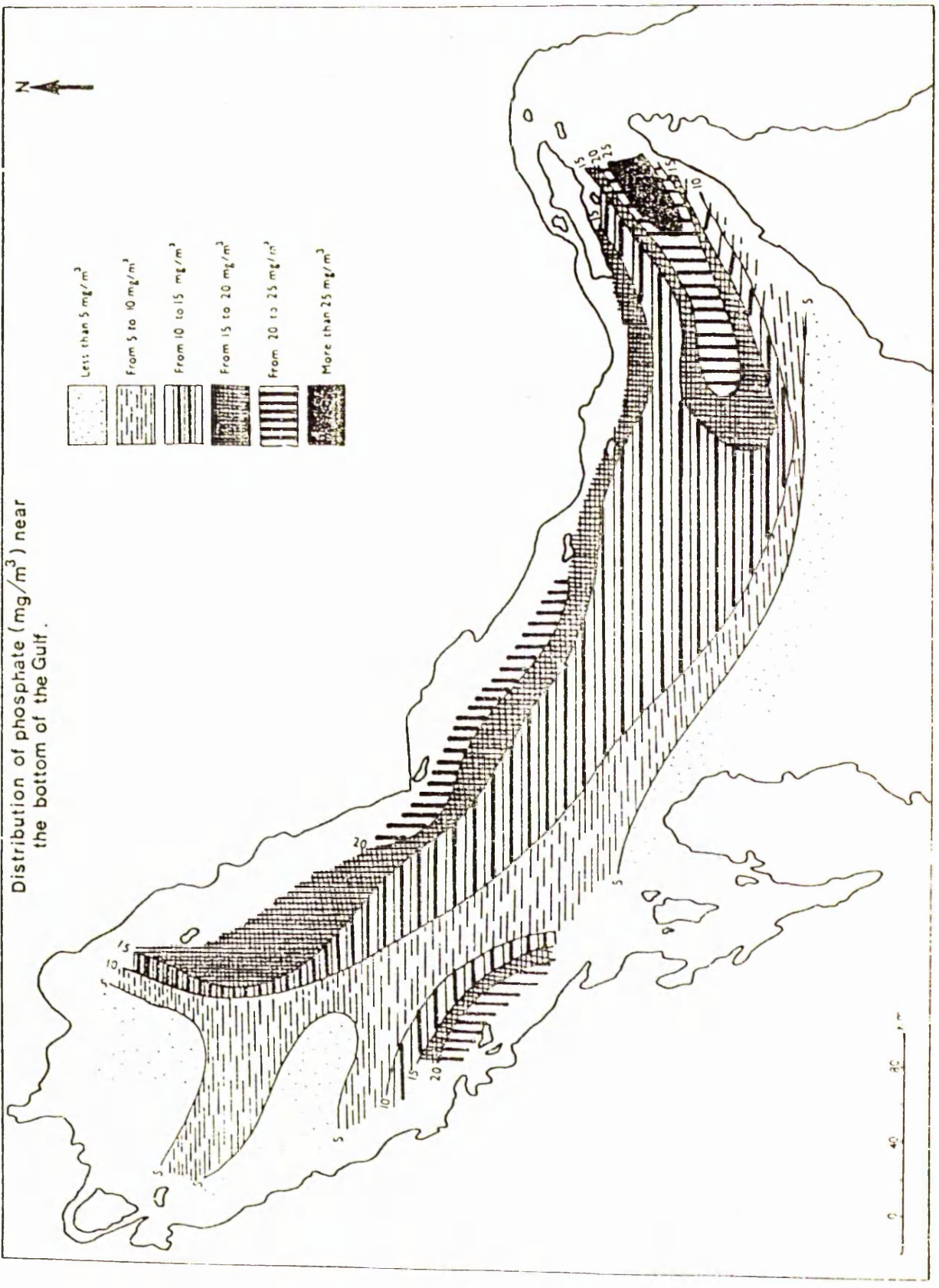


Figure 9B

After; F.A.O.

to 5.3cc/L.¹

Phosphate

Variations in the amount of phosphate in the Gulf are relatively small. Such variations become less and less in shallow water. The maximum value for surface water reaches .56 ug-at/L² while the minimum for the bottom layer is about .05 ug-at/L (Figures 9A, 9B).

Phosphate in sea water is controlled by the production of plankton.

Silicate

There are large variations in the silicate content of the gulf. In the southern part the average value reaches 1.3ug-at/L while in the northern sections the average value is 14ug-at/L. Such variations may be due to the river discharge in the north. There is also a difference in silicate content between surface and deeper water. The low silicate content of surface water may be attributed to biological activity and sinking of the remains of siliceous organisms.

Nitrate

In general the concentration of nitrate in the Gulf water is relatively constant throughout the area. Some differences between surface water and deep water values does

1. cc/ = cubic centrimetre.

2. ug/L = microgram/L

Plankton changes during the year

— Changes in the zooplankton base

- - - The proposed changes in "

Zooplankton

Phytoplankton

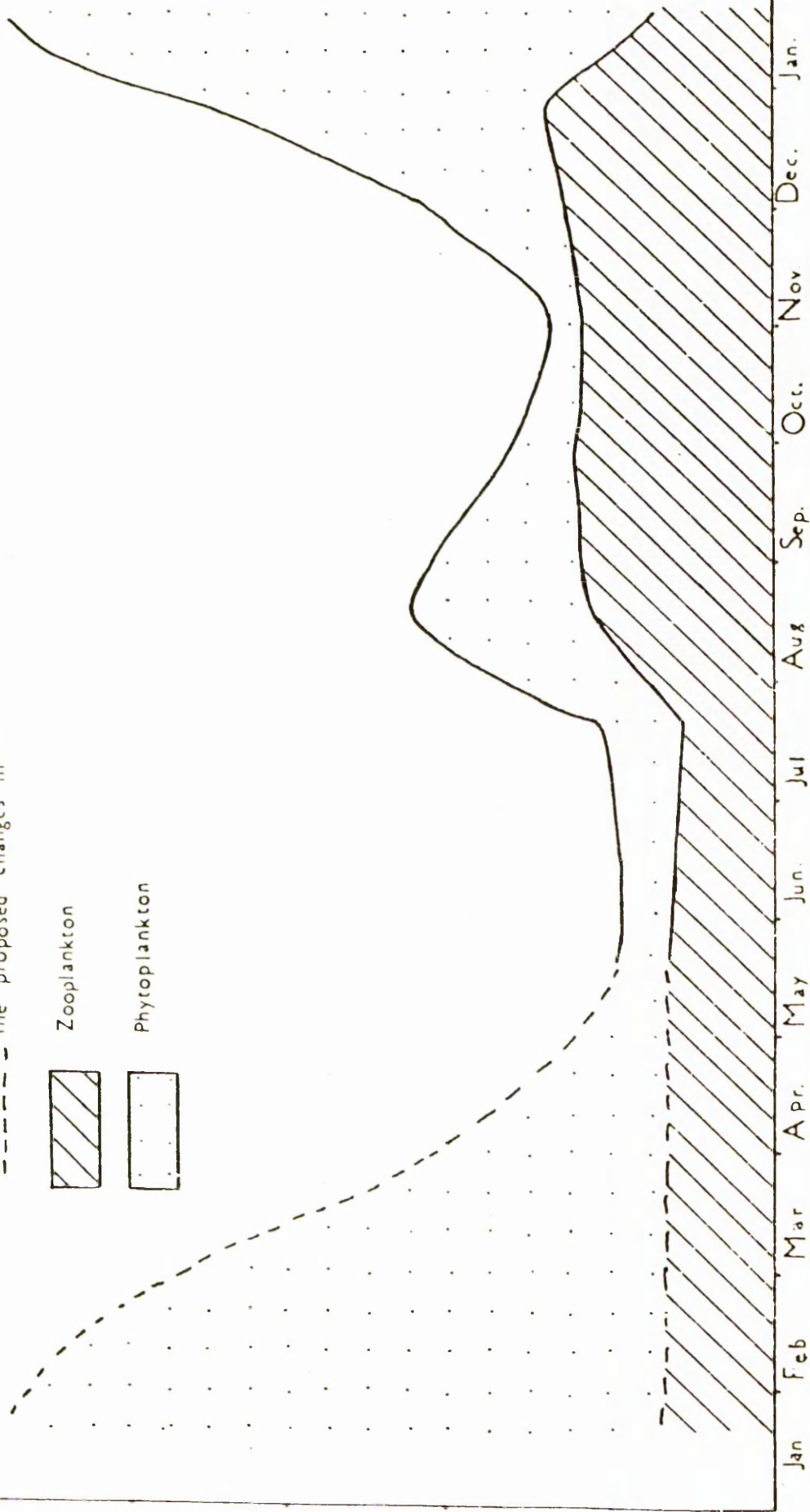
5.0

4.0

3.0

2.0

1.0



After; F.A.O.

Figure 10

occur and there are seasonal variations in nitrate content.¹

The biological resources of the Gulf have been estimated to be high in comparison to much of the world's oceans, especially in the northern part where plankton content reaches about 3000 or 4000 milligram/Metre. This concentration in the north may be due to the discharge of fresh water, and biological changes indicate that the density of the plankton increases during the cold season (winter) while it decreases in summer. Plankton changes occur about 5 times during any particular year. Phytoplankton levels reach their peak in January, while for zooplankton the peak is December (Figure 10). These changes may be attributed to the mixture of sea water, caused by the strong winds. Not only does the wind have an influence on the Gulf plankton distribution and density, but also the changes in the salinity and temperature, which cause variations in the density of surface water. One example is the rise in salinity and fall in water temperature during winter which leads to an increase in density. Accordingly, convection (vertical inter-mixing) develops, and this causes an enrichment of the surface water with biological elements, because it forms a favourable environment for phytoplankton. Zooplankton development follows on from this.

Further phytoplankton development occurs in the spring-summer period. This is due to the enrichment of coastal waters with biological elements which can be attributed to

1. A. al-Temeemi, op. cit., p. 22.

the increase in the flow of the Shatt al-Arab. Intensive zooplankton development provides a food base for fish.

In general the hydrological conditions of the Gulf are favourable for biological processes such as photosynthesis which depends on the presence of nutrition elements, and on the efficiency and duration of sunlight which is abundant in the Gulf area.

The Characteristics of the Gulf Actiology

The biological base of the Gulf is extensive and observations of fish reserves in the Gulf reveal that there are about 258 species, of which about 130 species are suitable for consumption. Not all the species are distributed equally in the Gulf area due to differences in natural conditions in some areas, such as depth and seasonal changes in temperatures.

In the northern part of the Gulf (29-30°N) there are only a small number of species (estimated at between 8-19) while the area to the north of Bahrain Island (between 26° and 28°N), has between 13-55 species. There are between 107-152 species living in the shallow water along the Arabian coast, and there is a great variety of species (179), in the area where the depth exceeds 20m.

In general the density and distribution of fish species in the Gulf still requires a great deal of study if efficient exploitation of marine resources is to take place.

CHAPTER III
POPULATION AND ECONOMIC
GROWTH IN KUWAIT

Kuwait's Population Growth

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CHAPTER III
POPULATION AND ECONOMIC
GROWTH IN KUWAIT

Economic growth should generally keep pace with population growth, and if it does not, population growth must be brought under control or living standards will decline. Thus rapid population growth in an area may lead to 'push' factors by encouraging out migration, provided other countries are willing to accept such migrants. This depends upon economic opportunities which may create 'pull' factors, and different demographic and economic conditions from country to country lead to migration of population. Thus, population policy must form an integral part of economic policy and, consequently, a study of population in Kuwait is essential for this thesis, for population is the dynamic element behind investment or economic development.

Kuwait's Population Growth

In the Arabian Peninsula demographic fluctuations are based on economic condition and migration is determined by the annual amount of rainfall and the availability of pasture, the military strength of the different tribes, and the balance of political power in the peninsula as a whole. In recent years economic factors have been the main elements controlling demographic trends. This, combined with the growth in demand for labour, has brought about a growth in labour supply, which has been

the dominant factor in immigration to Kuwait in recent years.

Kuwait has always experienced immigration, because of its internal political stability,¹ its wealth in comparison to other areas in the eastern part of the peninsula, and its strategic location. The first wave of migration followed the establishment of the state after the arrival of the Utob tribe. Apart from rough estimates by travellers, there is a scarcity of formal records of the state's population. During the eighteenth century members of the Anaiza tribe settled in the north west corner of the Gulf, near to the present town,² and from 1760 onwards the area's population grew, following the establishments of the East India Company's Gulf headquarters in Kuwait, and the consequent increase in trade.

In 1765 the population of the country was estimated at 10,000,³ and in the latter half of the eighteenth century the population increased, due to the Persian occupation of Basrah, which increased the importance of Kuwait, and desert raids by the Wahabi in the interior of the peninsula.

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1. Except for one political disturbance in the interior in 1938.
 2. In 1756 a member of a leading Anaiza family was chosen as first Amir of Kuwait.
 3. This estimate was given by Carsten Neibuhr, who also estimated the number of vessels in Kuwait at about 800. Given crews of between 10 and 80 for each vessel, the population should have been much higher, but many of the people in the boats must have come from other parts of the Gulf.

However, J.G. Stocqueler who visited the town in 1831 estimated its population at only 4,000,¹ but this was undoubtedly an exceptional year because of the spread of the plague throughout the whole eastern part of the peninsula.²

By 1860 Kuwait town had become the most important port on the Gulf and was attracting hundreds of owners of marine craft. Increased world interest in the area increased trade and population, and this was further helped by the suppression of piracy and Britain's projected Euphrates Valley Railway which was to terminate at Kuwait. Consequently the population had risen to about 35,000 in 1860. However, as Kuwait became a centre for trade, it became more liable to desert raids by the Wahhabi from the West and South, and many tribes were obliged to live in the vicinity of the town (usually on the outside of the town's walls).

In 1900 Kuwait town's reported population was 10,000-12,000.³ The arrival of the British Resident in 1903 gave

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1. L. Lockhart, 'Outline of the History of Kuwait', Journal of Royal Central Asia Society, Vol. 43, Jan. 1947, Part I, p. 266.
 2. A. al-Besher, Maghalat An al-Kuwait (Articles about Kuwait), Maktabat al-Amal, Kuwait, undated, p. 35.
 3. This fluctuation was due to the variation in the numbers of desert dwellers from season to season, and also to the country's open boundaries: the first official agreement concerning the definition of the boundaries was in 1913, and was followed by the Uqair Conference in 1923.

Kuwait greater security and this helped to increase the population.¹ Eleven years later, in 1914, the population remained the same, although this was probably due to the depression which hit the trade of the whole area and the pearl market, in addition to the outbreak of World War I.

During World War I migration to Kuwait was small, due to limited economic development, and the economy was dependent upon fishing and smuggling, as a result of the Admiralty blockade. In 1917 only about 144 migrants reached Kuwait (about 0.4% of the total population). The total population in 1918 was given by the India Office of Foreign Affairs as 65,000, of which nearly 50,000 lived in Kuwait city. Of this figure 25,000 were Kuwaitis, 15,000 Persians² and 10,000 from the Nejd, who were in Kuwait because of bad relations between Ibn Saud and the Ajman tribe.

Col. J.C. More, who visited the town in 1920, estimated the population to be 50,000 of which 10,000 were Persian and 40,000 natives.³ al-Rashid⁴ estimated the total population at more than 80,000. In 1929 many tribes from the Najed were forced to come to Kuwait as a result of the Ikhwan rebellion against King Ibn-Saud, but in the 1930's a depression in the pearl market led to a reduction in

1. R.H. Sauger, The Arab Peninsula, Cornell University Press, New York, 1954, p.151.

2. There was a large number of Persians because of war between Russia, Turkey and Britain, and an empty treasury.

3. All these figures were estimated either by officials or individuals, and as a result there are certain contradictions between them.

4. A. al-Rashid, Tarikh al-Kuwait (History of Kuwait), Arabic text, Dar al-Haiah, Beirut, 1971, p.91.

Table 3

Composition of Migrants to
Kuwait up to 1943

Percent Nationality Composition

Nationality	Before 1917	1917-27	1927-37	1937-42	1942-43
Iraqi	17	10	17	22	29
Irani	48	48	42	37	22
Omani	2	10	13	16	17
Saudi	21	20	18	12	7
Indian	1	1	1	3	5
Pakistani	1	1	3	2	5
Others	10	10	9	8	14

Source: After, G. French, and A.Hill,
Kuwait and Medical Ecology;
Ageomedical study, London, 1971, p.21.

immigration. A smallpox epidemic throughout eastern Arabia helped to reduce the population from 60,000 in 1930, but by 1934 the population had risen again to 75,000. This increase was partly the result of oil exploration operations and the harsh life in countries around Kuwait. (Table 3)

By 1937 and 1938 the population had only risen to 70,000-80,000, partly due to improved political relations with Saudi Arabia following the termination of the commercial blockade begun in 1919 and despite the granting of an oil concession in 1934.¹ The real influence of oil on social, economic and political life in the country did not begin until the late 1940's, and World War II helped to slow down progress.

Throughout Kuwait's history migration has been the major factor behind demographic growth, and following the exploitation of oil the total number of migrants to the country trebled, and completely overwhelmed natural increase of the population. During the early years of oil production population records were lacking, but the population in 1948 was expected to reach 35,000. By 1950 there were 150,000 people in

1. According to oil negotiations begun in 1932, the Kuwait government in the person of the Shaikh agreed to grant concessions to the oil companies, which gave them the right to explore the whole territory, but the companies in return were obliged to pay the sum of Rs. 30,000, and a further Rs. 30,000 every year thereafter. Therefore, by 1936 the state was paid the sum of £35,625, the first indirect oil income.

Table 4

Foreign Nationals Arriving in Kuwait by Individual Years up to 1957

Nationality	%Males	Before 1947	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	Total
Iranian	96	1611	185	300	461	625	1345	1950	2024	3348	3795	1490	16754
Iraqi	77	2476	190	371	450	513	1426	1304	1583	1999	2415	2361	15088
Jordanian	82	665	59	113	139	263	813	1827	2457	2125	3201	1476	13143
Lebanese	81	299	6	22	45	100	319	632	912	1011	1565	1294	6205
Omani	93	917	96	187	196	249	352	434	552	656	1141	849	5629
Indian	73	744	257	215	197	77	211	462	382	397	427	380	3749
Pakistani	75	354	106	135	87	81	149	213	247	268	363	282	2285
Syrian	86	239	6	16	27	34	98	211	227	320	491	451	2120
English	55	99	92	141	138	118	183	250	227	204	301	200	1953
Egyptian	50	333	2	5	6	12	76	111	197	365	484	284	1875
Others	-	1038	17	169	144	127	255	386	545	550	762	622	4716
Total	-	8775	1016	1674	1890	2204	5227	7420	9353	1124	14945	9669	73517

After: G.E. French, and A. Hill, op. cit., p. 22.

the country, and the growth rate during the next year was 6%.¹ This growth in the population was matched by an increase in oil production, which doubled the Gross National Income (GNI). This was \$14 million (£5 million)² during the year 1946-49. The increase in population was due to several factors. The principal factor was the increase in oil revenue which increased the demand for labour, but contributory factors were the Palestinian War, which led to the influx of refugees, and the Iranian oil crisis in 1951, which enabled the K O C to increase production, to meet World demand. Thus, Kuwait experienced rapid economic growth which transformed the country from one based upon marine enterprise and a tribal desert tradition to one based on a profitable oil industry.

However, the oil industry did not prevent unemployment amongst the native population, for they were unfamiliar with the work and had to compete with skilled immigrants. Furthermore, there was no limitation on the number of foreign immigrants allowed in to the country, and the K O C contracted skilled labourers and clerical workers from India, Pakistan and other parts of the world to work in Kuwait (Table 4).

Recent Population Growth

A. Introduction

In the early years of oil exploitation there was little demographic information from official sources, but since

1. R. Bullard, (ed.), op. cit., p. 122.

2. The pound was evaluated at its old level of \$2.80 to the pound.

Table 5 Population According to Age-Group and Nationality in Census Year 1957-1975

Age Group	1957**		1961*		1965		1970		1975	
	Non-Kuwaiti	Kuwaiti	Non-Kuwaiti	Kuwaiti	Non-Kuwaiti	Kuwaiti	Non-Kuwaiti	Kuwaiti	Non-Kuwaiti	Kuwaiti
Less than 1 year	1,396	3,687	4,346	4,973	8,417	8,682	68,599	67,866	17,865	19,162
1-4	4,430	15,016	14,145	22,271	27,799	35,476	48,928	57,438	69,148	72,774
5-9	3,930	14,795	10,528	22,679	21,334	37,835	27,711	45,759		
10-14	2,977	11,000	7,173	15,357	12,097	25,949	26,870	34,887	120,452	141,506
15-19	6,081	9,014	11,659	11,812	19,191	20,197	44,982	28,077	37,726	48,870
20-24	15,415	8,346	25,709	11,255	38,515	17,775	52,584	25,351		
25-29	15,277	8,071	27,774	11,040	41,562	17,662	11,435	18,790	103,327	75,815
30-34	10,133	6,395	31,594	15,414	29,667	12,019	31,714	16,675	96,152	48,415
35-39	6,407	5,544			19,477	10,598	20,129	11,442		
40-44	4,654	4,593	11,802	10,093	11,975	7,380	11,942	9,402	52,205	29,400
45-49	2,976	3,480			6,803	6,518	7,148	8,915		
50-54	2,068	3,631	4,698	6,636	4,711	6,011	3,339	4,557		
55-59	832	1,868			2,167	3,151	2,676	5,313	17,768	18,228
60 & over	1,277	6,171	2,244	8,139	3,275	10,511	2,806	9,860	8,106	17,878
Non-stated	5,697	5,633	1,681	10,852	3,290	95	126	64		
Grand total	83,548	107,246	153,353	150,521	247,280	220,059	391,266	347,396	522,749	472,088

** Total does not include the Bedouin of which there are 11,388 Kuwaiti and 6,359 Non-Kuwaiti

* Total does not include the Bedouin of which there are 6,376 Kuwaiti and 9,303 Non-Kuwaiti

the first census of 1957 there have been four further censuses (1961, 1965, 1970 and 1975), and the data from these sources will form the basis of the ensuing discussion (Table 5). The reliability of some of the data, particularly from the 1957 census, must be called into question, because of a general misunderstanding of the motives of the census amongst the population, and the desire to increase benefits from the state, by giving misleading and false information about family size and children.¹

B. Migration and its Importance in Population Growth

Immigrant labour has been present in Kuwait for a long time, originating from Oman, Bahrain, Muscat, Persia, Iraq and other parts of the peninsula. Originally they came to Kuwait to work as carpenters and divers, but the development of the oil industry led to a much larger influx of migrants. Workers were attracted to the oil industry and the civil service by high wages from both the Government and the private sector, but were also driven from their own countries by poor conditions or unemployment. The local labour force could not compete with the skills of the immigrants and by 1954 there was a disturbing level of

1. During this year the Government started its financial aid for the poor families, and it was believed that many of those families had exaggerated their real number.

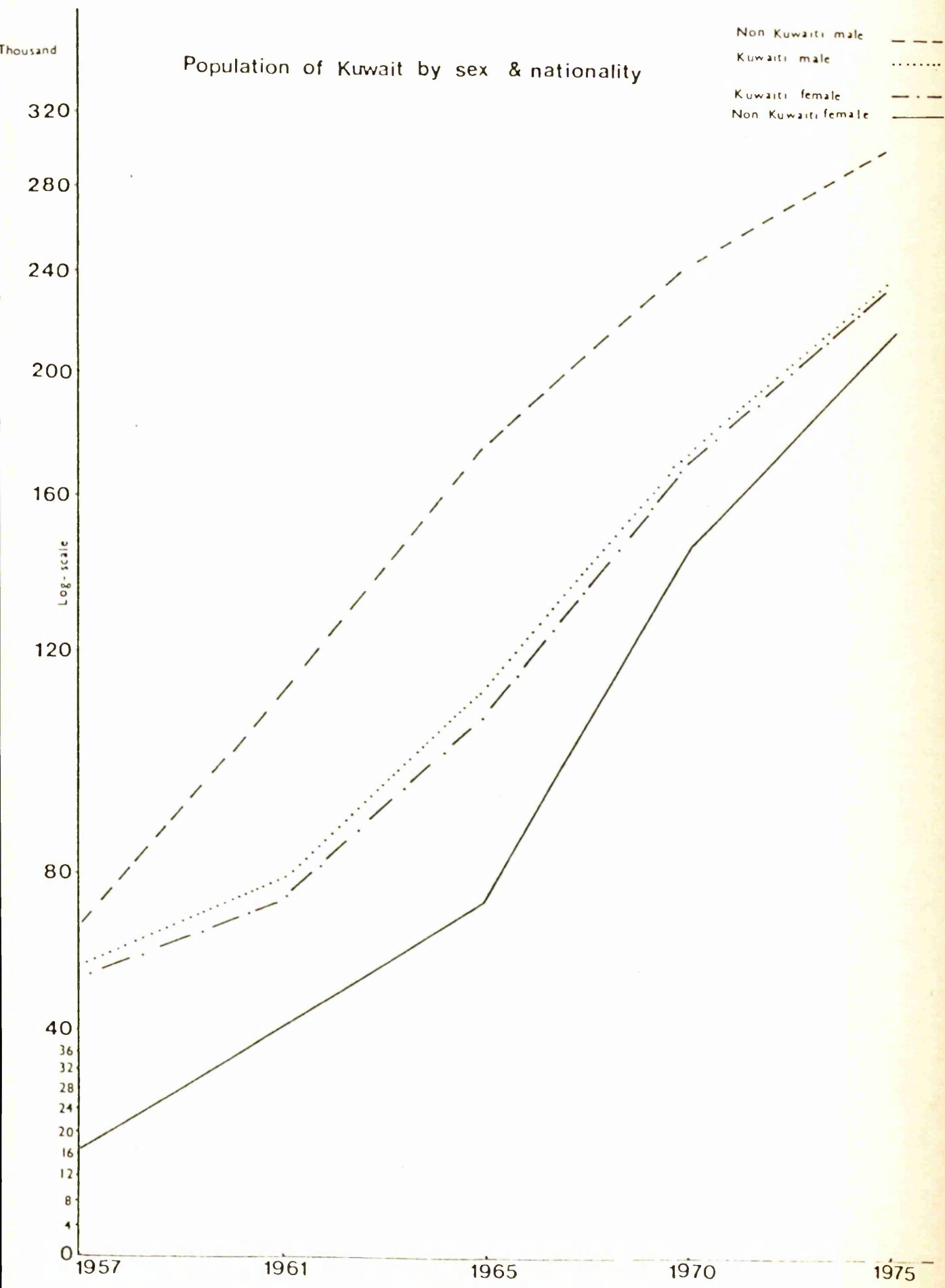


Figure 11. After: The Population Censuses.

native unemployment.¹ As a result, the Government began to create new jobs, particularly in the construction industry, but also by expanding education and health services.

By the mid 1950's many of the immigrants were enjoying an affluent position in the emerging oil economy and the country had become largely dependent upon migrant labour, in order to alleviate labour pressure on scarce local sources. Kuwait is, therefore dependent upon imported manpower for its economic development. (Table 5)

According to the 1957 census non-Kuwaitis constituted 57% of the total population, but this slipped to 50% in 1961, and rose again to 53% in 1965. Actual figures are shown in Tables 5 and 6. This situation has serious economic, political and social implications, and has caused the Government to take several steps. In 1959 the Amiri Decree was made in order to halt the demand for citizenship among those who had been attracted by well-paid employment, good social services and cheap foreign products. Nevertheless, the immigration of those with a high level of education, continued in order to meet the country's needs for skilled manpower. On the other hand, unskilled labour is restricted, and only a very small number of non-Kuwaiti primary school-leavers can obtain Government employment, unless they undergo further training. This policy stemmed from the influx of a large number of immigrants who were largely without skills (Figure 11).

1. The International Bank for Reconstruction and Development, The Economic Development of Kuwait, John Hopkins University Press, Baltimore, 1965, p. 27.

Table 6

Population Number According to the Four
Population Censuses

<u>Year</u>	<u>Kuwaiti</u>	<u>non-Kuwaiti</u>	<u>total</u>
1961	161,909	159,712	321,621
1965	220,059	247,280	467,339
1970	347,396	391,266	738,622
1975*	472,088	522,749	994,837*

Source: calculated by the writer from Kuwait population census
*Planning Board, Annual Statistical Abstract 1976, Table 12, p.23.

1970 saw a slight change in the situation, for the percentage increase amongst non-Kuwaitis of working age was only 44%, the lowest increase since the first population census. This was due, in part, to limited opportunities for non-Kuwaitis, because many Kuwaitis, including women, had gained qualifications and started work, while both Government and private sectors now gave priority to native Kuwaitis. Of the immigrants most were of either Iranian or Iraqi origin, and they were predominantly males of working age. 70% and 71% of the non-Kuwaiti population were of working age in 1961 and 1965, respectively. Male dominance was reflected in the ratio of females to males. For non-Kuwaitis there were 601 females per 1000 males, compared with a figure of 976 per thousand for Kuwaitis.

Natural Population Growth

Natural growth concerns the surplus of births over deaths, and an examination of natural increase may help to shed light on the labour force available to a country

affected by migration, and also how effective legislation has been in controlling migration. According to Kuwait's four censuses since 1957 natural population increase has been very rapid amongst both Kuwaitis and non-Kuwaitis. Before 1950, the rate of natural increase was minimal amongst Kuwaitis, for, although social and traditional customs among the Bedouin encouraged large families, working conditions prohibited it. Economic activities were connected largely with the sea, so that a large number of men were outside the country for a great part of the year, either on trade trips which could last three months or more, or on pearl diving, which could last for four months.

Since 1950 population has increased rapidly naturally, mainly because of the general decline in the death rate, while infant mortality has also been reduced due to more efficient medical facilities. More recently there has been a lowering of the birth rate amongst Kuwaitis, particularly in the educated classes and since women have begun to take up work. However, the tendency among low-income Kuwaitis and non-Kuwaitis in general has been for large families and a high birth-rate. In this context social and religious considerations weigh as heavily as economic ones. As a result of these factors the population in Kuwait more than doubled during the nine years following the first official census in 1957.

Age sex pyramids 1965 -

1970

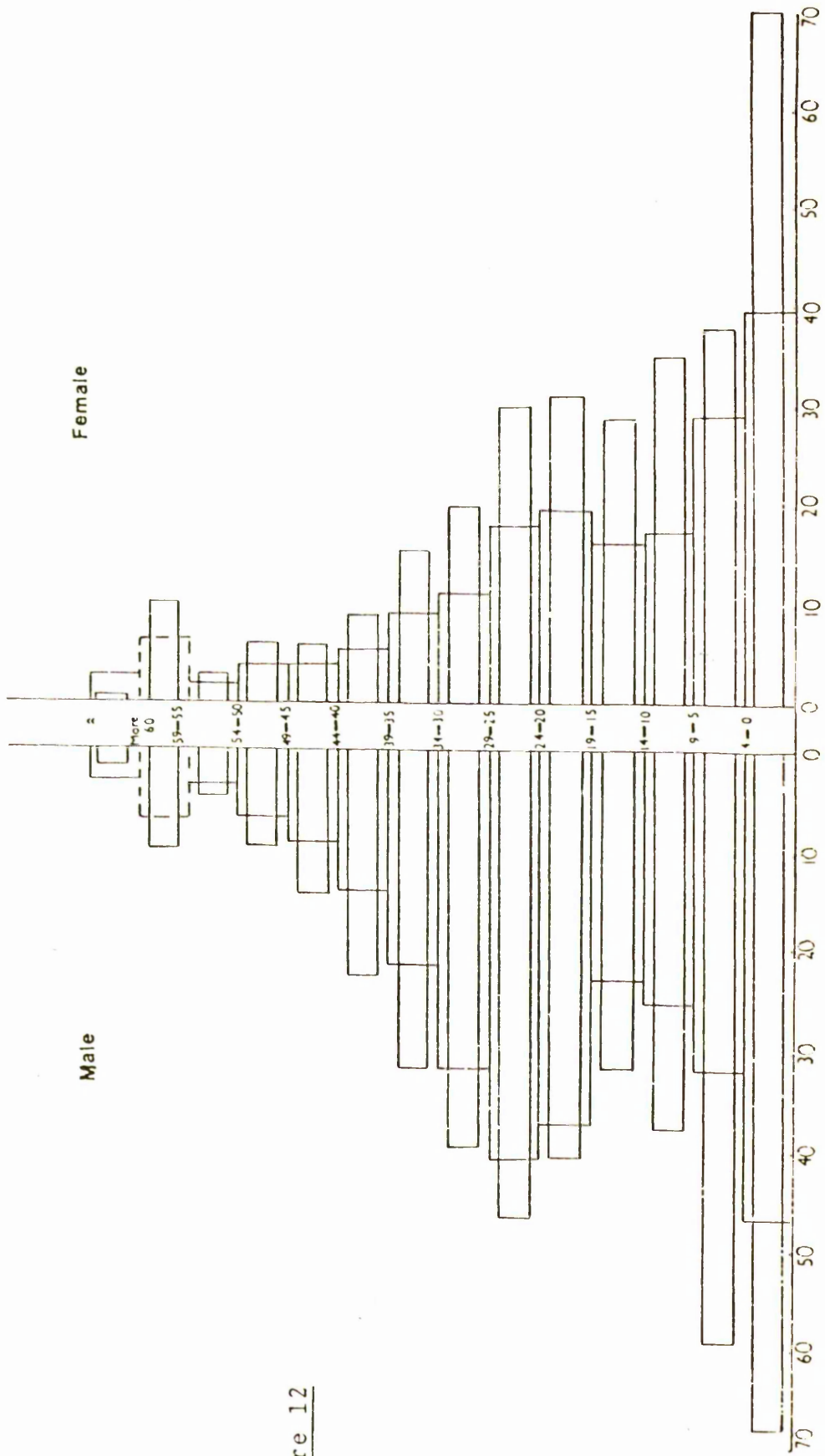
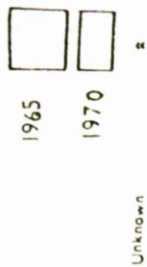


Figure 12

After; Population Censuses 1965, 1970.

Age Structure

Kuwait's population is characterised by a high proportion of young people, for in 1970 51% of the total population was under the age of 15 years (Table 5). Of this 54% were Kuwaiti and 45% non-Kuwaiti. Only 48% of the population falls in the working age group (15-64 years), and most of those who are of working age are classified as students (Figure 12). Because of this age structure more money has to be spent on the social infrastructure, which is not a directly productive sector of the economy. Figures from the last two censuses both indicate a very broad population base, which reflects the rapid natural increase in population, but the age group 9-19 has less than would be expected, probably due to the low natural increase before oil. There is another bulge in the 20-34 age group, which is a direct reflection on the high rate of migration.

Population and Labour Force

The labour force is made up of all the people of 14 years of age and over who are either employed or unemployed but seeking work. It includes all people who work for themselves as well as those who work for others; they work for wages, salaries and fees, and are thus economically active.

As a result of the demographic transition that affected the country after the first oil shipments in 1946, the increase in the state GNI (Gross National Income), and the first planning study to reconstruct Kuwait city, a

tremendous increase in demand for labour was followed by a flood of immigrants from the neighbouring countries.

According to population estimates, the greatest increase in the Kuwaiti population began in 1950. From that period onwards the demand for labour steadily increased until 1958, because of the construction company's need to complete its operations rapidly, e.g. the southern pier, and the pipeline from the oil field to the oil storage tanks near al-Ahmadi Harbour, and from there along the pier to fill up ships waiting to take the oil to various parts of the world. The company employed over 7,000 persons. This was an important factor in the Kuwaiti economy at that time. However company employment started to shrink after 1958.

According to the 1957 census, the indigenous labour force reached 24,602 while the total labour force at the same time stood at about 80,288, so that indigenous labour formed 30.6% of the total. There were about 14,306 foreign labourers in 1967 and 32,136 in 1968, an increase of 124% between the two years. In 1970 the total labour force was nearly 242,196, of which about 26.9% were Kuwaiti, and about 3% of these were women, whose numbers constituted about 6.8% of the total employment in the country.¹ In 1975 the total labour force was 304,582 of which 30% were Kuwaiti.¹

Most of the professional jobs were in foreign hands especially during the early affluent years, due to the lack of local professional people. Therefore the state trebled its expenditure on education inside the country and abroad because it was easy to fulfil its needs from many other

1. Ministry of Planning, Annual Statistical Abstract 1978, Table 86, Kuwait, 1978, p. 93.

countries. However this could lead to difficulties in the future, because of the expected increase in demand for labour in the Gulf area.

Table 7

Year	<u>Total Labour Force in Kuwait</u>			Percentage of increase
	Kuwaiti	Non-Kuwaiti	Total	
1957	62,748	70,815	133,563	-
1961	85,241	117,161	202,402	51%
1965	117,931	177,633	295,564	46%
1970	173,333	246,028	419,361	29%
1975*	472,088	552,749	994,837	137%

*Planning Board, Annual Statistical Abstract 1976, Table 54, p. 91.

Source: Calculated by the writer from the population census 1970

Most of the jobs in the country were filled by foreigners. It was estimated that the total number of jobs available in 1963 was about 190,000 (this compares with nearly 89,000 in 1954), of which about 130,000 jobs were in the private sector and nearly 60,000 in the public sector. The Kuwaitis formed about one quarter of the private sector and the remainder were expatriates (Table 7). Nevertheless the immigrants included many people who had Government jobs in the morning and private jobs in the afternoon, which indicates that the labour force was actually smaller in number. About two-thirds of the total Government jobs in Kuwait were held by non-Kuwaitis, while the non Kuwaiti proportion in the private sector formed about 80% in 1963 in various jobs. However, most of the workers in the private sectors were unskilled, and they formed about 40% of the non-Kuwaiti workers in

the private sector. (Table 8).

Table 8 Labour Force by Division of Occupation

	1970		1976	
	<u>Kuwaiti</u>	<u>Non-Kuwaiti</u>	<u>Kuwaiti</u>	<u>Non-Kuwaiti</u>
Professional & Technical workers	3,734	21,888	9,739	32,097
Administration & Managerial workers	611	1,169	1,045	1,809
Clerical & related workers	11,474	16,730	17,853	20,165
Sales workers	6,529	14,430	6,162	17,618
Service workers	23,216	34,521	32,900	45,400
Agricultural, animal husbandry, fishermen & hunters	893	3,050	3,897	3,805
Productional & related workers and labourers	13,385	83,581	15,348	90,260
Not adequately defined	1,821	589	4	-

The industrial sector, including the oil industry, provided employment for only 15 to 20% of the total labour force, and because of high competition between Kuwaitis and non-Kuwaitis employment legislation¹ gives the former priority in obtaining permanent jobs. In addition the highest paid jobs are reserved for them and they are entitled to a pension.

The oil industry is second only to the Government as an organization and had a large labour force in 1964.

It employed 7,000 persons of whom about 2,000 were

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1. One of the law's stipulation - for labourers - was that no one under the age of 12 could be employed, and those between 12-18 could work only six hours a day or less, and they were banned from night work. As for workers in general, they could not work more than eight hours a day, with overtime work restricted to two hours a day, and paid at not less than one and quarter times the ordinary rate of payment.

administrative, engineering and clerical staff. The company pay roll in 1964 was KD7 million and KD11 million was spent by the company in Kuwait for materials and services

One aspect of Government policy was to encourage the native population to occupy as many jobs as possible, especially with the increasing numbers of expatriates in different ministries. As the economy grew faster the population growth and the labour force would be more efficient if it was more stable but most of the labour was non-Kuwaiti and considered its stay in Kuwait to be only temporary. Apart from oil production, Kuwait depends on the rest of the world for its supplies of all kinds of goods, as well as skilled labour. This was unlike many developing countries, which were handicapped by the shortage of capital, but had a sufficient supply of raw materials and labour together with a wide market.

Table 9 Percentage of Labour Force According to
Economic Activities in 1965

	<u>Kuwaiti</u>	<u>Others</u>
Agriculture & Fish	1.4	1.0
Mining and quarrying	3.4	4.1
Transfer motor industry	4.5	11.6
Building and construction	3.1	19.8
Electric and water	4.1	3.8
Trade	12.8	12.9
Transport and communication	6.6	5.3
Government services	60.0	40.0
Others	0.6	0.5

Source: Calculated by the writer from the yearly statistical abstract 1966.

The highest proportion of the population was in the government sector (Table 9). This is followed by the trade sector, which absorbed the second highest proportion of the Kuwaitis, until 1970.

In 1966 the total amount of salaried staff reached 31,000 and the total number of wage earners was 22,000. The ratio of Kuwaitis to expatriates among salaried staff was 6:1 for the total labour force. On the other hand one third of total Government employees were employed in the education and health ministries. This was due to the high level of public services provided by the state.

Table 10

<u>Percentage of Labour Force According</u>					
<u>to Economic Activities in 1970 - 1975</u>					
	1970	1975		1970	1975
Agriculture	1.7	2.5	Electric/ water	3.5	2.4
Mining & quarrying	2.8	1.6	Trade	12.4	13.2
Manufacturing industry	6.9	8.1	Transport and communication	5.9	5.2
Building	14.3	10.8	Government services	44.4	53.7
			Financial Institu- tions, Insurance	-	2.4
			Other	1.5	-

In 1970 there was a slight change in the percentages but the leading activity was still the civil service (Table 10), with 44% of the total number of active people, followed by building and trade. A new item occupied fourth place: the industrial sector.

According to the 1965 census the Kuwaitis formed 39.9% of the total labour force which constituted 25% of the total population. Non-Kuwaitis formed 60.09% of the total labour force, and this proportion constitutes some 38% of the total number of non-Kuwaitis.

This phenomenon is attributed to the fact that most of the non-Kuwaitis were male (70%) and they almost all came to the country seeking jobs. Most of the technical and the arduous work was done by non-Kuwaitis and, although there were great numbers of Kuwaitis working in administrative positions, there are many others in non-productive work. The overcrowded Civil Services were not very productive as there was an excess of labour over the required amount. This weakness was the result of rapid expansion and a shortage of trained operators. Therefore the new policy of employment must be directed to other productive jobs, following an organized social and economic plan. In 1965 there were only 29 Kuwaiti doctors out of 581 doctors and about 56 Kuwaiti engineers out of 1,209 engineers working in the country. About 79% of the total Kuwaiti work force in the Government ministries had only primary qualification or were even illiterate.¹

Not all the population in Kuwait were productive and a great number were classified as inactive people. However these come under Government employment, as it was Government policy to give Kuwaitis the opportunity to obtain the benefits

1. According to the four census years (1957, 1961, 1965, 1970) the illiterate population proportion was 54%, 54%, 45%, 36% respectively, in spite of the increase in absolute figures because of the rapid population growth.

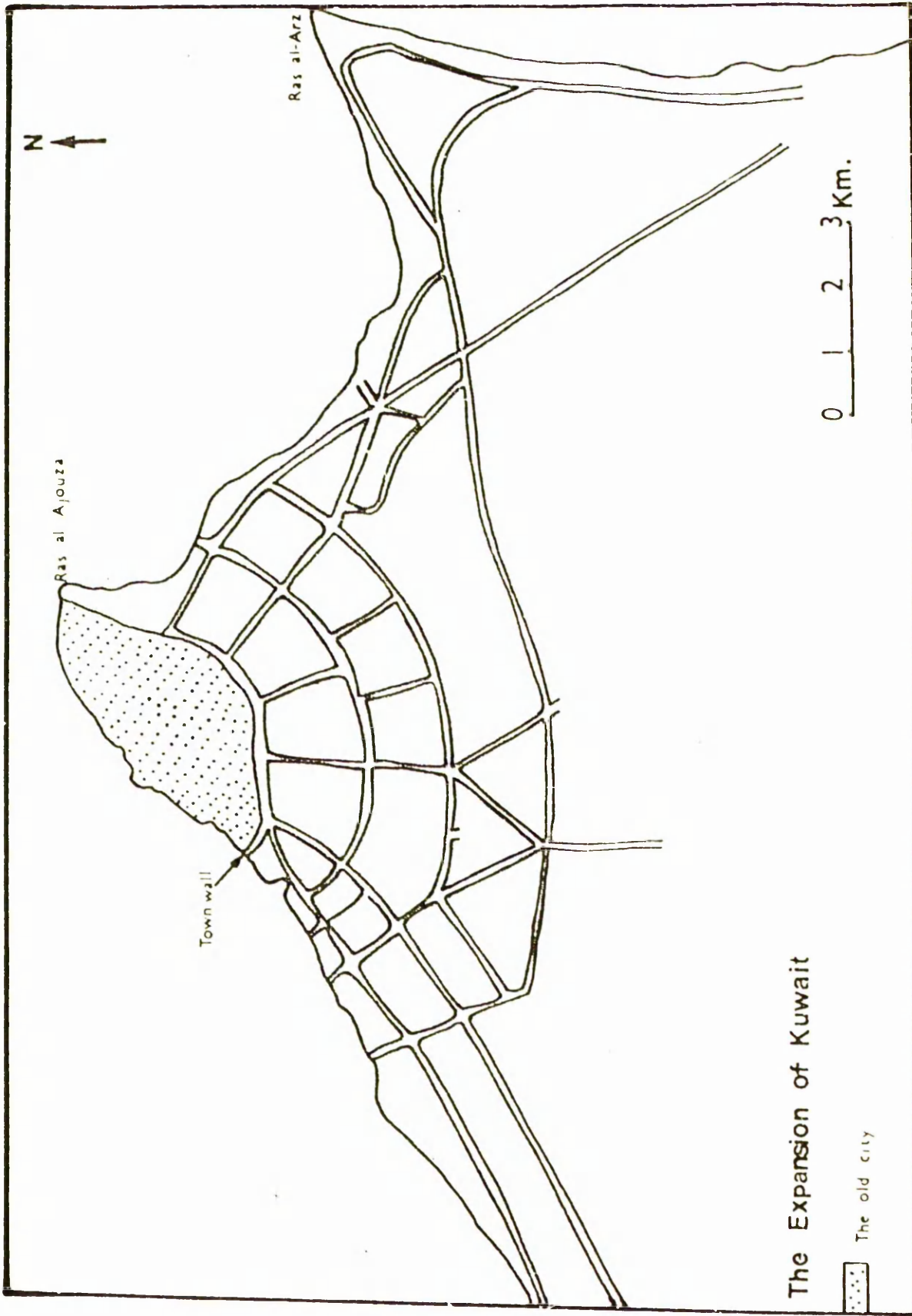


Figure 13

The Expansion of Kuwait

The old city

After; S. Shiber, 1964.

of Government wages. In the past few years the Government has required Kuwaiti or non-Kuwaiti employees to reach a certain level of education and training and has encouraged the taking of higher degrees.

The Government started to broaden its manufacturing base and production, in order to absorb the increasing population, and to cover the increasing demand for work by Kuwaitis and non-Kuwaitis. Most of the latter, especially those who had no qualifications, were absorbed by the private sector. About 70% of the Kuwaiti labour force were on the Government pay roll; the services represented the largest sector and the Kuwaitis were relatively well represented here (about 63% of the total native workers). The expatriates represented only 42% of all Kuwait's workers in this sector. This was followed by the construction sector which absorbed the second largest number of workers in 1965, because of the reconstruction policy of the town, as well as changes in family social life (Figure 13).¹ Commerce ranked third, with about one quarter of its employees being Kuwaiti, followed by manufacturing and transport, while agriculture ranked last as a sector for employment.

1. Before 1950 the house of most families was occupied by more than one family, where brothers used to live together, as well as father and sons, but nowadays they are mostly separated and live in separate houses. This was one of the reasons for the expansion of the city.

Kuwaiti policy towards the immigrant community has remained uncertain. No definitive population policy has yet been adopted even for planning purposes, which has made the entire planning process particularly difficult and tentative.

In recent years the Government of Kuwait has tended to balance the foreign elements within the resident population, attempting to ensure that no one single immigrant group become predominant either numerically or politically. Such a policy has not been declared publicly but has been elaborated by senior Government officials in a series of interviews with the author and in classified Government documents to which the author has been given access. There remains the problem, however, of how Kuwaitis can be trained and given experience on a scale adequate to enable significant substitution of foreign staff by indigenous Kuwaitis. At the time of writing there were few signs that Kuwait was becoming less dependent on imported labour.

As a solution to Kuwait's dilemma, the Government of Kuwait was actively pursuing adoption of a new economic strategy in 1979 under which state expenditures on development projects would be reduced and the basic demand for foreign labour cut back. By this means the comparative weights of Kuwaiti and non-Kuwaiti in the population could be stabilized and further adverse growth in the expatriate community avoided.

According to Buchanan's¹ estimate, population growth will reach its maximum by 1985 when there will be a need for

1. Buchanan, Colin and Partners, Kuwait: Studies for National Physical plan and master plan for Urban Areas, Technical Paper No. 3, London, 1969, p. 15.

800,000 jobs. Because of the rapid increase of population, mainly through immigration, the average rate of economic development will not be able to keep pace with the rapid population increase. Hence Buchanan's forecast that 625,000 jobs will have to be found by 1976. The real increase in the labour force between 1969 and 1975 was 120,285, which meant that fewer jobs were created.

As development increases people should be integrated into community development programmes. Thus no nation has been able to achieve a decent standard of living for its people without a well organized system of education. At present the education system produces more professional workers and graduate business administrators. The development of the education system for Kuwaiti and non-Kuwaiti will increase the number of educated and skilled manpower.¹ This may exceed the needs of the existing economic system which depends almost entirely on Government employment. Both the Government and the private sectors must co-operate to create intensive economic activities, but until now most of Government, as well as private investment, is concentrated in banking activities outside the country, as well as in construction, property and some preliminary industrial activities, which will create new fields for employment.

1. Many Kuwaitis believe that Kuwait needs more highly qualified people. However, many others think that by increasing the number of highly qualified people will increase the demand for work on the managerial level, which in turn will increase the number of Kuwaitis in offices and lead to the demand for more workers from outside.

Thus the following section will discuss the economic growth in various economic sectors in order to measure its possible development and its need for a labour force.

Economic Growth

Kuwait like many underdeveloped countries, tries to increase its yearly rate of economic growth, in order to keep pace with its population growth, by creating new economic fields which will help its economy to grow steadily and to diversify its resources. It invests its capital in order to gain more security for the future.

Kuwait is one of the 80 underdeveloped countries of the world of which more than 30 depend on a single commodity or single crop for more than half their foreign exchange earnings.¹ These countries comprise about 70% of the world's population but have only 12% of its income² and therefore, their growth depends heavily on the international demand for their single commodity. Thus fluctuations in production or demand may occur as the amount of export earnings vary from one year to another.

The Government exerted an impressive effort to develop the economy and diversify the source of the national product, because Kuwait's natural endowment is much more

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1. G.K. Wood, 'The Development Decade in the Balance', Foreign Affairs, January 1965, p. 207.
 2. M. Mcqueen, The Economics of Development, Widenfeld and Nicholson, London, 1973, p. 2.

limited than elsewhere. It has only oil and natural gas, both of which are non-renewable resources. Kuwait, unlike most developing countries, where agriculture is almost the only main source from which domestic capital could be accumulated, has vast capital to be invested as well as an increasing population which in turn increases the demand for work. Therefore the Government is obliged to maintain wage-levels and encourage supply of the market with materials and foodstuffs, which the country lacks.

The increase in total population and the development of social life, plus the increase in per capita income, has meant that the need for land for non-agricultural purposes has increased. A new suburb has been extended around the old town's wall, and new wide roads have been established (Figure 13). Land was also needed for factories and other constructions. This extension has affected some of the agricultural land around the town and in the villages. Although land speculation and development has created a very lucrative and active economic field from its revenue and from the point of view of the labour force employed, it is not a productive or permanent one as financially its existence depends on oil revenues. It is necessary to add new activities to the productive resources which will increase the output of the community by increasing the productivity of labour and land, as well as cutting part of the country's imports. These new activities will also supply the country with renewable exported material (marine products).

Although Kuwait's economy depends in the first place on a single commodity, like most of the developing countries, it has also the highest per capita income in the world which puts it on a level with the most developed countries. This phenomenon is attributed to the fact that this single commodity (oil) has the greatest demand in the world market, and so the country has surplus capital in its savings account, since oil accounts for about 97% of the whole country's exports. Unfortunately this single product puts Kuwait in a weak position, especially since it is a non-renewable resource. The Kuwait situation is unlike that in other developing countries, where the demand for goods is weakened because of the low per capita income.

Kuwait depends on oil income for about 92% (1970) of its total G N P. It lacks a commercially viable agriculture and the country is dependent on a desalination plant as a major resource for the country's fresh water. On the other hand, the country has limited manufacturing activity. Therefore, it is important to know the order of Kuwait's production and reserves in order to understand and search for an interpretation and explanation of the oil problem in the country.

According to geologists, Kuwait holds the second greatest amount of Middle East oil reserves after Saudi Arabia.

1. Oil Sector

Although it is the most important sector according to its input to the GNP¹ and most of the foreign exchange is derived from the oil income, it employs only a small proportion of the labour force. The oil company's demand for a labour force declined, especially after its major constructions had been completed, as oil production operations in Kuwait are easily effected, due to the introduction of modern labour-saving techniques. In 1966-67 about 93% of the state's income was derived directly from oil and most of the rest from indirect association with the oil sector. Oil has affected every part of Kuwait's life. When talking about the economy, oil production and revenue must be considered first and it is necessary to examine the economic impact of the oil industry and its contribution to the other resources, for example, agriculture and marine resources.

Oil has dominated all other energy resources but it is a non-renewable material, its fields are concentrated in certain areas of the world and the demand for energy has increased in recent years. All these reasons might change the world demand for oil and other new resources of energy as well as new producer areas may compete with Kuwait's oil for available markets. Therefore Kuwait and other oil

1. Of the GNP in 1973 about 62% is derived from oil, 8% commerce, 6% from services, 5.3% from public administration, 3% from property, 3.7% from electricity, 3% from manufacturing, transport and construction each of them derived about 3%, while the agriculture participation did not exceed 0.3%.

producing countries have started to plan to invest and diversify their economies into other economic assets, in order to release their economy from depending entirely on one single export commodity.

Oil revenue has dominated Kuwait's economic and social life and the social and development plan has depended entirely on it. So any fluctuations in the demand for oil may affect the development plan or regional and international commitments.

The contribution of the oil industry to the GNP includes the value added by the industry that remains in the country, in the form of wages and salaries, rent and social changes. In the case of Kuwait the sum of the value added is equal to that paid by the company as an income from oil royalties. This condition includes all the wages and salaries paid to the local employees by the company and that part of wages and salaries of foreign employees that is spent in the country. It also includes the company's participation by increasing the demand for the local products such as steel pipes, which in turn will increase the demand for local products, and that will make it possible for other industries to develop as a result of the increasing demand. In 1967 the oil company purchased locally about KD 7,565,729. Part of the Government disbursement is on the development programmes, where a high percentage of Government expenditure is paid out in the form of wages and salaries to the over-staffed Civil Services, which employed more than 81,000 persons during the financial year 1966/1967 and 93,031 persons in 1970.

Table 11 Major Oil Producers, Their Share
of Oil Reserves 1971/1975

	<u>Billion of Tons</u>	<u>As Percent of Total</u>
Kuwait	9.88	11.1
Saudi Arabia	20.54	23.1
Iran	8.73	9.8
Iraq	4.64	5.2
Libya	3.53	4.0
U S A	4.46	5.0
U S S R	10.88	12.2
Venezuela	2.38	2.7

Source: H. Askari and J.T. Cumming,
op.cit., p.31.

During the first half of the sixties Kuwait's oil production showed a great increase and this was attributed to many factors, the most important one being the low cost of production, which made it more profitable. The second reason was the geological structure of the area with its great thickness of effective sediments and the exceptional yield per cubic meter of the reservoirs. This enabled huge production per well from a relatively shallow depth.

Besides the physical factors affecting oil production in Kuwait, there are many other political and economic factors. One of the most important factors which has affected production is the oil market. Kuwait's local market is so small that the demand from the outside market has determined the amount of production. As mentioned earlier, the ideal physical conditions, coupled with cheap per unit production, as well as the benefits of modern techniques, were the most favourable factors that increased the exports of Kuwaiti oil. The other factor that affected the Kuwait's oil production was the competition of other oil producer countries. Kuwait is surrounded by the richest oil producer countries in the world; Saudi Arabia, Iran, Iraq (Table 11) and for all these countries Western Europe was the traditional market. There are also new producers, such as Libya, Algeria and Nigeria, whose location gives them an advantage in exporting oil to Western Europe, thereby undermining the dominant position of the Gulf oil-exporters.

In 1955 Japan and other Asian nations imported 4% of Kuwaiti output. Since that time the rate of increase in purchases by Asian countries has accelerated so that by

1966 22% of total Kuwaiti exports of crude oil went to Japan alone. The necessity for Kuwait to turn from its traditional markets in the West to Asia is indicative of the unstable nature of the international oil market and degree of risk that attends Kuwaiti reliance on crude oil exports.

A further factor that can bear on the condition of the international oil trade is the political situation as between the oil producing states and the international oil companies and/or consuming areas. It has been noted earlier that an appreciable expansion in crude oil output began in Kuwait in response to the conflict in Iran between the Iranian government and the Anglo-Iranian Oil Company in 1951-53. Other political conflicts of the same type have affected production and exports of crude oil from Iraq, while the use of oil as a political weapon against the oil consuming nations has been of increasing importance in adding insecurity to the oil business in recent years for all Arab states.

In spite of the fact that Kuwait enjoys vast reserves of oil, plus the advantage of low cost production, the growth of oil production in recent years has been relatively slow in Kuwait compared to other Middle Eastern oil exporters. Between 1963 and 1968 the average annual growth rate was 3 to 4% in Kuwait against 14% in Iran, 11% in Saudi Arabia and 14% in Libya. This slump in the yearly increase in Kuwait's production may be attributed to the high sulphur content of Kuwaiti crude oil (2-6%), as well as the pressure exercised by other oil producers to increase their production.

Contribution of Oil to GNP

In 1964 the company employed about 7,000 persons, of whom nearly 2,000 were administrative, engineering and clerical staff, while the rest were payroll employees. Thus, in addition to the KD 11 million that the oil company spent in Kuwait for materials and services, it also spent about KD 7 million in pay. In 1965 the company expenditure in the local market reached KD 22 million. In terms of employment the company provided for about 3.8% of the country's labour force. During this year the total exports of oil and oil production represented an increase of 1.8% over the previous year. In 1966 oil production registered an increase of 5.3% and amounted to 92% of the total GNP. This increase was necessary to maintain a steady rate of increase in order to enable the Government to carry on with its development programme, and to maintain steady economic activities and employment in order to reduce its demand for imported skills by increasing the employment of Kuwaitis.

During 1968 the company increased its production and established new facilities. About 5 storage tanks with a capacity of 600,000 barrels were established, along with seven new gathering centres and a new sea island terminal was built,¹ plus the expansion of facilities related to the expansion of crude oil output (Table 12). All these helped to increase the company's contribution to GNP to about

1. This island has been used for the loading of giant tankers at 16 kilometres from the shore.

KD 25.22 million.¹ This was brought about by the value of purchase orders by the oil economy and the cost of the new construction plus the wages and salaries paid by the company.

In 1969 petroleum production recorded its sharpest increase of 6.1% over 1968. This was due to the increase in production from the Neutral Zone and in 1970, although the oil sector provided 57% of total GNP and 92% of Government revenue, it provided only 3.3% of the total employment.

Table 12

Oil Revenue in Thousands of KD²

Year	Oil revenue	% of the total revenue	Year	Oil revenue	% of the total revenue
1953	60,200	97.5	1965	225,326	92.0
1954	69,300	96.1	1966	231,675	92.2
1955	100,500	96.4	1967	263,097	84.1
1956	104,300	96.3	1968	242,987	90.5
1957	110,200	95.2	1969	280,440	91.4
1958	127,400	93.1	1970	297,701	86.5
1959	167,290	90.8	1971	354,073	92.3
1960	159,496	91.7	1972	506,626	92.2
1961	166,951	92.3	1973	543,985	92.5
1962	173,003	91.1	1974	2,056,479	96.9
1963	190,573	91.1	1975	3,528,049	97
1964	206,208	92.8	1976	2,598,417	96
			1977	2,181,900	96

1. The Planning Board, Kuwait Economy 1968/1969, p. 23.

2. Calculated by the writer from Planning Board publication, Annual Statistical Abstract, 1973, p. 194.

From this brief discussion of the economics of the oil sector, it is obvious that all these operations are closely connected with exports, which in turn form a major part of trade activities. Therefore, one could say that Kuwait's economy is directed towards trade and commerce.

2. The Agricultural Sector

Kuwait's economy depends mainly on oil which is a non-renewable resource which does not replace itself, or does so at a very slow rate. Biotic resources, on the other hand are able to replace themselves. However agriculture's contribution to Kuwait's Gross Domestic product is negligible at present.

With the growth of population and new developments in the social and economic life of the society, the demand for imported goods has increased. Among the imported commodities showing the greatest in demand are foodstuffs. This may be attributed to economic reasons, as well as the local customs brought by immigrants and the lack of local agricultural products because of the limited area available for agriculture. In general agriculture and livestock do not play a significant role in Kuwait's economy. This limitation is attributed to the physical conditions of the country, due to its location on the north western corner of the Gulf, which is one of the most arid parts of the world, and its extension as part of the eastern end of the Arabian Desert. Thus, Kuwait suffers from a shortage of fresh water resources which is the first obstacle facing any agricultural development. In 1953 domestic water needs were met by distilling

sea water. Some vegetables were cultivated in the area outside the town walls, but most of these areas were transferred to urban settlement areas after the town extended beyond the limits of its wall. Even the coastal villages were transferred to modern new settlement areas as a result of the growth in population.

The increase in the country's oil production and wealth, coupled with the Government's new policy aimed at settling the nomadic Bedouin has meant that most of the former agricultural lands have become part of settlement areas. This, together with the accumulation of salt in the soil (reaching 3,000-4,000 ppm)¹ has meant that there is little suitable land for agriculture remaining. Not only does the salinity of the irrigation water cause harm to plants, but also the soil is saline and in many parts of Kuwait the topsoil is underlain by an impervious pan layer (gatch) that traps the rain water in the upper layer of the soil. A great proportion of this water is lost through evaporation, and that helps to increase and concentrate the salinity of the soil so that part of it penetrates through the topsoil along the slope of the ground in the direction of the coast.² The soil's sandy texture and very low organic matter is accompanied by the cemented calcareous subsoil and the gatch in many areas. Consequently a great part of the country is unsuitable for agriculture.

1. Parts per million.

2. M.A. al-Farra, The Economic Development of Kuwait; A Geographical Assessment, PhD. thesis, University of Newcastle, 1970, p. 172.

Sulibikhat was the area recommended by the surveyor (FAO)¹ to be cultivated, because of its suitable soils and its location close to the sea. Furthermore, this location is less affected by the harsh climatic conditions which dominate the interior part of the country. Although there was an area of 10-45 kilometres recommended by the report for agriculture, this proved unsuitable for many reasons, in great demand for residential land, and the fact that this area is close to the city. At the same time agricultural activities have no popularity among the native population (Table 13) partly because most of them are city dwellers accustomed to sea enterprises rather than agriculture. Apart from the above mentioned areas there are others at Shagahia, Sulaibia, Abdellia.

Irrigation and Water Resources

As a result of the arid conditions of Kuwait, coupled with the use of brackish water for irrigation, the hazards of salt accumulation in the soil are great. Because of the high salinity of the irrigation water, it is certain in time that agricultural land will become unproductive if some form of leaching with fresh water is not undertaken. Although five percent of the total area of the state is estimated to be arable land only one percent of it is under full cultivation owing to the shortage of irrigation water. There is also a possibility of using sewage water for irrigation, but this water should not be used for irrigation of vegetables, although it may be used for growing animal feed. In 1967 the

1. FAO. Food and Agriculture Organization.

Government started its hydroponics project, but first results indicate a very high cost of production.

Agriculture's Contribution to the Economy and the
Labour Force

The contribution of the agricultural sector to the output of the economy is very limited. This phenomenon is due to the physical factors mentioned above, as well as the competition from marine enterprises which have an advantage because of the difficult natural conditions on land. There was also the attraction of other lucrative jobs after the discovery of oil, with the result that agriculture came to employ fewer people. Nevertheless, agriculture could be important to the economy, not by aiming at self sufficiency, but simply by supplying a proportion of daily needs, in order to reduce Kuwait's overdependence on imported goods. It has been estimated that about 98% of the foodstuffs needed had to be imported each year. According to the 1968-1969 estimate only about 1% of the suitable land for agriculture was under cultivation, this was due to the scarcity of water, as well as inadequacies of skilled man power, coupled with the ease of service conditions compared with the hard work demanded by farming under severe climatic conditions.

The Government sector of agriculture includes the experimental farm which was established in 1953 primarily to test crops which can be grown under these conditions and to demonstrate associations for use in public and school gardens and a forest area. This farm has also shown a remarkable growth in the production of poultry. Agriculture in Kuwait

is not profitable because of the competition between the local products and the imported produce which is of very good quality.

The number of private poultry and livestock farms has increased since 1966 due to the domestic demand which in turn is due to the increase of population and the rising standard of living. Agriculture's contribution to the country's GDP was estimated at about 2% in 1973 and the total labour force employed in this sector was around 1.5% of the total labour force, while its products form 1% of the total demand for vegetables.

Table 13

Number of Employees in the
Agricultural Sector¹

Year	Labours of agriculture, animal husbandry, hunting & fishing	
	Kuwaiti	Non-Kuwaiti
1957	603	673
1965	754	2887
1970	893	3050
1975	3897	3805

Although the number of agricultural workers increased from 1957/1970 most of this increase was attributed to the increase in non-Kuwaiti labour. Most Kuwaitis were owners of the farms or were employed in the Government agriculture department (Table 13).

1. According to the population census 1957, 1970 and 1975.

3. The Industrial Sector

As the scope of agricultural development in Kuwait is limited by the quantity and cost of water, diversification towards industrial development has been recommended. This development needs special consideration and requirements that must be discussed first, in order to understand the possibility of large scale industry and because the growth of industry has basic requirements that must be understood.

The importance of industry to Kuwait should be described according to its participation in adding new resources to the GNP by means of its employment of the labour force in that industry and the significance of the local industrial products to the home market.

Rapid growth of an export of a single commodity may be accompanied by an increase in the import of goods. Expansion of the mining sector leads to the substitution of imported manufactured goods for the home market, as the growth in the home market is an inevitable accompaniment of export expansion. In the case of Kuwait the narrowness of the domestic market has limited industrial growth in spite of a protection policy. However the transition to an industrial economy depends on a number of factors such as the nature of export activity, the size and skills of the labour force, the availability of capital and the strength of infrastructure and an attempt will be made here to assess the degree to which Kuwait has these factors at its disposal for a drive to industrialization.

Many of the developing countries are concerned about the balance between the different sectors of their economy, such as agriculture and industry, but in the case of Kuwait the balance must be achieved between oil and other sectors of the economy. This emphasizes the importance of diversification, and in Kuwait the situation is different from that in many developing countries where the balance of growth might be met by giving industry priority of supply in order to reduce their full dependence on agriculture. In the case of Kuwait the diversification means a balance between oil and non-oil sectors as well as services and production sectors. As there are no other natural resources that could make an impact on the oil wealth, Kuwait's investment in non-oil mineral industry is very limited due to the absence of useful deposits, except for certain amounts of building materials (stone, sand, gravel).

The second factor that affects any industrial development is the availability of a labour supply capable of adapting to modern industry. In Kuwait, as in other developing countries, labour supply for industry forms a major problem. Most of Kuwait's industry depends on imported skilled labour and about 95% of jobs in manufacturing industries are occupied by immigrants. Before increasing industrial activities any further Kuwait has to train local and immigrant labour, in order to reduce the dependence of its industry on manpower, by developing mechanisation. Yet the past increase in labour force numbers created a vast local market. Another element that affects industrial activities is the limited local market which constrains total purchasing power.

The final obstacle facing industrialization in Kuwait is the climate which lowers the productivity of the workers.

As the above mentioned factors demonstrate, industry does not play a significant role in the Kuwaiti economy. Its value added to GNP was estimated at about 3%, because of the narrow market that encourages industry on a small scale. The Government industrial have the largest number of workers per unit. This is due to the great demand for a particular type of industry, mainly concerned with water and electric power, and recently the manufacture of salt and chlorine in the petrochemical industry. This is unlike the private sector, that is represented by small units. This pattern of industry is likely to dominate the sector for some time. It includes soft drink manufacturing, rubber products, repair, furniture, ship building, dairying and others; but in general the labour force employed is small.

This may be due to the level of productive ability amongst labourers or the size of the industrial labour force in comparison with other economic sectors, as well as the share of investment in industry, which was about 20% of the total GNP in 1964/65, of which nearly 32% of all industrial investments was for small industries. The importance of industry is that it may stimulate development in other sectors, namely commerce and services.

In 1970 about 13% of the total active labour force were employed in industry. The International Bank Mission which visited Kuwait in 1961 recommended the establishment of a glass industry since Kuwait has the raw materials in

deposits of sand plus natural gas which forms a cheap source of energy. High freight costs of imported glass give domestic industry a competitive advantage and this industry will be planned to cover local demand. A similar plan was formulated for battery production, the plant for which was established in 1973. Its production will satisfy the local demand and will be kept economically high since batteries have a short life span as a result of the warm climate.

The other important industries that have been started in Kuwait are connected with the sea as a supplier of raw materials,¹ e.g. the fishing industry and distillation and chemical industries. The chemical industry has expanded to supply the local demand for caustic soda, chlorine and hydrochloric acid, soda ash, bromine and magnesium. With the expansion of the sea-based industries the cost of these products will be reduced by about one third. In spite of the limitation of the local market there are other factors contributing to the increase and flourishing of these industries, such as available cheap raw material, as well as cheap energy, in addition to the high cost of transportation for imported materials, e.g. chlorine as a permanent requirement for the local market.

The petrochemical industry is one of the important new manufacturing industries in Kuwait. Its products are directed mainly for export, and are sold mainly in Africa or South Asia, where they face competition from other areas

1. As will be shown later in this study.

such as Europe, America, and Japan. The main element enabling Kuwaiti products to compete with these supply areas is the low price of the natural gas which also supplies the country with cheap electricity. The second factor is Kuwait's geographical location with respect to the agricultural countries seeking to develop and increase their products to meet the demand of their increasing population, but these products have faced some market problems because of the fluctuation in the world market with the price of urea from KD 84 in 1967, dropping to KD 42 in 1970. The other factor handicapping this industry from fulfilling expectations has been the competition of other producers, as well as the American aid to developing countries in the form of chemical fertilizers under long term credit.

Although the fertilizer industry was set up in 1967, the company did not gain any profit until 1969 when the factory first worked at full capacity. In 1969 the company's profit amounted to about KD 203,000, a low figure, partially caused by the fact that the company has allowed the payments from developing countries to be paid over a long period. In 1969, as a result of the fall in the price of fertilizer, the shares of the KPC¹ registered a substantial decline, but the Government supported its position by offering to purchase these shares.

1. KPC: Kuwait Petrochemical Company.

Other industries have made modest progress in recent years and the total value of the sale of the National Industry products in 1969 totalled KD 2.32 million, compared with KD 1.28 million in 1968. This increase was due to the vast production in cement products where the increase amounted to about 238% in 1969 over the previous year. This increase was attributed to the expansion in demand. At the same time the total sale of sand lime bricks showed a jump of about 20%. Although the Government encouraged private investment and provided loans for this purpose, most of the loans have been absorbed in the construction field and not in industry. The Credit Bank established in 1965, has limited activities in industry, compared with loans for other purposes such as building. Industrial loans given by the Saving and Credit Bank in 1964/65 amounted to KD 461,021 or about 18% of the total loans of the bank during that year, while in 1965/66 it reached KD 250,418, about 4% of the total loans. This reduction was attributed to the completion of most of the major industrial establishments. The proportion increased during the following year to approximately KD 4,735,800, nearly 5% of total loans.

The contribution of industry to the Gross National Product (GNP) was estimated at KD 25 million, approximately 4.5% of the national income.

The Importance of Industry to the Kuwait Economy

Many of the developing countries are facing the problem of capital availability for industry, but the situation is different in Kuwait, where capital is available in the private and Government sectors. The major problem is how to invest it, in order to move the accumulated capital from savings to investment and how to explore the opportunities of investment within the country through the use of the capital intensive technologies and to raise the level of technical skills.

The local industry's importance is apparent when taking into account the amount of money that is invested abroad. The investor could gain 5% or 7% profit through external investment, spending a great amount of money outside the country in this way. If this money were invested locally it would renew wealth inside the country and increase the Gross National Product by increasing new fields for employment. This would give work to a large labour force and would reduce the pressure on the Civil Service for employment. In addition, the production of various commodities locally would reduce the country's demand from abroad which will cause a reduction in prices. However if the country managed to reduce its dependence on oil production this would lead to a reduction in economic dependence on the Government sector, which would increase private capital investment and industrial exports.

Industrialization is need in a country like Kuwait since its foreign income is derived from a non-renewable asset. Industrialization must discriminate carefully

between the economic and the social advantage of the proposed development. Although the Government encourages private investment and provides loans for this purpose, most of its loans have been absorbed in the construction field but not in industry. The activities of the Credit Bank, established in 1965, have been limited in industry compared with construction. Industry does not seem very inviting for development on a large scale, but other activities may take place side by side with industry. These may in the long term increase industries' activity by using the marine resources as raw materials and encouraging trade.

Despite the private and Government sectors' concern for the non-oil sector, the development of industry has made progress only slowly. The same applies to agriculture because of the physical conditions of the country. Thus the oil sector still dominates the state's economy.

CHAPTER IVTHE HISTORICAL IMPORTANCE OF THE KUWAIT MARINE SECTOR

Introduction

The Gulf and the World Powers

The History of Trade and Traffic in the Gulf

The Marine Sector and its Historical Role in Kuwait's
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Introduction

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2. Boat Building
3. Trade and Kuwait's Importance as an Entrepot Centre

CHAPTER IV

THE HISTORICAL IMPORTANCE OF THE KUWAIT MARINE SECTOR

Introduction

Although the history of the Gulf is not part of the subject matter of this study, it is nevertheless essential to discuss in brief the historical importance of the Gulf as a whole, in order to shed light on the role that the marine sector used to play in Kuwait's economy in particular and the Gulf area in general. This will also show the importance of the Gulf's strategic location and its importance to the great world powers.

The Gulf and the World Powers

The waters of the Gulf, which stretch from the Straits of Hormuz in the south to the mouth of Shatt al-Arab in the north, cover an area of 240,000 square kilometres (90,000 sq.miles). This shallow inlet with its numerous creeks forms a very important national waterway for the states on both sides.

As a result of this importance and because of its wealth in pearls and minerals, and recently, because of its richness in oil, the international world powers have given it special attention, particularly during the fifteenth and sixteenth centuries, and at the present time.

Archaeological evidence indicates that in prehistoric times there was a strong relationship between Sumerian

Proto-Historic Routes for Iran & Mesopotamia

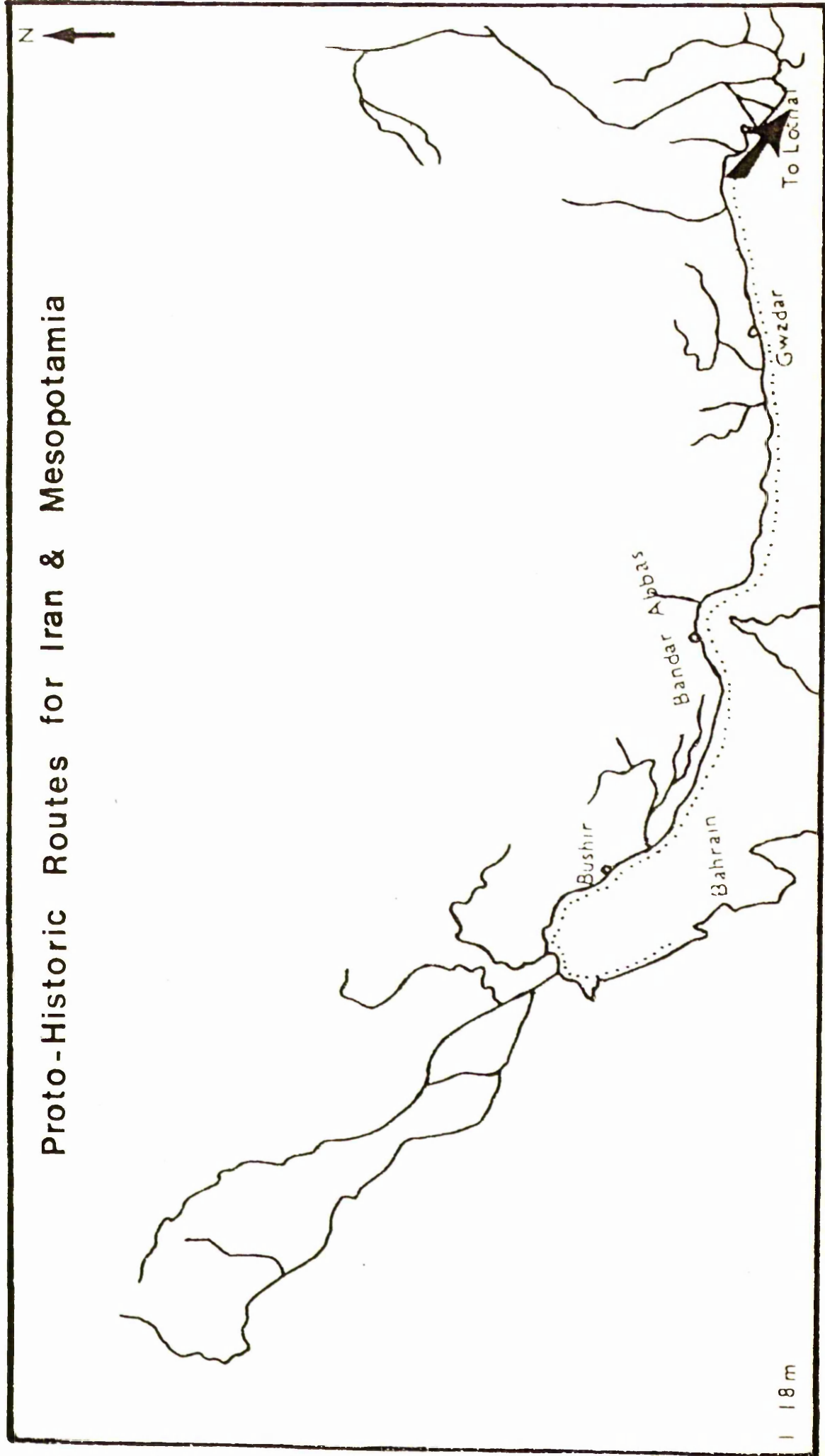


Figure 14

After; The Times Atlas of the World's History.

cities at the head of the Gulf and the Malabar Coast of India. As the Sumerians were themselves proto-Indian¹ - from the ethnic point of view - they might have come through the Mecran Coast to the head of the Gulf. (Figure 14).

Bahrain Island (Delmun), mentioned in many of their texts, and most of the other ports in the Gulf were stopping points because they were centres of commerce between the East and the West. Goods were carried from towns in western India to the Sumerian city of Ur² by traders from Bahrain, thence from Mesopotamia to the Phoenicians who dispersed the goods throughout the Mediterranean and into the European markets. As the inland route at that time was limited, and because the Phoenicians had strong vessels, the Gulf and Red Sea waterways served as the trading links between the East and the West. Historically the first known sea voyages from India to the northern part of the Gulf were reported to have been completed in 325-326 B C under the orders of Alexander the Great.

Copper, the earliest industrial metal discovered in the eastern part of the Gulf, probably came from a source in Oman. There is some archaeological evidence which indicates that copper found at Jabal al Ma'adin (near Wadi'Ahin) was of the same quality as that found at Ur and Kish (Sumerian cities). This evidence supports the view that the first voyage around the Arabian Peninsula must have taken place in the first half of the third millenium, thus confirming the opinion that there was a

1. B. Srivastava, Trade and Commerce in Ancient India (from the Earliest Time to A D 300), Chawkhamba Sanskrit Office, India 1968, p.45.

2. Ur - a Sumerian city (in Iraq) which was located more than 400 miles north of Bahrain.

seafaring people in the south and east of the Arabian Peninsula during the first millenium. It is therefore possibly true that the Omanis were involved in maritime trade centuries before the arrival of Alexander the Great to the area.

As regards trade traffic, regular trade between India and China in the East and West was taking place in the last half of the first century B C , after the Romans had occupied Egypt and Syria. Both the Romans and Greeks realised the importance of the Arabian Coast of the Gulf as a centre for the control of trade from the East.

During the rise of Islam, Basra became an important port. It was one of the most important cities of the Abbasid Caliphate era and was connected with many inland routes and within reach of large vessels via the navigable Shatt-al-Arab. During the Islamic era (A D. 712) the Arabs encouraged traders and seafarers to bring Chinese products to their markets, and the Gulf became a great maritime commercial centre as the Islamic Empire extended into Mesopotamia and Syria and made trade routes more secure than ever before.

After the decline of the Abbasid Caliphate the port of Basra began to lose its importance as a commercial centre, especially as a heavy customs duty was imposed on goods passing through the port. Therefore Sirat, on the Iranian coast, replaced Basra, and this was later replaced by old Hormuz.

At the beginning of the fifteenth century Hormuz Island became the main important commercial centre in the Gulf,

perhaps because of the Mongol invasion but also because of its position on the sea route to India and China. In spite of the decline of the Islamic Caliphate, navigation and trade in the Gulf region remained under Arab control and this lasted from the eighth to the sixteenth century, when European vessels began to reach the Gulf. When the Ottoman Turks captured Constantinople in 1453 the eastern trade came under their control.

The Gulf as a whole had been one of the great highways of Asiatic trade. Along it passed the wares of India, China and the eastern archipelago, bound for the markets of Persia, Arabia, and European countries; and back flowed the merchandise of Europe, Arabia, and Persia, to India and the Far East. However, heavy customs duties and bad relations between the Turks and the Persians during the sixteenth and seventeenth centuries had a great effect on the northern part of the Gulf as well as on the Arabian hinterland. In 1508 Shah Ismail held Baghdad¹ but in 1623 Shah Abbas occupied the city for fifteen years. The Turkish empire had thus lost its importance as a centre of trade between the East and the West. This led the Europeans to look for another waterway to replace their old one.

From the political point of view the Turks had lost one of their important bases against the eastern shore of the Arabian peninsula, but a more important point was that they had lost that part of their national income which came from the pilgrimages to the Shi'ite

1. P.Hitti, History of the Arabs, from the Earliest Times to the Present, Tenth Edition, MacMillan, London, 1970, p. 741.

shrines, in addition to the loss of their tribute.¹

In 1497 Vasco da Gama made his voyage round the Cape of Good Hope to India and the other eastern countries. This laid the foundation of Portuguese interest in the East where they started to monopolise the spices trade of India and Malacca. They began to give the Gulf special attention in order to protect the route to and from East Asia against the Egyptian and Venetian rivals, operating from the Red Sea. Thus in 1506 the Portuguese invaded the Gulf area for the first time and occupied the islands of Socotra and Hormuz successively, although they failed to capture Aden. As a result the Portuguese had control over the traffic in and out of the Gulf for over a hundred years.

In the fifteenth and sixteenth centuries special commercial interest had been given to the Gulf by the great trading and seafaring powers² (Portugal, Great Britain, France, Germany, and Russia). The Portuguese dominance declined in the early seventeenth century as a result of the rise of the Safavid dynasty in Persia. In 1602 Shah Abbas captured Bahrain Island and in 1619 Ras al-Khaima. The other threat to the Portuguese position in the Gulf was the arrival of the English in the Indian Ocean looking for trade exchange. In 1617 a trade agency was opened at Shiraz and in 1618 Shah Abbas of Persia granted the East India Company the right to monopolise the export of silk from his country and in accordance with this agreement the company set up a trading station at Jask.

1. Ibid.

2. W. Brewer, 'Yesterday and Tomorrow in the Persian Gulf', Middle East Journal, Vol. 23, 1969, p.149.

It was difficult at that time for the company to find another port because of the presence of the Portuguese at Hormuz from where they were able to block access to or from the Gulf by other foreign commercial vessels.

As a result of Portuguese policy in the Gulf, Hormuz was attacked in 1621 by the Persians, supported by English ships of the East India Company, and so began the end of Portuguese supremacy there. After this the East India Company transferred its headquarters from Jask to Bandar Abbas. The company had to face commercial competition from the Dutch who proved much more successful because of their experience in trade with the Far East and the support of the Dutch Government whose national policy was tied to trade with the East. At the same time the silk monopoly began to fail after the death of Shah Abbas. Holland's power declined during the eighteenth century and Dutch prestige diminished in the Gulf until finally their influence came to an end when they were expelled from Kharg in 1765.

In 1708 Britain strengthened its position in India by transferring the headquarters at Surat to Bombay, after all the British firms had been united. But this and the unsettled situation on either side of the Gulf weakened British power. As a result of the Seven Year War between France and Britain in 1756 the British headquarters at Bandar Abbas was attacked and destroyed by the French. From there, it was transferred to Basra and at the same time another station was established at Bushir ¹.

1. It became the headquarters of the British Political Resident in the Gulf during the middle of the twentieth century.

Among all the other European nations the British company -in Bushir - monopolised all the imports of woollens into Persia free of any tax, either on imports or exports. No other European nation was to be allowed to set up any trading station to compete with the British company at Bushir as long as they were there.

It was clear that the British activity in the Gulf was to become more political than commercial after the Seven Years War between Britain and France. The small fleet of armed vessels with which they had protected their trading vessels against piracy was developed into a large force, being active against piracy and the slave trades until 1863.

In 1798 the East India Company signed an agreement with the Sultan of Muscat in order to exclude French trade because of Napoleon's interference with Egypt and to reduce Wahabi power. This dominated a great part of the Gulf (al Hassa, Qatar) and prevented contact and exchanges between the Arabian and Persian side of the Gulf. Piracy continued under the protection of the Shaikhs of tribes on the Arabian coast. Towards the end of the seventeenth century there were two main reasons which encouraged piracy to continue: firstly, the weakness of Persian authority after the death of Shah Abbas, and secondly, the situation in the Arabian hinterland. Because of these and the absence of any strong fleet of warships in the area, in 1890 the Government of India joined the ruler of Muscat in attacking and destroying the pirates' strong positions

at Ras ʿal Khaima on the Arabian coast and at Lingeh on the Iranian side.

In 1820 Britain found it necessary to protect the trade with India and signed a general treaty of peace with each of the principal shaikhs of the Pirate Coast to suppress piracy¹, and the slave trade in order to impose a maritime truce. Therefore Britain's connections with the northern part of the Gulf since 1620 were used to protect the trade of the East India Company. This policy did not concentrate on piracy alone but also on traffic in slaves and arms. Treaties followed which prevented any other foreign relations for the Shaikhdoms.

As a result of piratical disturbance in 1834-35 in the Gulf the pearl season was affected. The shaikhs of Sharjah and Abu Dhabi were persuaded to sign a maritime truce with Britain for a period of six months in order to protect the pearl beds during the pearling season. In accordance with this agreement - mainly for waters around Bahrain Island - the British Navy would not interfere with quarrels on land between the different shaikhdoms. This agreement was renewed annually until 1843 and in the following year it was extended for ten years. From that time the Pirate Coast became the Trucial Coast of Oman.

As a result of the emergence of the Indian Empire the importance of the Gulf changed from that of a trading centre with Persia and Turkish Arabia to that of a political and military one. In 1845 Britain intervened to keep peace in the Gulf when Amir Faisal² of Najed threatened Muscat,

1. G. Dalryell, 'The Persian Gulf', Scottish Geographical Magazine, Vol.57, No.2, June 1941, p.58.

2. Faisal Addewish.

and for a second time in order to keep the peace between Sayid Said of Muscat and Persia. At the same time Britain had gained the chance of occupying a place on Bahrain Island, whilst various other powers had attempted to do so but without success, viz. Persian and Turkish Arabia (Iraq), and in 1861 a peace treaty of friendship was signed between Bahrain and Britain in order to prevent Egypt, or any other strong power in the area, from trying to control Bahrain. Britain had succeeded in preventing any commercial or political step being taken by either the French or the Dutch by signing an agreement with the Imam of Muscat.

The emergence of the Gulf as an important waterway was not restricted by its location alone, but also because of the scattered small islands, some of which contained valuable deposits of red oxide of iron, which had both mineral and political importance. By 1869 the Gulf had lost some of its importance but it became important again as it attracted Russian attention in the construction of a railway system starting from Syria and ending at the port of Kuwait at the head of the Gulf. Recently its richness in oil has once again attracted the world powers' attention.

The History of Trade and Traffic in the Gulf

Trade has flourished in the Gulf from time immemorial, and can be traced back to the period when the

early Arabs of south and east Arabia were the first navigators of the Indian Ocean¹ and the first importers of various oriental goods to the Gulf, Mesopotamia, Levant, and Europe.

During the earliest civilisation in Egypt, Mesopotamia had started to export the products of India, China, and other oriental countries. In about five thousand B C the Arabs of south and east Arabia were the only mediaries of commerce by sea. They carried the eastern (Indian) goods through the Euphrates to Babylon and over the desert, passing by Kuwait or Gerra (Auquair), to Palestine and on to Egypt.

The advantageous position of the Arabs, halfway between Egypt and India, gave them the chance to usurp the trade. The establishment of Palmyra was followed by an increase in the traffic to Babylon through the Gulf. So the Muscat Arabs prospered as great carriers and intermediaries of oriental commerce until 625 B C .

Although a small portion of the Indian traffic had been carried through the Red Sea for centuries, it was not until about 500 B C ² that this sea route began to compete with the Gulf. As a result of the extension of the Islamic Caliphate over a wide area in the east - after A D 712 - they secured the trade route, which in turn encouraged trade by land and sea.

Basra was one of the major trade centres located at the northern end of the Gulf and was used for the distribution of Indian goods. Most of the goods exported

1. S. Miles, The Countries and Tribes of the Persian Gulf, Vol. II, Harrison, London, 1919, p.355.

2. Ibid. p.361.

from India passed through Basra and were then re-exported to Europe and other markets. A small amount of these goods was consumed in Arabia but the rest was re-exported because the population was poor and small in number in relation to the amount of goods arriving. At the same time Basra was a centre for the export of commodities to India, such as dates, tobacco, pearls, rock salt, silk, and carpets, because of its strategic location near the head of the Gulf on the Shatt al-Arab river, which is navigable. There was also the good caravan route with Baghdad. However, the Persian siege affected trade and after their occupation of the city in 1776-1779 many of the merchants left because of money demands by the Persians. Thus they were prevented from carrying on with their usual commercial activities and Basra became isolated from the surrounding area.

British political activity was principally to control and protect trade in order to derive the benefits from that trade coming from India and into the Gulf, and to support the private British carriers.

The greater part of the Gulf's exchange was accomplished with India and the total value of dates exported to India was estimated at Rs 1,000,000¹ whilst the total value of pearls was around Rs 500,000. These, plus Persian goods, were carried through the Gulf or by means of the caravan route to Baghdad - and thence to Europe, the Gulf area forming an intermediate trade centre as well as a good market for exchange.

1. Rs ; Indian Rupees that were used in all the Gulf's states, for further details see: A. Abdul-Amir, British Interest in the Persian Gulf, E.J.Brill, Leiden-Netherland, 1967, pp. 117-141.

As Britain had dominated the trade in the Gulf and rid the area of piracy, the character of trade in the eastern seas during the second half of the eighteenth century had its effects over an area extending from Basra as far as China. The increase in trade within the Gulf area spread to many other countries via the British companies and private merchants. By the end of the eighteenth century it was estimated that about four-fifths of the whole tonnage was British and about 98% of the vessels that entered those waters were British. This meant that about half the exports from the Gulf were imported by Britain and India¹. whilst about two-thirds of the exports went to the same countries. The historical trade relations between the Gulf area and India ensured supplies of teak which was the main material for the boatbuilding industry that flourished in the former, and rice which was the main food for the population. There were good political relations between Britain and the countries surrounding the Gulf and British ships carried most of the goods which belonged to British and Indian merchants, who exported the highest percentage of goods to those countries. Thus, in addition to local shipping, British shipping companies were the most active. (During the early eighteenth century Holland and England were the two major European trading powers in the area, but during the second half of the century England became the leading trader).

1. J. Standish, 'British Maritime Policy in the Persian Gulf', Middle Eastern Studies, Vol.3, No.4, 1967, p.345.

This has given a brief impression of the importance of the Gulf as a trade route not only for the region around it but also for the world powers.

In recent years this importance has diminished due to income from oil. Nevertheless, the potential for these activities remains and could prove a viable economic sector for the Gulf in the future.

The Marine Sector and its Historical Role in Kuwait's Economy

Introduction

Kuwait's economy has been dependent on various marine enterprises since the earliest settlement. The historical evidence discovered in Kuwait demonstrates evidence of its importance in marine enterprise.¹ It is not surprising therefore, taking into account very limited productive activity, that recent settlement in Kuwait, which took place in the eighteenth century (1750-1800)², depended to a large extent on marine activities. Thus, this section will examine the various marine enterprises in Kuwait, and the different factors that have influenced these activities. These can be summarised under the following sub-headings:

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1. For further details see: V.F.Winstone and Z.Freeth, Kuwait Prospect and Reality, George Allen & Unwin Ltd., U K 1972, and L.Lockhart, 1947, op.cit.
 2. For further details see: A. Abu-Hakima, History of Eastern Arabia: The Rise and Development of Bahrain and Kuwait, Khayats, Beirut, 1965, and R. Hay, The Persian Gulf State, Middle East Institute, Washington, 1959.

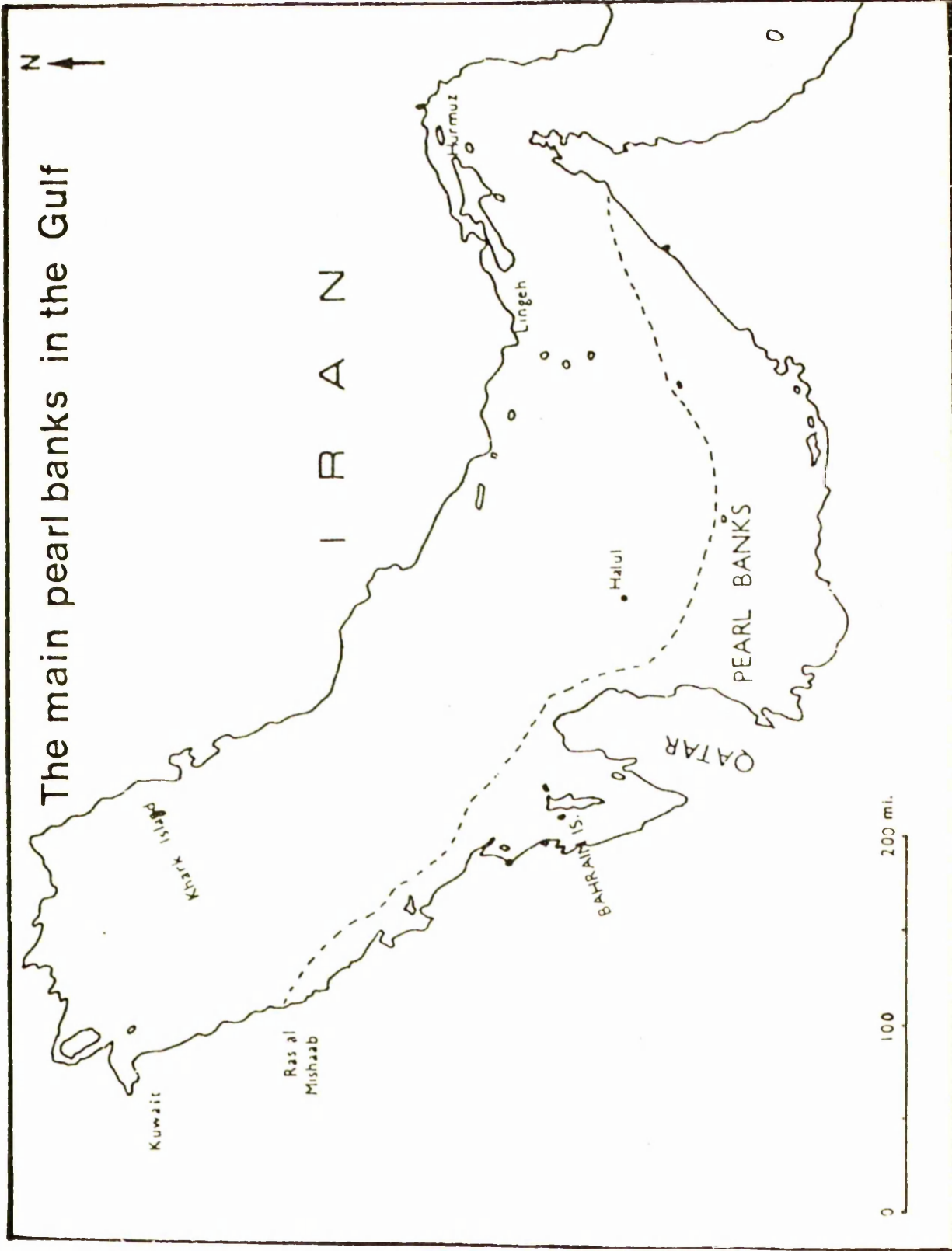


Figure 15

After; Richard Lebaron Bowen, 1951.

1. The Pearl Industry.
2. Boat Building.
3. Trade.

These were the main activities dominating Kuwait's economy before the oil era, but the first two activities have lost their importance completely as fields for income and employment, while the third has increased tremendously in its importance among other Kuwait activities, as will be shown later in this study.

1. The Pearl Industry in Kuwait

Kuwait, like the other States of the Gulf, was famous for its pearls, for the pearls of the Gulf area are recognised as amongst the finest natural pearls in the world.¹ Pearl fishing was the most important industry and formed the major single article of commerce, producing the means of subsistence for nearly the whole population, not only in Kuwait but on the whole Arabian Coast of the Gulf (Figure 15). Without the income from pearls Kuwait could not have carried on its trade successfully, because pearl revenues helped in keeping the balance of payments. Thus, pearl diving played a great role in the economic and social life of the country before oil.

It is however, difficult to estimate the net value of pearls, firstly because there are no exact figures published regarding their value, and secondly, because pearl production fluctuated from year to year according to the types of pearl in season and the

1. The most important characteristics of the pearls is their shape and lustre, followed by their colour and size. For further details see: H.R.D. Dickson, The Arab of the Desert, George Allen and Unwin, London, 1946.

international demand for them.¹ In a good season the economy of the country grew. In 1896, Zwemer estimated the number of Kuwaiti pearling boats at 600 which was about 22% of the total number of pearl fishing boats in the Gulf.² This came at a time when Britain was focusing attention on the area as a whole³, because of the internal situation in the Shaikhdom following Shaikh Mubarak's seizure of power and the joining of Britain's quasi-protectorate.⁴

In 1913-1914 the pearl season was good, but it was badly affected by the slump in the European market, as the First World War broke out (the decrease was evaluated at about £3,754). Thus most of the pearl ships were used for carrying fresh water from Shatt al-Arab. Pearl fishing activities and profits during the following seven years (1915-1921) were subject to fluctuations because of the political situation in the area.

From the point of view of profit it could be considered successful despite the difficult relations between Shaikh-Salim of Kuwait and Ibn Saud (1917-1918) which prevented divers from Basrah and Najd from joining any Kuwaiti boats. This was followed in 1918 by the

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1. All the figures mentioned are rough estimates and depend on irregular records, old books and some travellers' information. For further detail see: D. Wilson, 'Memorandum Respect in the Pearl Fisheries in the Persian Gulf', Journal of the Royal Geographical Society, Vol.III, 1933, pp.283-286, and R. Bowen, 'The Pearl Fisheries of the Persian Gulf', Middle East Journal, Vol.5. No.2, 1951, pp.161-180.
 2. Bowen, *ibid.*, p.177.
 3. B.C.Bush, Britain and the Persian Gulf 1894-1914, University of California, Los Angeles, 1967, p.33.
 4. By which he undertook never to cede or lease or sell any portion of his territory to any foreign Government or nation, except with the express permission of the British Government. In return the Shaikh was assured of British protection in case of need.

British Admiralty blockade of Kuwait which hit pearl fishing very hard, and cut the number of active boats. In addition, during 1919 the war between Ibn Saud and Muscat provided a great threat to pearl fishing boats.

Between the years 1920 and 1923 pearl activities and revenue witnessed a great slump, firstly (1920) because of bad relations between Kuwait and Saudi Arabia¹, which prevented the fleet from going as far as usual.

During the 1930's the development of Japanese cultured pearls produced in commercial amounts severely hit the economy of the pearl industry in Kuwait and the Gulf area as a whole.

2. Boat Building

Boat building was a further economic activity that flourished in the area, but its progress depended on demand, which in turn was affected by pearl fishing developments and the activity of trade in the area. However, after the great slump in the pearl industry, ship building expansion was linked with trade activities. Henceforth the fluctuation in the number of boats built each year was linked to flourishing trade and not to the success of the pearl season as in the past.

Between 1911 and 1917 boat building witnessed

1. During the summer of 1920 the Kuwaitis had built a defensive wall around their town and as summer forms the main pearl diving season, the number of boats that participated in fishing was reduced.

increasing demand, which was the result of the Ikhwan¹ military action in the Northern and Eastern part of Arabia (especially 1911-1912). Thus most of the trade from the area was carried by sea, particularly after the peace agreement between Britain and Qawasim, who had abandoned piracy, and at that time, Arab vessels in the Gulf and Indian Ocean, increased their activities.

Shipbuilding activities reached a climax during 1912-1913. This was due to the increase of exports carried by the local dhows, mainly wet dates exported from Southern Iraq, where many Kuwaitis, among them the ruler himself, owned date gardens. Many merchants preferred to use the local dhows rather than steam ships, because it was possible for the dhow to be used as a warehouse from which the merchants could sell their goods. In the case of the steamers all the goods had to be sent into the market at one time, so making the goods much cheaper, and necessitating the rent of a warehouse. On the other hand the bad pearl season and the scarcity of rain that winter encouraged other activities and led to the country having to look for new resources of income. Therefore shipping became a most active business and concentrated its attention on trade and other services such as carrying passengers and fresh water from Shatt-al-Arab, and passengers between the different Gulf ports and those of East Africa.²

1. The military group of Wahhabism: this latter is a name of an Islamic movement founded in 1703 or 1704 by Muhammed Ibn'Abdul-Wahab. Therefore it was called Wahhabism, and Wahhabi is the name of any member of this movement.

2. L.Lockhart, op.cit., p.264.

In 1915 the number of boats built was much less than in 1913, because of the depression that hit the pearl industry during World War I, and because of the prohibition on the export of the Mango Wood from India for building boats. The decline that hit the boat building industry during the early 1920's, due to the decline of the pearl trade, had recovered later because of the shift in the purpose of boat building from pearl diving to the carrying of passengers and trade.

3. Trade and Kuwait's Importance as an Entrepôt Centre

Kuwait's economic history was connected strongly with the other ports of the Gulf. The history of Kuwait as a commercial nation is said to have started, according to archeological discoveries at Failaka Island, in about 525 B C . This section will concentrate on the appearance of Kuwait as an important port amongst all the other Shaikdoms.

Kuwait has an excellent natural harbourage with easy anchorage for vessels; it is possible to anchor near the shore at almost any point on its bay. The first appearance of the state as an important harbour was in 1776 after Basrah was captured by Karim Khan of Persia. From that time it became the southern terminal for the East India Company. The city was also served by a good caravan route¹, and it was easy for the mail and goods

1. The caravan route from Kuwait to Central Arabia was the best of those from the ports of the Gulf coast, because there were wells potable water scattered around, and it was less sandy than any other route.

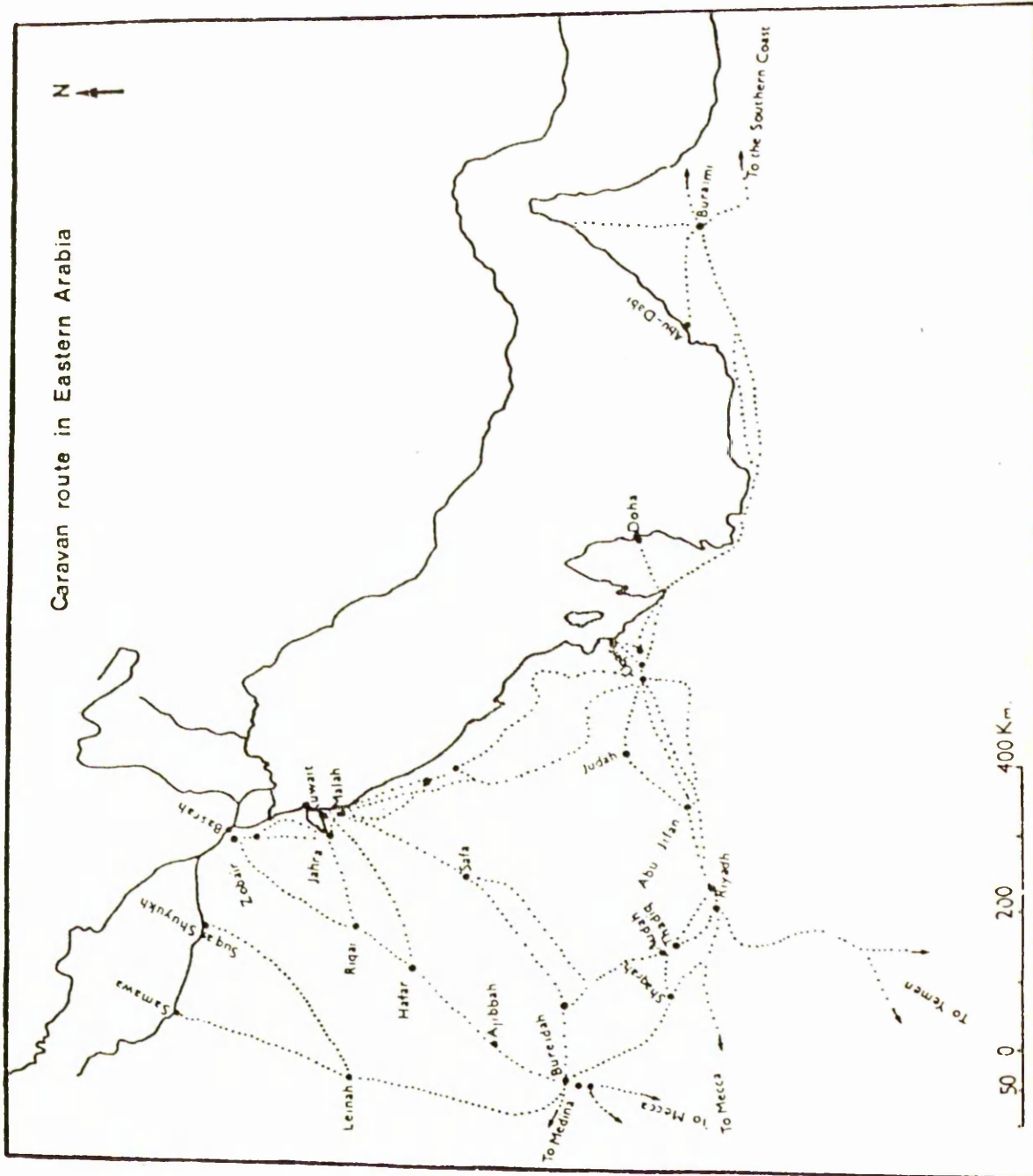


Figure 16

After; Admiralty and War Office, 1916.

to be carried overland to Turkish Arabia (Iraq) (Figure 16). As a result of the occupation of Basrah which lasted for three years many inhabitants were transferred to Kuwait.

Shaikh Mubarak's reign (1896-1915) was a remarkable era in Kuwait's importance as a commercial centre and it led to some of the powerful rulers in the area seeking a way to overcome the city.

As for trade, Kuwait became an entrepot centre not only for Jebel-Shammer and Najed but for almost all Inter Arabia as far as Yemen. It was the chief centre for coffee, horses, sheep, and samneh (ghee) from the Arabian Peninsula, Turkish-Arabia (Iraq), Bahrain and India.¹ This was due to the peace and security around Kuwait. Its strategic characteristics appeared clearly when the port was chosen to be the terminal for the Baghdad railway² during the middle of the nineteenth century.

With the neighbouring Shaikhdoms Kuwait became subject to desert raids by Wahhabi from Najed and the threats of piracy on the sea. But its strategic location encouraged Britain to sign a secret agreement with the ruler in order to stop the development of any relationship with a foreign country, and to secure the way to India - as mentioned earlier. The British India Steam Navigation Co. was the

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1. E. Epstein, 'Kuwait', Journal of the Royal Central Asia Society, Vol. XXV, 1938, p.599.
 2. For further details see: R. Bullard (ed.), The Middle East, Royal Institute of International Affairs, London 1958, and B. Busch, op.cit.

first to pass the harbour at Kuwait regularly every fortnight.

Kuwait's economic situation depended to a great extent on its commercial relations with the neighbouring countries. Before World War I part of Kuwait's importance was derived from transit trade. Shaikh Mubarak imposed a 5% duty on all goods entering the state.

Kuwait's economy depended heavily on marine enterprise. Pearls were the main resource for Kuwaiti trade, and ship-building flourished as the demand for ships increased. The profits from the pearl trade formed the means by which Kuwait carried on its exchange with other countries. Another resource for Kuwait's trade were gardens on Shatt al-Arab near Basrah.¹

Kuwaiti trade suffered a great depression because of its economic connection with pearls. This income as well as the political and military situation in the area threatened its exchange with its neighbours and the outer world.

A third source that helped Kuwait's trade were the large dhows which were manufactured locally; these were the main commercial goods besides the re-export goods.

The exported and imported goods were carried to Kuwait by local sailboats carrying goods from Kuwait and dates from Iraq. They would follow one of the following routes:

1. These gardens were owned by Kuwaitis, among them the ruler himself. During World War I, Britain asked the Sheikh to attack and occupy Umqaser, Safwan and Bubyah and with co-operation from the Sheikh of Mohammerah (Khoromsheher) to attack Basrah and drive out the Turks.

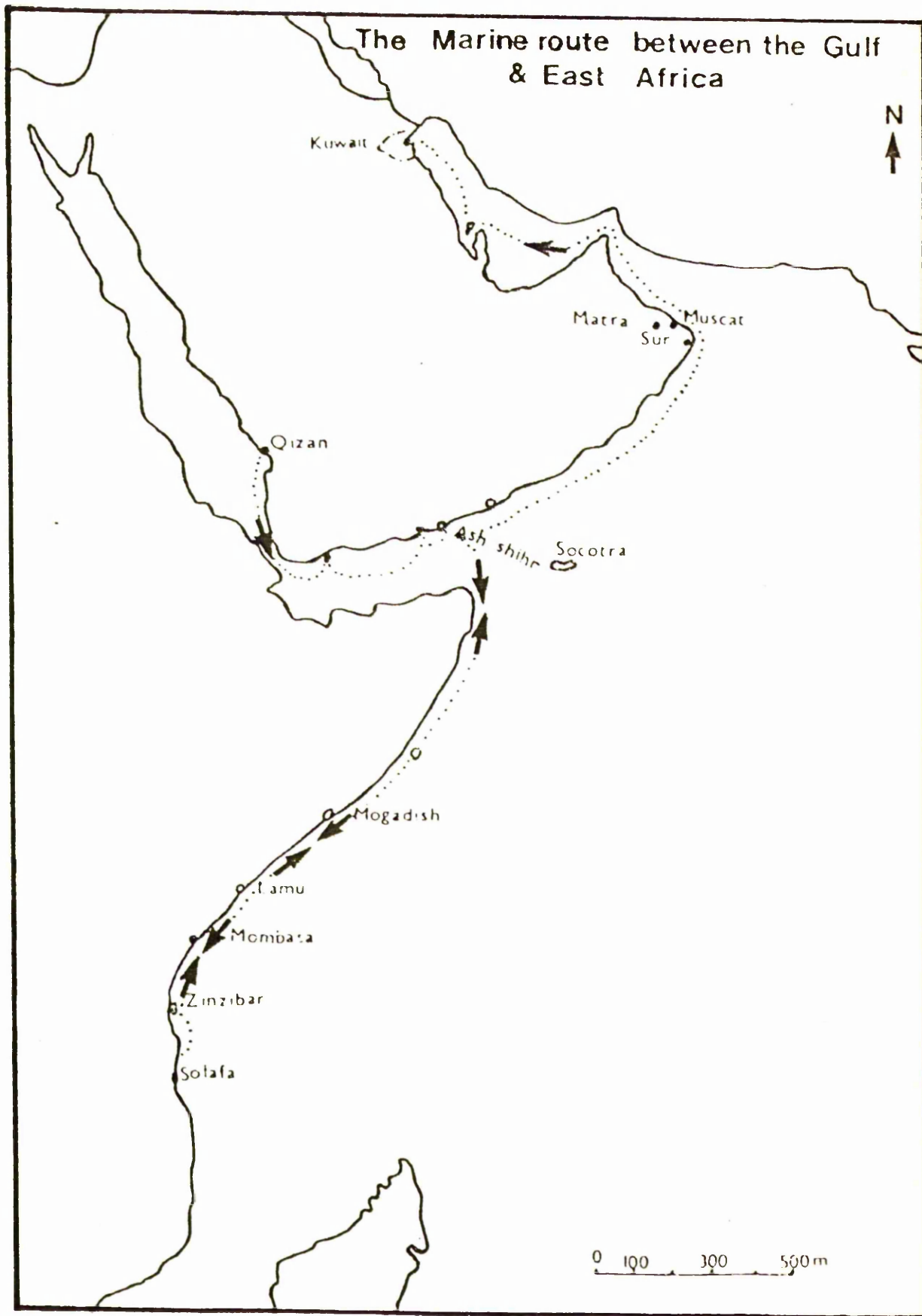


Figure 17

After; A. Villiers, 1940.

1. From the Gulf along the coast to Baluchistan and Karachi and then southwards to Calicut (Kozhikode)¹ from where they brought timber to Kuwait.

2. The second route running adjacent to the Arabian Coast to Aden, along which they sold their dates. From there they would take quantities of other goods such as cloth, incense and ghee to East Africa and bring back mangrove poles to Kuwait. (Figure 17.)

When commercial connections between Kuwait and India started on a large scale and the large cargo ships began their regular journey between the two countries in 1903, the general amount of Kuwait's trade increased and many other shipping companies came to the area. In 1905 French and German companies started direct routes to Bombay and goods and passengers reached the Gulf through foreign companies.²

Kuwait port was served by many steamer companies, the most important of which was the British India Steam Navigation Co., which had weekly voyages from Bombay to Basrah. The vessels of the Arab Steamers Ltd., and the dhows engaged in carrying water - especially since 1909 - and dates, while the Gulf Steam Navigation Company passed through the port of Kuwait occasionally.

Kuwait's market supplied the needs of the whole population of the state in addition to the Bedouin in

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1. Kozhikode: formerly Calicut, seaport in Kerala, on the Malibar Coast (India).
 2. In 1916 a Japanese company vessel visited Basrah but it was prevented from entering Kuwait port.

the vicinity of al Gassim, Turkish Arabia (Iraq) and Persia. The following table (14) shows the percentage of the total trade of Kuwait with the different nations:

TABLE 14. The Proportion of Kuwait's Imports from the Main Suppliers (1909).

<u>Country</u>	<u>Percentage</u>	<u>Country</u>	<u>Percentage</u>
India	30.75	Russia	0.75
America	2.65	Turkish Arabia	26.76
France	3.22	Arabian Coast	7.76
U K	14.56	Germany	3.91
Persia	9.21	Other countries	44

Source: Calculated by the writer from Indian Office Record

It is clear that Kuwait was dependent on trade in the first place, but its commercial situation was affected by many factors. Some of them were physical, others economic or political. The value and quantity of goods fluctuated according to the market demand, the success or failure of the pearl season and political and economic situations in Kuwait.

It is obvious from the above discussion that marine resources in Kuwait played an important role in the country's economy, and it is very clear that regional co-operation is very important for the development of Kuwait's economy to enable it to overcome its problems of size in area, population, production and market.

CHAPTER VTHE FOREIGN TRADE OF KUWAIT

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CHAPTER V
THE FOREIGN TRADE OF KUWAIT

1. Introduction

At present primarily a one product exporter, Kuwait must diversify its economic mix in order to remain solvent once oil has ceased to be a major export. In an effort to determine possible changes in the pattern of imports and exports consideration must be given to the importance of foreign trade to the Kuwaiti economy, to the changes currently being brought about to relieve reliance on a single product export, and to the future outlook for and recommended diversification of the export trade.

Adoption of trade as a main activity in Kuwait has been strongly influenced by factors of physical geography of the state. Kuwait lacks natural resources, with the exception of oil, and by and large cannot produce its own food, clothing and other consumption goods and thus demands import supplies at levels appropriate to its per capita income (KD 4390 (\$15,840) in 1976).

Trade was the main occupation in Kuwait before the discovery and development of oil.¹ The very considerable revenues made available by oil exports in relation to the size of the state have made it possible since the mid-1950s for the country to maintain an open-door import policy. Indeed, the extremely limited scope for domestic production

1. The merchants have great authority in the society in general, and in the management of the affairs of the state through the Shaikh Majlis (upper house or senate), the membership of which was very largely made up of representatives of the merchant class.

and the inherent vulnerability of oil economies to price inflation pushed the government towards a low-tariff policy, which, while it has given little incentive to domestic producers and has increased the unlikelihood of serious industrialization, has much benefited the services sector and especially trading activity.

Although geographical factors have given Kuwait special importance as a commercial centre, there are other economic and human factors that influence the direction and movement of trade. One vital factor is the different stages of industrial development among different nations. In this respect Kuwait lags behind. Industry employs only 10% (1975) of the total labour force of the country. However, it does include the vital sector of Kuwait's economy, oil.

The inertia in developing Kuwait's products and the abundance of capital in terms of private and government sectors, causes foreign trade to play an important role as a supplier for the consumer. Trade has always played an important role in Kuwait's economy, but it has undergone change during the state's short history, i.e. the development of Kuwait port indicates that its importance is not a function of local circumstances alone, but of economic and social progress and the political situation in the area as a whole.

Shaikh Mubarak's reign (1896-1915) was notable for wide political and economic developments both at home and abroad. Political and military factors did influence trade expansion during his period. However, in recent years economic factors, most especially oil production, have dominated all other considerations.

The very limited domestic use of the natural oil resource coupled with the great world demand for it has caused a severe trade imbalance. Hence any examination of foreign trade exclusive of oil must take this factor into consideration.

Two main stages in the development of the modern Kuwaiti economy can be recognized which have a strong relationship also to the growth of trade activities. The first stage began in the early 1950s, when oil revenues found their way for the first time into a relatively organized development programme.¹ The second stage began in 1961, when the state emerged as an independent country and set about creating a place for itself in the Gulf region and the world as a whole as a nation with a liberated economic policy.² During both periods the highly skewed structure of Kuwaiti trade assisted maintenance of a free trade policy,³ since almost every physical development and the provision of goods for private consumption could be achieved only through imports while exports became increasingly oil dominated.

The importance of trade to the Kuwaiti economy is reflected in the high proportion of Gross National Product made up by the trade sector i.e., the ratio of trade. During the period 1966/67 to 1972/73 when GDP

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1. V.F. Winstone and A. Freeth, op.cit., p. 220.
 2. International Bank for Reconstruction and Development, op.cit., p. 86.
 3. M. al-Gharabally, Kuwait's economies, al-Mugahui Press, Kuwait, Arabic text, undated, p. 63.

Table 15. Gross Domestic Product at Factor Cost by
Industrial Origin - Average 1966/67 to 1972/73
and 1975.

	%	1975* %
Agriculture, forestry, hunting and fishing	0.4	.2
Crude oil, natural gas, other mining/ quarrying	59.9	69.9
Manufacturing	3.4	4.9
Construction	3.6	9.
Electricity, and other utilities	3.4	2.4
Transport, storage and communications	3.2	2.5
Wholesale and retail trade	7.9	5.7
<hr/>		
Banking, Insurance and financial services	1.6	4.6
Ownership of dwellings	4.3	-
Public administration and defence	5.4	-
Services	6.9	8.5
<hr/>		
Total	100.0	
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Source: Y.A. Sayigh, The Economics of the Arab World,
London, 1978, p. 92.

* Calculated by the writer from Annual Statistical
Abstract, 1978.

averaged KD1,107 million (though rising from KD854 million to KD1,581 million), the average contribution of wholesale and retail trade to GDP was 7.9%, second only to oil with 59.9% and closely followed by services with 6.9% (see Table 15). If the oil sector is excluded, then the ratio of trade rises to 19.7%.

2. Ratio of Trade

The ratio of trade represents the proportion of trade within national income. This is normally measured by the relationship between aggregate of imports and exports to Gross Domestic Product¹ (GDP) and is essentially a measure of the extent of a nation's dependence on foreign trade.

Where trade represents a high proportion of GDP, national income is significantly reliant on levels of foreign trade and a state in this position is inhibited in the degree to which it can exercise control over its own economic welfare.² Often states of this kind, of which Kuwait is a case in point along with other oil-exporting countries, have a high proportion of exports and a high degree of dependency on foreign markets. Small population size, high per capita income or distortion of the industrial base can be contributing factors to a high rate of participation of foreign trade within GDP. The

1. Ratio of trade:
$$\frac{(\text{Export} + \text{Imports})}{\text{GDP}} \times 100$$

2. R.S. Thomas, E.C. Conkling, Geography of International Trade, Printicehall, London, 1967, p. 78.

converse situation, in which foreign trade is a minor element in GDP, results frequently from poor resource endowment, high population numbers and low per capita income. Chronic balance of payments problems tend to be associated with these conditions.

Foreign trade tends to have a greater ratio to the GDP in developing countries than the most industrialised countries. Most developing countries experience a boom in their economy only when there has been a rise in both exports and imports, but particularly exports. A similar situation dominated and still dominates Kuwait's economy for the same reasons.

3. Ratio of Trade in Kuwait Between 1962-1977

The ratio of Kuwait's trade reflects a similar dependence of overall economic activity on trade as is general among other Arab oil-exporting countries. Kuwait has the second highest trade ratio in the Arab world, surpassed by only Libya. Both countries enjoy a high standard of living, due to the oil boom, coupled with economic and social development programmes. Also, most importantly, the endowment in natural resources in both countries is less diverse than those of most other Arab countries.

The ratio of trade underwent great changes during the 1960s. During the second half of the sixties and the first part of the seventies more than 50% of the country's GDP entered the export market (primarily oil). The co-efficient of exports declined during 1967 because

TABLE 16.

Ratio of Kuwait Trade 1962 - 1976
(in thousands K D)

Year	GDP	Export Coefficient		Import Coefficient		Total Ratio	Oil Export Coefficient
		%	%	%	%		
1962	653,000	1.1	15.7	16.8	63		
1963	679,000	3.3	13.7	17.0	63		
1964	740,000	1.6	15.5	17.0	63		
1965	749,000	1.9	17.9	19.8	65		
1966	854,000	1.6	19.3	20.9	67		
1967	872,000	1.0	10.0	20.0	57		
1968	901,000	2.0	22.0	26.0	62		
1969	989,000	2.4	23.3	25.7	60		
1970	961,400	2.5	20.5	23.0	-		
1971	1,346,000	.3	16.3	16.6	67		
1972	1,562,000	.2	16.5	16.7	-		
1973	2,111,000	3.3	14.7	18.0	50		
1974	3,450,000	3.6	14.0	17.6	89		
1975	3,279,000	5.2	21.4	26.7	76		
1976	3,671,800	5.8	26.4	32.3	71		

Source: Calculated by the writer from the annual statistical abstract

TABLE 17.
Kuwait Consumption of Refined Oil
(in thousands barrels)

Year	Super Premium	Gasoline Premium	Kerosene	Gas Oil	Fuel Oil	Diesel Oil	Asphalt	Others	Total
1969	36	2,525	283	791	112	23	120	12	3,906
1970	77	2,602	276	938	130	13	184	1	4,223
1971	94	2,790	298	1,036	234	25	158	21	4,661
1972	145	2,952	300	1,055	226	20	131	19	4,852
1973	270	2,946	267	1,149	281	28	87	8	5,033
1974	415	3,112	270	1,194	317	72	145	3	5,531
1975	513	3,482	255	1,417	439	149	77	6	6,340
1976		1,743	1,065	484	985	-	-	133	3,974
1977		5,146	2,285	2,152	673	46	451	136	11,319

SOURCE: Annual Statistical Abstract 1978, Table 149, p.171.

of the decrease in the amount of oil exported during that year (Table 16).

Trade activities grew to significant importance after 1950 when the Government started its plan for the re-building of Kuwait city. This increased the demand for imported construction materials.

Kuwait's trade has fluctuated widely with a consequent cycle of boom and slump. The main economic depressions in general, and in trade in particular, occurred in the years, 1961, 1965 and 1969/1970, and were attributed mainly to the country's lack of real demand other than that stimulated by Government spending. The large share of trade in Kuwait's national income can be attributed to the narrowness of the local market, which is unable to absorb a great amount of the oil produced (Table 17) e.g. local and regional markets only absorbed 0.4% of oil products in 1970.

4. Changes in the Volume of Kuwaiti Trade

The interest of the world powers in the Gulf and Kuwait in particular during the 18th and 19th centuries concentrated on their search for a strategic location in order to secure their trade routes. British political activity was mainly directed at promoting and protecting trade in the area east of the Suez Canal, which connected the main marine trade routes with India.¹ However, the subordination of politics to commerce was one of the most important British policies in the area.

1. W.D. Brewer, op.cit., p. 150.

Although Kuwait had nothing to offer on a commercial scale, during the late 19th century its importance to the British India Company appeared to be mainly connected with politics, as a means of protecting trade routes, and of preventing any other country from interfering in the area. But over the course of time, British trade, either on behalf of the East India Company or other British firms, benefitted from the trade activities between the Gulf area and India. Britain had always had a favourable balance of trade with the area,¹ and Kuwait obtained its importance as a distribution centre. There were factors limiting further expansion of British exports to the area; the poverty of the state, the limited ability to produce any commodity on a commercial scale for export, and the low standard of living of the inhabitants. These restricted the country's ability to increase its demand for imported goods.

The East India Company obtained only a small profit out of exchange with Kuwait, because of the necessity of spending a considerable amount of money on maintaining its strong position in the area. Subsequently Kuwait became one of the centres of distribution for Indian goods in the Arabian Peninsula,² and was also an important centre for the collection of numerous commodities to be exported to India, including dates, pearls, and astrakhan

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1. Kuwait kept its balance of trade by means of invisible trade, as well as smuggling activities. For further detail see: India Office Record R/15/309, and H.V. Winstone & Z. Freeth, *op.cit.*, p. 94, 121.
 2. India; Foreign and Political Department, The Prospects of British trade in Mesopotamia and Persian Gulf, Vol. 1., Government Printing, Delhi, 1917, p. 144.

clothing.

One striking feature of this trade between India and the Gulf was that the value of Indian exports to the area greatly exceeded the value of imports from it.

Trade has witnessed great changes during the short history of the state. In general the value of the trade figures between 1904-1906 showed the British India Steamer Co. carried almost all the trade that reached the country by sea, (93%), while the local dhow proportion amounted to some 6%. This indicated that most of Kuwait's imports were direct from India. Some of the goods were made in India, while some were made in Britain, but had been carried to Kuwait through India because of the excellent regular maritime transportation between India and Britain through the Suez Canal and the Indian Ocean.¹ During 1905 the total amount of imported goods increased over the preceding year by 148%.

In 1907-1908 the total value of imports decreased by about 7% due to the reduction in the value of imports from Turkish Arabia (Iraq).² The famine in India in 1907 led to a reduction in the amount of rice imported to Kuwait, accounting for a further reduction of trade. As a result of the famine, Kuwaiti exports of skins and hides were also reduced. India became the main exporter of skins during that particular year. In 1908-1909 the decline reached nearly 9% over the previous year but in 1909 it

1. Ibid.

2. India Office Record, Trade Record, R/15/5/73.

it was only 2%. The above may be far from being realistic because most of the goods that were exchanged between Turkish Arabia and Kuwait were carried either by caravans or by dhow¹ and neither of these means of transportation were normally officially registered.

Import trade increased during 1910-1911. This amounted to approximately Rs 4,415,545 (KD 294,369.6) of which imports from India formed some 56%; this increase in the total import figure, and that from India in particular, was followed by the agreement between Turkey and England concerning the Baghdad Railway (1911).² This emphasised the importance of the port and attracted the attention of commercial companies, as well as foreign political interest.

The trade position during 1913-1914 was unfavourable, with the proportional reduction in trade on the previous year amounting to about 15%³ caused primarily by the bad pearl season and the slump in the European market. World War I had begun and in 1914 many of the Kuwaiti ships which used to carry dates from Basrah to India were banned from carrying any goods or supplies to Kuwait unless they had special permission. Subsequent to negotiations between Shaikh Mubarak of Kuwait and the Indian Government, the restriction was raised and ships were allowed to carry supplies to Kuwait.

1. B.C. Busch, Britain and the Persian Gulf 1894-1914, University of California, Los Angeles, 1967, p. 312.

2. Ibid., p. 377.

3. India Office Record, R/15/5/73. op.cit.

TABLE 18.

The Value of Some Principal Import Articles
(in Pounds Sterling)

Item	Year	1908	1909	1910	1911	1912	1913	1914	1915
Coal		4	3	25	7	11	12	20	-
Coir & Coir Rope		16	32	141	446	55	1153	28	43
Goat Hair		236	2	3	17	6	2	-	-
Nail Irons		8	7	4	9	19	11	14	-
Tamarind		-	-	-	81	98	103	233	144
Wheat & Other Cereals		2	14	2	7	9	36	1512	1360
Barley		36	26	-	433	640	1269	675	700
Condiments		51	27	25	58	58	70	-	33
Dates, fresh		5	64	82	108	93	166	93	124
Dates, juice		8	14	8	18	40	6	12	9
Dates, wet		823	307	307	333	480	166	400	366
Fruits, dried and fresh		34	21	45	128	70	86	-	-
Ghee		81	78	-	-	26	51	12	-
Onions		27	44	50	75	103	144	45	58
Rice		7190	1854	297	4068	2970	5275	5246	3390
Tobacco		229	251	401	828	1120	821	306	87

SOURCE: India Office Records, R/15/5/72, R/15/5/73.

One pound = Rs .13

Not only had the war affected trade activities, but it had also affected the trade routes making most of the caravan traffic unsafe. The total trade of the port decreased to about 31% of its 1913 figure.

Tea was the only commodity that recorded some increase during this year, because Basrah drew its supplies from Kuwait, while the decrease in the amount of imported charcoal was attributed to the congestion of the local market with oil stock.

Table 18 shows the important items of import and development of imports from 1908 to 1915. It is obvious that foodstuffs dominated import composition, (62%). Of all foodstuffs the value of rice exceeded any other commodity. Rice is staple part of the diet in the Gulf area. Great amounts of imported rice were also re-exported to neighbouring countries. Quantities were also carried by Bedouin caravans. The second largest item was dates. The increase in this item is attributable to its importance to the Bedouin, as well as to sailors, but not for its high price, since it is one of the cheaper foods in Arabia. The overall increased demand for these two items is attributed to their importance as the main food for the urban people.

During 1915-1916 trade figures showed an increase over the previous year. India was the main supplier despite a blockade of Kuwait beginning in February 1915. Goods were smuggled to Kuwait. The increase in trade was due mainly to the increase in exports to Zubair (Southern Iraq) and other places in Basrah district which had been drawing some of their supplies from Kuwait. On the other hand the

Kuwaiti merchants imported some articles in large quantities over the local market requirements in expectation of exporting them to Iraq.¹

During the year under review, trade in general showed a net increase of about 21%. This increase was due to higher prices in exporting countries, and the increase in the amounts exported from Kuwait.

In the following year, 1916-1917, the trade situation had recovered despite the continuance of the war, the shortage of tonnage, the blockade and other restrictions. The general increase in the value of imports is attributed to the rise in price of almost every article, plus greater security along the caravan routes. Comparatively the situation was much better through the year, because of the success of the pearl season and that despite a decreased number of men and boats.

The increase in imports amounted to about 61% over the previous year.

The situation changed the following year, 1918-1919, because of the shortage of tonnage, high rates of freight and the restrictions on the export of foodstuffs from India. The Admiralty blockade on Kuwait's trade, which had proved so serious, was ended in November 1918. In the following year trade increased some 6% as the situation became more stable following the end of World War I.

1920 was an unfavourable year for trade because of strained relations between Kuwait and the Ruler of Najd,

1. Ibid.

who entirely suspended any trade exchanges with Kuwait throughout the greater part of the year.¹ Although the relationship between the two countries was re-established in March, the trade situation remained unchanged until the end of this year.

In 1921-1922 imports increased by nearly 43%. It was an unfavourable year for trade because of the unsettled state of the interior desert, and the poor pearling season on which the prosperity of a large number of the inhabitants of Kuwait depended. The decrease in the amount of imported goods continued during the year 1922-1923 and shortages in Kuwait extended to include fresh water.²

In the 1930s the economy was again depressed. The fall off in pearling and the increased competition in shipping and allied industries were the main difficulties.

In 1934 the total value of Kuwait's trade amounted to KD 397,540, of which KD. 291,210 was derived from imports and KD 106,336 from exports, which represented a decrease of nearly 30% from the total amount of trade during 1913-1914.³ It is obvious Kuwait's exports were ruled or bound tightly with the expansion and direction of import trade, because Kuwait had nothing to offer commercially from its

1. H.V.F. Winstone & Z. Freeth, *op.cit.*, p. 83.

2. F. Abdul-Razzak, Water Problem in Kuwait, M.A. Thesis, Cairo University, 1972, p. 15.

3. In 1914 a second trade agreement was signed between Kuwait and Saudi Arabia. It aimed to regulate rather than to encourage trade between the two countries, and was directed against smuggling operations. For further detail see E.H. Brown, The Saudi Arabia, Kuwait Neutral Zone, Middle East Oil Monographs, No.4. The Middle East Research and Publishing Centre, Beirut, 1963, p. 76.

TABLE 19

Total Value of Exports 1907 - 1915
(in Pounds Sterling)

Articles	1907	1908	1909	1910	1911	1912	1913	1914	1915
Animals	3,027	1,085	1,917	3,735	2,569	834	834	4,059	470
Astrakhan	833	59	666	467	490	5,405	5,505	-	-
Dates, wet	4,674	1,925	2,396	1,443	822	892	892	402	500
Fish Maws	40	360	117	-	-	-	419	306	650
Ghee	5,986	1,434	3,754	7,934	2,580	9,450	10,450	133	833
Hides & Skins	1,066	500	528	267	516	682	682	504	708
Pearl	11,333	23,833	16,400	38,067	61,000	40,367	40,367	3,113	26,063
Species	56,516	68,696	42,624	9,927	44,885	37,761	37,761	21,056	54,848
Wool	2,887	2,700	4,530	1,337	4,180	15,221	1,522	390	6,570
Coir Rope	626	260	650	467	467	323	323	293	116

SOURCES: Gathered by the writer from India Office Record R/15/5/73.

own province except pearls. The export trade is a follower of the import trade, and not a director or accelerator as in other countries. In fact, export activities in Kuwait are a function of the country's small population. The population's activities as traders, and their provision of services, enables them to exchange the surplus of their imported goods with neighbouring countries in the form of re-exported goods.

Table 19 indicates that during 1907-1910 the export of Bedouin products and pearls exceeded the export of many other products. As the importance of Bedouin products gradually retreated, the products of India and other countries, especially food supplies, increased. Simultaneously the importance of pearl exports increased during the last three years before World War I.

Imported items make up the majority of Kuwait's exported items, with slight differences only in their direction: Hides and skins, astrakhan, ghee, wool and animals, which were mainly brought to Kuwait from the desert hinterland behind Kuwait's boundaries, were shipped to India. Furthermore Kuwait imported spices, wood, coir-rope from India and East Africa, for local consumption, and re-export to Iraq, the Arabian Peninsula and Iran. The same situation was true of wet dates which were either shipped directly from Iraq by Kuwaiti vessels or carried to Kuwait and from there shipped to India and East Asia.¹

Re-export activities were developed in the state in order to maintain the balance of payments. This continued hand in hand with other commercial services that the state

1. M. al-Feel, The Historical Geography of Kuwait, Arabic text, Dar al-Baian, Beirut, 1972, p. 544.

has been able to set up. The paucity of local resources, agricultural products and other consumer goods, provided a stimulus for trade, and benefits of its strategic location near two of the richest agricultural countries in the area, Iraq and Iran, coupled with the existence of the well served marine route between Kuwait, India and East Africa were added advantages. Thus Kuwait would not have developed as a commercial centre had it not had a shortage of food or a poor variety of natural resources. These shortages have forced the people to look for suppliers for their needs outside their own country. From the beginning this appears to have been achieved because of Kuwait's geographical position.

Trade became a basic influence on the structure and the origin of the population. Foreign merchants came to Kuwait to organize and develop their careers in association with Kuwaitis. Traders from Kuwait went to India, East Africa, South Asia and as far as Malaysia and Indonesia for the same purpose. The result in both cases was either a loss in Kuwait's own population, or an increase in the number of immigrants. The latter had a much greater influence on the Kuwaiti population. The origins of such migrants tend to be those countries with which there were strong commercial relations, such as India. A Kuwaiti agreement with the British Government served to allow the citizens of India to carry on trade activities in Kuwait under the same terms as any Kuwaiti citizen.¹

1. India Foreign & Political Department, op.cit., p. 144.

Trade has also affected the social life in the country by mixing the Kuwaiti population with other communities. The former has absorbed many of the customs of other nationalities, from eating habits to customs relating to daily life and education.

5. Geographical Factors Influencing Trade Activities

5.1. General Considerations

The importance of Kuwait's location in relation to its trade activities is due to the following:

1. Location.
2. Centre of Supply and Demand.

5.2 Location

The importance of Kuwait's location in relation to its trade activities is due to the following:

a. Its location at the north east corner of the Arabian Peninsula (lat. 28° & 30° N., long. 46° & 48° E).

b. Physical Aspects

Climatically the Gulf has favourable conditions for navigation. However, the area is subject to periodic sand storms, occurring most regularly in early summer, and has little or no effect on seaborne trade.

The other physical factors which affect navigation are the coral reefs and the sandy shoals. The first factor

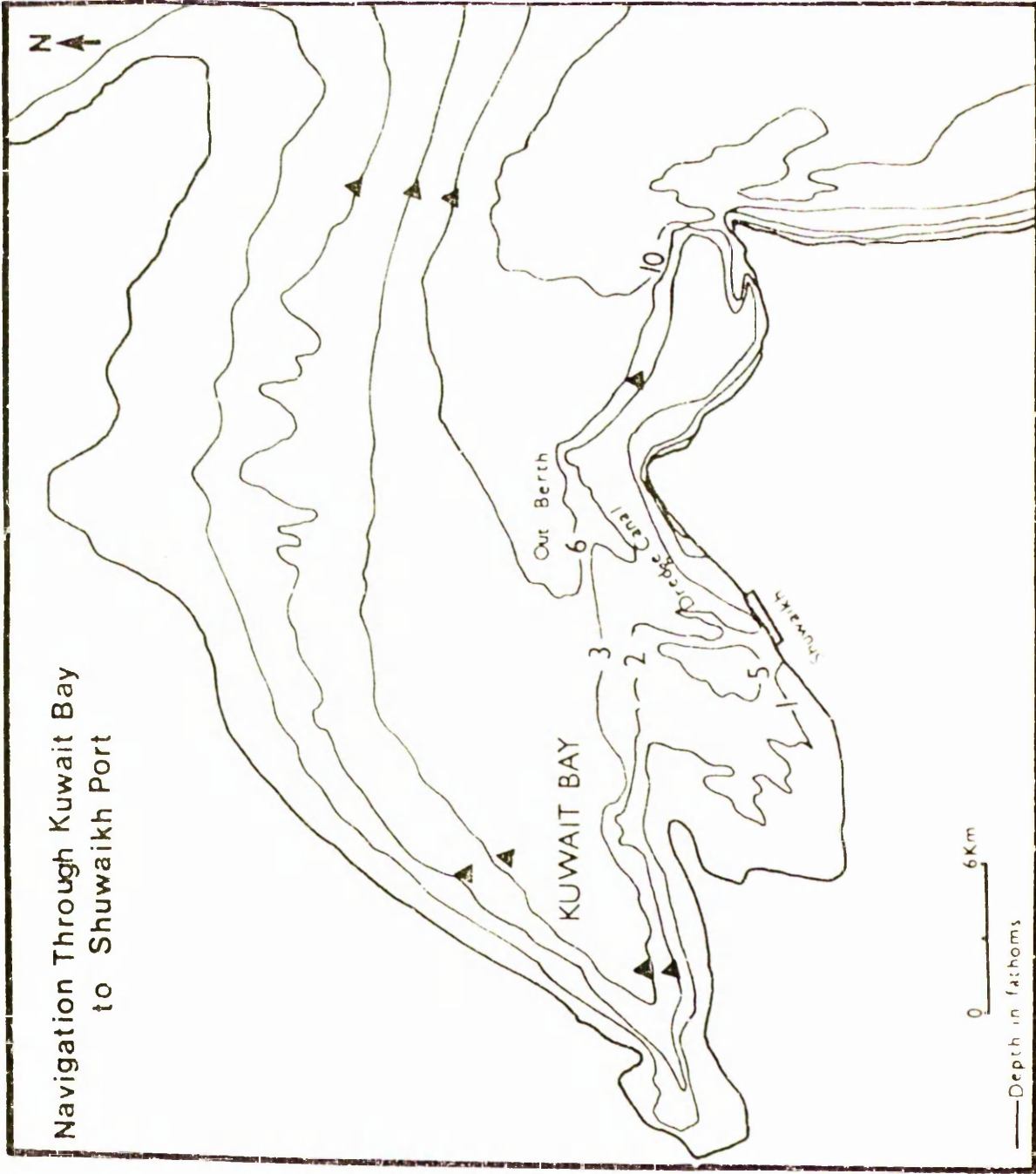


Figure 18

hardly affects navigation near Kuwait, as there is little coral here compared with other areas in the Gulf. Shoals do have an effect on navigation, necessitating periodic dredging of the channel (Figure 18). In addition there are good connections between marine and inland routes. The two main factors affecting inland transport are fresh water and desert.

The desert extends from al-Rub-al-Khali to al-Nafud Desert in the north and Badiat al-Sham. The extension of this belt of desert makes any alternative route difficult. The extent of the desert between Kuwait and major cities in the interior part of the peninsula is more limited and narrow than that of other ports. This has led to the establishment of a very important caravan route through Kuwait. In addition there is Kuwait's easy access to the north through Iraq and to the eastern coast of the Mediterranean. In recent years the old caravan routes have developed as major motorways.

c. Harbour Facility

In terms of transport facilities Kuwait is in possession of a good harbour. It has a good natural harbour with relatively deep water, with Kuwait Bay forming the largest and deepest natural inlet of the whole Gulf. This enables vessels to anchor closer to the shore than in any location on the northern part of the Arabian coast. The natural deep channel runs through Kuwait Bay with a depth of more than 40 feet, (Figure 18), it is protected from winds and waves by the natural inlet of Kuwait Bay. The harbour's

excellent shelter and the low tidal ranges enables the vessels to be loaded and unloaded at all stages of the tide. Recent dredging operations have taken place in the ship channel and improvements introduced in navigation.

5.3 Marketing Facilities

Kuwait is a small country with a small market but its marketing activity extends beyond its boundaries. Kuwaiti merchants have good opportunities to exhibit their commodities not only to the Kuwaiti consumer, but also to non-Kuwaitis because the country has always contained a great number of foreign immigrants who came to Kuwait during the summer to participate in pearl diving.

After 1946, the most potent reason behind their migration to Kuwait was the opportunity to work at high wages and salaries. Most of the expatriate workers came from other Middle Eastern countries such as Iran, Iraq, Egypt and Syria. The majority of these countries followed a strict policy of import controls of tariff protection in order to develop their local products. Kuwait obtains benefits by following a free-trade policy which permits low prices and a wide range of goods in the shops. This encourages most of the workers who come from other parts of the region to satisfy their needs from Kuwait's market. Kuwait benefits in two ways; it sells direct to foreigners, thus reducing the amount of money transferred out of the country and has the effect of increasing activity in the local market.

6. Political Factors Influencing Marine Transport

Kuwait first appeared as an important port in 1776 and was initially developed to replace Basrah in Southern Iraq. Subsequently it developed into one of the most important ports in the entire Gulf.¹

Kuwait's trade activities were affected during World War I as a result of the British Admiralty blockade, and later by the Saudi blockade.

The continuing war situation in the Middle East since 1940 has enlarged Kuwait's importance as a commercial centre. The recent Israeli-Arab wars in 1956, 1967 and 1973 affected the trade position in Kuwait by increasing re-export trade activities because of closure of Arab harbours in the Eastern Mediterranean, and as Kuwaiti imported goods to meet its defence obligations towards the Arab League. The war had an opposite affect on Kuwait's commercial relations with western Europe. The Suez Canal was closed so that marine trade suffered from the adverse cost effects of long journeys around the Cape. This caused an increase in freight rates, which in turn increased the price of commodities in trade, whether raw materials or consumer goods.

In some cases the closure of the Suez Canal led to the transference to and widening of Kuwait's trade with Japan and other Asian countries at the expense of its traditional European markets, especially in relation to foodstuffs. For example Italy was the main supplier for

1. See Chapter IV.

TABLE 20.

The Relation Between Oil Revenues
and Import Trade
(in thousands KD)

Year	Value of Import	% of Variation	Oil Revenue	% of Variation
1953	15,517	--	50,000	--
1954	29,886	.98	60,200	20
1955	32,858	-3	69,300	15
1956	41,077	10	100,500	45
1957	55,614	25	104,300	3.77
1958	75,140	36	110,200	5.6
1959	93,246	35	127,400	15
1960	89,046	24	167,290	13
1961	86,400	-7	159,496	-4
1962	101,865	14	167,000	3.6
1963	115,651	14	190,573	10
1964	115,080	-.4	206,208	8.2
1965	134,689	17.9	225,326	9.2
1966	165,282	22.9	231,675	2.8
1967	211,893	28.2	263,097	13
1968	218,325	3	242,987	-7
1969	230,778	.5	280,440	15
1970	223,267	-3.3	297,701	6
1971	232,307	4.0	354,073	18.9
1972	262,177	12.8	506,626	43
1973	310,582	18.4	543,985	7.3
1974	455,090	46.5	2,056,479	73
1975	693,150	52.3	1,703,374	-17
1976	970,281	28.5	2,658,736	35.9
*1977	1,123,000	13.5	2,587,000	-2.7

* M.W. Khouja X.P.G. Sadler, The Economy of Kuwait: Development and Role in International Finance, MacMillan Press Ltd., London, 1979, p.51.

canned tomatoes but has been replaced by China. A similar position applies to most canned food.¹

7. Economic Factor Influencing Trade

In the case of Kuwait, economic factors have encouraged trade activities because trade is a relatively more attractive occupation than any other. There are high profits in the absence of any kind of taxation apart from import duty (4%: see Appendix III), management is uncomplicated, and transportation readily facilitated.

The proportional increase in the value of imports was remarkable during the first half of the 1950's, the increase between 1952 and 1953 being estimated at 98%² (Table 20), while the increase in oil revenue was only about 20%. The differentiation between the oil revenue and imports, and the increase in expenditure on development projects did not cause any deficit in the balance of payments, because of the high value of oil income during 1952 and because of the cheapness of imported goods, especially in the first half of the 1950s. The reduction in the amount of imported goods during 1954 might have been due to the diversion of resources to construction of Shuwaikh port.³

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1. International Trade Centre UNCTAD/GATT., Kuwait: as a Market for Manufactured Products from Developing Countries, Geneva, 1969, p. 39.
 2. This may be due to Government expenditure on the establishment of a distillation plant.
 3. In 1952 it was found that the Shuwaikh port needed to be dredged, but the hardrock in the main channel stopped dredging operations until further study had been made. Therefore dredging ceased until 1959. For further detail see: Ministry of Guidance & Information, op.cit., p. 160.

Before the oil era the annual average per capita income amounted to KD7.¹ This figure has increased rapidly to reach a level of KD 1,148 a year by 1965/1966, and has continued to rise during the last few years, by 1974 reaching more than DK 3,571. As a result, public and private expenditure is very high and continues to increase. This is because of the high expenditure on development activity and the impact of inflation. The latter has influenced and increased Kuwait's general expenditure following an increase in population numbers.² The demand for goods increased as a result of Kuwait's development expenditures, which was a part of its policy to stimulate local enterprise.

This upward trend in Kuwait's imports has passed through a period of fluctuations during the last decade, particularly the relative levelling-off in 1964 which was caused by business stagnation. But in 1965 the value of imports rose again as a result of development outlays by the public and private sectors.

During 1951 the Government adopted a plan for KD 91.5 million of expenditures on the construction programme for the years 1951-1959 starting from 1956 the Government construction programme increased steadily from KD 16.7 million to KD 46 million in 1956 and 1966 respectively, while, in response, the value on imports increased from KD 29.9 million in 1954 to KD 135 million in 1965. The

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1. The Kuwaiti Dinar (KD) has been evaluated according to the Pound old level of £1; 1KD For further detail see: M. Qalaji, Independent Kuwait, Arabic text, Maktabat al-khalij al-Arabi, Beirut, 1961, pp. 44-48.
 2. See: Population and Economic Growth in Kuwait, Chapter III.

annual expenditure on Government property increased tremendously from KD 2 million in 1952 to KD 12 million in 1956. This figure reached KD 40 million in 1958 but decreased in 1963 to only KD 31 million because of the Government development plan. It reached KD 9 million in 1969 and increased to KD 25 million in 1972, and KD 27 million in 1974.

Between 1955 and 1956 new suburbs appeared at al-Shuwaih, Dasmah and other areas and the price of land rose by 32 times between 1952 and 1960, reinforcing business confidence and stimulating imports. Although the import of different kind of goods continued to flow to the country after 1961 the rate of increase in levels of imports was less than during the 1950's.

The Government policy was, from the early 1960s, to direct expenditures towards establishing new industries, and to reduce expenditures on land purchase. Despite the commensurate increase in imports, there were other factors which served to restrain increases in the value of the import trade. The increased demand for most kinds of consumer goods surpassed all expectations. This caused the Government to reduce expenditures on the development programme. During the first half of the 1950's it was found that the average increase in population and per capita income, as well as the purchasing power, exceeded the expectations of the 1951 plan. Therefore the Government prepared another less ambitious plan for the city's development in 1954. This new development scheme caused a reduction in imports because of a decline in the construction programme,¹

1. The first budget law was enacted in Kuwait in 1960. For further detail see: International Bank for Reconstruction and Development, op.cit., p. 45.

TABLE 21 .

Kuwait's Imports by Means of Transport
(in Tons)

	Total Import	Import By Sea	%	Import By Land	%	Import By Air	%
1968	2,108,238	1,439,386	78	44,100	20	9,100	.4
1969	2,050,388	156,460	81	370,700	18.1	8,100	.4
1970	1,784,176	1,263,753	70	511,400	28	8,500	.5
1971	2,057,249	1,670,523	76	484,300	23	8,100	.4
1972	2,076,270	1,657,710	69	629,700	30	7,100	.4
1973	2,023,900	1,276,400	63	737,500	36	10,000	.5
1974	2,424,700	1,703,600	70	7,111,100	29	10,000	.4
1975	2,531,840	2,024,706	80	496,700	20	10,200	.4
1976*	4,317,800	3,905,800	90	392,900	9	19,100	.4

SOURCE: Calculated by the writer from the Annual Statistical Abstract.

* Statistics for the years following are not available.

The relation between the increase in oil revenues & import trade

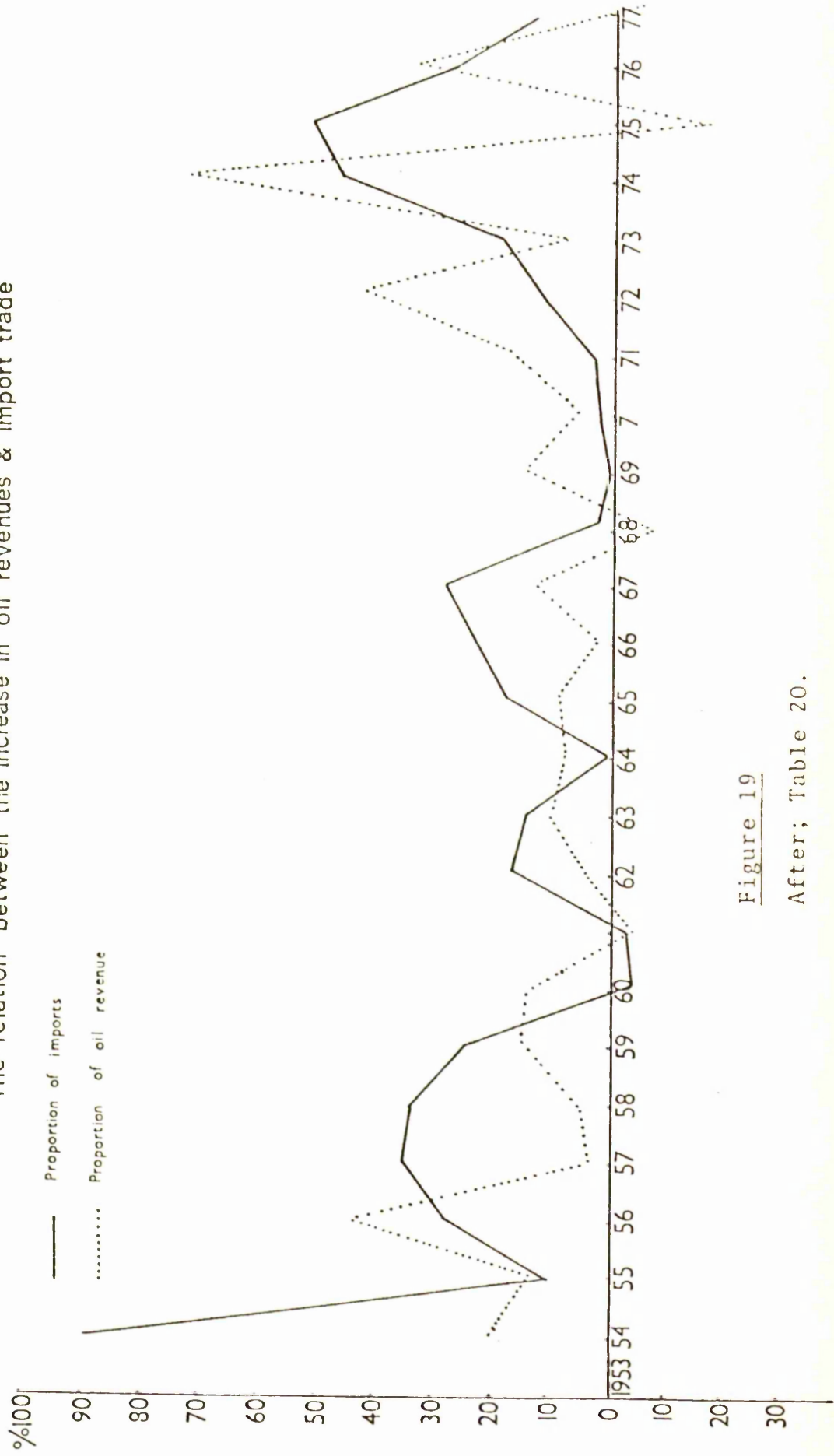
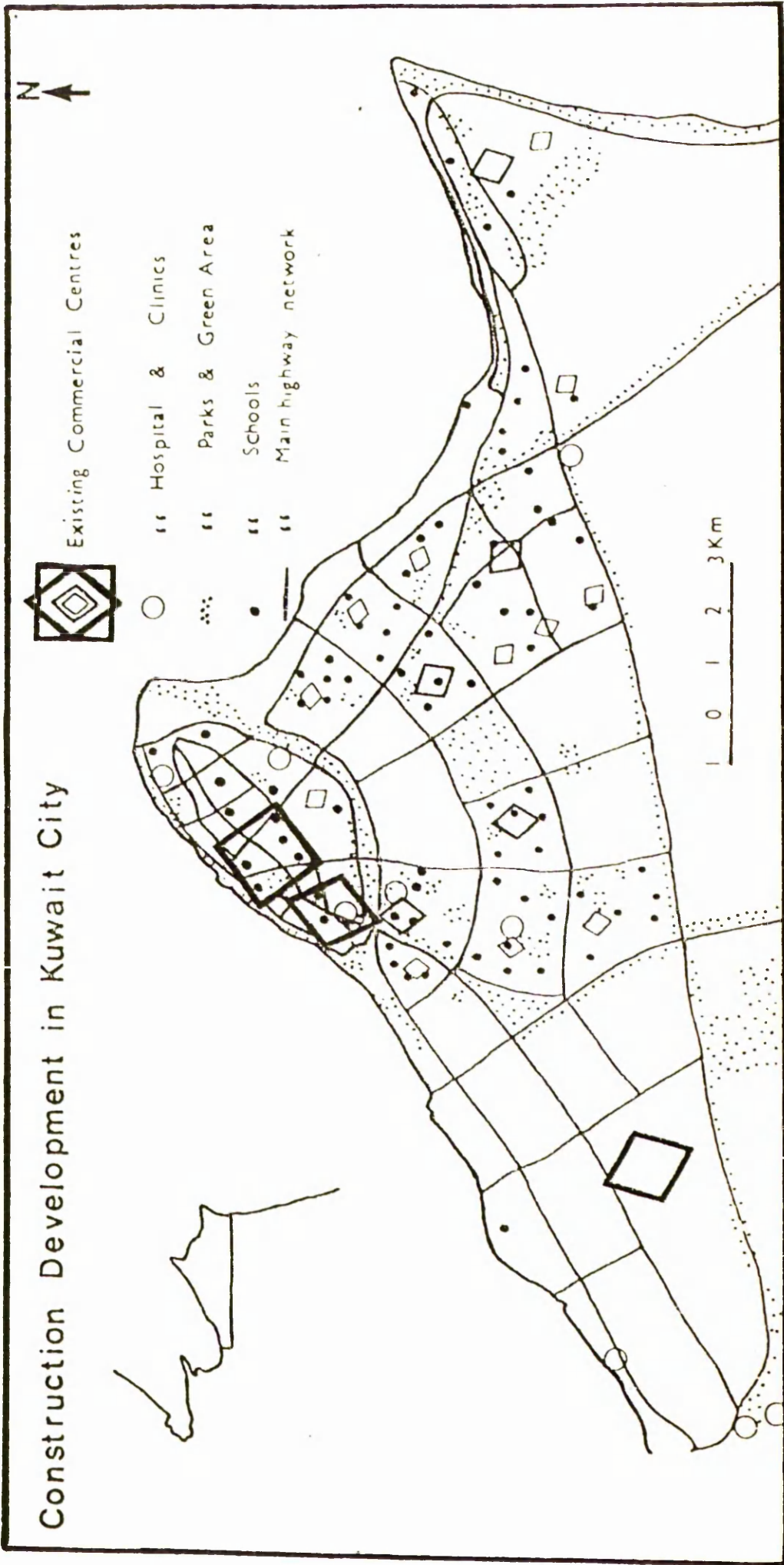


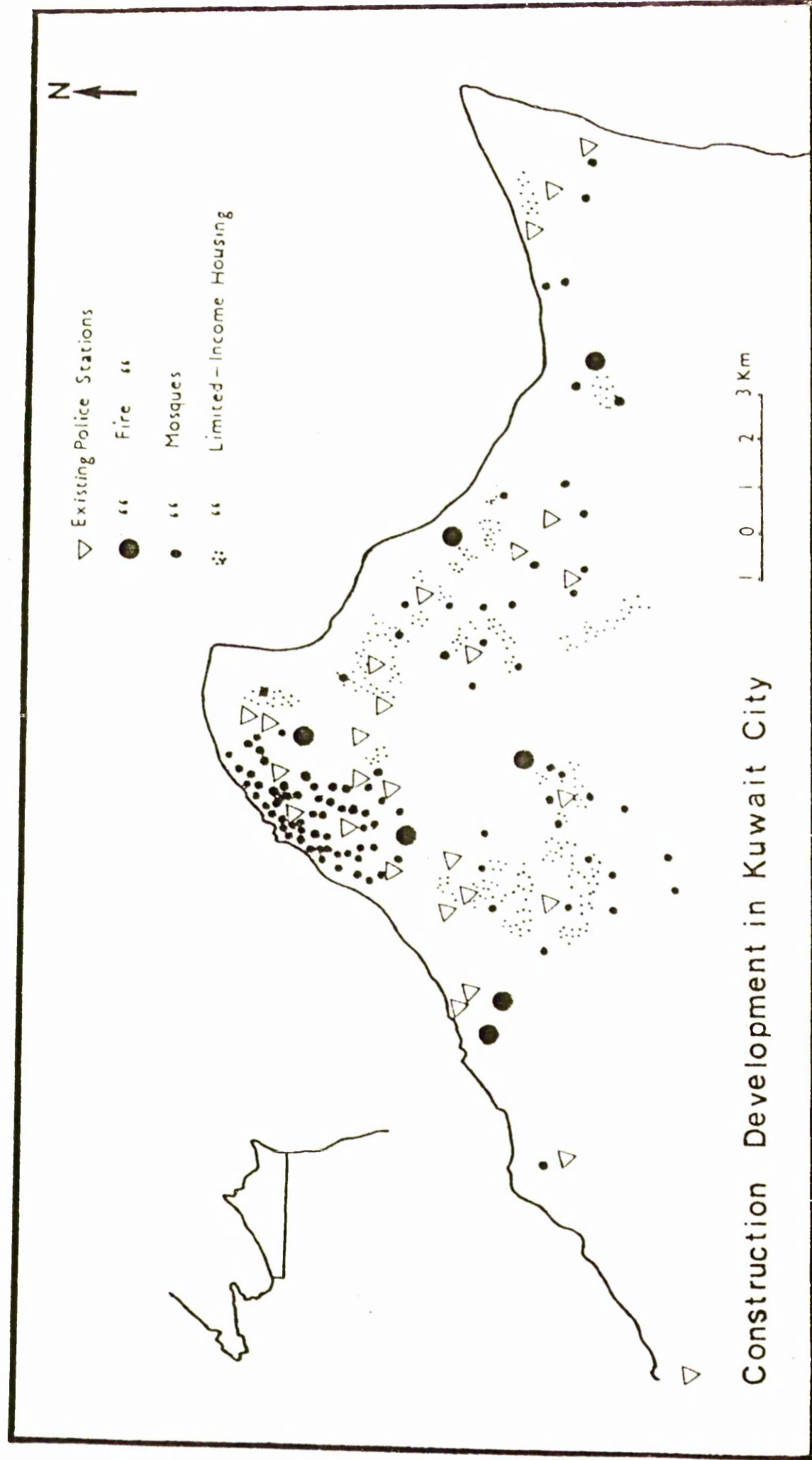
Figure 19

After; Table 20.



After; S. Shiber, 1964.

Figure 20B



After; S. Shiber, 1964.

Figure 20A

additional commitments at al-Suwaikh port, and hesitancy by non-Kuwaiti consumers occasioned by political disturbances in the Middle East.

The relationship between the increase in oil revenues and the proportional increase in the value of imports is shown in Figure 19. A slight reduction or decrease in the oil revenue was accompanied by similar reductions in the value of imported goods. This emphasises the relationship between the two.

During 1953 the import trade reached its peak. The increase in oil revenue (about 22%) followed the increase in oil production. This was due to the Iranian crisis in 1951-1953, and the increase in the Government imports, e.g. distillation plant equipment. In 1954 both oil revenues and import trade decreased.

The reason for the reduction was the curtailment of the construction programme begun in 1951 under the revised plan of 1954 (Figure 20A, 20B). While imports during 1955 and 1956 increased by about 10% and 25% respectively, oil revenues decreased during 1956 because of the closure of the Suez Canal. The fluctuation in the levels of imports are much greater than those in the income of oil, which followed a much more stable pattern until 1960, when a new plan came into force.

8. Transport and Kuwait's Trade

Kuwait as a trading country is connected with the rest of the world through three means of transport, air, sea, and land. (Table 21).

8.1. Air Transport

Air transport has developed greatly in recent years. The Iraqi airline opened an office in Kuwait in 1929. In 1953, Kuwait Airways was formed as a joint stock company. In 1955 the Government acquired 50% of the company's shares,¹ and in 1963² an extensive programme of expansion was planned after the Government acquired all the remaining privately held shares. It has since developed into an international airline. In 1972 the number of scheduled flights was 11,885 in addition to about 1,308 non-scheduled flights.

Air cargo tonnage varies from one year to another, and also between incoming and outgoing trade. Most of the incoming goods are personal belongings, and rarely include goods imported for marketing. The total amount of imports by air during the late 1960's and the early 1970's constituted less than one per cent of Kuwait's total imports.

8.2. Land Transport

This is the second most important means of transport for Kuwait's trade. The old caravan routes now form the main highway linking Kuwait with Saudi-Arabia (Riyadh) to the south, Iraq and the Mediterranean region to the north

1. Ministry of Guidance and Information, op.cit., p. 85.

2. Ibid.

and west. The road system was developed rapidly aided by Kuwait's plain-like topography, the availability of the necessary specialist trucks, transit agreements between Kuwait and other Arab countries, and the absence of any railway links between Kuwait and the rest of the region.

Despite the development of the inland route, land transport cannot compete with marine transport in terms of trade exchanges. The major land transport routes connect Kuwait to the Mediterranean region, from which Kuwait receives most of its agricultural products. In recent years land transport has also served Kuwait's trade with Europe, either directly through Turkey and Iraq or through Mediterranean ports where the inland route to Kuwait is used. This route developed rapidly after the closure of the Suez Canal.

During the years, 1974-1976 Kuwait's inland routes have developed to Saudi Arabia as well as to Iraq, where related road development schemes have taken place, due to the lack of port facilities in Saudi Arabia. Kuwait's port handles a great proportion of Saudi goods, which are conveyed overland by road to the Saudi markets.

The inland route has always been very important for trade exchanges on a regional scale, but in recent years its importance has increased as a feeder system for marine transport. Overall, however, land-borne trade has never carried more than 36% of Kuwait's foreign trade exchange.

8.3. The Ports¹

The obstacle that still detracts from the utility of port facilities is the location of warehouses which are separated from the main port area by a motorway linking Kuwait City with al-Shuwaikh, al-Jahra and Iraq. The heavy traffic on this motorway holds up the movement of goods from the main port area to the warehouse. Thus one of Buchanan's suggestions to overcome this problem was to link the main port area with its warehouses either by means of overland bridge or underground tunnels.²

During 1960 there was a slight increase in the total amount of imports by weight, while the number of ships that reached al-Shuwaikh port declined by about 1%. In 1961, the amount of cargo handled and the number of ships berthing both declined. This is attributed to the political crisis between Kuwait and Iraq. However, the situation worsened in 1963, but trade activity in general declined because of the replacement of the Indian Rupee as Kuwait's currency by the Kuwaiti Dinar.³ This caused some stagnation and even a reduction in the amount of trade while confidence was being mobilized in the new currency.

In 1969 Kuwaiti imports exceeded the capacity of

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1. The history of Shuwaikh port goes back to 1907 when Shaikh Mubarak agreed to lease a strip of land along the coast to the west of Kuwait City to Britain. For further detail see: India Office Record, Lease of Bandar al-Shuwaikh, R/15/5/92.
 2. Buchanan and Partner, op.cit., p. 6.
 3. Ministry of Guidance and Information, op.cit., p. 67.

al-Shuwaikh port (1.5 million tons a year). Port extensions were approved, so that at the end of 1971 port capacity reached 2 million tons a year. This was doubled by 1974, when Shuwaiba with 900,000 tons were brought into operation.

Many ships came to Kuwait port not only to handle their cargo, but also a great proportion of them came just for services such as the supply of water and fuel. This is because of the good facilities which are available at Kuwait port, and the cheap cost of both water, 250 fils per ton,¹ and for vegetables and fruit. In other Gulf ports prices are often double those at Kuwait. In addition most Gulf ports have development programmes which temporarily cut their capacity, and so increase the pressure on Kuwait's ports. Saudi Arabia has awarded port contracts worth more than KD 1,010 million partly for the construction of the new port complex at Jubail, which will consist of both a general cargo port and a specialised, industrial port, partly for the extension of Dammam and partly for the expansion of Jeddah. Unless there is a large-scale expansion of trade in the near future Kuwait's port facilities and the new extensions in neighbouring ports may be of doubtful profitability.²

9. Composition of Trade

9.1. Composition of Kuwait's Imports

The composition of Kuwait's import trade has

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1. Custom and Port, Annual Report 1970, Fahad al-Marzook Press, Kuwait, p. 35.
 2. About the future competition between the different Gulf ports, the former Under Secretary of Customs & Ports reveals that so far there is no such competition between those ports, and he does not expect such competition will occur in the near future.

TABLE 22.

Value of Imports 1970 - 1977
(in thousands K D)

	1970	%	1971	%	1972	%	1973	%	1974	%	1975	%	1976	%	1977	%
Capital Goods	46,647	20	42,997	18	48,529	14	55,672	18	46,393	10	176,451	25	242,600	25	171,600	25
Intermediate Goods	72,975	32	81,646	35	92,155	37	107,904	34	174,789	38	206,884	30	320,500	33	222,200	32
Consumer Goods	103,263	46	107,155	46	120,916	48	143,637	46	23,060	50	298,239	43	389,900	40	278,700	41

TABLE 23.
Value of Imports of Foodstuff
 (in million K D)

Item	Year	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976*
Meat and Meat Products		1.8	1.5	1.9	3.1	3.4	3.7	3.7	4.2	5.3	8	11.7	15.5
Dairy Products and eggs		3.2	2.3	4.2	4.3	4.5	4.9	5.8	7.0	7.4	9.2	13.3	16.9
Fish and Fish Preparation		.2	.3	.4	.4	.5	.5	.5	.4	.4	.8	.7	1.4
Cereal and Cereal Preparation		5.8	5.1	.5	9.5	5.9	7.1	9.0	7.9	8.8	12.5	27.3	21.4
Fruits and Vegetables		5.1	5.8	7.5	8.9	8.7	9.9	10.0	11.3	13.2	17.2	23.5	31.6
Sugar, Sugar Preparations		6.0	1.2	1.6	2.3	1.5	1.8	1.9	2.3	2.9	4.5	12.9	6.2
Coffee, Tea, Cocoa, Spices		2.3	3.5	3.3	3.8	5.6	5.8	5.0	6.6	6.5	7.6	8.4	14.1

SOURCE: Ministry of Planning, Annual Statistical Abstract.

* Kuwait Economy, Chamber of Commerce

undergone change, due to the growth of the per capita income in Kuwait, the influx of foreigners and competition between the exporting countries to achieve a greater proportion of Kuwait's imports. Kuwait's market has become exposed to the sale of a growing variety of commercial goods, including consumer goods, and foodstuffs (Table 22). The real increase in the amount of imported goods began in 1953, although the great expansion in wealth and population of the country began to take place from 1950.

The composition of Kuwait's trade reflects the effects of the physical factors which determined the amount and the type of products which the country can produce. While many countries spend great amounts of their income on oil and other petroleum products, Kuwait spends most of its income on its foodstuff needs. (Table 23). The demand for this is a function of population size, average per capita income and the availability of domestic supply. Foodstuffs constituted Kuwait's main import before the oil era. Although the value and the amount of imported foodstuffs has increased since the discovery of oil, its proportion to the total amount of imports has decreased because of changes which have occurred in the composition of trade.

Rice constitutes one of the main foodstuffs, with a proportion of 3.7% of the total in 1969. Overall it was 40.9% of the total value of imported cereals in that year. The proportion of total imported cereals to total imports of foodstuffs was 9%.

The proportional increase in the value of imported rice in 1970 was 22.8%, while its proportion of

total value of foodstuffs was 4.5%, and its proportion of the value of imported cereals 42%. The per capita consumption of rice in 1970 was about 51 kg. Rice is not the main dish for most of the non-Kuwaiti population. Therefore there was a surplus amount of rice during that particular year, which allowed some of it to be exported to Iraq.

The other commodity of parallel importance amongst Kuwait's imported foodstuffs was wet dates. This increased in value between 1969 and 1970 by 46% but in 1970 it contributed only 1.4% of the total import value of fruit and vegetables, which implies that the wet date lost importance as one of the main food items for the inhabitants. This is an example of the change in the inhabitants' diet as a result of the development of modern transport facilities, increasing population numbers and improving standards of living and social and economic changes which started with the oil era.

Kuwait is a desert area where pastoralism was one of the main occupations among the Kuwaiti Bedouin. The importance of domestic meat production has declined and Kuwait has started to import meat and live animals and canned meat, from neighbouring countries. Local production of meat and live animals has in recent years barely covered 3% of local consumption. This is due to the delimitation of the political boundaries between Kuwait, Saudi-Arabia and Iraq which has limited Bedouin movements to a smaller and less reliable grazing area.

Imported alfalfa and other animal fodders have become very expensive. It has become more economical to

import animals and meat than to look after the animals within the country's boundaries, especially as there is a declining amount of domestic animal fodder available.

Augmenting oil revenues and a higher standard of living has changed social life even among the Bedouin, for many of them have settled down and started a new urban life. The abandonment of pastoralism has caused a significant decrease in local meat production. Not only have political factors limited the area devoted to this kind of occupation, but part of the desert area has become used for other purposes, with the scattering of the oil wells over a large area. This has led much pasture land to be transferred either for the use of the services of the oil fields or to transportation facilities to aid communication between the wells and the main centres.¹

Kuwait has not only increased imports of meat, but also the import of cooking oil, which used to be an export item (ghee) to India. Poultry production has increased in recent years to replace the losses in domestic animal production.² Imports of meat are likely to increase in the future and this will add to the import bill, especially with rising prices in all commodities throughout the world.

Kuwaitis in general do not consume canned meat and fish. Canned beef was imported to an estimated value of about KD 145,000 in 1965, and KD 179,000 and KD168,000

1. Ministry of Guidance and Information, op.cit., p. 174.

2. M.S.I. Jaber, The Kuwaiti Economist: its Development and the Growth of its Sectors, Ministry of Trade & Industry, Arabic text, Kuwait, 1967, p. 59.

in the following two years respectively. This meat is mainly consumed by the immigrants and not by the native population. The increase in the value of imported meat has raised its price compared to alternative foodstuffs. As a result there has been an increasing demand for fish. Although prices increased during the late 1960's, fish is still comparatively lower priced than that of meat. Furthermore the value of imported canned fish witnessed fluctuations during the 1960's from KD 200,000 in 1965 to KD 366,000 in 1966 and KD 143,000 in 1967, while by 1971 the value of imported fish had reached about KD 594,284.

The composition of foreign trade is bound to alter with changes in the relationship between the demand for imports and the resources of the state. Such has been the case with Kuwait's import of construction materials, which have formed one of the most important import items during the last 26 years. Even before the oil boom Kuwait used to import most of its construction materials, mainly in the form of wood which was used for the roofing of buildings (chandal), and the production of some industrial goods such as doors and windows. These imports were limited in their amount and value because of the economic situation in the country. This situation changed completely with the first boom in oil income, after which Kuwait's Government started its construction programme.¹

In 1949 the first Government hospital was established (the Ammiri Hospital) in addition to a number of

1. R. el-Mallakh, Economic Development and Regional Co-operation: Kuwait, University of Chicago Press, USA 1968, pp. 74-84.

Government schools and other constructions and the oil company's buildings at al-Ahmadi. In 1951 the Government started its construction programme. Numbers of old houses were removed and rebuilt.¹ Schools and hospitals were constructed and many old houses were demolished while significant changes in Kuwait city have taken place since 1954 when a second city plan was formulated.²

Greater amounts of money were later channelled to the private sector which continued to build new single-family houses as well as five storey apartment buildings.³ Most of the latter were occupied by non-Kuwaitis, and this forms one of the most profitable sectors for Kuwaiti landlords.

The increase in the construction programme was borne by the public and private sectors. Greater demand for housing was due to increased population and changes in social life as an extended family no longer lived in the same house.

In 1960-1961 the new Government offices were built, two 500-bed hospitals, a major poly-clinic to serve nearly two thousands a day, and large markets for fish, meat and vegetables.⁴

The increase in the proportion of imported cement

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1. The International Bank of Reconstruction and Development, op.cit., p. 30.
 2. Ibid., pp. 28-30.
 3. Ibid.
 4. Middle East Annual Review 1978, The Middle East Co. Ltd., England, p. 237.

TABLE 24.

Import of Cement

Year	Total Import (in thousands KD)	Import by Ship (in thousands tons)
1965	2,832	322
1966	3,906	677
1967	---	639
1968	5,441	840
1969	5,023	510
1970	3,876	325
1971	4,652	519
1972	3,539	396
1973	4,981	297
1974	8,797	486
1975	6,649	366
1976	---	1,670

created great pressures on port facilities, with an average daily discharge rate of 3,769 tons. During 1961 about one half of the tonnage handled at al-Shuwaikh port was construction material, and of this tonnage 50% was cement.

By 1963, after about a decade of intensive building, Kuwait had some 10,000 houses ranging from luxury apartments to specially built lower-income houses, 7,043 shops and 2,864 factories and shops. Domestic building was based on a state mortgage scheme which enabled Kuwaitis to purchase houses without deposit, at 2% interest over twenty five years.¹

Construction, which depends heavily on the Government supply of capital, is decreasing under the new Government policy which favours the development of industry.²

The above Table 24 shows the fluctuation in the amount and value of imported cement. Value includes all imported cement, while volume includes only the cement imported by sea. A great amount of cement is imported by land routes from Iraq and other Arab countries. The latter has been affected by the political and military situation in the area. Supplies from Western Europe have been affected by the closure of the Suez Canal, the increase in freight rates and the difference in price between the various sources of supply.

The amount of cement imported in 1968 fell to 39% of the 1969 figure. In 1970 the fall was 36% than that of 1969 figure, while it increased to about 356% between

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1. Ministry of Guidance and Information of Kuwait, op.cit., p. 80.
 2. R. el-Mallakh, op.cit., p. 79.

1975 and 1976.

The value of imported cement during the above years did not exceed 2% of the total value of Kuwait's imports, the average proportion of its volume reached 11% of the total goods at al-Shuwaikh.

Motor vehicles are another major import commodity. The proportional value of imported cars in relation to the total value of the country's imports in 1969 was 37%. This decreased in 1970 to 35% of the total value of imports. In 1976 the proportion of imported cars reached about 41% of the total.

The extension of the urban area outside the city took place without any organized transportation facilities, apart from those for schools and some high Government employees.¹ Because of the lack of public transport it has been essential for each family to have its own car. This has been facilitated by the increase in the standard of living. Numbers of commercial vehicles including lorries and trucks are used in construction operations and as water tankers. Until recent years fresh water and sewage water, were distributed and/or collected by tanker lorries. Climate, tough vehicle handling and instant wealth have increased the demand for vehicles and spare parts.²

During the 1950's a large proportion of imports were absorbed by consumer goods, but a growing proportion is now being diverted towards investment expenditure.

1. Public transport, in the form of regular bus services, was first introduced into Kuwait in 1962.

2. International Trade Centre, UNCTAD, op.cit., p. 62.

TABLE 25.

The Proportion of
Kuwait's Principal Imports

	% of Total 1971	% of Total 1975	% of Total 1976
Food, tobacco, & live animals	17.7	15.7	12.5
Raw Materials	1.7	1.2	1.7
Fuel, lubricants	.9	0.6	0.7
Chemicals	4.6	3.9	3.1
Manufactured goods	22.1	17.8	22.1
Machinery & transport equipment	33.4	45.6	41.8
Miscellaneous manu- factured articles	16.4	13.3	14.4
Unclassified Commodities	0.2	0.6	2.0

SOURCE: Annual Statistical Abstract 1978, Table 246, p.285.

Imports of capital goods have grown at a faster rate than those of consumer goods. Manufactured goods, equipment and vehicle imports have grown at a rapid rate (Table 25). This trend could be reversed once an industrial sector has been established, but this might be more difficult for consumer goods.

Industrial development probably will increase the demand for machinery and machine tools. There has been increase in the demand for elevators (lifts) which has followed the development of the taller buildings.

In the consumer goods sector the relevance of weather conditions is apparent with a large market for electric appliances such as fans, air-conditioners and heaters for which there is general upward trend. For textiles, climatic conditions play a major role and light materials are much preferred to woollens.

9.2. Composition of Kuwait's Exports

Kuwait balances its extensive imports through the export value of its major product, oil. Oil exports built up rapidly after World War II. The first shipment of oil from Kuwait took place in 1946. The real increase in income occurred during the 1950's when the expansion of output ran at 70% per annum. In the following decade growth fell to an average annual rate of 6%. By 1972 output had reached 3 million barrels a day (1201 million barrels a year). In 1973/74 a massive increase in oil prices took place. Subsequently, Kuwait cut back its production, as revenue exceeded the country's absorptive capacity.

TABLE 26.

Kuwait's Oil Production

Year	Total export of crude oil in million tons	Total export of crude oil in million barrels*
1967	122.0	912.4
1968	129.9	956.6
1969	137.5	1,011.7
1970	148.3	1,090.6
1971	158.6	1,166.4
1972	163.4	1,201.6
1973	155.7	1,102.5
1974	126.5	929.4
1975	103.6	760.7
1976	109.0	785.0
1977	97.7	718.1

SOURCE: Ministry of Planning, Annual Statistical Abstract.

* Central Bank of Kuwait, Economic Report for 1976, Kuwait, p.21.

TABLE 27.

Kuwait's Exports
(in million KD)

	1971	%	1972	%	1973	%	1974	%	1975	%	1976*	%	1977*	%
Oil Export	825	96	931	95	1,059	93	3,067	96	2,443	93	3,658	92	2,557	91
Non-oil Export	34	4	49	5	69	6.	115	3.9	170	6	214	7	235	8
Total	859		980		1,129		3,183		2,613		2,873		2,792	

SOURCE: Central Bank of Kuwait, Quarterly Statistical Bulletin, October-December 1977, Vol. 4, No.4, Table 15, p.15.

* Fifteen months ending June 30th.

TABLE 28

Percentage and Distribution of Kuwait's

Exports and Imports 1912-1920

Country	I M P O R T										E X P O R T									
	1912	1913	1914	1915	1916	1917	1918	1919	1920		1912	1913	1914	1915	1916	1917	1918	1919	1920	
India	61	58.3	63.6	67.9	78.4	89.6	4.9	82.5	77.5		75.4	65.6	76.7	72.6	77.5	28.0	5.2	16.4	48.6	
U K	3.5	4.6	3.5	2.8	6.0	0.01	-	0.1	-		-	-	-	-	-	-	-	-	-	-
Iraq	9.3	9.2	8.6	7.8	6.7	3.19	-	4.3	-		3.1	5.1	15.8	22.5	14.9	61.1	61.1	69.9	10.5	
America	2.4	2.7	1	7.2	1.6	0.5	1.9	5.8	0.7		-	-	-	-	-	-	-	-	-	-
Persia	7.0	12.5	12.8	11.5	0.5	2.7	1.9	4.2	10.5		10.5	9.7	3.5	3.3	3.5	3.9	7.9	8.0	51.5	
France	2.2	4.0	5.2	-	-	-	-	-	-											
Germany	3.3	2.2	0.5	-	-	-	-	-	-											
Arab Coast	6.5	0.7	0.3	-	0.1	.01	78.6	0.4	2.2		9.6	14.7	.9	-	3.8	3.8	5.7	-	10.9	
Austria	3.2	4.1	1.4	-	-	-	-	-	-											
Other Countries	1.7	1.7	3.1	2.8	2.1	1.5	0.7	-	0.5											

Sources: Calculated by the writer from the India Office Record R/15/5/73, R/15/5/74, R/15/5/76.

Cutbacks were also due to the 1973 Arab-Israeli war, and the desire of the Kuwaiti Government to conserve oil reserves.

In 1974 Kuwait's output - excluding the Neutral Zone - was 2.6 million barrels a day (929 million barrels a year). Further restrictions on production are inhibited by Kuwait's own need to produce associated natural gas in sufficient amounts to cover domestic consumption and Kuwait's liquid petroleum gas project. These constraints should stabilise Kuwait's petroleum production at around two million barrels a day. (Table 26).

Kuwait's economic activities have more recently been directed towards an increase in industrial production and expansion of non-oil exports. These had grown rapidly - by 41% in 1973 and 65% in 1974. (Table 27).

10. Direction of Trade

10.1. Changes in the Direction of Trade

Traditionally, Kuwait's trade was with southern Iraq, India and Iran (Table 28). The predominance of the eastern trade lasted until the late 1940's.

India used to have the highest proportion of Kuwait's trade,¹ but the proportion of exports and imports accounted for by India dropped during 1918-1919 because of the British Admiralty blockade. In addition, bad relations between Kuwait and Saudi Arabia at that time caused a

1. India Office Record, R/15/5/73.

TABLE 29.
Percentage of Kuwait's Main Imports
by Principal Suppliers

Country	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
U S A	21.1	12.7	17.1	14.9	13.2	14.4	13.0	14.0	14.0	18.0	14.0	13.0
Japan	10.9	12.3	12.8	12.6	11.8	11.5	16.0	17.0	17.0	16.2	20.0	19.8
U K	16.0	12.0	12.0	12.0	11.0	11.0	22.0*	10.0	8.1	10.2	8.2	9.8
Italy	2.7	3.2	4.0	4.8	3.7	3.1	--	4.2	3.9	4.5	4.4	5.0
China	2.3	3.1	3.8	3.9	3.2	3.2	3.0	2.0	2.0	2.0	2.2	2.6
Lebanon	2.5	3.1	3.7	3.5	4.3	4.5	5.0	4.0	3.0	2.0	.8	9.6

SOURCE: Calculated by the writer from the Annual Statistical Abstract.

* This percentage includes all members of the European Common Market.

reduction in Kuwaiti trade with the hinterland of the Arabian Peninsula.

The total amount of imports from Turkish Arabia (Iraq) was small in comparison with that of India. This was due to the low value of goods imported from this source. Dates from Iraq, especially, were cheap since most Kuwaitis had properties there.

Fresh fruit and vegetables came mainly from the adjacent Middle East as long distance haulage could not be tolerated because of hot weather spoilage.

Another factor assisting the expansion of trade was the accessibility of Kuwait to neighbouring states, where surplus supplies of goods were available. Kuwait's imports from the region constituted about 10% of the value of its imports in 1965, which gave them a ratio of less than 1:7 of total imports.¹ This figure included foodstuffs as well as industrial goods. Industrial production in all the Arab countries is limited, therefore agricultural products of low value dominate their exports.

From 1961, Kuwait's imports followed a new direction, with an increase in Asiatic trade. The United States of America developed its exports to Kuwait during the second half of the 1960's after which, Kuwait's imports from the USA exceeded those from UK (Table 29) in both value and volume. The goods imported were mainly motor cars, and air-conditioners, in 1971, Kuwait's imports from the USA reached KD 33 million which constituted about

1. Customs and Ports, Annual Report for the years 1965 and 1966, Kuwait Government Press, Kuwait, 1965 and 1966, pp. 16-17.

TABLE 30

Percentage of Imported Goods from theMain Suppliers Groups

Countries	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976*	1977*
European Group	53	51	51	49.1	43	49.5	46.2	42.7	42.6	44	43.7	44.3	38.2	42.9	42.8	40.7	41.4	40.4
America & Australia	20	22	23	23	20	22	23.4	24.6	27.8	29.8	30.7	28.7	17.6	16.8	15.3	19.6	16	16.9
Asiatic Countries	18.	20	18	20	21	23.5	24.6	24.4	19.9	17.3	16.3	17.8	35	32.9	32.8	28.9	37.4	39.9
Arab Countries	7.6	6.2	6	7	5.7	7	5.5	7.6	9.0	7.9	8.4	8.1	8	6.3	6.4	4.0	2.4	2.3
African Group	0.8	0.5	1	0.8	6.5	1	0.4	0.5	0.5	0.7	0.8	1.1	0.9	1.1	0.8	0.5	0.2	.25

Source: Planning Board, Annual Statistical Abstracts

* Central Bank of Kuwait, Quarterly Statistical Bulletin October-December 1978, Vol.5, No.4, Table 31, p.31.

14% of the total value of imports.

Increased demand for luxury items can only be interpreted as a change in economic and social patterns and perhaps an adjustment to western material values.

In 1971, 44% of imports came from the European group (Table 30), among which UK was in the lead, followed by Western Germany, Italy, Holland and France. The USSR had the highest proportion of Kuwaiti imports among the east European group. The USSR and eastern Europe were main suppliers of construction materials. While Denmark and Holland were the main suppliers of foodstuffs, meat (fresh and frozen) and dairy products.¹ In transportation vehicles, Germany led among the European group followed by UK, Italy, France and Sweden.²

In the Asiatic group, Japan was the leading supplier with about 46% of the total imports in 1961. It is now the major competitor of the USA. Because of the relative similarity in quality, but cheaper price, Japan and the Asiatic group as a whole increased their importance as suppliers. In 1970 the value of Kuwait's imports from Japan reached about KD 22.3 million or 15.2% of Kuwait's total imports and accounting for about 55% of the Asiatic group.³

India ranks second among the Asiatic group, its total exports to Kuwait reaching about KD 8.3 million in 1970 which constituted about 3% of the total imports from

1. Ministry of Planning, Annual Statistical Abstract 1974 pp. 208-209.

2. Ibid., p. 211.

3. Ibid., pp. 208-211.

TABLE 31

Distribution of Kuwait's
Export of Crude Oil
(million barrels)

<u>Countries</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Western Europe	538	390	248	265	214
North America	19	11	9	6	13
Asia	336	336	315	301	282

SOURCE: Central Bank of Kuwait, Op.Cit., p.19.

Asia. China began to compete with India with a reduction in the proportion of imports from India and that country fell into third place in 1965 and 1966. But since then India has again taken second place.

Iran ranks the fourth among the Asiatic countries. Kuwait's imports from Iran are not small in quantity. Their low value is due to the character of the goods imported which are mainly agricultural products, and also because a great deal of Iranian imports are carried by local dhows, most of which are unregistered so that the correct value of imports from this source is not known.

The African contribution is very limited in comparison with that of America or western Europe, in both value and volume terms and has hardly exceeded 1% of the total value of Kuwait's imports in any year.

It is clear from the distribution of Kuwait's exports (Table 31) that about two thirds of the volume of oil exports are shipped to European countries. In 1973 over 16% of Kuwait's oil was exported to Japan.

10.2. Changes in the Spatial Distribution of Kuwait's Exports

Although economic growth in Kuwait has been rapid, it has been subject to sharp fluctuations.² This phenomenon can be attributed to the impact of both the changing value of

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1. According to officials in the Ministry of Planning there are many unregistered dhows.
 2. R. el-Shaikh, Kuwait: Economic Growth of the Oil State Problems & Policies, Kuwait University, Kuwait, 1972-1973, p. 44.



Suq al-Harrim (Women's Market)

oil revenues and the volume of Government expenditure on the economy.

Kuwait's exports are dominated by a single primary product oil.

The growth of the industrial sector in recent years has managed to fulfil some part of the domestic demand.¹ Kuwait has started to develop exports in other commodities, fish and certain industrial items, but its proportion in the GNP is still minimal.² Manufactured fertilizers are another industrial export including urea and ammonium sulphate.

It appears that no major structural changes in the composition of Kuwait's foreign trade will occur in the short term, but the new policy towards diversification might bring gradual modifications.

11. The Seasonal Market and its Influence on Trade

Dry desert conditions have always directed and influenced the seasonal nature of trade activities. The main production season is winter. In spring there is a large number of immigrants from neighbouring states who come to Kuwait to sell their surplus products and equip themselves for the summer months.

Suq al-Harrim (Women's Market) is one of the traditional markets that used to be very active in the

1. M. al-Farra, Economic Development of Kuwait, Arabic text, Kuwait University, Kuwait, 1974, p. 264.

2. Ibid., p. 266.

spring, with many home made products being exhibited. The most active retail trade was in foodstuffs, primarily in rice, sugar, tea and coffee for use by the Bedouin. The most active commercial season for the local population was summer, during the first half of which the markets became very busy as sailors, divers and others received subsidies, and as the pearling vessels were loaded. All these purchases absorbed large amounts of goods from the market.¹ A third peak took place at the end of the summer after the return of the divers, but the volume of purchases depended on the success of the pearling season.

The central area in which the Bedouin gathered to sell their products was at al-Saffat square (al-Magaff) in the central part of the city. Activity there was concentrated during spring when many Bedouin came to sell ghee and wool and to supply themselves from Kuwait's market.²

Seasonal market activities have changed, because of a decrease in Bedouin products available, except those brought in from Iraq or Saudi Arabia. Bedouin goods have lost their former importance not only due to a reduction in quantity, but also because they no longer constitute important items for re-export. A large proportion of Kuwait's population is employed in the Civil Service, and receive monthly stipends distributed throughout the year. This has led to the decline in the former peaks of private

1. India Office Record, R/15/5/91.

2. Y. al-Qinai, History of Kuwait, Arabic text, Darasa'ad, Cairo, 1946, p. 91.

spending. This in turn has an effect on the commodities sold as well as the amount of money spent. During the summer months items dominating the market included refrigerators, air-conditioners, fans, fruit, cold drinks and light textiles. In winter these items lose their importance. However, at the beginning of the year new cars are generally purchased and this trend is increasing.

The summer months are no longer commercially active. A great proportion of Kuwait's population leave the country, and trade undergoes seasonal stagnation. The market becomes very active during the early months of summer when most of those intending to leave the country supply themselves from the local market.¹

Specialisation of marketing areas in particular ranges of goods, may stimulate a slight seasonal increase though nowadays most of the old bazaars have lost their importance as specialized markets. For certain goods Suq al-Tujjar (Merchants' Market) is the main commercial market. It occupies the centre of the old city and here most of the major companies and agents have offices. During recent years its importance has been as a centre for land purchases, industry and finance (Figure 21A). New buildings have developed adjacent to the old market, because of its easy access to other marketing areas. Modern developments in Kuwait city have deprived many other markets of their importance. Some have been demolished or reconstructed as modern commercial centres. Other

1. Kuwait Chamber of Commerce and Industry, Kuwaiti Economy, Vol. 181, 1978, p. 28.

markets have lost their importance as the main centres for certain commodities, i.e. Suq al-Tammer (the Date Market), the date supply centre, where many of the shopkeepers have changed to grocery and fruit selling.

Suq al-Khuthra (Vegetable Market), has also undergone change, and in recent years it has become a major currency exchange market. In Suq al-Harrage (Auction Market), the main trade items are second-hand household or other goods, but the Government's new strict regulations and high standard of living has deprived this bazaar of its former importance. Suq Aselah (Weapon market) was one of the main traditional markets where there are still some shops dealing in guns, pistols and ammunition, but its importance has declined. There is no longer large-scale trade in these items. It used to be one of the most active markets, with great amounts of weaponry smuggled either by the Bedouin or others to Saudi Arabia or Southern Iraq.

Fahad al-Salem street (Shari al-Jahra), which forms one of the modern shopping centres started as a commercial centre in the first half of the 1950's. This was the result of the growth of shops selling new kinds of industrial products such as electrical appliances and ready-made clothes. It has become one of the main shopping centres in Kuwait, with goods and services ranging from clothing to travel bureau and restaurants.

Shari Dasman (Dasman Street) centre is different from al-Jahra Street because it appeared as an important replacement shopping centre during the construction of

al-Jahra, but subsequently its importance was lost after the reconstruction of al-Jahra. Dasman Street includes shops selling electrical appliances, car parts garages and the manufacture and repair of transport equipment.

On the other hand, a new specialist shopping centre was established in the al-Murqab area, while along Shari-al-Sure there are some scattered shops selling wheat, rice, barley and construction materials.

During the last few years new commercial centres have also been developed at al-Salmia (to the east of Kuwait city) and at al-Fahahil and al-Ahmadi.

Kuwait's markets are active before and after the pilgrimage season. Many of the pilgrims from Turkey, Iraq and other countries pass through Kuwait on their way to Mecca and make their necessary purchases locally.

The above Table 32 indicates that local consumption absorbs most of the imported goods. In four groups local consumption is less than 90%. The remainder is re-exported.

12. Kuwait and the Arab World

The Arab League, the official co-ordinating body for pan-Arab policies, has adopted a plan which provides for the creation of an Arab economic unity within which movements of people, capital and goods would be free, and the rights of residence, employment, and transit ownership would be recognized throughout the region. In 1964 five countries ratified an agreement endorsing Arab League free trade policies signed in 1963, including Iraq, Jordan,

TABLE 33

Kuwait, Exports by Importing Countries 1962-1977

(in thousands KD)

Country	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976*	1977*
Iraq	208	1,559	1,331	1,077	1,104	717	1,350	2,636	2,902	3,814	2,730	2,765	6,635	7,429	19,838	13,295
Saudi Arabia	1,513	2,369	3,550	3,534	3,700	3,958	3,943	3,327	3,896	6,803	12,252	18,580	21,009	4,445	105,006	124,089
Qatar	1,166	416	595	830	1,046	676	742	794	900	923	--	--	--	--	--	--
Jordan	538	436	154	158	175	271	527	403	530	1,277	490	775	1,687	692	1,772	3,150
U A R (Egypt)	970	221	159	220	155	112	122	267	417	800	530	294	541	278	31,112	26,820
Lebanon	450	428	653	745	812	864	908	897	1,498	2,360	2,557	1,911	1,864	376	1,429	4,526
Bahrain	229	355	361	419	290	366	261	598	603	1,069	--	--	--	--	5,986	3,668
Arabian Gulf (U A E)	114	271	1,011	528	674	1,260	2,797	4,006	3,012	2,845	--	--	--	--	31,112	26,820

SOURCE: Annual Statistical Abstract 1976.

* After Central Bank of Kuwait, op.cit., p.29.

Kuwait, Syria and Egypt.¹

Between 1961 and 1965 trade amongst the five countries expanded by about 20%, despite the virtual disappearance of trade between Egypt and Syria after the separation of the UAR.² Intra-regional trade between the other countries increased threefold, including agricultural products, foodstuffs, and some petroleum products. Trade has fluctuated between only 5 and 10% of the Arab countries total exports. This is attributable to the dominance of raw materials such as oil and cotton in total exports. Absence of regional industrial demand inside the Arab group of countries reduces the potential for trade in the area.

If raw materials such as oil are excluded from consideration, the regional market assumes great importance particularly in foodstuffs, live animals, semi-manufactured goods and some domestic items. In absolute terms, Kuwait's exports to other Arab countries have expanded (Table 33) but imports have also increased, both absolutely and relatively. Membership in the Arab Common Market does not have the same importance for all states as some are primarily exporters and other importers. Much of Kuwait's re-exported goods go to the regional market. (Table 33).

The Arab Trade Union's attempt to protect regional domestic products against foreign competition has not been favourable for Kuwait. It compels the participants to

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1. M. Wioczek (ed.) Economic Co-operation in Latin America, Africa and Asia, The Massachusetts Institute of Technology, USA, 1969, p. 285.
 2. T. Kermani, Economic Development in Action, Theories, Problems, and Procedures as Applied in the Middle East, World Publishing Company, New York, 1967, p. 179.

TABLE 34
Value of Kuwait's Re-Exports
 (in million K D)

	1973	1974	1975	1976	1977
Food and live Animals	5.9	4.7	5.3	11.4	12.2
Beverages and Tobacco	2.4	3.6	1.9	1.4	1.1
Crude Materials Inedible Except Fuels	0.7	0.2	1.8	3.5	3.1
Animal, Vegetable Oil and fats	.03	.04	.08	.31	.41
Chemicals	.8	1.1	1.2	2.3	3.4
Manufactured Goods Classified Chiefly by Material	9.7	9.9	17.6	44.8	49.0
Machinery and Transport Equipment	16.9	31.2	52.	75.2	74.7
Miscellaneous Manufactured Articles	5.5	6.5	8.4	19.6	32.9
Commodities and Transactions not Classified	.06	.07	.13	.07	.10

Source: Central Bank of Kuwait, op. cit., p. 34.

impose tariffs on goods imported from outside the membership. At present most goods are subject to a tariff of 4%, and others, particularly foodstuffs, have no tariff. The union would impose tariffs up to 25% and because of this Kuwait is reluctant to ratify the full agreement of the Arab Common Market, or participate in the four pan-Arab companies and organisations.¹

This and political friction between the countries, has stultified progress in regional development financing, petroleum exports, and air transport.

In addition the restriction on goods imported from outside the Common Market strictly limits Kuwait's re-export trade and is a factor in the scheme's inapplicability to Kuwait (Table 34). The Arab Common Market does absorb two-thirds of Kuwaiti re-exports, with Saudi-Arabia most important, followed by Iraq, Lebanon, Jordan, the UAE, and, of minor significance, Oman, Qatar and Bahrain.

13. Kuwait as an Entrepôt and the Re-export Trade

13.1 Kuwait's port as an entrepôt for the area

The country's recent development in economic and social life, as well as its political situation has affected its position as a trade centre for re-exported goods. Modernization has occurred in the region and the development

1. M.W. Khauja and P.G. Sadler, The Economy of Kuwait: Development and Role in International Finance, The Mcmillan Press Ltd., London, 1979, p. 63.

TABLE 35

Total Value of Re-Export Trade
from the Main Three Ports
(in thousands KD)

1977²

1960

	Kuwait	Bahrain	Dubai	Kuwait	Bahrain	Dubai* (UAE)
Saudi Arabia	336	2039	77	105,029	75,828	26,828
Iran	902	581	733	21,893	10,473	18,656
Qatar	12	485	68	--	--	19,286
Iraq	247	9	--	20,118	3,047	--
Dubai (UAE)	--	291	--	31,065	50,502	--
Kuwait	--	185	51	--	3,934	1,984
Jourdan	45	--	114	--	--	--
Bahrain	46	--	50	5,917	--	3,879
Mascat (Oman)	2	50	14	--	--	--

Source: Ministry of Custom & Port, The Primary Study Prepared by the Ministry of Custom & Port for the estimation of Kuwait's economic ability to become a free port, unpublished report, Arabic text, Kuwait 1961.

1. In general it is believed that the total value of re-exported goods in the Gulf area as a whole, may be much higher than the officially recorded (exact price) figure, because the merchants try to reduce the real price in order to cut the import duty in the country to which goods are re-exported.
 2. Calculated by the writer from United Nation, Yearbook of International Trade Statistics, 1977, Vol.1.
- * It includes all the UAE.



Re-Exported Oranges Being Shipped to Iran



Scrap Iron Being Shipped to Iran

of other ports in the area may engender competition with Kuwait (Table 35). This is apparent when comparing the amount and value of re-exported goods in each port in the area and their trends in recent years.

Saudi Arabia is the leading importer from the three Gulf entrepôts, generally deriving the bulk of its goods from Bahrain. Small trading vessels discharge their cargo at the al-Khubar port, since there is a narrow channel dividing Bahrain and Hassa. Goods reach Hassa at a lower cost than if they were carried from Kuwait or Dubai overland. Bahrain exports 83% of Saudi Arabia's imports from the Gulf ports. Kuwait, has 13%, the second among the major three ports.

Iran is the second major importer and Kuwait supply about 40% of Iran's requirements of goods from the Gulf re-exporters, followed by Dubai. In both ports there is a great amount of private trading enterprise. Most goods carried from Kuwait by small local dhows which are landed at Abadan,¹ where access to Tehran is easier than from other Iranian ports. Dubai's exports to Iran are carried to Iranian ports on the southern coast: Bushir, Bandar Abbas or Lingeh, where access to Tehran is more costly.

Table 35 shows that most of the re-export trade is directed towards the neighbouring countries of Iran, Iraq and Saudi Arabia. However, the proportional increase in Iraqi imports is not stable, Kuwait's exports to Iraq increased during the last half of the 1950's and 1961,

1. Ministry of Customs and Ports, op.cit., p. 14.

while the political crises between the two countries during 1961 affected this trade adversely.

During 1960 Iranian imports were about 31% of the total re-export from the main three ports (Kuwait, Dubai and Bahrain). The registered figures of exports are not the real ones, because the merchants try not to reveal the correct value of their imports in order to avoid or to reduce the value of the re-export tax. In addition, smuggling operations flourish in the area.

The three main ports in the Gulf depend on the bonded warehouse trade. Small areas and tiny populations have limited the region's need for consumer goods, and the three ports may not survive as entrepôts. An increase in the exports of any one will correspondingly affect the others by reducing their overall tonnage. Expansion could be more successful for the port which can expand its activities beyond the Gulf area. This may be possible in Kuwait because of its location and its function as a transport terminus.

The economic position in the Gulf area has changed during the last few years. A good indication is the changes in the total amount of trade exchange through bonded warehouses. Bahrain, which has the highest value of bonded warehouse trade, faced a reduction of about 16% in goods handled between 1956-1957. This was due to the Saudi restriction on the transference of money outside the country in 1957. In the following two years Bahrain's exports increased because its tonnage handling facilities were greater than the other ports in the area, which were over-

loaded. This situation changed during 1960 when the total Gulf re-export trade witnessed reduction. The position in Kuwait was contrary to that in Bahrain, as exports increased nearly 12% between 1957 and 1958, and about 31% between 1958 and 1959.

Erosion of entrepot trade has resulted from the desire of the importing countries to increase the share of local merchants in business to not less than 51%. This has affected the bonded warehouses trade between Qatar and Saudi Arabia.

The increasing demand for imports in southern Iran has encouraged an increase in the demand for goods, e.g. sugar, cigarettes, textiles, tea and others, but the strict regulation and high import duty from the Iranian Government has encouraged smuggling, especially with the existence of a great number of Iranians in Arabia who are able to make unofficial arrangements with agents or relatives on the Iranian coast. Most of the Arab ports import a great amount of Iranian agricultural products. It is believed some deals between the two coasts take the form of barter trade.¹

Exchange between the Iranian ports and the Arab ports reached a climax during 1960 and the early half of 1961. Subsequently the establishment of strict import regulations by the Iranian Government caused over-stocking in the Arab ports. Imports to Iran might decrease in volume and value because the development in the Iranian

1. Ministry of Customs and Ports, op.cit., p. 11.

economy, which would reduce the latter's need for imports. Industrialization during the 1960s in Iran led to a rapid rise in domestic production of consumer goods while direct Iranian government participation in imports also reduced the role of the traditional entrepot trade.

Another consideration which has given Kuwait's port priority above other Gulf ports is its easy inland communication with Saudi Arabia, Iraq, Jordan, Syria and Lebanon. The volume of the bonded warehouse trade is concomitant with the political situation. The crises between Kuwait and Iraq in 1961 cut the imports from Kuwait and prevented the inland route from the eastern Mediterranean to Kuwait from passing through Iraqi territory. This caused difficulty initially because of the distance, the bad weather conditions and the remoteness of the second route from residential areas. A similar situation existed between Iran and Bahrain which was the reason for the reduction in the total exports from Bahrain to Iran in 1960. Meanwhile, Dubai, has become an active commercial port on the Gulf, where one third or more of merchants are Iranian or have Iranian origins.¹

Abundantly available local capital has enabled Kuwait merchants to import more goods than the local market can absorb. The surplus is exported to the regional market where demand is high and transportation well-organised and import regulations easy.

Kuwait has started a new industrial plan which may affect the re-export trade. This latter activity in its

1. Ibid.

TABLE 36.

Percentage of Kuwait's Exports¹
to Imports

<u>Year</u>	<u>Percentage of Export to Import</u>
1965	10
1966	8
1967	6
1968	7
1969	9
1970	11
1971	14
1972	18.9
1973	22.4
1974	25.6
1975	24
1976	22
1977	17

1. Excluding the value of oil exports.

TABLE 37.

The Geographical Distribution
of Kuwait's Non-Oil Exports
(Thousands KD)

Area	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977*
Arab Countries	9,012	12,312	14,080	14,837	21,113	28,911	41,472	59,491	90,846	166,515	244,060
Asiatic Countries	4,637	4,964	8,364	7,955	7,077	12,563	21,604	41,416	62,567	39,263	1,321,723
African Countries	178	362	241	197	975	1,178	882	3,945	4,281	674	6,839
European Countries	1,140	1,501	1,114	1,794	3,196	5,619	3,609	7,540	8,758	6,020	865,396
America & Australia	482	811	718	864	1,184	736	2,259	3,035	207,738	3,023	294,021

SOURCE: Ministry of Planning, Annual Statistical Abstract.

* Including the value of oil export after: Central Bank of Kuwait, op.cit., p.30.

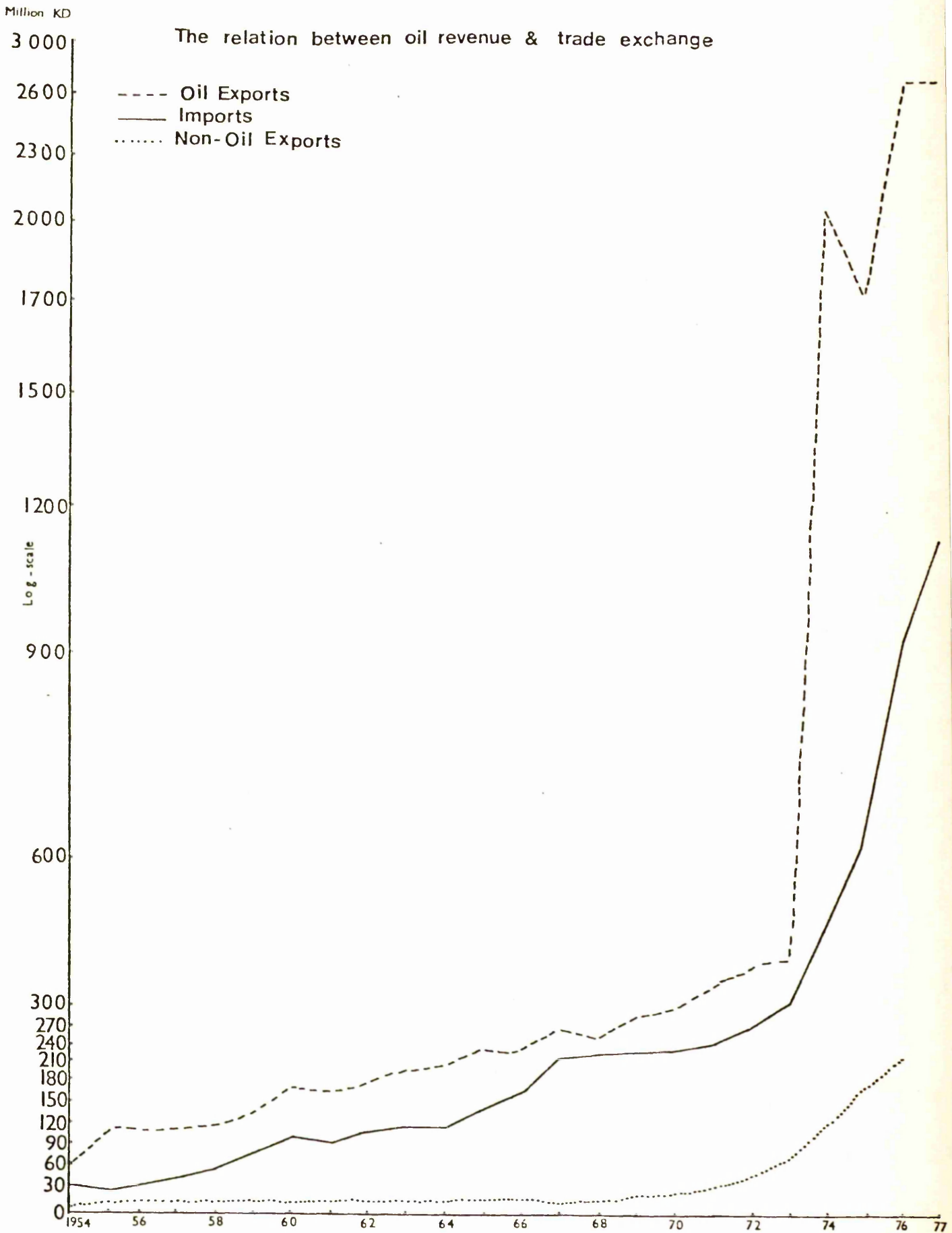


Figure 21. After: Ministry of Planning Statistics.

economy still acts as one of the main economic sectors in numbers employed. Industrial activities are still on a small scale, and its direct influence cannot be judged as yet. Even with industry Kuwait has to guarantee consumption of products, because of the small local market, which should aid rather than constrain export trade.

Table 36 shows most imported goods are for local consumption. The proportion of exports to imports did not exceed 15% before 1972. This relatively small figure includes local Kuwait non-oil products, and re-exports. From 1972 to 1975 the proportion of the re-export trade exceeded 20% of total imports. This may be due to the increasing demand that was caused by long delays in local ports. (Figure 21.)

The trade figures indicate that trade will not continue at the same level.¹ Most of the development and construction programme is completed. New industries will demand quota or tariff limitation on imports of similar items in order to prevent any competition with the local products. This situation may develop in most of the region and not just in Kuwait. Thus it might affect the regional market and diminish the re-export trade. Among the importers of Kuwait's industrial products the Arab countries have the lead. There is demand for Kuwaiti exports of urea, cigarettes and cars, among other items. The Arab countries have the largest share of Kuwait's re-exported goods despite their restrictionist policy against foreign goods (Table 37).

1. Since the 1960s trade figures have shown fluctuations in general amount, value and distribution. During the 1970s capital and transportation of goods has increased remarkably but the figures indicate that trade will not continue at the same level.

Table 37 emphasizes that Kuwait's exports depend mainly on surplus over the domestic import trade. The main determining factors in Kuwait's re-export trade are the country's political relations, the small number of local consumers, the abundance of capital, and the high though fluctuating regional demand.

13.2. The Structure of Kuwait's Re-export Trade

Export figures indicate that in 1965 the value of re-exported cigarettes reached KD 3,629 million which is about 63% of the value of imported cigarettes. Re-exported cigarettes decreased to nearly KD 3,594 million in 1966 and so did the proportion to total imported cigarettes. The reason for the reduction was the Saudis' import policy with respect to this item, in which the Government eased its restrictions on imported cigarettes from producing countries.¹ This has encouraged other countries to take part in this trade which created great competition between the Kuwaiti market and others. The total value of imported cigarettes to Kuwait was KD 4,868 thousand in 1970, of which about 17% has been re-exported to neighbouring countries. An increase in the local consumption of imported cigarettes, and in smuggling of re-exports took place during the early 1970s. In 1975 the total value of imported cigarettes was about KD 8,269 thousands, of which 22% had been re-exported.

Kuwait's imports of rice during 1965 reached

1. Planning Board. The Kuwaiti Economy in 1970/1971 and 1971/1972, Arabic Text, Kuwait, p. 78.

nearly KD 3 million while the value of re-exported rice for the same year was KD 1.3 million, comprising about 43% of the value of total imported rice. This value decreased to 20% in 1966 due to a cut in the proportion of the Iranian imports, which affected re-exports of foodstuffs as a whole.

In 1968 the reduction of re-exported rice from Kuwait was attributed to the good yield of rice in Iraq which changed the Iraqi position from an importing country to an exporting one.¹ The unsettled situation in the amount and direction of re-exports of agricultural products was due to drought and the success of agricultural production in the region, mainly Iraq and Iran. Sugar ranked third among the re-exported items of foodstuffs in 1965, when its proportion reached 30% of total re-exports. Sugar re-exports declined by about 5% during 1966 because of the growth of the sugar industry in Iran.

Strong relations exist between sugar and tea imports. The habit of drinking tea has encouraged sugar imports. However, in 1966 the value of re-exported tea was about 31% of the total imports of this item. In addition, the degree of reduction in demand for tea rather than that of sugar is attributed to the use of sugar in many new industries. This value of re-exported sugar in 1971 was 26% of the total value of imported sugar.² This amount is expected to decline in the future with the development of industries in Iran and Iraq.

In the period after the oil boom of 1973 agricultural

1. Ibid., p. 79.

2. Ibid.

production in the oil-exporting states of the Gulf declined significantly as the rural labour force was drawn from the land to earn high wages in the construction industry. All states of the region became far more dependent on imports of foodstuffs as domestic demand outstripped supply of traditional commodities and as new and better quality food items were demanded by people generally enjoying a much enhanced standard of living. Kuwaiti merchants took advantage of the changed situation both to increase their imports from Kuwaiti markets and to provide for opportunities emerging in former food exporting states such as Iran and Iraq. In so far as the region appears to have become highly import-dependent for foodstuffs, a new opportunity for expansion of Kuwait's re-export trade has emerged.

Chronic political disruption in Iran, beginning from late 1977, has once again given a boost to the Kuwait smuggling trade since the Iranian authorities have lost control over administration in the south and severe shortages have occurred there, which are to an extent being supplied from Kuwait in what amounts to a reversion to traditional trading pattern and style.

Among industrial items, the value of re-exported machinery and transport equipment ranks first because of its high value. In 1968 the value of imported transport equipment was about 11% of total value of industrial equipment, while the re-export of different industrial



Industrial Goods Being Shipped to the United Arab Emirates

products including transport equipment reaching 7%, and in 1970 8%. This relatively stable proportion is attributed to the increase in the total value of re-exported goods and the restrictive policies in the neighbouring countries against foreign industrial products.¹

The re-export of other industrial products such as hides, rubber, wood, textiles, iron and steel, paper and other non-metal products has fluctuated in amount and value. In 1965 it was KD 1,230 million, in 1964 KD 1,587 million and KD 1767 million in 1966.

This fluctuation is due to the changes in the structure of Iranian imports for some items, particularly its imports of rubber.² A similar situation occurred in Kuwaiti re-export of paper as a result of the reduction of exports to the Gulf area. Qatar was the main exporting country in the region followed by Iraq and Saudi Arabia.

The varying amount of re-exported iron and steel is due in the first place to the fluctuation in Kuwait's exports of these materials to Iran. In 1966, the UK was among the importing countries. The demand of neighbouring countries is the main factor which has defined the structure and the value of Kuwait's exports. There is causal connection with the growth of per capita income and trade policy in the importing countries, including taxation.³

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1. Gian, P., Casadio, The Economic Challenge of the Arabs, Saxon House, London, 1976, p. 155.
 2. M. al-Gharabally, op. cit., p. 85.
 3. R. Thomas and E. Conkling, op. cit., p. 6.

14. The Proposed Free Trade Zone for Kuwait

In 1959, the total value of imported goods through Suwaikh was KD 69.46 million. The value of exported goods was KD 7.25 million. In the light of the location, capacity and importance of the port, it was recommended that a free zone be established.¹ In this there would be advantages and disadvantages. The formalities of imports would be reduced and facilities provided for re-export of certain commodities. It will be set up in a central area in which goods could be processed and then re-exported. This could create new fields of employment.

The existence of the free zone will increase competition between the present and future local industries. Imported goods will be stored in the free zone and may overflow to the local market as soon as a chance of a better price appears, the foreign competition with similar local products, free zone in Kuwait should increase trade activities, increase the port's importance, and will enable it to compete more favourably with other Gulf entrepôts in the future.

A free zone will permit Kuwaiti merchants to store imported goods and pay neither customs nor port dues if they then sell some in a third country.²

1. Kuwait Chamber of Commerce and Industry, Economic Stagnation in Kuwait its Causes and Solutions, Arabic Text, Kuwait, 1969, p. 5.

2. Ibid., p. 29.

15. Conclusion

Kuwait grew up as port and trading centre in the era before oil exports began. It made use of singular if not unique advantages, including its geographical position on the margins between the Ottoman territories, the British Empire in Asia and the Iranian Empire. While able to trade with all three entities, it retained relative independence and was unencumbered by oppressive regulations and the political vicissitudes experienced by its neighbours. This same independence gave Kuwait its second major area of comparative advantage within the Gulf region - its role as a politico-commercial haven, where merchants oppressed by maladministration or victims of religious intolerance elsewhere could take refuge while introducing skills, capital and trading networks to Kuwait.¹

In the pre-oil period, Kuwait elaborated its participation in regional and international trade, which, with income from pearling and a modest degree of animal husbandry, enabled the state to sustain its independence and maintain an over-all, if fluctuating, rate of economic change. Oil development, although making a minor impact in the years before 1952, became suddenly a dominating sector of the economy after that year. The trading pattern of the state was altogether revolutionised. Remarkably, the Kuwaiti trading community retained its interest in exporting despite the rapid growth in demand from the domestic

1. See Razavian, M.T., The Communities of the Persian Gulf unpublished thesis, S.O.A.S., London University, 1975, pp. 147-299.

economy: new wealth was used to finance import-re-exports while the nature of the Kuwaiti trading houses, and particularly their close links with Iraq and Iran, ensured that a regional rather than an introspective national approach was retained in respect of trade. At the same time, the constrained size of the domestic Kuwaiti market and the sensitive linkage between expenditures by the government and the buoyancy of business in the bazaar gave further incentive for Kuwaiti businessmen to look abroad for markets.

While the traditional trading sector has left a strong legacy in the post-oil era, its relative role as generator of national income, as employer of labour, and as earner of foreign exchange income has been much eroded. Yet, Kuwait's oil reserves are exhaustible and future generations must find new ways, other than through the rent income from oil exports, of earning a living. Expansion of trade would appear to offer a direction for development in which Kuwait already has skills though, as this chapter has clearly indicated, serious difficulties to successful growth of trade do exist both within Kuwait and through the growth of strong competitors within the region.

CHAPTER VI

KUWAIT'S INVISIBLE TRADE

1. Introduction

2. Invisible Trade
 - 2.1 The Relationship Between the Banking System and Trade Activities in Kuwait
 - 2.2 Kuwait's Foreign Aid Programme
 - 2.3 Kuwait's Foreign Investments
 - 2.4 Insurance
 - 2.5 Tourism and its Influence on Kuwait's Balance of Payments

3. Trade and Employment
 - 3.1 Trade Sector
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 - 3.4 Conclusion

4. Invisibles and the Balance of Payments - Summary

5. Conclusion

CHAPTER VIKUWAIT'S INVISIBLE TRADE1. Introduction

In the earlier chapters of this thesis Kuwait was portrayed as a small country with very limited natural resources other than hydrocarbons. It has been made clear, too, that the state has met profound difficulties in expanding productive areas of output and employment in fields not directly or indirectly related to the activities of the petroleum sector (see particularly Chapter V). For these reasons and others, invisible trade in the field of services assumes a special importance for Kuwait, since services require little imported raw materials, can be made capital or labour intensive as strategy demands, and will bear relatively high labour costs. Kuwait also suffers from the chronic difficulty of inability to absorb its earnings from oil exports. In the period 1974-76, for example, Kuwait's absorptive capacity was totally unable to cope with the flow of revenues (Table 38), even when allocating very large sums to grants and aid. Placement of funds abroad on account of aid or private and state investment portfolios naturally generates a considerable income within the category of invisible earnings. It is estimated that Kuwait's overseas investments brought an income of KD 65.7 (\$200) mn for the government alone in the year 1972/73 before the oil boom: by 1977 the government agencies controlled KD 8.6 bn (\$30 bn) of foreign investments. Kuwait has, therefore, a deep current and future interest in invisible trade

TABLE 38. Estimated Absorptive Capacity of Kuwait 1974-76 \$ bn* and KD

<u>Year</u>	<u>Oil revenue</u>	<u>KD</u>	<u>Other exports</u>	<u>KD</u>	<u>Total revenue</u>	<u>KD</u>	<u>Imports - total</u>	<u>KD</u>	<u>Aids & grants</u>	<u>KD</u>	<u>Absorption</u>	<u>KD</u>	<u>Surplus/deficit</u>	<u>KD</u>
1974	8.0	2.3	0.4	.1	8.4	2.4	0.9	.2	1.2	.3	2.1	.6	+6.3	+1.8
1975	7.8	2.2	0.6	.2	8.4	2.4	1.4	.4	1.8	.5	3.5	.9	+5.2	+1.5
1976	8.4	2.4	0.7	.2	9.1	2.6	1.6	.46	1.0	.2	2.6	.7	+6.5	+1.9

Source: Financial Times, 5 July 1977, p. 16.

* In 1976 the rate was KD 1. = \$3.45

arising from the unique geographical and financial situation in which it finds itself.

It is impossible to give a full or clear picture of the balance of trade without covering the whole trade sector, including both visible and invisible trade. This is because the balance of trade cannot be measured according to the value of visible trade alone, for there are, especially for Kuwait, other Government and private budgets which must be taken into account. Invisible trade is considered in this chapter to include all activities auxiliary to trade (services). This subdivision does not include direct marine enterprise other than shipping.

The basics of invisible trade are:

1. The banking system and trade activity in Kuwait.
2. Kuwait's foreign aid programme and its prospects for influencing the expansion of Kuwait's trade and export market in the future.
3. Kuwait's foreign investment and the role it plays as indirect Kuwaiti exports.
4. Tourism: its present importance, its potential in Kuwait, and its influence on the balance of payments.
5. The insurance system in Kuwait and its influence on trade.

2. Invisible Trade

2.1. Relationship Between the Banking System and Trade Activities in Kuwait

Kuwait has one of the Middle East's longest established and most highly developed banking systems. The first bank in Kuwait was a branch of the Imperial Bank of Iran (1942), which was replaced by the British Bank of the Middle East. It was established to ease financial operations between the concessionaire oil company and the Kuwaiti Government.¹ This remained the only foreign bank operating in Kuwait until 1971 when it was taken over by the Kuwaiti Government.²

Kuwait's financial affairs were conducted by the Reserve Bank of India, and the Indian rupee³ was used as currency as in most of the Gulf States.⁴

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1. A.al-Hatim, History of Kuwait, Arabic text, al-Mat ba'a al-Amumiah, Damascus, undated, p. 337.
 2. Now called Bank of Kuwait and the Middle East.
 3. Other currencies were used earlier in Kuwait, such as Maria Theresa Dollar, and Turkish and Iraqi currencies. These currencies were replaced by the Indian rupee, which in turn was changed in 1958 to the Gulf Rupee. In 1961 the local Kuwaiti Dinar was issued. For further detail see: J. Ronall, 'Banking Development in Kuwait: Economic Review', Middle East Journal, Vol. XXIV, 1970, p. 87.
 4. With the increasing revenue from oil in all these States, as well as the smuggling operations that took place in the area before the discovery of oil, the Indian Government issued a new currency, the Gulf rupee, which was similar to the Indian Domestic rupee, but of different colour. This measure was taken on behalf of the Indian Government after stringent security measures were adopted by India and Pakistan in 1958 in order to stop the illegal gold trade. Gold used to be brought to the Gulf area at the free world market price and smuggled by sea into India and Pakistan, where it was sold for about double the purchase price.

The rupees in turn were smuggled from the latter two countries into the Gulf states where they were converted into hard currencies. So the Indian authorities felt that the widespread use of its rupees in the Gulf area formed an adverse influence on its foreign balances. Gulf rupees were issued. For further detail see: Ministry of Guidance & Information, op. cit., p. 67.

The development of Kuwait's banking system was due to the rapid growth in oil revenues, which required a financial infrastructure to accommodate increasing funds.

Kuwait, as a small country, depends on international trade activities to make good its weaknesses in domestic production, which is an important causative factor in the steady growth of Kuwaiti participation in the international banking system.

Development of financial institutions in Kuwait concerned with international transactions has been made possible by growing private and public holdings of foreign exchange funds derived from earnings of oil exports. Banks in Kuwait have acted as mobilizers of credits for export. Their activities have been assisted by the narrowness of the domestic money market and the very restricted openings there for lending on a profitable scale.

The principal domestic business of the banks is provision of loans, mainly for financing short-term credits for importers. Second, by volume of turn-over, is loan operations to support the activities on the Kuwait Stock Exchange, where business is increasing though to modest levels compared with international standards.

Since the major banks cannot survive on the low volume of domestic business, they have looked abroad for sources of creditworthy borrowers. In this they are aided by Kuwait's open-door policy towards foreign exchange, which permits banks and stock brokers to transfer funds overseas freely both to private and institutional borrowers. Expansion of the banking system has been inhibited by the poor availability of manpower

as well as the low level of domestic industrial activity. Other constraints arise from weaknesses in the local financial structure, in which Kuwaitis have a preference for short-term lending and local management is still relatively unskilled in handling large-volume business. Most institutions in Kuwait rely heavily on financial management provided by foreign organizations in the international money markets though a measure of domestic experience is gradually accumulating.¹

Banking and other financial operations would appear on the face of it to be suited to Kuwait's needs for local development related to its strengths. Growth in this area has, in fact, been slower than in competitor countries of the area, and notably Bahrain and Dubai,² and Kuwait has not benefited even from the eclipse of Beirut as the main financial centre for the Middle East. Reasons are not hard to find: the physical and social environment of Kuwait is altogether a contrast with Lebanon, whose laissez-faire approach to finance, the movement of people, language, education and other aspects of social life find no echo in Kuwait. Smallness of the domestic market and a cautious attitude to loan activities have added to Kuwait's other difficulties in establishing itself as a financial market of international stature. A prolonged period of augmenting wealth, achieved virtually without effort on the part of most Kuwaitis, might well have given Kuwait the opportunity for systematic use of capital resources to earn

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1. The number of Kuwaiti employees in banking and other financial activities is increasing. For further detail see: Annual statistical Abstract 1977, Table 77, p. 87, and The Financial Times, 25 February, 1976, p. 18.
 2. P. Thorn, 'Banking in the Middle East', The Middle East, No. 13, November, 1975, pp. 41-69.

high rewards from the international money markets, but this same security would appear equally to have reduced the need for Kuwaitis to indulge in anything other than the most safe means of overseas investment. Public and private funds abroad are managed discretely and conservatively to the great financial benefit of lenders but this has little effect in institutional terms on the city of Kuwait itself.

Kuwaiti lenders have reacted sharply to unsettled political conditions in the Middle East area. In 1961, for example, during the Kuwait-Iraq border dispute, many Kuwaitis withdrew their funds from the institutions and the currency was temporarily undermined. Since that time the Kuwaiti Dinar has continued to strengthen against other currencies and has established itself as a reliable currency and as a medium for international loans. An unknown but large amount of Kuwaiti private capital is invested in the Arab world, though continuing instability in the area has resulted in increased flows of investment funds to Western Europe and the United States of America.

Despite the meagre effects of state and private overseas financial operations to be observed in Kuwait, the over-all performance of the financial sector may be adjudged to be successful over its relatively short lifetime.¹ A number of strong institutions have grown up in Kuwait which might provide the foundations for a more ambitious programme at a later date, and include the following:

1. H. Askari, J.T. Cummings & J. McMurray, 'How Rich is 'Oil Rich?', Middle East International, No. 87, 1978, p. 22.

i. The National Bank

This was the first joint-stock company established in Kuwait and has become one of the largest banks on the basis of its balance sheet. Assets reported in 1960 were valued at KD82 mn and rose by 1966 to KD336 mn. Figures for the latest year available 1978 show a holding of assets of KD1,036 mn.¹

Private deposits account for more than 80% of deposits and have consistently, providing the bank with a large reserve, much of it disposed overseas.²

ii. The Commercial Bank

Established in 1961, this bank is concerned mainly with the local market and especially with financing imports. Normal terms are 5%/year if credits are repaid within 15 days of the arrival of the goods in Kuwait, or 7% if paid later than this. Operations of this kind are essentially short-term credit and traders use the facility as much as three or four times each year. Like other Kuwaiti banks, the Commercial Bank levies neither a service charge on current accounts nor does it pay interest.

iii. The Gulf Bank

Is another Commercial bank, which began business in 1961 with a capital of KD1,8000,000.

1. National Bank of Kuwait, Annual Report of the Board of Directors, 1978.

2. Ibid.

iv.

The Credit Bank

Set up in 1961 with government funding, the Credit Bank absorbed the functions of the Savings and Credit Bank in 1965. The government uses the Credit Bank to fund domestic projects being undertaken by private or joint private-state enterprises. Loans given are usually at low rates of interest and for long-terms though the bank normally exercises close control over the object of the credit. Loans for house construction are limited to those for domicile only to reduce demand from property speculators for government-aided loans. Special funding is made available to assist lower-budget families to purchase housing through soft loans.

The Credit Bank also acts as a means of financing small-scale industrial and other development schemes since it has a broader and more flexible charter than the other banks. Borrowers normally put up equipment or personal assets as collateral security, respectively attracting 50% and 60% of the costs of the projects as loans. Repayments are normally over five years at 3% interest. The greatest volume of the bank's business concerns loans for housing and construction for personal rather than commercial projects.

Assisted by the government, the bank operates as an autonomous unit. Savings deposits made with the bank attract interest at levels guaranteed by the state and this means of banking is attractive to

many less well-off Kuwaitis and others who have no wish to sink their money into longer-term though better paid accounts.

v. The Central Bank of Kuwait

In 1969 the Central Bank of Kuwait was set up to take over from the Currency Board which had been in charge of issuing currency since 1961. The Central Bank is responsible for controlling liquidity¹ and for maintaining the stability and convertibility of the Kuwaiti Dinar. This bank plays the normal role of a central bank in advising the government on finance and in influencing the funding of development activity.

vi. The Industrial Bank of Kuwait

The Industrial Bank was established in 1974 with a capital of KD10 million subscribed by the government, the Central Bank, a number of commercial banks and insurance companies and several investment companies.

vii. al-Ahli Bank

The al-Ahli Bank was set up in 1968 to encourage a greater level of investment inside Kuwait. In its

1. The Kuwaiti Dinar replaced the Indian Rupee in 1961. The Kuwaiti Dinar's initial value was at par with Sterling until the Sterling devaluation of 1967. Thereafter the value of the dinar stood at \$2.80 US until 1971 after which the dinar fluctuated, generally upwards, standing at \$3.04 by 1973. From March 1975 the dinar has had a value set against a weighted basket of currencies of main trading partners.

early years of trading it lost money but has since recovered its position. In the commercial field the bank has adopted a policy of taking risks in domestic investment as a less unsure investment than taking exchange risks abroad.

viii. Kuwait Real Estate Bank

This institution was set up as a specialist bank in 1973 with a capital of KD5 million. Its activities are concentrated on financing real estate transactions within Kuwait.

ix. Kuwait Finance House

In developing its financial institutions, Kuwaiti authorities have had to take account of the deeply Muslim nature of society. While the long-established merchant community works happily with western banking concepts, including that of interest-earning, there are many with the state who frown on usury. The Kuwait Finance House was set up in 1978 to operate commercially but with changing interest or paying profits from lending. The strict word of Muslim law is circumvented by acting corporately and sharing profits rather than by giving interest in the normal sense.

x. Burgan Bank

One of Kuwait's most recent banks, Burgan was opened in 1977 with a very wide spread of share holders,

314,000 being listed at end-1978, including a minority government stake.

Four of the six commercial banks are privately owned, but the Bank of Kuwait and the Middle East, is 49% Government owned.¹ The six commercial banks have 101 branches (1977)² and the growth in their consolidated balance sheet between 1976 and 1977 was 33%.³

This increase is due to the Government spending KD50 million during 1977 in order to activate the local market. The other reason was the establishment of the Burgan Bank as a new commercial bank. At the same time local banks increased their share premiums through rights issues.

A high proportion of the banks' resources were invested abroad rather than domestically. Three of the six have management contracts with overseas banks; the Bank of Kuwait and the Middle East (management British Bank of the Middle East), The Commercial Bank of Kuwait (Chase Manhattan), al-Ahli Bank (Credit Lyonnais). These three have a foreign outlet through the United Bank of Kuwait with the Kuwaiti Investment Company. There has been growth over the past few years, in the number of customers and general confidence in local banking. The latter activities have developed to an extent that is adequate enough for personal wealth and the trading

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1. A new branch of the Kuwait Bahrain Bank will be opened very soon in Kuwait. Six Kuwaiti Commercial banks and three Kuwaiti investment companies will hold 50% of the shares whilst the other 50% of the shares will be held by Bahraini interests.
 2. Central Bank of Kuwait, General Economic Report for the Year 1977, Kuwait, 1977, p. 64.
 3. Ibid, p. 125.

customs that still dominate the financial affairs in Kuwait.¹

Kuwait is an islamic country and there is a religious barrier to the development of banking e.g. the payment of bank interest, which is regarded as usury and therefore prohibited. In recent years there have been few customers who did not accept interest. Most Kuwaitis accepted the argument that they should neither take nor pay interest so the respective debit and credit balances would cancel each other out. Establishment of the Kuwait Finance House and the opening of special 'Islamic accounts' at other banks has catered for those Muslims who wish to avoid 'usury' in its overt western form.

Despite the growth in banking and the great amount of capital the banks are handling now, and will handle in the future, the banks' lending policy at home and abroad can hardly be considered as enterprising. The domestic business of the banks has centred on financing trade. In recent years very few loans have been made to industry. The rate of interest at 7% has been accepted as a ceiling on the lending rate, while the interest offered for deposits ranges between 3.5% to 5%. Most Kuwaitis bank loans are either short or medium term. The banks found themselves facing exchange risks as nearly 74% of Kuwait's total assets are kept in foreign countries.²

The Kuwaiti Dinar is almost stable, with more than 50% in gold and the rest in hard currency. It is believed

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1. The Times, 12 July 1977, p. 111.
 2. In November 1976 a decree No. 102 was issued to authorise the Central Bank to determine the interest rate ceiling, which had reached 10%. At the same time the interest-rate structure for banks and financial and investment companies was made subject to the supervision of the Central Bank. The rate of interest on savings accounts was fixed at 4.5% per annum. For further detail see: Central Bank of Kuwait, Economic Report for 1976, pp. 57-59.

that its stability is not influenced by market demand.¹ The real strength is the state's desire not to cause an exchange loss on Government or private foreign assets.

The exchange risk facing those bankers who have to take most of their deposits in dinars while a great proportion of their assets are in unstable currencies (pound or dollar) are considerable.²

There are also deposits by non-residents and borrowings from banks abroad. Some of these deposits are in Kuwaiti currency, which involves an exchange risk. There were also deposits by residents in foreign currencies (this stood at about KD83/92 million in 1973 and KD89.2 million in 1976).³

In order to alleviate the currency risk and to have the dinar as an international currency, bankers started to lend their own currency abroad in 1966. Foreign customers were attracted by the low rate of interest foreign and lending of this kind is increasing.⁴

Perhaps a more attractive solution to internationalizing the dinar may be some of the following: issuing bulks or establishing proper stock exchanges; the removal of interest rate restrictions;⁵ and removing the ban on the local

1. The Times, op. cit., p. 47.

2. The Financial Times, 25 February 1976, p. 18.

3. Central Bank of Kuwait, po. cit., p. 96.

4. The Times, op. cit., p. III.

5. Hikmat Nashahibi, The Investment of Arab Capital, al-Shaya Public House, Arabic text, Kuwait, 1978, p. 155.

banks from dealing in foreign currencies between themselves.

The importance of the banking system to Kuwait's economy has only appeared during the last few years. Stocks exchanged in the Kuwaiti market increased up to 134.7% between 1975 and 1976.¹ This was due to the world monetary crisis and the withdrawal of a great amount of Kuwaiti capital from the foreign market.² The crisis increased demand on the stock exchange and the flow of capital to the local banks.

In an interview with the National Bank of Kuwait official in Spring 1979 it became apparent that the banking system is severely inhibited in pursuing a more active role in creation of an international financial centre in Kuwait. A major problem arises from the virtual exclusion of foreign banks from activities in Kuwait, the inability of the Kuwaiti banks to involve themselves in foreign dealings between themselves and the short-term nature of most deposits made at banks. There is a feeling, too, among the senior staffs of Kuwaiti banks that Kuwait has inadequate linkages in air transport with other regional and international centres and is less well placed in this respect than, for example, Bahrain. Typical of Kuwaiti banking activities abroad is that by the Real Estate Bank. The bank has offshore units in Bahrain, including a contracting company engaged in real estate transactions, though it is also financially committed to projects currently running in Jordan, Egypt and other Arab states. But the Real Estate Bank is largely concerned with financing domestic

1. The Times, op. cit., p. III.

2. Central Bank of Kuwait, op. cit., p. 60.

construction and land purchases, where the market is strong and where the bank's expertise can earn larger profits than in the more difficult and speculative foreign markets.

A series of interviews with the banking community and businessmen in Kuwait in 1979 revealed that there is no belief that Kuwait has a determined policy on the question of development of the state as an international financial centre. Placement of funds abroad is done either through the government directly in liaison with overseas consultant bodies or through the private sector, again often directly through brokers abroad or personal acquisition of assets. Both systems cut out the involvement of the domestic banking authorities as managers.¹ (See also Chapter V., 2.3)

It appears probable, according to the aggregate view of banking and business circles interviewed, that Kuwaiti participation in international finance will be very large as unabsorbed funds are placed overseas but that this will not necessarily generate a more sophisticated banking system in Kuwait itself. A lack of urgency and commitment will remain the principal characteristics of the sector, with concern largely taken up with domestic business, especially in real estate and trade.

1. It has been gathered also that the Central Bank has some sort of centralism in its policy, in another word it is one man policy. Such policy caused great difficulty in gathering information about the bank's policy or its future plan. Even the information which has been taken from the bank's own research department wasn't adequate in this sense. This department is dealing with the bank's current policy rather than future plan.

2.2 Kuwait's Foreign Aid Programme

Oil revenues have increased national income and subsequently the demand for foreign goods and services. This has emphasized that money is not development, and that development cannot be measured by an increase in national income alone. It must also be measured by the development of the productive capacity of the population. A great proportion of Kuwait's income from 1950 onwards has been directed toward education and other services.

In 1961 the Anglo-Kuwaiti treaty came to an end and was followed by an Iraqi-Kuwaiti dispute. After Kuwait's independence (1961) and its application to become a member of the United Nations as well as the Arab League, the Government sent diplomatic missions across the world, which recommended the establishment of international aid.¹

The Kuwaiti Fund for Arab Economic Development (KFAED) were established. The Fund was not the only Kuwaiti regional aid for there are two other aid programmes, of which the main one is Government loans from the state reserves. The direct purpose is to finance the balance of payments. In addition there was Kuwait's former assistance to other Gulf States in education, health, and other fields.² Kuwait also undertook to offer economic aid for the development of other Arab countries. This was not for political reasons but also

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1. S. Demir, The Kuwait Fund and the Political Economy of the Arab Regional Development, Paeger, New York, 1976, p. 101.
 2. R. el-Malakh, 'Economic Development Through Co-operation: the Kuwait Fund', Middle East Journal, Vol. 18, No. 4, 1964, p. 418.

had economic aims, in order to widen the Kuwaiti economic base through investment outside the country's political frontiers¹ and also to insure its funds.

Kuwaiti aid was designed to contribute to development projects in developing Arab and non-Arab countries by granting intermediate and long-term loans and providing guarantees for other borrowing.² The main interest is both to help the country and to keep its savings circulating to avoid the devaluation of currency, and open the way for possible future trade expansion. A diversified economy may not be established during the era of high oil revenues.

One of the factors in the establishment of KFAED was political, because of the need for regional continuity and a reduction of political instability.³ The political elements in Kuwait's aid policy are summarised as follows: 1. to maintain the country's national security (vis-a-vis the Iraq-Kuwait crisis); 2. to serve the Kuwaiti need to achieve recognition on a regional and world scale, in order to overcome the problem of area and population; 3. to offset Kuwait's dependence on trade activities for stability and security in both Kuwait itself and in the region as a whole; 4. to compensate for Kuwait's demographic imbalance in which the proportion of non-Kuwaitis in the total population exceeds 57%. Thus, Kuwait

1. S. Demir, op. cit., p. 101.

2. The object of the short-term programme is to provide the financial structure necessary for education, health and social services, while the long-term programme provides for the financial studies in order to assess economic resources. For further details see: Ibid., p. 418.

3. S. Demir, op. cit., p. 18.

must have good relations with all countries in the region facilitated by a generous loans policy, which also has bonuses such as attracting manpower, and guaranteeing better trade relations with recipient countries.

The Fund supports projects not deemed to be in conflict with the economic interests of Kuwait or any other Arab country.

The total capital of KFAED in 1961 was KD50 million (\$ 140 million). This figure increased to KD100 million in 1963 and to KD200 million in 1966, and later in 1974 it reached KD 1 billion.¹

The Fund has the authority to borrow and issue bonds within the limit of twice the amount of its capital if needed.² This demonstrates the capability of the Fund in supporting various economic schemes which are believed to be profitable, e.g. agricultural schemes have lower interest rates (3% for an average of about 22 years), but if the loan is for any activity of an economic overhead (highways or power stations, etc.), the rate of interest averages about 4% for a duration of 15 years, while the interest loans for industrial projects and tourism is of 4% with a maturity of 12 years.³ The Fund can contribute more than 50% of the total foreign exchange requirements of any project on condition that proportion will not exceed 10% of the Fund's capital. This emphasized the aim to stimulate the participation of borrowers' capital and increase their financial responsibility, as well as to reduce

1. Ibid., p. 20.

2. el-Malakh (1968), op. cit., p. 184.

3. Ibid., p. 189.

TABLE 39.

SECTORAL AND GEOGRAPHICAL DISTRIBUTION
OF LOANS TO ARAB COUNTRIES

(1 January 1962-30 June 1977)

Country	Agriculture	Transport Communica- tions and Storage	Electricity	Industry	(Million KD)	
					Total	%
Algeria		10.000			10.000	3.3
Bahrain		0.500	7.350	1.490	9.340	3.1
Egypt		34.800	10.000	13.700	58.500	19.4
Iraq			2.620	3.760	6.380	2.1
Jordan	6.480		3.260	23.010	32.750	10.8
Lebanon		0.800	1.660		2.460	0.8
Mauritania		9.400			9.400	3.1
Morocco	20.050		3.500	9.250	32.800	10.9
Oman				7.500	7.500	2.5
Somalia	6.000		6.200		12.200	4.0
Sudan	20.310	16.000		8.570	44.880	14.9
Syria		7.000	9.900	2.000	18.900	6.3
Tunisia	5.200	13.750	8.350	4.500	31.800	10.5
Northern Yemen	8.520	1.780		3.000	13.300	4.4
Southern Yemen	4.530	4.500		2.700	11.730	3.9
Total	71.090	98.530	52.840	79.480	301.940	100.0
% *	23.5	32.6	17.5	26.3	100.0	

* Percentages may not add up to 100 because of rounding

Kuwait Fund For Arab Economic Development, Annual Report 1976-1977, p. 102.

the Fund's commitment. The Fund also reserves the right to receive reports about the progress of projects it supports through the loan period. In addition there must be a guarantee granted by the recipient country that all Fund assets and income are exempted from nationalization.

Another influential factor in making KFAED loans attractive is the interest rate of between 3 and 4%. The rate is low in comparison with other similar institutions such as US Export Import Bank, which has interest rates between 3 and 5.75%.¹

Timing is an important element for countries struggling to raise their standards of living. The Fund has the advantage of being able to process loan applications quickly. KFAED, is also able to make funds available in any currency without difficulty. The repayment of KFAED loans may be organized to take into account the lack of return on investment in the early years, payments during this particular period being relatively low.²

In 1962 the Fund made its first loan (Table 39), to help cover foreign exchange requirements for the construction and renovation of the Sudanese railways. A credit of KD10 million covered about 38% of the total foreign exchange needed for this project. The loan had a duration of 15 years with a 4% per annum interest rate.³

A second loan was made in 1962 to Jordan for the following: first phosphate industry development with KD3 million at 3% per annum second, the Yarmuk River dam construction and with KD4 million at 3% per annum and third, industrial

1. el-Mallakh, (1968), op. cit., p. 189.

2. Ibid., p. 191.

3. Ibid., p. 194.

development, all components repayable over 20 years.

The Fund also gave financial assistance for the Jerusalem Intercontinental Hotel project. The loan was of KD175,000, over 12 years and at 4% per annum interest.¹

Another loan was for the expansion of electrical power facilities in Jerusalem,² for KD240,000 with an interest rate of 3.5% and a duration of 17 years.

In 1963 two loans were made to Tunisia totalling about KD5.7 million. One loan of KD4 million was devoted to the expansion of National Power Authority facilities at 4% per annum interest and a duration of 16 years.³ The second loan was to assist in the irrigation and land settlement project in the Medjerda Valley, for which KD2 million was allocated, in order to cover foreign exchange needs for the project, to be repaid over 25 years with an interest rate of 3%.⁴ In the same year KFAED had agreed to a credit loan of KD7.5 million to Algeria at 4% interest. The loan was for the construction of a third pipeline from the oil field at Hassi Messaoud to the industrial complex at Arzew in the west of Algeria.⁵

Another loan was advanced to Egypt for the improvement of the Suez Canal and Port-Said Harbour, with a value of KD9.7 million, 4% interest and for 16 years.⁶

1. Ibid., p. 196.

2. Ibid.

3. Ibid., p. 197.

4. Ibid., p. 198.

5. Ibid.

6. Ibid.

The military situation prevailing in the Middle East has absorbed a great deal of KFAED monies which have been given to Syria, Egypt and Jordan. The 1967 war suspended some of the Fund's projects.¹ In 1968 the Fund expended two loans, one to Lebanon of KD1 million, and the other to the Yemeni Republic of KD190,000. Loans to other countries were subject to suspension, such as that for the Yarmuk Irrigation scheme in Jordan and the Suez Canal improvement project.

In 1972 three loans were granted to different Arab countries, the first for the construction of an electric power station at Bahrain for domestic use and to supply the distillation plant, the cost of the loan was KD7.3 million.

After the oil price increase in 1973 the authorised capital of KFAED increased, and a new policy was adopted extending the Fund's geographical field of activity outside the Arab countries.² The value of loans increased to KD301 million by March 1976.

Income earned from the Fund's lending is low and the state received only KD7.2 million 1973/74 and KD9.2 million in 1974/75 as interest on KFAED activities.

Two other projects were supported in Northern Yemen, one to develop the second phase of the salt mine (at al-Salief) costing KD1.2 million, at 2% interest and the other was for the development of a transportation network attracting KD 284,000 at .5% interest.³

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1. Yarmuk project in Jordan and the Suez Canal expansion project, it also affected the potash project in Jordan and others. For further detail see: Kuwait Fund for Arab Economic Development, Sixth Annual Report 1967-1968.
 2. S. Demir, op. cit. p. 100.
 3. Kuwait Fund for Arab Economic Development, Eleventh Annual Report 1974-1975, p. 18.

At the same time, three loans have been granted. These include a loan to the Sudan to prepare a study of the transport sector (KD250,000); to South Yemen for the preparation of a primary study for the establishment of a fish meal and fish oil factory, and to North Yemen for the preparation of a study on agricultural development and irrigation.¹

During this year (1974-1975) the increase in the Fund's capital reached about 26% while at the same time the total income of the Fund did not exceed KD2.55 million. This was due to the variation in the world's currency market.

In 1974 the capital of the Fund was increased to KD1 billion, supplied from Government reserves.² During this year the Fund's activities included a KD10 million loan to Egypt for the clearing of the Suez Canal, in addition to KD2 million granted to Syria for assistance in construction of the Homs Refinery. Another KD6 million was granted to Egypt for the construction of a fertiliser plant at Talkha, and Tunisia also received a KD2.5 million loan for fishing development.³

In addition to the above loans the Fund also subscribed KD30 million to the Arab Fund for Economic and Social Development, KD46.4 million to the Islamic Development Bond, as well as participating in the Arab-African Oil Assistance Fund, the Arab Bank for African Industrial and Agricultural Development and the Organization of Arab Oil Exporting Countries.⁴

1. Ibid., p. 37.

2. Ibid., p. 9.

3. Kuwait Fund of Arab Economic Development, Annual Report 1975-1976, p. 33.

4. el-Mallakh (1968), op. cit., p. 220.

Bahrain was given in two years more than the amount given to Lebanon, Syria, Tunisia, North Yemen or Iraq in about 11 years.

Up to this time tying of aid has not been considered by Kuwait. It seems to be a subject for the future, especially when the country no longer has a surplus of capital, but an export of industrial products. Japan, Canada and Danish aid is almost 100% tied aid. The USA and Italy require not less than 85% to 90% of their aid to be spent on purchasing their products. However, British and French official agencies do not regulate or control their aid with strings, but it can be tied without any overt regulation.¹

Aid does not only offer a market for the donor, but also it may provide an employment sector. It is found that aid tying could be a relief for the donors from deficits in their balance of payments.

For Kuwait the situation will differ, because of its low level of industrial activities and because it is not, and cannot be for some time, a supplier of capital goods. It also cannot offer a technical assistance programme as it still has a shortage in this sector itself, though it can finance technical aid from third countries.

Kuwait looks to the Fund as a way by which it could broaden its market either through domestic activity via regional co-operation or through its economic foreign policy by which it could gain support for its products in the future. One fact must be kept in mind. Kuwait's surplus of capital is based on

1. Ibid., p. 221.

oil revenue which in turn forms a wasting asset. Hence the importance of any supplementary sector, such as industry, trade, fishing, financial infrastructure and others which might benefit from expansion of the aid programme. This efficiency in the use of resources generating from aid, e.g. as industry, will be important to the economy. These ties may also appear important to Kuwait's export market in the future. However, trade-tying in some cases includes negative effects at both ends, and it may affect the free trade policy from which Kuwait has traditionally benefited, hence Kuwait's aid has taken the form of untied business.

When Kuwait finds itself with industrial products that need an export market, it could need a separate, non-aid, agency.¹ This would offer the necessary boost into the international market, which might capitalize on the Fund's experience in technical assessment.

Kuwait has managed to invest in aid and pure investment. Both of which investments may be considered a source of income and a way of diversifying Kuwait's earning from surplus capital, Kuwait's historical relations and traditions, as well as the admixture of its population and its nationalism and obligation towards the rest of the region, shows clearly through the direction of its aid.

Kuwait's benefits may be concentrated in its increments gained through interests on the loans. It is also diversifying the field of its investment capital, through which the element of risk is balanced. On the other hand, Kuwait has

1. el-Mallakh, (1968), op. cit., p. 222.

provided an example of the importance of regional co-operation to economic development among the Arab Countries. Also, the Fund has absorbed some Kuwaiti man-power, which will receive and has received, some valuable technical and administrative experience.

2.3 Kuwait's Foreign Investments

The importance of overseas investments as a source of national income and its influence on the balance of payments, especially in recent years, cannot be ignored, as it plays a major role in stimulating national economic growth¹ and is a vital factor to an economy of the Kuwaiti model.

Kuwait's surplus of capital began to accrue from 1952 and 1953, and was accompanied by an economic outlook that turned away from the sea. Surplus capital can be measured through the gap between Government revenues and expenditures i.e. the difference between the total amount invested in Kuwait and the surplus on the balance of payments.² Surplus capital has been directed towards foreign investment, with the aim of diversifying away from the oil sector, although this primary aim may not be achieved during periods of rapid increase in oil revenues.

Kuwait is anxious about finding long-term investments, which offers good returns, combined with limited risk,

1. A. Askari, J.T. Cummings and J. McMurray, op.cit., p. 22.

2. In 1975 Kuwait's balance of payments surplus reached KD 1,095 million. For further detail see: The Financial Times, 25 February 1976.

TABLE 40.
Kuwait Foreign Investment (1969 - 1977)
(In million K D)

Allocation Reserve Fund	1969	1970	1971	1972	1973	1974	1975	1976	1977
Government Organization	108	113	120	125	152	169	395	489	612
International Organization	8	9	12	15	14	15	169	282	295
Kuwait Investment Office	37	41	36	36	42	137	290	812	1,253
American shares & bonds	38	52	62	41	49	49	536	728	1,080
Other foreign shares & bonds	30	34	53	74	101	149	486	1,002	1,555
Local shares	40	41	45	52	57	103	108	230	281
Local loans & deposits	65	78	91	130	136	128	249	641	701
Foreign loans	123	119	114	107	114	110	98	78	120
Deposits in foreign banks	45	42	39	46	56	65	80	98	93
Real Estate	6	6	6	6	11	14	52	83	102
Other accounts	1	.7	.7	.7	13	-5	-120	54	80
Total	506	540	583	638	749	937	2,345	4,502	6,177
Net property & entrepreneurial from the world (investment income)	--	102	108	70	91	202	--	--	--

SOURCE: Ministry of Planning, Annual Statistical Abstract 1977-1978, p.29.

especially with high current rates of inflation world-wide, which makes it difficult to maintain the value of savings.¹ The domestic economy has absorbed some 25% of disposable funds in Kuwait.

The second factor which has influenced and directed Kuwait's foreign investment is the security factor, which compelled the state to look first to the security of capital as the first target in choosing the investment. A further consideration is the question of returns, which may generally be maximised by following a pattern of flexible short-term investments with very high interest rates. Kuwait's attitudes towards foreign investment always follows a mixture between the ideal of a sound financial return and hostility to the risk of losing control. This has led it to hold its shares in a very wide range of firms, with the size of investment below 10% in order to avoid making a heavy loss, which means that funds are not heavily concentrated in any one company (Table 40). The Government has, however, suffered from the fall in the value of Sterling.²

If Kuwait's premier consideration is security for its assets, the second is the tax system in any foreign country where Kuwait investment takes place may limit to some extent Kuwait's investment activities abroad.

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1. The Times, op. cit., p. III.
 2. During this time (1975) Kuwait Current Investment Office continued buying shares rather than waiting for firm proof. This approach paid off when the price of the Pound Sterling began to rise: For further detail see: The Times, op. cit.

The Kuwait Investment Board has been established since 1950, and it functioned on short-term management of funds in its early years¹, but in the 1960's the Board was replaced by the Current Investment Office, which is run by the Ministry of Finance and Oil.² In 1976 this Ministry was divided into two separate Ministries: Ministry of Finance and the Ministry of Oil after which, the Investment Office came under the control of the Ministry of Finance, which leaves most of the day-to-day decision making in London to the Kuwait Investment Office, while major decisions are made by the Investment Department of the Ministry of Finance and Oil under Government direction.³

In 1962 Government foreign assets were estimated at KD374 million,⁴ of which nearly KD34 million represented the reserves of the Currency Board about 55% of the rest was in Government treasury bills. Some 17% were in shares and bonds of private companies. Most of this capital was in the UK in 1975 Kuwaiti reserves in Britain were changed from Sterling to Dollars because of the former's floating value.

Kuwait's foreign investment runs either through large individual companies or through financial institutions such as:

1. Kuwait Investment Company (KIC); 50% owned by the Government.⁵

1. Ibid., p. III.

2. Ibid.

3. Ibid.

4. In 1975 net foreign assets of the Government and commercial banks was KD2,703.38 million.

5. The Financial Times, op. cit., p. 21.

2. Kuwait Foreign Trading, Contracting, and Investment Company (KFTCIC), established in 1964 and mainly owned by the Government (80%).¹

3. Kuwait International Investment Company (KIIC).

These are the major investment companies. In recent years there has been the addition of joint investment companies with other Arab countries.² Much of Kuwait's recent investments are in the form of property, while the first Kuwaiti investments that took place in an industrial field were the 13% stake acquired in Daimler-Benz of West Germany in 1974.

2.4 Insurance

Kuwaiti direct involvement in insurance commenced in 1960 when the first local company was set up. Until the first half of the 1950's insurance in Kuwait was not very important. This can be attributed to; 1. the simple structure of the society, especially in relation to the social co-operation between members of the family and the society as a whole; 2. the Islamic religion, with people accepting disaster fatalistically, so that no insurance against disaster in the future was necessary; 3. the poverty of the community as a whole.

Commercial deals rarely exceeded a few thousand rupees in total value. This amount meant a fortune at the time but was rarely covered by insurance. The most important factor, however, was the ignorance of the operation of benefits accruing from insurance business.

1. Ibid.

2. Ibid.

The first area in which insurance did appear was in the marine sector, in respect of which the following questions arise: Is the industry likely to grow in the future? How fast is the insurance industry likely to grow in the future? What is its role as a foreign currency earner? Is insurance marketing efficient inside the country?

With the increase of wealth in Kuwait insurance grew steadily, consisting of underwriting losses on houses, cars, industries, businesses and imports.¹ In recent years insurance has not only been a safeguard against many such risks, but it has also been a source of income, and a field of occupation. This is especially important in Kuwait where the productive economic field is limited, while the abundance of capital gives a great chance for insurance activities to flourish.

Until 1960 there were some foreign insurance companies acting in the country through small branches.² In 1962 the total number of insurance companies in Kuwait reached twenty-two, of which three were Kuwaiti, six Arab and the rest were foreign.³ Most of the non-Kuwaiti companies had been established before 1959. The increase in the number of insurance companies was a result of the vast development in trade activities in different commodities and the development and the expansion of the insurance industry in most of the industrial countries with which Kuwait had trade exchanges. The Kuwait insurance law only permits joint stock companies

1. The Times, op. cit., p. IX.

2. International Bank for Reconstruction and Development, op. cit., p. 76.

3. M.S.I. Jaber, op. cit., p. 97.

in co-operation with Kuwaiti interests to operate insurance businesses in the state.

Amongst the factors which helped to increase the importance of insurance activities was the high incidence of car accidents. Another reason for expansion was the development in the number and types of transport, and the elaboration of the nature of the structure of most of the industrial products imported.

The Kuwait Insurance Company started with capital of KD375,000. This reached KD13,000,000 by 1975, from an increase in income from premiums which had risen as a whole from DK1 million in 1961 to about KD21 million. Growth in the future for the Kuwaiti Insurance Company, and perhaps for others, will be in life insurance. Domestic and commercial construction and other durable ownership projects could show an annual growth of only 10 to 15%, but the expectation for growth in life insurance is more than that 30%.¹

A possible obstacle to the Kuwaiti insurance company is the Government's new social security system which will be introduced in three stages to cover every resident in Kuwait.² The system will offer a wide range of benefits from retirement pay to disability and accident cover.

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1. In 1977 the al-Ahliyah Insurance Company increased its sales of life insurance by 70%. For further detail see: Kuwait Chamber of Commerce and Industry, Kuwaiti Economist, Vol. 176, April, 1978, pp. 34-35.
 2. For further detail see: Social security law No. 61, October 1976.

The prospects for increases in insurance business would be greater if the companies expanded their activities to other Arab countries in the Gulf area. The importance of insurance companies cannot be measured through the value of its insurance contracts alone. It must include the shareholders stake and its income and/or its participation in the country's GDP. Major insurance companies in Kuwait absorb a considerable amount of employment and it is a promising field for expansion in the future. Heavy over-subscription in these companies has led to maximising the number of shares which could be owned by one individual to 50 only. This was a result of the potential earnings in the insurance sector. At present most of Kuwait's insurance companies act only as agents or brokers for the big international companies which handle the largest contracts. Accident and marine insurance far outweigh other types in Kuwait. The Kuwaiti Insurance Company has enough capital (KD2 million) for any single risk. The London Market is the first choice in Kuwait for reinsuring major risks.¹

Table 41 indicates that the proportion of the collection of the local company has jumped from 33% of the total in 1967 to 36% in 1970 and 68% in 1976. This was due to the expansion in the number and sectors of insurance in regard to the local company, while the foreign companies have not increased in number since 1961. Kuwaiti law controls foreign insurance companies and agencies, and has stopped the establishment of any new foreign insurance companies, though those previously established in Kuwait have been allowed to

1. The Times, op. cit., p. XI.

Life Insurance

TABLE 41

Years	Number of Premiums	Heads of Population per Premium	Insured Value (Million KD)	(in thousands KD)		
				Local Co.	Foreign Co.	Total
1967	1,983	283	6.2	85	167	252
1968	2,766	222	9.1	140	230	370
1969	4,117	164	12.9	215	334	549
1970	4,159	178	13.1	199	346	545
1971	4,785	163	16.0	234	402	636
1972	5,401	153	18.4	404	326	730
1973	6,036	145	22.2	523	361	884
1974	7,047	131	34.1	799	452	1,251
1975	8,078	123	45.9	1,024	523	1,547
1976*	9,415	113	76.1	1,348	621	1,969

Source: Annual statistical Abstract 1978, Table 229.

* Statistics about the following years are not available.

continue operations.¹ There are 20 foreign companies operating in Kuwait.

One of the largest companies operating in the state is the Kuwait Insurance Company which has branches in other Arab countries including Bahrain, Egypt and Jordan. The company's 1975 report indicates that the company increased its total premium figure during the year by about 26%, while its total benefit payments had increased by about 30%. The company's capital has risen by about 21%. Most of this increase was due to the rise in re-insurance applications from abroad which was 55% more than the previous year. The concomitant increase of the premiums was due to the rising costs of accident insurance, which includes car accidents. The value of accident policy premium reached KD4,438,000, or 53% of the company's total premium income. In general automobile contracts far outnumber other accident insurance.

Life insurance increased 13% in 1975 due to the increase in Kuwaiti consciousness of and interest in insurance and a broader outlook to the future.² Activities have extended into investment, which absorbed about KD9.4 million in 1975. This seems to be another promising field for employment and income.

1. M.S.I. Jaber, op. cit., p. 97.

2. Despite the fact that Kuwait is a welfare state, life Insurance among Kuwaiti is increasing and further development can be expected in the non-Kuwaiti population. However, increase in life insurance figures in relation to other insurance business as a whole is very small.

TABLE 42 Insurance Premiums
 - the Middle East Market -
mn KD and mn US \$

<u>State</u>	<u>KD</u>	<u>Direct premiums paid 1975</u>	<u>% of total</u>
Algeria	43.3	151	14.8
Saudi Arabia	43.4.	150	14.7
Morocco	38.5	133	13.0
Iraq	37.6	130	12.8
Egypt	34.7	120	11.8
Libya	25.5	88	8.6
<u>Kuwait</u>	<u>17.6</u>	<u>61</u>	<u>5.9</u>
Tunisia	12.4	43	4.2
United Arab Emirates	10.4	39	3.8
Lebanon	7.8	27	2.6
Syria	6.6	23	2.3
Sudan	5.2	18	1.8
Jordan	4.6	16	1.6
Qatar	2.6	9	0.9
Oman	1.4	5	0.5
Mauritania	.8	3	0.3
South Yemen	.8	3	0.3
North Yemen	<u>.2</u>	<u>1</u>	<u>0.1</u>
Total	293.4	1,020	100.0

Note: Direct insurance premiums only.

Sources: Arab General Insurance Corporation, United Arab Emirates Monetary Board, and other estimates.

1 - KD = \$3.48

The Kuwaiti insurance market showed great increase between 1967 and 1975 (Table 41). The only sector that has achieved a substantial increase is life insurance among Kuwaitis but the non-Kuwaiti sector has performed poorly indicating opportunities for selling more life insurance.

The Kuwaiti market has been closed to new foreign companies of either Arab or non-Arab origin. In 1963 the Kuwait Chamber of Commerce recommended the withdrawal of all foreign companies from the Kuwaiti market.¹ This attitude would eliminate competition between companies. In addition the Chamber of Commerce has stopped expansion in the insurance market, even for new local companies, because of a decline in business in the local market.² A new insurance company has been established recently in 1977, despite the ruling.

Kuwait's well-established welfare system rests largely on state organizations which are directly funded by the Government and in consequence the insurance sector for medical and social purposes is ill-developed except where it provides for non-Kuwaitis. It might be deduced with some truth that the Kuwaiti insurance companies have not been enterprising where it has come to involvement overseas business. The result of these factors is that Kuwait ranks well down the league of Arab states in direct insurance premium income, with KD17 mn reported in 1975, only 5.9% of estimated business in the Arab world (Table 42).

1. Kuwait Chamber of Commerce and Industry, The Thirteenth Yearly Report 1972, p. 24.

2. Ibid., p. 24.

The low proportion of Kuwaiti funds engaged in insurance and the comparatively insignificant role of indigenous insurance companies even within existing business indicates that Kuwait has been tentative in its approach to developing this complex but rewarding field. It might be thought that insurance was an ideal area for Kuwaiti interest since it demands availability of capital and expertise but has few claims on other raw materials. If Kuwait is genuinely seeking a future in the services sector, then a more dynamic expansion of insurance might have been expected: lack of this suggests that Kuwait is not yet getting to grips with development of appropriate long-term sources of income and employment.

2.5 Tourism and its Influence on Kuwait's Balance of Payments

For Kuwait, tourism has introduced a new type of employment and is gradually emerging as a clear area of economic development in a state where other resources are extremely limited. Expansion of the sector has been achieved against severe obstacles not least those deriving from environmental constraints. Summer temperatures often exceed 45°C in the shade and the terrain is generally flat and not intrinsically interesting. Kuwait has no widely known historical associations nor recognised cultural traditions. Creation of tourist quality accommodation, entertainments and other facilities has been slow.

Yet, there are a number of positive factors that favour Kuwait or which could be manipulated to benefit the tourist trade. Such an approach would at least persuade a

proportion of Kuwaitis to spend their considerable leisure time in Kuwait rather than in resorts overseas. This chapter will seek to discuss the rôle of tourism both as an invisible import and as an export item.

Tourism first emerged in Kuwait in the late 1940's and early 1950's. The oil company was obliged to offer its employees a yearly paid visit to their home countries. Opportunities were given to locals to visit any country they wished with free air travel and a similar situation was adopted by the Kuwait Government towards its employees. Tourism, both as an import and export commodity, looks promising because:

1. The per capita income in Kuwait reached KD 4448 in 1976.
2. Every Government employee has the right to have a yearly holiday with full pay (45 days), in addition to the average working hours of only 6 hours daily, five days a week.
3. The growth in population numbers, especially among the younger age-groups and the growing numbers of the immigrant population have increased the demand for recreation. The increase in immigrant numbers has increased the demand for the establishment of blocks of flats which increased the demand for recreation infrastructure.

The places of origin of the immigrants have influenced the local population through social contacts.

4. Kuwait city accommodates about 56% of the population. The spread of the city has taken up the large open area around the city, which formerly was used for simple recreation by many families. The loss of these areas has caused the recreation area to be moved further away.
5. Transportation facilities have greatly improved.
6. The main factor encouraging tourist activities outside the country is the weather conditions in Kuwait, which caused what can be described as seasonal migration.

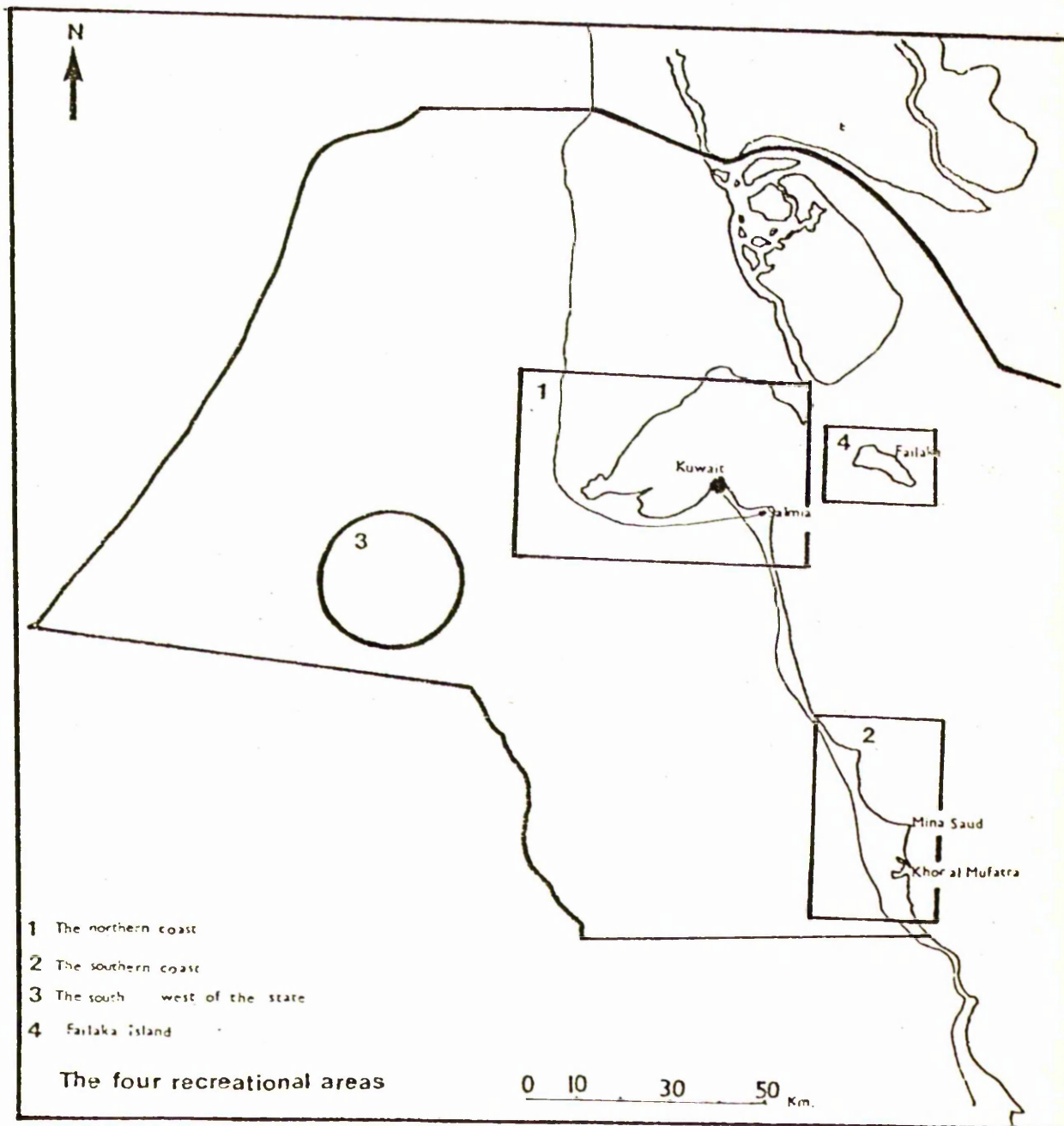
World tourism has been severely affected by oil price rises more than merchandise exports. Since 1974 Kuwait's tourist activities have increased and their proportion of personal expenditure has risen. Its geographical pattern and financial influence have spread over a wider area.

The seashore is Kuwait's main tourist attraction. In the summer months beaches are used more than any other recreation facility. Great interest has been shown in the development of the coast.

The best beaches in Kuwait are in the South, from Shuaiba to the South until the partition line of the former Neutral Zone. Of this area only a small part has been well used. The coastal areas have a pre-eminent place in any development because almost all the social clubs - apart from the Government and the oil company's clubs - are located near the seashore.

Figure 22

After; Buchanan and Partners, 1971.



Buchanan (1971)¹ proposed four areas to be developed as outdoor recreation areas: 1) The Northern coast; 2) The Southern coast; 3) The Southwest and 4) Failaka Island (Figure 22). Most of Kuwait's coast, is in fact suitable for recreation. Because of the traditional and social attitudes towards the sea, the coast has long been a focal point for Kuwaitis. It is here that the formal attitudes and constraints of the town can be partly put aside and where the various ethnic communities come together in a more international than parochial atmosphere. Bachelor society, too, an important element within social organization in Kuwait, puts a premium on the freedom from constraints provided by gardens and bungalows outside the city and often in the vicinity of the coastline. Water sports have blossomed in Kuwait as a natural successor to the old days of pearling and attract many Kuwaitis to the coast for this purpose.

Historical attractions in Kuwait are limited. There are Roman ruins and edifices which have historical meaning to Kuwait including the remnants of the old walls gates, Jahra (Red Palace), the traditional souk (market), dhow harbours, and traditional houses in Kuwait town. All these could be places of interest for visitors.

The main reason for attracting foreign visitors is the country's recent development as a place for work and business. Many of Kuwait's visitors come either for a business purpose, or seeking jobs. The latter type of visit is mainly classified under migration rather than tourism, if the person

1. Buchanan Colin and Partners, op. cit., pp. 11-34.

concerned has acquired a job.

Kuwait has nothing of Islamic religious importance. The location, and the land highway connecting with the holy places in Saudi Arabia, has an importance. Many of the pilgrims from Turkey, Syria, Iraq and other countries, using the inland route, pass through Kuwait on their journey to Mecca. The Government has organized a camping town for these pilgrims.

The current obstacles discouraging visitors from coming to Kuwait are the strict visa regulations.¹ Nobody can enter the country unless he receives an invitation from a person living in Kuwait, or has legitimate business there, permission is not given for other visitors including those wishing to enter for tourist purposes, despite the fact that Kuwait is a member of the International Union of Tourist Organizations, and Arab Tourist Union, whose main purpose is to minimise customs and passport regulations for tourists.

Kuwait's civil aviation activities depend partially on tourist activities.² During 1967 the state revenue from transport and communications was KD3.647 million. This figure reached KD6.476³ million in 1972 which represents an increase of about 77% in about five years.

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1. Kuwait Chamber of Commerce (1969), op. cit., p. 12.
 2. The Kuwait Airways Company has an independent budget. Its revenue in 1967 was KD6.6 million and by 1976 had reached KD24 million.
 3. Planning Board, Annual Statistical Abstract 1973, Table 27.

TABLE 43.

Number of Tourists Visited Kuwait

Between 1966 - 1977

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Kuwaitis (1)	173	177	197	151	138	156	180	123	116	132	150	263
Jordanian & Palestinian	113	102	94	80	87	82	102	106	118	156	163	162
Iraqi	201	122	274	161	158	209	199	138	193	203	229	285
Egyptian	37	24	39	26	17	29	38	40	57	75	70	116
Syrian	60	48	45	25	19	34	46	48	60	70	75	74
Lebanese	28	30	33	24	17	27	31	28	38	36	49	49
Omanis	15	18	17	10	8	9	7	9	6	5	-	-
Saudi	89	128	112	104	96	105	105	135	33	165	206	318
Bahraini	5	8	16	14	14	17	17	16	21	25	40	66
Indian	8	12	14	13	12	26	16	17	16	25	9	20
Pakistanis	8	10	12	11	12	10	19	31	13	14	15	28
TOTAL:	619	566	742	620	507	603	652	691	771	906	1006	1381

SOURCE: Calculated by the writer from the Annual Statistical Abstract.

(1) With some exception for those who leave the country for long periods of time, such as students and diplomatic and other Government missions, the rest mainly come after they have had their holiday or business trip abroad. They mainly live in Kuwait.

TABLE 44

The Number of Travellers Abroad
During the 1966 Summer Season; their
expenditures in the receiving countries and
the items of expenditures

(A) Tourists according to the receiving countries	Kuwaitis & Other	Residents
1. Lebanon	11481	14
2. Syria	7578	9.2
3. Jordan	19080	23.3
4. U A R	8227	10
5. Other Arab Countries	19085	23.3
T O T A L	65451	79.8
6. Iran	6430	7.8
7. Other Foreign Countries	4986	6.1
8. Arab & Foreign Countries	5197	6.3
GENERAL TOTAL	82064	100
=====		
(B) Expenditures according to receiving countries	K D	£
1. Lebanon	1,337,400	15.8
2. Syria	552,700	6.3
3. Jordan	1,182,800	14
4. U A R	1,337,200	15.8
5. Other Arab Countries	1,935,900	22.9
T O T A L	6,326,00	74.8
6. Iran	391,300	4.6
7. Other Foreign Countries	1,043,100	12.3
=====		
(B) Expenditures according to receiving countries (Contd.)	K D	£
8. Arab & Foreign Countries	698,100	8.3
GENERAL TOTAL	8,458,500	100
=====		
(C) Expenditures according to the items	K D	£
1. Transport	2,113,500	25
2. Food and Lodging	2,627,800	31
3. Presents	861,600	10.2
4. Other expenditures	1,128,100	13.3
TOTAL TRAVEL EXPENDITURES	6,731,000	79.5
5. Clothes	789,900	9.3
6. Furniture and Housewares	209,400	2.5
7. Exchange Payments	728,200	8.7
TOTAL OF THE EXPENDITURES SPENT ABROAD	8,458,500	100
=====		

Source: Ministry of Guidance and Information Department of Culture and Publicity Division of Tourism

The only available official figures for tourists to Kuwait are for 1968 and 1969¹ (Table 43). The Table indicates some 88% of the tourists coming to Kuwait are from the Middle East area.

Family relations and Kuwait's shopping and business amenities are the main considerations in the number of visitors to Kuwait. The pilgrim traffic may also have some fluctuation in numbers depends on the influence of political and military action in the area.

In 1967 about 566,000 tourists visited the country, of which 26,000 could be classed as holidaymakers. Of these, about 16% came from countries outside the region, and more than half of the tourists came for family reasons.² Business visitors numbered 33,000, of which about 36% came from outside the Middle East and over half of the remaining tourists came for meetings and business conferences. The total revenue earned from tourism in the same year was KD4.6 million,³ while the total amount spent by Kuwaiti tourists abroad exceeded KD8 million (Table 44).

In 1966 the total number of departures from Kuwait was 796,568 of which about 82,094 left during the summer as tourists, representing about 10% of total departures. About 23% of these went to Jordan, and the second largest proportion went to Lebanon.

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1. All the other years' figures were estimated by the writer from the available figures of the arrival and the number of those who obtained residence permits.
 2. Buchanan Colin and Partners, op. cit., p. 9.
 3. Ibid.

Using 10%¹ as a fixed number of tourists out of the total departures during 1970 the number reached 82,281.² Tourist numbers are not so important as expenditures. This exceeded KD8 million in 1967, and has increased during the 1970's because of the increasing number of Kuwaiti tourists and changes in their destination from low-cost developing countries to expensive destinations in Western Europe and the USA.

Although statistical evidence is thin, experience in Kuwait indicates that most Kuwaitis spend considerable sums from their private resources on tourism of various kinds. The strongly Muslim orientation of social and legal control of leisure activities has led to the practice of Kuwaitis leaving the country at regular intervals to enjoy more relaxed conditions elsewhere, particularly the availability of alcohol, which is prohibited in Kuwait, and a more active night life than Kuwait can offer in view of publicly maintained attitudes towards female participation in social life. With growing wealth, Kuwaitis have changed their preference in travel from the adjacent countries, notably Iraq, to Beirut and have,

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1. This is not an exact figure but an approximation.
 2. Although the only available figures for Kuwaiti tourists abroad and their expenditure was for the year 1966, it is obvious the influence of tourism on the country's balance of payment plays a negligible rôle. It is difficult to define the exact figure for tourist expenditure because of the country's free financial policy. No definition for any expenditure has been recorded. Tourist expenditure has been mixed with other expenditure, for example investment abroad. Unfortunately tourist expenditure must be estimated from the 1966 data. The difficulty is compounded by foreign workers going home at least once per year. This creates more difficulties in estimating the exact number and expenditure of the tourists out of the country.

since the troubles in Lebanon, tended to move further west in search of a milder summer climate and a less rigorous social environment. The aggregate offshore costs of both short-term and summer seasonal movements by large numbers of Kuwaitis must be appreciable and tend to reinforce the pattern of overseas investment by the private sector since many Kuwaitis have acquired property in Western Europe as second homes. A secondary result of the Muslim influences in Kuwaiti society is adherence to the pilgrimage to Meccah, which each year attracts as many as 10,000 from Kuwait,¹ adding to the foreign exchange losses on account of tourism.

Since there appears to be no short-term possibility of radical changes in legal and social constraints within Kuwaiti borders, it would appear likely that offshore tourist and pilgrim expenditures will continue. It would seem unwise of Kuwait to neglect totally the potential for recouping some of this drain through providing at least an attractive enough tourist infrastructure to keep some Kuwaitis satisfied and through permitting forms of international tourism which would be compatible with Kuwaiti economic and social realities. In particular, low customs duties and total freedom of trade could be utilised as a basis for transit tourism of the type developed in Aden and Singapore, where cheap purchase of consumer goods is the objective of visitors. Some linkages would be generated with the construction and hotel trade without requiring concessions in fields such as entertainment and availability of alcohol which would be objectionable to

1. Kuwaiti Digest, January - March, 1979, p. 23.

Muslim sentiment.¹ Transit tourism would also have the advantage of making minimal demands on the labour force but would permit expansion later should job-creation and foreign exchange earning from tourism become more pressing as oil income loses importance.

A statement on Kuwait's official policy towards tourism was obtained by interview with Mr. Shihab, the Under-Secretary of the Ministry of Guidance and Information. Despite the urgings of the Ministry, the Government has been less than enthusiastic on the matter of development of tourism in Kuwait, mainly since it has no immediate need for the revenues that such activity would generate. The Ministry has been unable to persuade the Government to ease the granting of visas to tourists (at the moment, visitors gain entry to the state only by personal invitation from a person or company in Kuwait), providing lower cost hotels, or advertising the attraction of the Kuwaiti shopping facilities. The only concessions made to tourism have been the construction of some leisure centres, designed to ease the problems of those resident in Kuwait who cannot afford to travel abroad.

Given official policies towards tourism, it must be expected that this sector will not be exploited as a means of non-oil development in the foreseeable future and will even be positively discouraged.

1. According to the Under-Secretary for the Ministry of Guidance and Information; almost all Kuwait's tourist constructions such as hotels, clubs and others have been developed as a part of Kuwait's development plan, and not as an aim to develop tourism.

3. Trade and Employment

3.1. Trade Sector

Other than the Government sector, where employment is in any case largely non-productive and a matter of Government social policy, trade is the main employer of labour. Contrast between the state sector and the trade sector hinges on the question of selection for government employment and the guaranteed but high rates of salary paid in that area. Private sector employers naturally pay only economic wages, take labour on a competitive basis and offer no surety for future employment. As will be shown in the discussion that follows, Kuwaiti nationals tend to gravitate towards employment with the state agencies, where they and they alone of the population are accepted. Kuwaitis involved in trade tend, with only few exceptions, to be owners, managers or shareholders. Non-Kuwaitis do not have access to the jobs available in the civil service or in the quasi-governmental authorities unless they have special skills which are indispensable, and do not have absolute security of employment.

The breakdown of personnel employed in the trade sector shows clearly the dependence on non-Kuwaiti labour, with Jordanians and Palestinians accounting for some 24% of the total, Syrians 14%, Iraqis 7% and Lebanese 8%. A significant ethnic group involved in trade is that of the South Yemenis, who have long-established trading relations with Kuwait. In all, non-Kuwaitis account for 14.7% of those employed in the trade sector and indeed trade is the main

area in which non-Kuwaitis find employment.

The trade sector is characterised by a measure of under-employment,¹ apparent through the extremely long hours demanded of employees, who even so serve only relatively small numbers of customers. Of those employed in trade, 69% in 1973 were classed as salesmen and earned KD16.2 million in wages and salaries.² In 1975 the number of salesmen was put at 24,093, representing 57% of the total workers in wholesale and retail trading, but, with other ancilliary staff classed as sales in restaurants and hotels, accounting for only 3.9% of the total labour force of the state.³

Professional staff made up 6.6% of the commercially employed population, with small numbers of book-keepers, cashiers, auctioneers and service personnel. Some 80% of commercial employees were engaged in retail trade, employed in about 10,357 retail outlets, concentrated mainly in Kuwait city. Large-scale co-operative centres have developed recently in all Kuwait's suburbs, but the traditional small shops still dominate the old city and many other areas (Table 45). The second most important retail outlets are the electrical appliance shops, in both numbers and workers.

Employment in Kuwait is facing a different problem from that of other developing countries, firstly because of Government plans to find jobs for every Kuwaiti and secondly

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1. M. Yasin, Manpower resources requirements and problems of Kuwait, Planning Board, Kuwait, 1974, p. 36.
 2. M.A. al-Saih, op. cit., p. 242.
 3. Ibid., p. 239.

because the supply of Kuwaiti employees does not cover the demand. This had led the Government to fill the employment gap by encouraging immigrants from other countries.

The under-employment problem is due to the accumulation of labour in the Government sector. This has encouraged and/or created a kind of bureaucratic class who have one or more sources of income in addition to their main salary. In many cases this extra income is earned during the same work hours required by their Government employ.¹ The most common private enterprises for this group are in construction and commerce (which employed 14% of the total labour force in 1974) and the manufacturing industry (employed 13.4%).

Trade has always been dominant since the establishment of Kuwait. Many Kuwaitis, who have enough capital, prefer to run their own business rather than having a small job with the Government. In some cases trade appears as an inherited job, like father, like son.

The low educational level is significant in forcing Kuwaitis into trade. Religion is another reason for encouraging trade among Kuwaitis because merchants are praised in the Koran.

Trade is not only a favourite employment of Kuwaitis but also for non-Kuwaitis. In reality the trade law in Kuwait only allows a non-Kuwaiti to open a shop or commercial company if a share of not less than 51% of the capital is controlled by a Kuwaiti. Consequently there is at least one

1. P. Benedict, Social Research in Support of Manpower, Planning Board, Unpublished Report, Kuwait, 1972, p. 12.

Kuwaiti behind every commercial company or firm, except for those who have practised their commercial activities since the early 1950's.

Trade is not limited to retail and wholesale business alone. To measure the efficiency of trade in creating employment, it is essential to discuss and/or to include employment in the areas associated with trade activities e.g. employees in banking and insurance, transportation and tourism. Government employees, such as those working in ports and customs, should also be included as directly gaining employment from the activities of the merchants.

3.2. Banking

Banks employed 4,314 people in 1975, of which some 89% were in the capital, 4% in al-Ahmadi, and 5% in Hawalie. The limited number of employees is due to the relatively late appearance of banking in Kuwait. Banking employees form 1.4% of the total labour force according to 1975 census.¹ Non-Kuwaitis constitute a high proportion of those employed in institutional banking,² again a function of the recent expansion of this activity in Kuwait.

3.3 Transportation

The total number of employees in transportation, communication and storage was 15,685 in 1975, which constituted

1. Ministry of Planning, Annual Statistical Abstract 1978, p. 98.

2. Ibid.

about 5% of the total labour force.¹ Of these some 3,863 are employed in the communications sector about 24% of the total, while about 75% are employed in the transportation sector. This large proportion of employees in the transportation sector is a result of the increasing number of private drivers.

The total number of motor vehicle drivers to the total employees in transportation amounted to 78%. Not all transportation employees are serving trade activities.

3.4 Conclusion

The importance of trade as a field of employment for Kuwait is far from simple. Increases in exports often have no direct positive effects on employment within the country. Oil exports in particular tend to augment levels of national and personal income, to lead to expanding levels of demand for consumer goods, and to higher imports. Increases in the wholesale and retail trades as measured by employment lack a corresponding impact on employment in productive areas within Kuwait. The problem has become especially acute since 1973, from which time very much increased oil income has inflated per capita income levels to the degree that few persons living in the state would contemplate employment in difficult, demanding or skilled areas of productive industry should Kuwait attempt a new drive towards industrialization. At the same time, rising wages have effectively made Kuwaiti labour uncompetitive not only inside the state - at least as long as

1. Ibid.

a low-tariff policy is retained - but also in terms of possible exports. The vicious circle, therefore, of rising income stimulating employment in trade and further imports without generating domestic production and related employment, has tended to worsen since 1973 and induce inertia for the future.

4. Invisibles and the Balance of Payments - Summary

The rapid rise in Kuwait's capital surplus is seen in:

1. The great difference between Government income and its expenditure.
2. The average difference between aggregate savings and aggregate investment in the local market which accounts for only 41% of the total saving investments at home.
3. The surplus in the country's balance of payments.

Government expenditure has risen much more slowly than its revenue. The average increase in Government expenditure on services has been unable to absorb the large increase in oil prices in 1973.

Kuwait lacks absorptive capacity. Kuwait has been in current external surplus since 1950. There was no organized financial policy before 1960, despite the fact that financial administration was first established in Kuwait in 1938.

About 92% of Government expenditure has come from outside the country (the value of oil exports).

TABLE 46

Total Kuwaitis Balance of Payments

(Million KD)

	1969	1970	1971	1972	1973	1974	1975*	1976*	1977*
Total import	-230	-223	-232	-246	-310	-455	-693	-972	-1130
Total export including oil	682	706	383	981	1353	3183	2663	2884	2846
Balance	342	433	705	735	1043	2728	1970	1912	1716
Total export excluding oil	34	39	52	49	69	115	170	212	260
Balance	-196	-184	-180	-197	-241	-337	-522	-757	-870

Source: The Planning Board, Kuwaiti Economy 1971/72.

* After: Central Bank of Kuwait, op. cit., p. 98.

The Kuwait Government's expenditure has continued to increase from year to year, between 1965 and 1966 its proportional increase was 10%. This increase is reflected in the per capita income which has an effect on the increase in demand for services and imported goods.

The predominance of oil earnings in Kuwait's balance of trade is clear, for without oil revenue the deficit in the balance of trade would have been about KD184 million in 1970/71. If total oil income is included in the same year, the surplus in the balance of payments was about KD433 million.

During the fiscal year ending March 1976 Kuwait's payments revealed a surplus of KD1902 million, while the foreign assets of the Ministry of Finance and Oil rose from KD537 million in March 1972 to KD2357 million in 1976.

The years 1969-1976 showed a great increase in external trade (Table 46).

Expansion of visible and invisible trade has helped in reducing the country's deficit on non-oil overseas trade. Such reductions have also been made by income from investment abroad and transport services via Kuwait Air Lines, Kuwait Shipping Co. as well as Kuwait Tanker Co.

The re-export trade, together with some small-scale exports of Kuwaiti industrial products, has contributed slightly to the state's foreign earnings. The irony of the situation is that official policy, if not always real Government enthusiasm, has been for diversification away from dependence on the oil sector and part and parcel of this policy has been encouragement of trade as an immediate and well-founded branch of Kuwaiti enterprise. Yet, the accumulation

of surplus funds abroad by both the Government agencies and private individuals and corporate entities has tended to inflate the income accruing from overseas investment. Oil income, too, has increased vastly in relative if not real terms since 1973, which, with the augmenting of investment income, has tended to reduce very appreciably the relative roles of re-exports and non-oil exports as contributors to national income, to foreign exchange earnings and, thereby, to the current account of the balance of payments.

5. Conclusion

It is frequently observed that there is a large difference between the stated aims of governments and actual policies and achievements, especially in the Arab world. In Kuwait this is no less a phenomenon than among its neighbours. As early as 1968 when the first national development plan was published and somewhat before the emergence of general fears concerning the longevity of the state's oil reserves, it was believed by the planners that:

'...the present generation finds itself entrusted with a difficult task. It must bring about a radical change in the structure of the Kuwaiti economy and transform it from a single-source to a multi-source economy. That is to say, the present generation should diversify the sources of national income and gradually reduce the virtually total predominance of the oil sector.¹

The plan also put great emphasis on the improvement in the skills of the Kuwaiti population though it fought shy

1. The Planning Board, The first five year development plan, 1967/68 to 1971/72, Kuwait, 1968, p. 9.

of direct encouragement of deployment of capital for the expansion of the invisible sector. In reality, and not least in view of the increase in oil revenue from 1970, the structure of the Kuwaiti economy has changed but to one which is more rather than less dependent on oil. Great emphasis has been put by the Government on creating opportunities for domestic investment, especially in industry, as a means of making the state less reliant on imports and more able to expand employment. Yet the contribution to national income of industrial and related activities has been disproportionately small compared with the investments made. Less than 3% of national income accrues from the industrial sector, including oil refining. Income on account of invisibles has multiplied severalfold since inception of the first development plan¹ despite the disregard of it shown by the planners.

It would seem that the Government of Kuwait, despite its long concern with management of an oil-based economy and its clear realization of the limited resource endowment of the state, has been unable to formulate a clear policy on earnings from the service sector. On the one hand, the Government has for long maintained a policy of adding to the financial reserves and, since 1976 has consolidated this approach through the Reserve Fund for Future Generations, which demands that 10% of oil revenues be put aside to function as an insurance policy against the day when oil runs out. On the other hand, the Government is to an extent unnerved by the problems

1. The income generated by foreign assets was put in 1966/67 at KD27 mn for the public sector and KD13 mn for public/private joint holdings. State holdings alone were estimated at KD750 mn in 1978.

of placing funds abroad, including those of inflation, devaluation and nationalization. A strategic difficulty also concerns the efficacy of the reserve funds to provide an adequate income for what might by the twentyfirst century be a state of three or four million persons. Ambivalence to foreign investment by the Government has meant that the country has drifted, without total commitment, into a situation where it is a rentier economy on the basis of oil income and will stay so by virtue of its reliance on earnings from foreign investment.

It has been shown during the earlier parts of this chapter that Kuwait has an alternative course of action open to it which has so far been talked of but rarely implemented. There remains scope for the deployment of capital in support of Kuwaiti skills in service industries serving the international community - tourism, banking, insurance and commerce which would make Kuwait more closely involved in a growing and vital industry that might ultimately become entirely detached from the petroleum sector. But to achieve this will require a strong Government policy,¹ serious investment in

1. Interviews by the author with a significant cross-section of the business community in Kuwait over the period 1975-79, the last fieldwork taking place in April 1979, indicated that the government was particularly felt to be lacking in direction on the question of non-oil related development. Growth of service sector activities was inhibited by the absence of a clear five-year economic development plan. Businessmen were at a loss to make long-term decisions when the official policy on the scale of future development was wavering between a continuation of high levels of domestic spending and a reversal to a low domestic economic posture, the latter designed to decrease the total number of and national reliance on immigrant workers. Most businessmen interviewed perceived Government
(Footnote continued on next page.)

training and the direct employment of Kuwaitis throughout rather than merely at the head of new and autonomous institutions reliant on their own enterprise for profit-making in the international markets.

(Continuation of Footnote from previous page.)

policy to be based on continuing reliance on oil income with the more distant future to be financed through income on investments made outside Kuwait. Almost all other activities appeared to be treated simply as a means for generating some employment for Kuwaitis and in general vehicles for translating oil income into domestic income.

Uncertainty affecting the Government's policies has tended to accentuate the short-term nature of the concern of businessmen. On more than one occasion important members of the business community indicated that the lack of determination of the Government to do other than discuss the development of non-oil resources in a convincing way would leave the private sector lacking in confidence to the degree that political unrest could have severe consequences and accelerate an already high rate of flow of funds abroad. Optimism was reserved only for the trade sector. Here those in business felt that the state's geographical position would remain important and could even be significantly enhanced as the other Gulf oil states expanded their economies and population numbers.

CHAPTER VII

THE SHIPPING INDUSTRY AND ITS IMPORTANCE TO
THE KUWAITI ECONOMY

1. Introduction
2. Shipping Management
3. Participation of Shipping in Kuwait's Trade
4. Kuwaiti Shipping and Finance
5. The United Shipping Company
6. The Future for Shipping
7. Kuwait Oil Tanker Company
8. Conclusion

CHAPTER VIITHE SHIPPING INDUSTRY AND ITS IMPORTANCE TO
THE KUWAITI ECONOMY1. Introduction

Throughout Kuwait's history the country has been linked closely with marine enterprise at both the local and regional scale. After the discovery and exploitation of the state's oil resources, a number of marine activities declined rapidly, only fishing and shipping surviving as significant areas of investment and employment. The decline of the pearl industry had begun as early as 1932 but the marine-orientated base of the country's economy was particularly badly affected from the mid-1950's, when the civil service and the oil industry began to absorb a large proportion of the labour force, many of whom were formerly involved with marine enterprises.

Survival of the shipping industry in Kuwait through the difficult period of adjustment to an oil-based economy was made possible by continuing profitability of the coastal and, to a lesser extent, regional services operated by dhows. Shipping activities in Kuwait are well-founded both in a historical sense but more immediately important in an advantageous geographical location. Growth of the oil export trade and of levels of imports has created singular opportunities for Kuwaiti participation in the shipping services linking the Gulf with overseas markets and suppliers, which the Kuwaiti authorities have become eager to take up in recent

years. Interest in shipping has grown in more or less direct proportions to the appreciation of the problems in stimulating useful investments in industry inside Kuwait and to the realization that the depleting nature of the oil asset could have implications for Kuwait in the early years of the next century, when alternative sectors of employment must be ready if the state is to readjust back to a non-oil economy.

Shipping depends heavily on fixed capital. It is a capital intensive mode of transport, and in this respect Kuwait is favourably placed, unlike other developing nations, which have to choose between the development of infrastructure and other investments. Kuwait has an abundance of capital, is favourably placed geographically for the development of sea transport and has few opportunities for diversification in other directions. Furthermore, the state is heavily dependent upon the import of many commodities, especially foodstuffs, industrial goods and raw materials for its developing industries. High freight rates may add anything from 10% to 50%¹ to the price of such goods.

Kuwait considers investment in merchant shipping a way of improving the balance of payments and its national product. It will provide a reserve of trained seamen and ships which can be used for the benefit of the country in times of need. Increased tonnage, including tankers, is expected to reduce transport costs and make it more feasible for Kuwait to secure lower freight rates. This in turn will have a

1. A.D. Couper, The Geography of Sea Transport, Hutchinson and Co. Ltd., London 1972, p. 78.

favourable impact of the balance of payments situation.¹

Almost all the ships that carry Kuwait's dry cargo imports return without any cargo apart from a limited amount of re-exported goods and even these cargoes are not regular.²

Shipping is one source of employment into which the surplus from the Civil Service sector could be directed.

Despite the growth in the Kuwaiti merchant marine, the state's relative gain from increased trade has been small. Foreign shipping lines, especially those of United Kingdom, Japan and the USA, have remained the main carriers of goods to and from Kuwait. In the oil industry, the concessionaire oil companies were able to impose their own oil tanker use pattern, while dry goods cargoes, even including basic food-stuffs, have come from the Far East, Western Europe or America in vessels of the international merchant fleets. Kuwaiti vessels, largely dhows, have been inadequate to cope with the changing pattern of imports which has moved the catchment area of the state from the Gulf and Indian Ocean to the areas of major industrial and agricultural output that both consume Kuwait's oil and supply it with its import requirements. The small scale of Kuwaiti participation in marine transport is further emphasized by the fact that even where Kuwait-owned

1. The Times, 25 February, 1975, p. VII.

2. During 1971 the amount of goods exported through the port of Shuwaikh reached 18% of the amount of goods imported via the same port. This proportion increased to 48% and 72% in the following two years, mainly because of an upsurge in the use of land routes and a decline in the use of sea routes for the importation of goods.

vessels are in operation, as much as 98% of the crew will be non-Kuwaiti.

2. Shipping Management

Capital investment in new ships, repair bills and fuel costs are determined mainly by international factors.¹ The costs of time spent in any port of loading or discharging in addition to the cost of management are mainly determined by national factors.² The cost of cargo handling is the main cost, including all port fees. Time is another factor that adds to the cost. This differs from one port to another according to the speed of cargo handling and the waiting time involved.³

Labour costs, which increase relatively faster in developed countries than in other countries, have led to great losses to Kuwait's Shipping Company, because most of the company's captains and some of its crew are from developed countries such as Britain and Norway.⁴

Kuwait's shipping was virtually dormant until the early 1960's. During the last half of the 1950's and into the early 1960's the first moves towards investment in the marine sector started to re-appear. Initial developments were difficult because of the absence of trained manpower or

1. The Times, op. cit., p. VI.

2. A.D. Couper, op. cit., p. 82.

3. Such is the situation in many of the Gulf Ports. For further detail see: Kuwait Digest, Vol. 4, No. 2, April 1967, p. 24. and Kuwait Chamber of Commerce, Kuwaiti Economist, Vol. XVI, No. 145, p. 46.

4. Ibid.

people with a special interest in this field.¹ Secondly, people had lost confidence in shipping as a profitable field of the economy. Thirdly, the appearance of many specialized countries in this field, was made more damaging by technological changes in shipping in which Kuwait was far behind. However it was found the shipping activity could become a profitable enterprise.² The reasons persuading Kuwait to go ahead with development of commercial fleet were:

1. Large exports of oil.
2. Additional employment.
3. More favourable balance of payments.
4. Increased demand for regional shipping.
5. International recognition.

The Kuwaiti Government took the initiative in establishing the first modern shipping company in 1965, with a capital of two million Kuwaiti Dinars, of which 60% was Government participation in the form of shareholders.³

3. Participation of Shipping in Kuwait's Trade

The availability of capital and the increasing tonnage carried to the area each year have given the Kuwait Shipping Company (KSC) the impetus to develop and widen its services

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1. Ibid.
 2. al-Khaffjee, Vol. 3, No. 7, k973, Arabic text.
 3. Africa and The Middle East Business Digest, May 1974, Vol. XIX, No. 24, p. 16.

rapidly.¹ Between 1965 and 1976 the number of ships owned by KSC rose from 2 to 26 with a total tonnage of 400,000 dwt.²

At the beginning of the company's activities, during the third year of its establishment, it became a member of the Liner Conference for Europe and the Middle East.³ It was agreed that the Kuwaiti company's share of trade between the two areas could reach 4.5% of the total cargo shipped, which constitutes 50% of total Kuwaiti imports from Europe.⁴ The increase in demand emphasizes that the capacity of Kuwait shipping was far behind the needs of the area and the local market, in respect of the substantial amount of goods that were imported from Western Europe. The first regular route was established between Kuwait and other ports within the region including Dubai and Abu-Dhabi, and Western Europe.⁵ The second expansion in the company's services was the extension of services to America.⁶

In 1967, because of the closure of the Suez Canal, activity increased to twelve European voyages a year, instead of six, with an increase in the number of ships used. This was accompanied by an increase in the company's general income during 1968 by about KD77,884 over the previous year. The schedule of development in the company's programme continued during 1969, by the end of this year the total capacity of

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1. Kuwait Shipping Company, Annual Report for the Year 1966, p. 14
 2. The Times, 4 November 1967, p. II.
 3. Kuwait Digest, op. cit.
 4. Kuwait Shipping Company, op. cit., p. 13
 5. Ibid., p. 10.
 6. Ibid., p. 11.

company's fleet, which consisted of 9 ships, had reached 122,165 tons. The expansion in the company's fleet has permitted services to be expanded over a wider area. A third main service was established to the Far East in 1970, with one voyage every month.¹ A fourth line will operate between the Red Sea and the Gulf.²

At present the services give links between most of the important trading states and Kuwait and the Gulf area.³ By concentrating its services on a limited number of ports, the company can manage to achieve a quick turn about, and cut the port fees.⁴ In addition ships have a greater certainty of finding cargoes on a selected number of specialist ports.

The company started its services with a very limited number of journeys to Western Europe, handling about 11 thousand tons of goods, or some 3% of the total goods handled at Kuwait's ports.⁵ The activities have increased rapidly in order to keep pace with the increase in the amount of imports carried to the area. Despite these increases the 1974 Kuwaiti-flag carried share of trade exchanges did not exceed 6% of

1. Ibid.

2. Kuwait Digest, op. cit., p. 24.

3. One of the main factors that enables Kuwait to be a member of the Liner Conference for Europe and the Middle East is the amount of its trade to and from Western Europe. Therefore it is obvious that this part of the world will be given priority in the Kuwait Shipping Company's services. For further details see: Kuwait Shipping Company, Annual Report 1966 and 1970.

4. al-Khafjee, op. cit., p. 26.

5. Kuwait Shipping Company, op. cit.

the total cargo handled at Kuwait's ports.¹ The up-trend in the carrying capacity of Kuwait's Shipping Company amounted to 109% between 1974 and 1976 compared with 945% between 1968 and 1976.²

In 1974, because of the increase in the area's amount of imports, the company increased the number of its journeys from 24 to 30 to Europe, from 19 to 24 to the Far East and from 12 to 18 to the USA.³

4. Kuwaiti Shipping and Finance

The increase in the value of trade was not just a result of increasing volume carried, but was also due to global inflation and exchange rate fluctuations which pushed up shipping charges as well as the costs of shipbuilding.⁴ Prices have also been affected by a number of international incidents such as the closure of the Suez Canal in 1966, the devaluation of the Pound Sterling which drove tariffs up by an annual average of 6%, the strike at US ports; Vietnam war, and the 1973 energy crisis following the Arab-Israeli war of the same year.

The high cost of ships, the need for offices and employees, and branches in other countries all consume large amounts of capital and push up current costs. The company

1. Ministry of Planning (1978), op. cit., p. 320.

2. Kuwait Shipping Company, Kuwait Shipping Company pamphlet, Arabic text, unpublished, p. 4.

3. Kuwait Shipping Company, op. cit. pp. 5-8.

4. Kuwait Shipping Company's official.

was in financial difficulty during the first two years (1965-1966).¹ The closure of the Suez Canal hindered the services, and more ships were chartered to cover the gap in the company's services, as a result of the added length of the alternative Cape route. This increased the company's expenses and led to diminution of profits.² But by retaining its profits undistributed it was possible for the company to accelerate its purchase of new capacity with acquisition of three ships with a capacity ranging from 12,800 to 15,800 tons. By the end of 1968 the company's total income was KD518,000 an increase of KD564,000 over the previous year. But after the subtraction of the company's expenditure during this year this means an increase of KD316,000 over the previous year.³

In 1969 the net profit was KD401,000, after a deduction of 20% for the reserves. The remainder, which was divided between the shareholders, was equal to 7.5% of their shares, while during the next year, 1970, the proportion of the shareholders profit reached 10%.⁴

In 1973 the capital doubled. This resulted from the increased amount of imports to Kuwait and other neighbouring countries.

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1. During 1966 the total expenses of the company reached KD118,784 and 1,028,742 in 1970.
 2. The writer interviewed and spoke to many people in the transport business and gathered that the idea behind the establishment of such companies (Kuwait's shipping, tanker companies and Kuwait airways) which in some cases run under a great subsidiary from the Government, is to keep Kuwait's flag participation in such activities but with no direct interest in profit; in some cases profit came second.
 3. Kuwait Shipping Company, (1969), op. cit., p. 11.
 4. Kuwait Shipping Company, (1970), op. cit., p. 13.

In 1974 the company's total profit was KD6.1 million which was three times that in 1973 which in turn led the company to supplement its 26 ships by chartering up to 30 others.

5. The United Shipping Company

As recently as 1977 Kuwait agreed with five other Arab states of the Gulf area to establish a joint shipping line as a means of rationalising services and increasing the bargaining strength of the participating states vis a vis the major shipping lines. Kuwait will play an important role in the new United Shipping Company (USC) since the existing fleet of the Kuwait Shipping Company will form the nucleus of the USC fleet, with a secondary contribution from the Iraqi Maritime Transport Company.

Kuwait's adherence to the new joint agreement on shipping is a gesture towards regional Arab solidarity and a political move designed to indicate Kuwait's acceptance of a measure of regional co-operation and readiness to work with Iraq, possibly for concessions on the border issue at a later date. The economic arguments for Kuwaiti participation in the joint venture are less clear-cut. While all the members of USC are wealthy oil-exporting states and large-scale importers of goods and none have large populations, which factors give a certain logic to creation of USC, there is no complementarity between the states and indeed in most areas are economically competitive. In effect, the degree of genuine integration of the shipping lines of the member states is small and there are few signs that the joint company will ever be much more than a political symbol.

6. The Future for Shipping

Kuwait remains keen to expand the area of operation and the capacity of the merchant fleet, formerly KSC. The future is clouded by deep uncertainty arising from the unsure levels of trade, diminishing profit margins but increasing costs of ship purchase and operation. Kuwait has the particular problem that it is almost totally dependent on foreign crews since Kuwaiti nationals have been reluctant to be involved in what appears to be an arduous and demanding occupation.

In some ways, merger of KSC into the USC reflects official Kuwaiti disappointment with shipping as an employer of Kuwaiti labour. Yet, for all that, steady if not dramatic profits have accrued from Kuwaiti shipping operations and great scope exists for future expansion. Shipping also fits Kuwait's special economic needs in which capital is available but domestic productive resources extremely limited. It is likely, therefore, that Kuwait will retain its levels of investment in the merchant shipping sector purely to diversify its sources of current income but hope that ultimately, when the state's oil revenues begin to diminish, Kuwaitis will be more favourably disposed towards employment in shipping and related activities.

7. Kuwait Oil Tanker Company

Among the oil exporting countries Kuwait ranks fourth in the world. Local oil consumption in Kuwait is very limited. The same can be said in respect of the share of its tanker fleet in relation to its total exports of oil carried. The

growth of the world tanker fleet has been faster than that of the total world dry cargo fleet. The growth of the world tanker fleet has run parallel with the growth of petroleum demand and production.¹ Indeed, oil's relative importance among the producer and consumer countries determines the demand for oil tankers. In fact about 80% (1970) of world oil products were moved between developing countries and developed (industrial) countries.²

The Middle East is the world's major oil producer, especially the Gulf. The tanker routes between the Gulf and Western Europe, and between the Gulf and Japan are the most active in the World.

By the time Middle East oil exports reached about 83% of world oil supplies in 1970, the international oil companies owned about 40% of the world tanker fleet.³ In addition they controlled most of the rest of the world's tanker fleet through independently owned but oil company leased tankers. The proportion of tankers owned by the oil producing countries including those chartered by the oil companies, does not exceed 7%, or about 1.6% of the total world tonnage. The proportion of Arab oil tankers does not exceed 1.3% of total world tonnage.

Kuwait's tanker fleet was established in 1957. Its development has been very slow in comparison with the country's developments in oil exports in both quantity and distribution.⁴

1. A.D. Couper, op. cit., p. 110.

2. T. Michael, The Political Economy of National Oil & the Underdeveloped Countries, Temple Smith, London, 1970, p. 149.

3. Ibid., p. 150.

4. The Financial Times, op. cit., p. 21.

All the oil shipment operations in Kuwait have been supervised by the Kuwait Oil Company and this company has its own fleet. The Kuwait Tanker Company (KTC) is also reluctant to run its tanker fleet on a charter basis, because of the fear of competition.

The increasing demand for tankers during the 1956 Suez crisis contributed to the establishment of KTC, also charter operation especially with the Kuwait Oil Company, looked promising. The large fluctuations in tanker demand may be another reason for the slow development of the oil tanker fleet. There was a great demand for the construction of new large tankers during the Suez crises (1956 and 1967) but many were delivered after the Canal had re-opened. This caused a relative surplus of tankers capacity on offer and caused a depression in the market. Tanker rates have fallen by 50 to 70% since 1956.¹ This was followed by a reduction in tanker operating costs. This reduction in the rates for tankers is a result of the trend towards the larger tankers which cut tankers operating costs, and the opening of the Suez Canal, in addition to the recent cut in oil consumption in many countries. The Kuwait Oil Company has chartered six large vessels on long-term.²

The KTC has six large vessels, which are chartered to Gulf Oil and British Petroleum as part of Kuwait's oil nationalization agreement. This agreement has saved the KTC

1. M. Tanzer, op. cit., p. 150.

2. The Kuwait Digest, op. cit., p. 23.

from the fluctuations in world demand for tankers, and the company has enjoyed good profits despite the slump in the international tanker market.¹ However, the Kuwaiti Oil Tanker Company's expansion is proportionally still far behind the country's increase in oil production, and only a small proportion of Kuwaiti oil is carried in Kuwaiti-flag vessels. To the present, the KTC fleet has capacity to handle only 10% of the state's current oil production.

During the second half of 1970 world demand for tankers decreased though a number of international oil companies were still paying high rates on contracts entered into during the tanker boom. Large tankers in the 250,000 ton capacity range were revealing profits of up to 700% when operated under such unfavourable contract terms. Tanker rates were boosted by the decline in output from the North African producers in the early 1970's, which led to greater demand on the Gulf producers such as Kuwait. In particular, large tankers were sought to offset the costs of the longer voyage round the Cape necessitated by increased movement of Gulf oil to Europe. Rates came under further pressure as a result of the sabotage to the Tapline system, leading Saudi Arabian oil to the East Mediterranean terminals, and the continued closure of the Suez Canal.

1. The average price of the KOTC is \$25 per ton (KD 7) while the price in the world market is about \$75 per ton. For further detail see: Ibid.

Optimism concerning the future profitability of tanker fleets was fed by forecasts that US oil import-dependence would increase rapidly during the mid-1970's and by ambitious plan for expansion of production and export capacity in Saudi Arabia and Iran. Meanwhile, fluctuations in the value of major international currencies encouraged countries like Kuwait to seek safe areas of investment for funds held abroad and, among the avenues of investment taken, tanker purchase was favoured. Kuwaiti interests signed contracts in 1975 for the construction of a number of Very Large Crude Carriers in the capacity range of 250,000 to 400,000 tons.¹

The international market for tanker declined considerably after 1973 and rates have more or less consistently fallen from that time to a level where only highly efficient fleets with strong contract arrangements are in profitable business. Extensive laying-up of vessels has been taking place indicating that the depressed state of the tanker market will prevail for a considerable period. Despite this, Kuwait has continued to acquire tankers on the expectation that demand will increase in the medium-term as the US economy recovers and as imports of oil there become increasingly necessary.²

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1. Because the Japanese insisted on the contract being signed on the Yen, while at the same time the floating Yen increased in value in relation to the Dollar. A similar situation followed in most of the European currencies (revalued or floated). In addition to the above mentioned factors came the rising cost of steel and labour that have a very considerable effect on building prices. Kuwait Oil Tanker Company, Annual Report 1973, Kuwait, p. 9.
 2. The Kuwaiti Government announced on June 1979 that it was taking over the Kuwait Oil Tankers Company. For further detail see: World Affairs, April-June 1979, p. 23.

TABLE 47

Kuwaiti Refining Capacity and Exports Shuaiba Refinery

	(Metric Tons)		
	1975	1976	1977
Naphta	999,500	1,104,000	993,400
Gasoline/reformate	268,300	418,000	476,700
Kerosine	611,900	463,200	819,400
Diesel oils	2,397,600	3,151,800	2,914,200
Fuel oils	1,826,500	2,990,500	2,296,400
Sulphur	n.a.	n.a.	68,500

Note: KNPC's sales of refined products on the international market rose to 12.7 million tons in 1977, of which 7.1 million tons was derived from Shuaiba refinery, 5 million tons from Ahmadi refinery, and 0.6 mn from other sources.

Kuwaiti policy is also to move towards increasingly exclusive movement of oil exports in national flag tankers. Kuwait National Petroleum Company, now entirely owned by the Government, is showing interest in developing an export trade in refined petroleum products (Table 47), of which some 60% would be carried by KTC vessels.¹ Carrying of refined products has the advantage of giving higher tanker rates and more rapid amortization of investments in tankers.² The main problem affecting developments in this sphere is that export markets are highly competitive and Kuwaiti products have to compete against both goods handled by the major international oil companies and the products of local refineries in the consuming areas.

Kuwait has joined the Arab Maritime Petroleum Transport Company (AMPTC) which has been set up as a venture under the Organization of Arab Petroleum Exporting Countries, the headquarters of which is in Kuwait. OAPEC has an ambitious plan for future expansion. By 1975 AMPTC operated 32 vessels of aggregate 3,131,787 dwt, and was committed to a programme for the acquisition of a further 23 ships to bring capacity to 7,877,787 dwt, to bring the fleet to be one of the largest tanker operations in the world.³

Petrochemical development in the area, will increase the regional demand for shipping services. At the same time, world demand for oil will continue to increase. The USA demand

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1. M.W. Khouja and P.G. Sadler, op. cit., p. 155.
 2. Ibid.
 3. Kuwait Digest, (1975) op. cit., p. 25.

TABLE 48

Tanker Demand and Supply(Million Tons dwt)

	1977	1978	1979	1980
Supply	267	277	281	267
Demand	208	225	245	263
Surplus	59	52	36	13

Source: After E. Tucker, "Moving towards a better balance",
Petroleum Economist, No. 2, Vol. XLIV, London 1977,
p. 49.

will rise by 5.95% a year from 1976 to 1980.¹ Tanker service between the Gulf and the USA will double by 1980. Western Europe is the second consumer area and its demand is expected to rise by 4.7% annually, of which the North Sea will supply a minor share; but 70% of the European market will be supplied from the Middle East, because of the nature of its demand i.e. mainly fuel oil (North Sea oil is relatively light).²

Japan, which forms one of the major Middle Eastern oil markets, should raise its demands by about 31% between 1979 and 1980. This will cause an increase in the necessary tanker capacity from 34 million dwt. in 1977 to 41 million in 1980.³

It is thought 27.5 million dwt. will be scrapped because of age. In addition some of the tankers are engaged in the carriage of grain, chemicals, wine....etc. or are used as oil storage or in coastal trading. Therefore the world tanker fleet's capacity is expected to rise about 2% in its total dwt tonnage.⁴

Table 48 indicates, up to 1980 there will be a surplus in tankers above world demand Kuwaiti policy towards increasing its tanker fleet capacity will concentrate on local products. This will offer priority to the local tanker, because of the necessity of transporting local products of crude oil and refined products.

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1. E. Tucker, op. cit., p. 43.
 2. Ibid.
 3. Ibid.
 4. Ibid., p. 49.

TABLE 49

Summary of Estimated Present and Future Investment in
Petroleum Processing and Manufacturing, 1976 and 1985

(KD \$ mm)

Country	Refining		Petrochemical		Fertilizer		LNG + LPG		Total											
	Present 1976	Future 1985	Present 1976	Future 1985	Present 1976	Future 1985	Present 1976	Future 1985	Present 1976	Future 1985										
Algeria	84	24.3	272.4	553	163.2	1800	521.7	50	14.4	350	95.6	240	69.5	17000	4927.5	927	268.6	20070	5817.3	
Libya	122	35.3	560	162.3	-	1533	444.3	-	165	47.8	120	34.7	-	-	-	242	70.1	2258	654.4	
Egypt	144	41.7	60	17.3	-	626	181.4	40	11.5	930	269.5	-	300	86.9	184	53.3	1916	555.3		
Syria	55	15.9	240	69.5	-	-	-	9	2.6	165	47.8	-	-	-	64	18.2	405	117.3		
Iraq	155	44.9	180	52.1	30	8.6	1100	318.8	12	3.4	685	198.5	-	-	197	57.1	1965	569.5		
Kuwait	322	93.3	-	-	-	750	217.3	81	23.4	10	2.8	400	115.9	100	28.9	803	233.7	1760	510.1	
Bahrain	175	50.7	54	15.6	-	-	-	-	-	-	-	-	-	-	175	50.7	54	15.6		
Qatar	6	1.7	100	28.9	-	540	156.5	55	15.9	256	74.2	43	12.4	360	104.3	104	30.1	1256	364	
U.A.E	37	10.7	300	86.9	-	900	260.8	-	300	86.9	600	173.9	1300	376.8	637	184.6	2800	811.5		
Saudi Arabia	493	142.8	1600	463.7	-	3225	934.7	50	8.6	350	95.6	250	72.4	11000	3188.4	773	224	16155	4682.6	
TOTAL	1593	461.7	4034	1169.2	583	168.9	10474	3035.9	277	80.2	3171	919.1	1653	479.1	30960	8973.9	4106	1190.1	48659	14098.2

SOURCES: Chemical Week, March 23, 1977
 Chemical Age - Annual International Contracts Survey 1977
 OPEC Annual Statistical Year Book, 1975.

Kuwait, in company with most other major oil producers in the Gulf area, has placed appreciable funds in the development of a petrochemical industry. By 1976 Kuwait was the second largest investor in petrochemicals in the Middle East, with KD237 million already spent. Forecasts through to 1985 suggest that Kuwait will lose some of its preeminence as other countries press ahead with expansion programmes, but that Kuwait will still have a significant petrochemical base emerging from total investments of a further KD510 million (\$1760 million) (Table 49). It is expected that the petrochemical industry will give opportunity for Kuwaiti specialist merchant vessels to participate in the export trade to be developed by the new petrochemical plants.

Forecasts of future demand for crude oil are rendered particularly difficult by the unsettled situation in the OECD states, where rates of growth have remained low. Even so, most long-term assessments¹ take it as an assumption that the US oil market will grow and will be supplied by additional crude from extra-hemisphere sources and mainly the Middle East exporters.² Western Europe, too, is still without an integrated energy policy and the areas of industrial growth there tend to be those most reliant on imported oil, particularly West Germany, France and Italy, and demand for crude is forecast to rise by some 4.7% annually into the 1980's.³

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1. See in particular Shell Briefing Service, World energy prospects, London, 1977.
 2. E. Tucker, 'Moving towards a better balance' in Petroleum Economist, Vol. XLIV, No. 2, London 1977, p. 48.
 3. Ibid., p. 48.

The position of Japan is rather more vulnerable, to the advantage of the Middle East oil suppliers, since Japan is highly oil-dependent and has negligible supplies from domestic sources. The expected growth in demand for oil in Japan is foreseen at an aggregate of 31% between 1977 and 1980.¹

However unreliable the forecasts available, it is clear that even modest rates of economic growth in the OECD countries will produce further demand for crude oil, the largest proportion of which can only be met by sources in the Gulf.² Kuwait hopes to be in a position where it will not only provide a proportion of incremental supplies of crude oil but also participate on a significant scale in the transport of that crude.

Kuwait is expanding its own tanker fleet with purchases of modern VLCCs in the expectation that agreement will be reached between the maritime states on scrapping of old vessels. There are hopes that as much as 27.5 million dwt of tankers will be scrapped before 1980 so that even with the entry of new tonnage the increase in available bulk carrying units will be only 2% over 1977 levels. It is apparent that unless there is a radical change in the pattern and scale of world oil consumption that there will be a surplus of tankers in the early 1980's even with a widely implemented policy of scrapping old vessels. To avoid the worst effects of the forecast surplus of tonnage (Table 48), Kuwait will press for the oil

1. Ibid.

2. G. Chandler, The international energy prospect, Shell Petroleum Company, London, 1977, p. 2.

companies to utilize a greater proportion of Kuwaiti-flag tankers in the carrying of crude from the state.

8. Conclusion

Kuwaiti planners and the Government itself are pinning a deal of faith in the expansion of the bulk carrier and tanker fleets. The short-term prospects for high rates of return on these considerable investments are not good, as noted above. Employment of Kuwaitis in this area of maritime trade has been relatively insignificant. Even worse, expansion in Kuwaiti investment in oil tankers increases rather decreases real dependence on the oil sector. Kuwaiti involvement in the oil tanker business must, in view of the lack of short-term benefits, be regarded, therefore, as a medium-term strategy designed to play to relatively safe areas which offer potential for future development into non-oil activities. In effect, experience in managing the tanker fleet will ultimately provide a basis for expansion into general merchant marine activities against the day when oil ceases to be a major earner of foreign exchange and financial prop of the state.

The Government has shown greater interest in expanding the shipping potential of the state than other areas where invisible exports may be earned. Sharpness has been taken from its activities by a confusion of objectives. At one and the same time, the Government wishes to see Kuwaitis establish a viable shipping industry with a foreign-exchange earning capacity together with the use of the merchant marine as a show-piece of inter-Arab co-operation. It may well be that these

two objectives are incompatible. Participation in joint Arab ventures expresses political aspiration. Kuwait inevitably has its commercial role in joint ventures circumscribed by quotas which compromise capital shares with political and economic might. In the latter two arenas Kuwait has only modest sway against giants such as Iraq or Saudi Arabia. Flexibility and rapid decision-making are rarely the characteristics of multinational ventures, which factors must detract from any possible commercial advantage accruing from membership. If Kuwait wishes genuinely to set up a merchant marine of international calibre, it cannot afford to subjugate its interests in rapid expansion, freedom of operation and political impartiality by subscribing to Arab organizations for political reasons. It might be suggested that the dichotomy in Kuwait official policy towards shipping arises above all from its lack of conviction in the need for economic diversification and the putting of Kuwaitis to serious work outside Government service.

CHAPTER VIII

THE FISHING INDUSTRY IN KUWAIT

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 - The Biotic Environment
 - Ecological Aspects of Kuwait's Fisheries
 - Shrimp Biology

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CHAPTER VIII

THE FISHING INDUSTRY IN KUWAIT

Introduction

Because of the structure of Kuwait's economy and its narrow resource base, it is important to recognise any available usable resource. In Kuwait most of the land area consists of desert and is lacking in economic resources, with the exception of oil. Consequently, attention must be focused on marine products, which appear to be available in considerable quantities. Although the physical characteristics of the Gulf area led to fluctuations in both the quantity and species of sea food products available, the development of the fishing industry is favoured by several factors, the availability of capital, a sheltered port; and although the local market is rather narrow, there is an extensive regional market. It is the purpose of this chapter to examine the possibilities for the fishing industry in Kuwait in the context of these factors, and this examination will take the following form:

1. An examination of the biological conditions of the Gulf area, including biological and ecological aspects, and the utilization of fishing resources, for these are the basic elements on which any estimate of the fish population must depend. Such an estimate must be a pre-requisite for any expansion in the fishing industry, because without such evaluation, there is the danger of

over fishing in the long term.

2. A historical review of fishing in Kuwait and its former importance, with mention of the methods employed in the industry and how they could be integrated into its modern development, in order to be able to meet the demands of both the local and the export market.

3. Fishing problems in Kuwait, which are influenced by physical, human and economic elements. These elements can have two side effects: positive, by increasing the productivity of the fishing industry; and negative, by reducing the fish population. Therefore, the aim of this section is to discuss ways of increasing productivity, without harming the fish population.

4. Kuwait's modern fishing industry, studying recent developments in Kuwait's fishing companies and fishing farms.

5. The importance of fishing activities to Kuwait: the out-put of fish; fish as a source of food; fishing as a field of employment and as a source of income. This final sector will evaluate the importance of fishing activities from an economic as well as a production point of view.

1. Biological Conditions

The Biotic Environment

The most important link in the productivity chain in any fishing ground, and in the Gulf in particular, is the biotic environment, because the abundance of marine

micro-organisms controls, to a large extent, the occurrence, abundance, and migrations of fish. These marine organisms are of two kinds: zooplankton and phytoplankton which form the "standing crop" of the sea. The latter depends mainly on physico-chemical conditions and solar insolation. Zooplankton depend on phytoplankton for their sustenance, and both in turn form the food for fish larvae or the plankton eating forms of fish. Therefore, it is essential to discuss the biological conditions of the northern part of the Gulf before studying fishing activities in Kuwait.

Despite the lack of scientific studies, and because almost all previous studies about fish in the Gulf area are either out of date or depend on a descriptive approach, rather than a scientific study, this section may be considered as an attempt to evaluate the capacity of the Gulf's fishing grounds. This will depend mainly on preliminary studies i.e. that carried out by the Kuwait Institute for Scientific Research in relation to their development programme for shrimp fishing (fishing farm), and the preliminary survey by FAO experts at the request of the Kuwaiti Ministry of Public Works, as part of the latter's scheme to establish the Kuwaiti Institute for Marine Fisheries and Navigation which was created in 1971.¹

The Gulf area forms an extension of the Arabian Sea, which in turn is the western part of the Indian

1. The Institute's work concentrates on the work of FAO experts only. Interviews with FAO personnel in Kuwait indicated that there is little accurate information available in Kuwait concerning the oceanography of the Gulf. A report prepared for the Kuwaiti authorities on the current condition of the Gulf fisheries has been withheld from publication, presumably because its findings are unflattering to the future prospects for Kuwaiti fisheries in that area.

Ocean. In general, the Indian Ocean is the source of less than 5% of the world's catch, although it is not a biologically poor ocean, and in fact it forms an obvious target for future development. A similar situation is true of the Arabian Sea, which is believed to contain a great quantity of fish, capable of supplying several million metric tons of fish annually. The Gulf, as a part of this ocean, has been an under-exploited area until very recently.

Estimates of possible fish production in the Gulf suggest a figure of 1.1 million tons, and most studies of Gulf biology indicate that the Gulf has high levels of biological production.

The FAO study of the northern part of the Gulf indicates a high biological productivity. By using plankton changes during the year as an indicator for the richness of the biological base, it may be said that this base is very rich, especially in the northern part of the Gulf near Kuwait's coast. This may be due in part to the continuous discharge of freshwater from the Shatt-al-Arab river.

The distribution of both phytoplankton and zooplankton witnesses changes from season to season during the year. Phytoplankton flourishes during April to July in Kuwait Bay and around Failakha Island, (Figure 10 shows the levels of plankton during the year), and during the autumn months Kuwait's shore area shows the highest proportion of plankton concentration in the entire Gulf area. In winter the proportion of phytoplankton reaches its highest rate, not only along Kuwait's coast, but also

throughout the Gulf. The quick increase in the amount of the phytoplankton during the winter may be due to the effect of the weather conditions, particularly the strong winds which cause vertical mixture in the sea water.

There are no essential changes in zooplankton over the year, but there is some seasonal increase in other kinds of plankton in summer, such as cladocera, penilia averostris and Evandue, while Decapoda shows a seasonal increase in spring.

In general the Gulf is rich in its plankton base despite its seasonal changes, especially in the northern part of the Gulf. Plankton resources in the Gulf have been estimated at about 4.7 million tons¹, but this is not a definite amount and it cannot be used as an indication of the amount of plankton in the Gulf as a whole, as this figure only applies to the north-western part of the Gulf. Accordingly, it is difficult to predict general levels of plankton in the Gulf, because of the limited research that has been done on this subject. Similarly the amount of zooplankton has been estimated at about 3.85 million tons.

Despite the Gulf's biological rich base, it is unsettled, because of the changes in plankton density which take place. These changes cause changes in the amount of edible fish available, especially those which are important as animal fodder.

1. FAO experts, The Result of the Hydrobiological Research, unpublished report, Kuwait, 1971, p.34.

Ecological Aspects of Kuwait's Fisheries

An earlier chapter II dealt with the physical environment and biological parameters on which commercial fishing in the Gulf depends. Although these physical and biological parameters are largely given in natural order, and are arranged in distinct ecological patterns, these patterns are disturbed and unbalanced by the activities of man. Thus, this section will examine the ecological aspects affecting fish population in the Gulf.

It is difficult to discuss in detail either fish migrations or the distribution of commercial fish species, because of the limited research which has been undertaken, and the limited time available for the research undertaken by FAO experts in 1971.

The number of fish species present faces a decline during the winter months, with about 45 species disappearing from the shallow coastal area in the south. However, the number of fish species does increase in the shallow coastal areas of the northern part of the Gulf. Such a contradiction between the southern and the northern areas during the winter months may be due to the discharge of fresh water from the Shatt al-Arab in the north which may cause a seasonal migration of certain fish species, for example *Dasiatis*, *Brevicandatus*, and others which are not present during the summer months.

In general there is a large range of species in the Gulf waters, but many of them reach their maturity while they are still small in size and therefore their economic importance is negligible. The FAO report indicates that

26% of the fish population can be classified as edible and therefore of economic importance, 54% as of little economic importance, and the remaining 20% as of no economic importance. These proportions refer to the Kuwaiti coast, but may apply also to the rest of the Gulf area, with fluctuations in the proportion of each group from one area to another. The proportion of edible fish reaches about 30% of the total in the northern part of the Gulf. The amount of fish available and the range of species indicates that the development of a commercial fishing industry is possible. There are about 258 species in the Gulf area as a whole, and these vary in size and number, as well as importance, and in order to indicate the most important group of edible species in the Gulf the writer will outline the classification of the FAO experts.¹

1. The small size species include *peneus sulphureus*, *sardinella jussieu*, *Nomipterus vigatuse*, *Rhociscus stridens*. No species in this group reach large size under any circumstances. Thus, their importance is due largely to their wide distribution in the area and not their suitability as food. However they can be used as fish meal. This is in line with their natural function, as even in the sea most of the big fish depend on this group for their food. The fertility of this group may be considered as at an average level, so that any increase in the catch at an average level would not adversely affect

1. FAO experts, The Reserve Base of Fishing in the Arabian Gulf, Unpublished report, Ministry of Public Work, Arabic text, Kuwait, 1971-1972.

the amounts of these species of fish available.¹

2. The most important species among the edible fish include *Otolithus argenteus*, *Pampus argenteus*, *Lutianus gibbus*. In general this group is facing losses because of increasing demand by consumers. Consequently despite the lack of confirmed records of the size of the catch each year and the average life-span of such species, it can be said that there is a general fear that the species in this group are declining in population and will face an even greater reduction in numbers if organised control over the amount caught, season fished and location of fishing grounds is not introduced in the near future.

3. The most popular species for local consumption include *Pemadosy nasta* and *Lethrinus nebulosus*. Up to the present, the density of this group in the Gulf is good, but it is difficult to determine the extent of its reserves, and any decision on its future needs more study.

4. The final group also includes edible species, namely, *Argyrops spinifer* and *Epinephelus*.

The density or amount of fish in any area is not the key factor in the expansion of fishing activities on a commercial scale. Indeed, the most important factor to take into account is the ideal amount of fish that may be caught each year without damaging biological standards in the fishing area, bearing in mind that natural causes also account for the disappearance of significant amounts of fish.

1. This means that the total amount of increase in the catch must not exceed the average fertility of the species in this group.

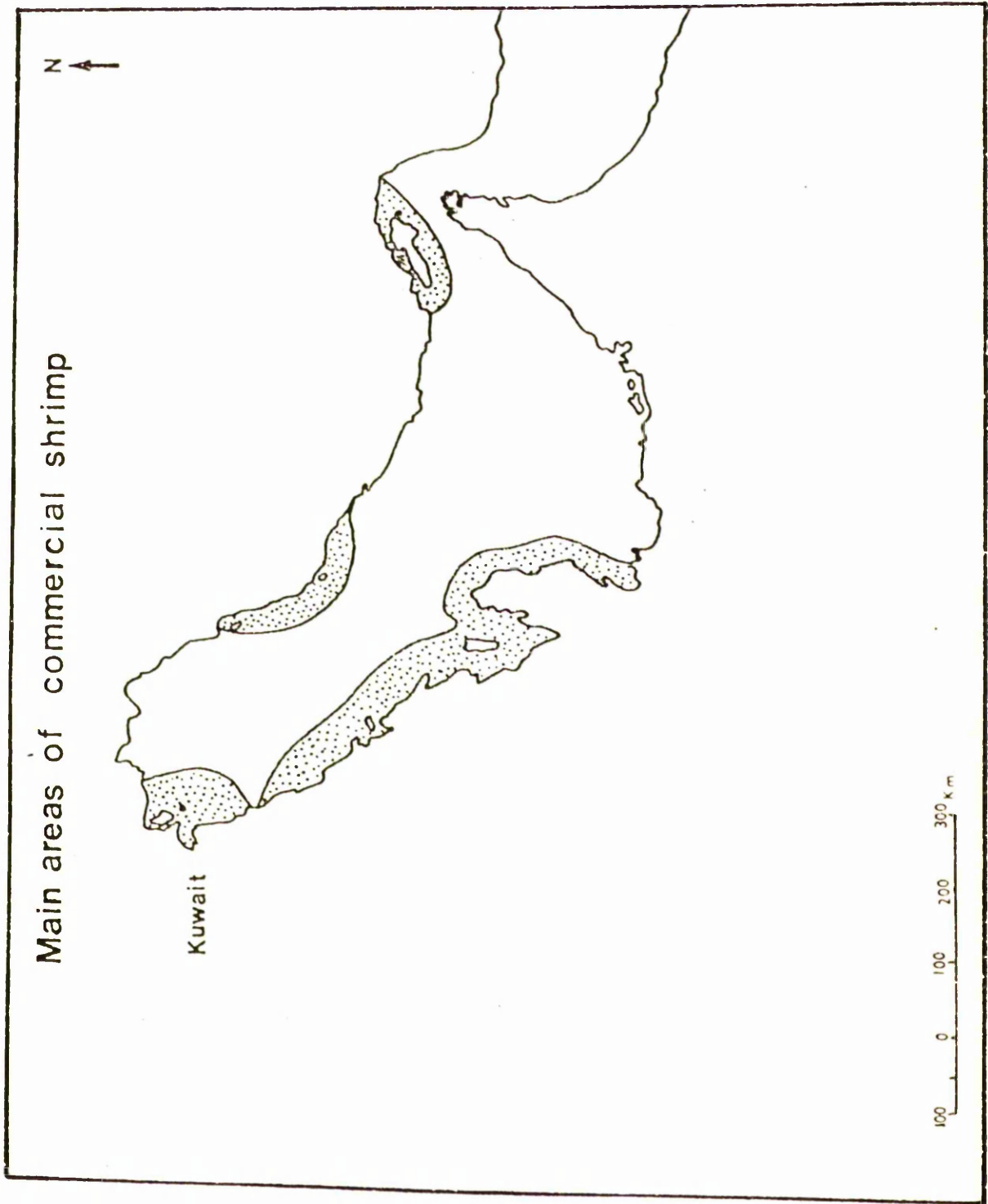


Figure 23

After; L.K. Boerema, Rome, 1969.

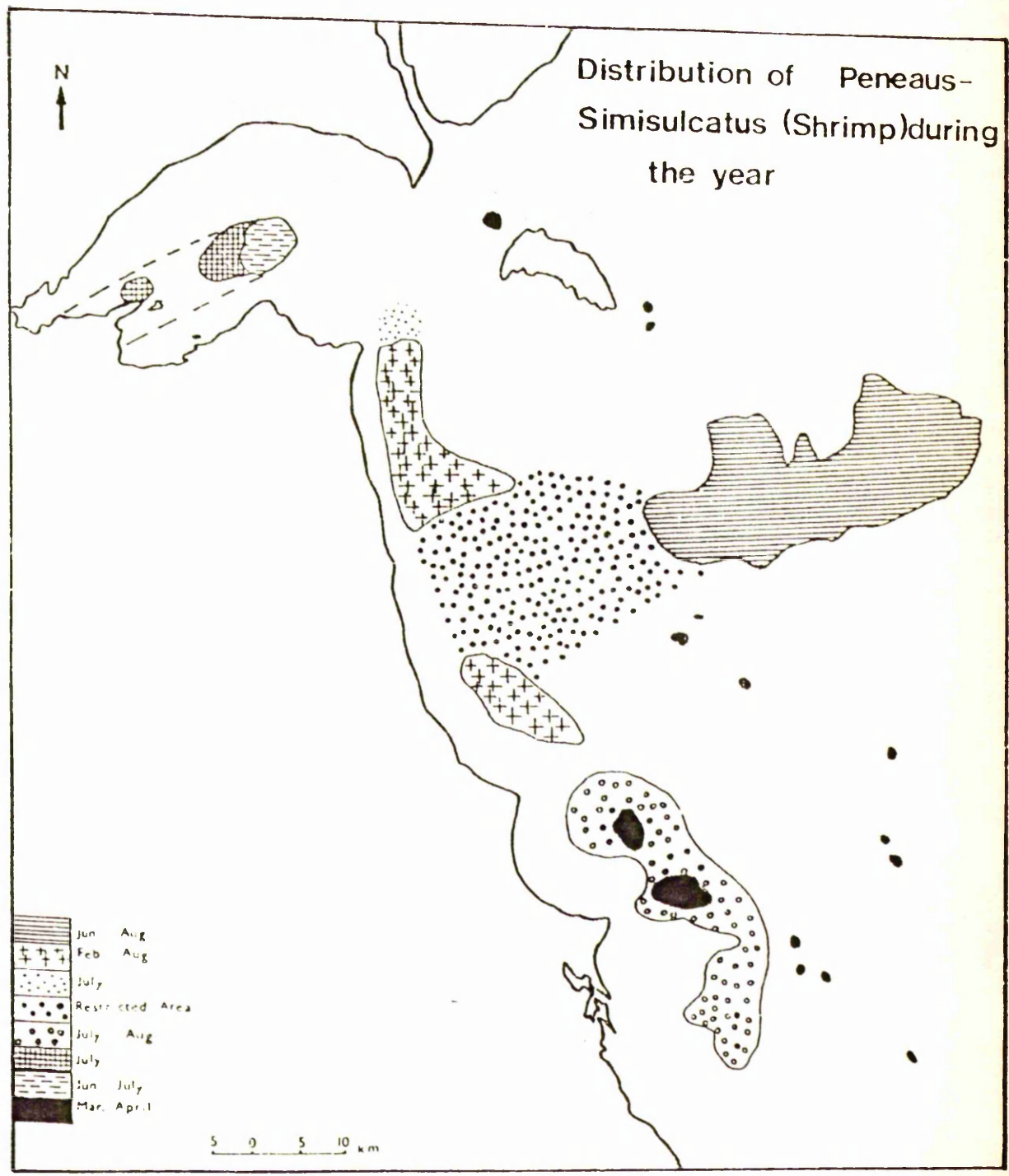


Figure 24

After; al-Attar, Kuwait Institute for Scientific Research.

In conclusion it must be said that, in undertaking commercial fishing, it is necessary to restrict the number of fish caught each year so that the density of species in the area is reduced.

Shrimp Biology

Shrimps are considered the most important among all species of sea food, both by economic value and by levels of local consumption. Therefore it is important to discuss their physical conditions existing in Kuwait's fishing area.

Shrimps are the main species to have been studied in relation to physical conditions and their distribution, which is due mainly to their economic importance (Figure 23).

As a result of studies undertaken by the Kuwait Institute for Scientific Research, three kinds of shrimp were found to be important:

1. *Penaeus Japonicus* constitutes more than 90% of the shrimps caught in Kuwait's area.

2. *Penaeus Simisulcatus* is the largest among all shrimps caught in the northern part of the Gulf. It forms the most important species for export, because of its size and availability in the area adjacent to Kuwait, especially where the depth ranges from 10-15 fathoms.¹ The main fishing season for this species extends from September to December. Its spawning season takes place from January to May. (Figure 24).

1. When the amount of large shrimps declined, this small species took its place in the export market, especially in Europe.

3. *Metapenaeus dobsoni* is medium in size and is very popular in the local market.

4. The smallest species is the *parapenaeopsis* and this too is important for the local market.¹ Other kinds of shrimp such as *Metapenaeus* species, *Solenocera* species, *Metapenaeopsis stridulans*, are few in number and not of great importance for commercial use.

A Historical Review of Fishing in Kuwait

The fishing industry in Kuwait was, before the oil era, a direct field for employment, and a direct source of food and income, despite the fact that it was active only on a local scale. This was achieved through fishing operations and processing in a simple form, in addition to the construction and maintenance of fishing gear and vessels. In addition marine products formed an important addition to the diet of the population of the mainland, where food was pitifully scarce.

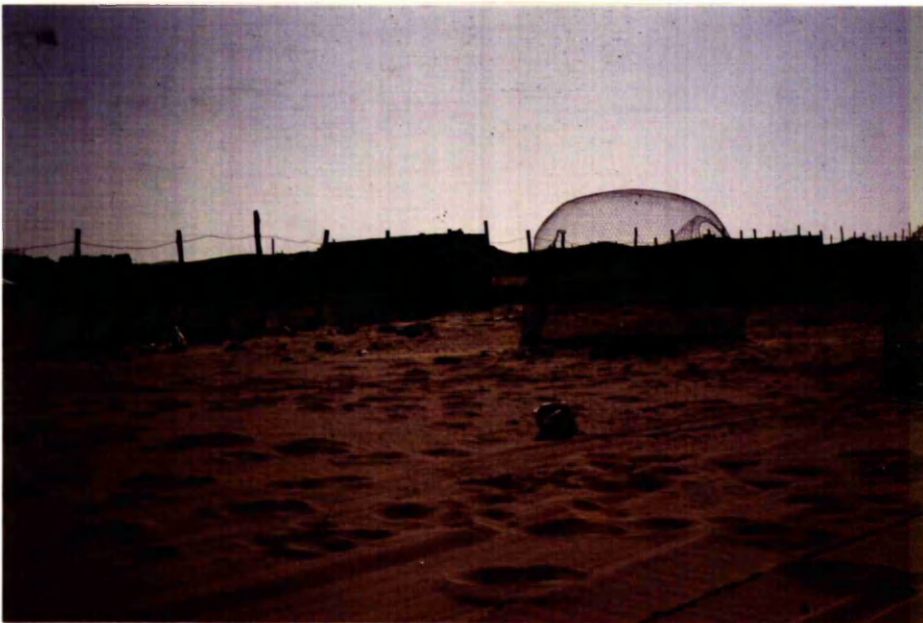
It is believed that the first settlement in Kuwait, during the early eighteenth century was undertaken by a group of fishermen, and since that time great numbers of Kuwait's inhabitants have been engaged in fishing along the coastal area out of the harbour, both to the east and west. This lasted until the late 1940's, and in some cases the late 1950's.

1. Y.Enomoto and S. Makino, Oceanographic survey and Biological study of Shrimps in the Water adjacent to the Eastern Coast of the State of Kuwait, (unpublished report), undated, p.28.

Despite its importance to the country's economy and food supply, fishing as an occupation was originally unpopular and most of the fishermen originated from the Awazim tribe,¹ who occupied the intermediate quarter of the city² as well as the coastal villages. Most fishing activities were concentrated within 5 miles of the shore, because the small vessels were unable to go further into deeper water.

The importance of fishing activities to the inhabitants is shown, through the Shaikh of Kuwait's order, issued in 1945, with which he warned off boats belonging to contractors, supplying fish to the Anglo-Iranian oil company, from fishing in Kuwait's waters. Fishing output at that time was limited in quantity, because of the simplicity of the fishing equipment used and the concentration of the fishing in the area around the Kuwait coastal strip and its surrounding islands. Therefore, local traditional fishermen concentrated their activities in the five mile area off Kuwait, as their fishing craft were unable to go beyond, and because their stationary traps (Hudoor)³ were scattered along the coast. Thus the main fishing areas in the in-shore fishing area were Failaka Island, Ouha Island, Bard-Halj area, Had al-Hommara and Juliaia.

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1. The tribal group found in the north corner of the Arabian Peninsula (Kuwait, Hassa) from Kuwait town as far south as Ras-Bidiya numbering about two thousand. Awazim is the plural of Azmi.
 2. Kuwait city was divided into three quarters, Eastern Quarter, Western Quarter and Middle Quarter.
 3. As will follow.



Wire Basket (al-Gargoor)

This limited extent of the traditional fishing area may have been due to the limited capacity of the traditional type of craft and traditional type of equipment, both of which help to determine the depth of the water at which they could be used.

Traditional Fishing Equipment

Most of the traditional fishing equipment is still in use by individual fishermen, with some simple developments such as the use of imported engines to run their vessels instead of sail and wind power. They are also using an imported net wire (of galvanised metal) instead of bamboo split.

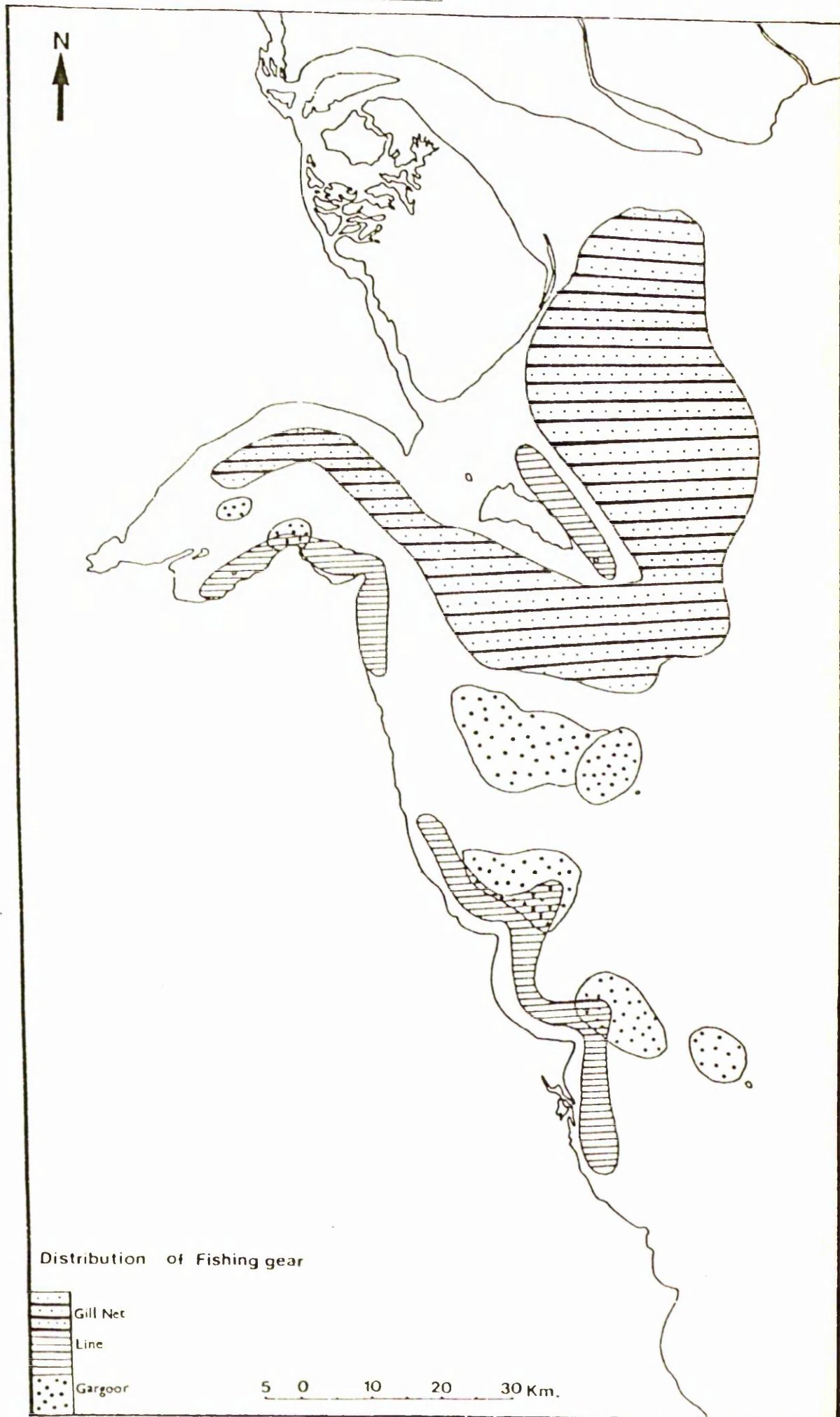
1. Drift Nets

Locally known as 'leekh', these are made of separated woven pieces of flexible material.¹ This equipment ranks first among traditional fishing equipment, because of its output of fish, the number of fishermen needed (every cast of the net needs at least eight fishermen), and the kind of fish caught (silver pomfret (zubaidi) and other popular fish).

2. Wire Basket (al-Gargoor)²

This also is one of the most popular of the local fishing gears used. It is made of galvanised metal wire mesh, and takes the form of a semicircular basket³ about

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1. In the past the main material used for this kind of trap was cotton yarn, but now it is made of mylon yarn. The woven pieces are hung on rope so that the length of each piece is about 55 metres, and about 4-6 metres wide, while the size of the mesh differs according to the kind of fish.
 2. This trap was innovated and developed in the Gulf area.
 3. Its diameter varies from 2-6 metres.



After; al-Attat, Kuwait Insitute for Scientific Research.



Screen Barriers (Hadrah)

1.8, 1.2 or 0.5 metres in height. This kind of trap is laid on the sea bed (Figure 25). The duration of fishing operations by this equipment depends on the length of the fishing trip and the duration of the tide.

3. Screen Barriers

Locally known as 'Hadrah', this is one of the conventional methods of fishing. It is the only stationary trap lasting for one month or more.¹

As the maximum tidal drop in the Gulf area is about 8 feet, these fences are placed below the high tide line, because they have to be covered with high tide water, but during the ebb tide only a few feet of water remains in the offshore end of the trap, where the fish are trapped. This kind of trap is still active along some parts of the Kuwait coast.

4. Conical Nets (al Coofa)²

This kind of gear is usually fixed to the boat by ropes at three points. It is usually used for shrimp fishing, where it is pushed down to a depth of 1 - 1.8 metres to scoop up the shrimps.³

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1. It is widely used in the Gulf area. It is known on the Malabar Coast as 'Thattu vala'. It used to be made of bamboo and coconut twine both of which are available in the Malabar area. This emphasises that it may have been carried to the Gulf area from there.
 2. Woven conical net, made of cotton yarns. In the lower part of the net the mesh is bigger than in the rest (ranging from 24 - 40 mm). The mouth is mounted on a semi-circular frame. The net is held by an arm made of teak wood. For further details see: H.Salim, Detailed Study of Fishing Methods and Gear used in Kuwait, State of Kuwait, Ministry of Public Work, Convention of Arab League on Water Resources and Oceanography, Cairo, 1968, unpublished report p.5.
 3. Fishing by this method lasts for 10 to 70 minutes, and the quantity of its catch ranges from 1 - 5 Kgs. per scoop.

5. Cast Net (Sallia)

This has conical shape, is made of woven cotton yarn and is used close to the coast.

6. Gillnet (Tarroof)

This is mainly used in winter time, usually near the coast. (Figure 25)

7. Bottom Set Gill Trap (Sharkh)

This is made of two woven pieces with floating sponges. The trap is set during high tide facing the shore. It is mainly used onboard boats.

The length of time this trap is left in the water depends on the quantity of fish available, and the latter depends on the speed of the tidal current which will push the fish offshore.

8. Hand Line

This is the most popular and simple gear. The line and the hooks differ in their size according to the size of the fish wanted and the fishing area (in the deep water or by the shore).

All eight types of fishing equipment, except Hadra (screen barriers), are used mainly on board vessels. Usually one craft operates 4 - 6 hand fishing lines, 10 - 12 gillnets, 6 - 8 bottom set gillnets, 2 cast nets and 10 - 12 drift nets. The shallowness of the coastal area may be the reason behind the use of this equipment onboard boats.

In general fishing output by traditional methods is declining compared to the number of craft and size of crews, and the fishing area available. This may be due

partially to man's influence on the natural environment. Such an influence can be seen in the scatter of oil rigs along the offshore area which used to be the main fishing area. In addition six ports have been constructed. Two of them are commercial ports and the rest are oil terminals.

All of these constructions may have served to increase the pollution problem, which in turn has a negative influence on fish biology. A further factor may be the water distillation operations along the coast, through their disposal of brine, and chlorine, as will be seen in a later chapter.

These are not the only factors to affect the productivity of the traditional fishermen, for there have been dramatic economic changes in the country, and new fishing companies have been introduced, whose operatives do not compare to the simple traditional methods used.

Traditional Fishing Seasons

Although the traditional fishing areas and equipment may differ from those of the modern industry, the fishing season is still the same because it is not affected by man as are the other two elements mentioned above. Fish is available throughout the year, with some variations from one season to another, but the most suitable seasons for fishing are summer and spring, while fishing output decreases during autumn and winter.

The local fishermen used to call a fishing season either after a particular fishing area or the kind of fish they caught.

1. Mausim al-Qaid (April)

This season's main fishing area is Khur-Abdulla (Figure 2).

2. al-Waker (June)

This is one of the most important fishing seasons, because of its duration of about three months, and its abundance of fish, especially silver pomfret (zubaidi). The main fishing area at this time is concentrated between Failaka Island and Auha Island.

3. Mausim al-Khubat (February)

This is named after the kind of fish which dominates fishing at this time of the year.

Most fishing in Kuwait still uses traditional methods which has limited the amount of fish produced. Thus, to develop the fishing industry it has been necessary to modernise the methods employed, so that both local market needs and the export market can be catered for. Such methods need much more regulation and organisation so that the fish population is not harmed in the long run.

Thus before discussing the recent trends in Kuwait's fishing industry it is essential to discuss the problems that are facing or may face fishing in the future, in order to reach some measure of probable future development.

General Fishing Problems in Kuwait

As mentioned above, fishing activities in Kuwait have been and still could be important in the economy in several ways: as a source of Food, as a basis for industry (fishmeal), and as a field of employment. However, there are certain factors other than the biological and ecological ones already mentioned, which could inhibit the development of the industry. These factors give rise to several problems, including shortage of labour, weather conditions, limited fishing areas, and most important overfishing.

a. Overfishing

Fishing, like other exploitative economic activities such as farming and mining, is subject to the law of diminishing returns, whereby increased exploitation, through diminishing the basic resource, eventually leads to decreased production. In the fishing industry the process can be called overfishing, and has been particularly noticed in recent years. This is due to two main factors: the development of modern fishing techniques which enable much higher catches; and increased competition. Both serve to increase offtake and at the same time reduce the total fish population. This problem has been the subject of much international debate over fishing rights and the law of the sea, but so far without agreement. Kuwait, too, has been unable to avoid this problem, and overfishing

was the main initial problem faced by Kuwait's new fishing companies when they were first established in the late 1950's and early 1960's.

However, intensive fishing may not just cause a decline in the fish population, but may also be responsible for a decline in the density of fish in a given area. Overworking of grounds by trawlers has probably disturbed ecological conditions to such an extent that they no longer provide suitable habitats for the fish population, especially at the critical egg and larvae stage. In these and many other instances the population is forced to spread outwards into environments which are not optimum, and their survival and growth are consequently more difficult. Both factors probably cause the reduction of the density of fish in any given area and this is the real cause of diminishing catches.

In Kuwait such a process has been particularly noticeable in shrimp fishing. Under natural conditions, population growth and immigration just balance the mortality rate from all sources, keeping the population in balance. But in Kuwait three companies, the National Fisheries Co., the International Fisheries Co., and the Gulf Fishing Co., were all competing and intent on obtaining as many shrimps as possible. Consequently, the shrimp population declined with a resultant reduction in the catch during the 1960's, which in turn led these companies to record a deficit in income. Therefore, they appealed for help to the Government, which in turn asked for assistance from the FAO . The FAO experts recommended

in 1971 that the fishing companies in Kuwait should be amalgamated into one major fishing company to eliminate the dangers of competition. It was also recommended that the new company (U F K Co.)¹ should fish for a wider variety of species, and should also widen its fishing area so as to reduce pressure on the Gulf, and thus diminish the problem of overfishing.

b. Labour Force Problem

Although fishing and related jobs used to be the main traditional occupations for a large number of employed Kuwaitis, their importance has declined, because of their inability to compete with the lucrative jobs in the oil and Government sectors. This is because most employment in fishing is very arduous and only yields a small profit in comparison to other available employment. Thus, particularly after the oil boom, the fishing industry lost its attraction. During the late 1950's and 1960's fishing began to show an increasing demand for labour from the local market, because of the creation of commercial fishing companies.² Thus, between 1965 and 1966 the estimated increase in the labour force was about 43%. This trend continued and the increases in 1970 and 1971 were 27% and 18% respectively. The main problem of the labour supply is that the jobs are unattractive to Kuwaiti citizens, and consequently most of the labour force has to be imported. Thus in 1965, of the 1360

1. U F K. United Fisheries of Kuwait.

2. The National Fishing Co. was established in 1963 and the International Fishing Co. in 1965.

TABLE 50. Local Fisheries in Kuwait 1967.¹

<u>Kind of gear</u>	<u>Number of Fishermen</u>	<u>Nationalities</u>
1. Drift nets	780	Iranians
2. al-Gargoor (wire baskets)	378	Omanis
3. Hand lines	175	Omanis
4. Catch by motor boats, (Cast nets, set seine, gill net)	100	Omanis
5. Local shrimp drag nets	120	Iranians
6. Set net	250	Iranians
7. Catch by small vessels (drift nets, hand lines, set nets)	105	Omanis

People enumerated as fishermen in the census, 60% were Iranian and 40% Omanis. The Kuwaitis are usually owners of boats and fishing gear. There consequently tends to be a lack of skilled manpower, although the absence of Kuwaitis from the above figures is probably an underestimate (Table 50) as most people have more than one job.² Nevertheless, the industry is dependent upon foreign rather than indigenous labour, and during 1970 the

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1. Buchanan and Partners: Studies for a National Physical Plan for the State of Kuwait, and Master Plan for the Urban Areas, Technical Paper No.21, 1969, p.9.
 2. Many Government employees have more than one occupation, some of them being involved in fishing as mentioned earlier.

number of Kuwaiti fishermen reached 74 compared with 357 non-Kuwaitis, which means that the proportion of Kuwaitis was only 16%¹

c. Weather Conditions

This factor does not affect the distribution and amount of fish, but it does affect fishing operations. In many cases strong winds and high waves may stop fishing operations. For example, Kuwait's fish farming programme was disturbed in 1970, when a sand storm, occurring during the initial stages of the operation, harmed shrimp production.

d. The Expansion of the Fishing Area

Fishing activities on a large scale demand a vast and rich fishing area, but at present Kuwait's fishing activities may only be considered a small industry, because of the country's limited fishing zone, restricted to the Gulf area, and also because of the density of the fish population (with the exception of shrimps). Therefore when the new fishing company started its activities in Kuwait's fishing zone it was not able to cope with the company's ambitious programme. Consequently the company signed agreements with neighbouring countries, and even countries outside the immediate region, enabling the company to fish in foreign fishing zones. Such agreements were made possible by Kuwait's good political and commercial relations with these countries, while some

1. Including Government employees who are classified as fishermen, especially those who are working with FAO experts.

of these agreements took the form of compensation, or participation in fishing with local fishing companies. Despite these agreements, however, fishing activities could face disruptions, for example, due to political disturbances in the fishing grounds.

This was exemplified by the difficulties facing vessels during the Arab embargo on oil exports, which led the company to send special tankers to supply its vessels at their fishing grounds.

Modern Developments in the Kuwait Fishing Industry

The fishing industry in Kuwait during the last half of the 1950's witnessed great changes. There was a reduction in the number of traditional local fishermen, as a result of the open door policy of the Government, whereby all Kuwaitis were to be employed. In addition high compensation was paid by the Government for the loss of fishing grounds.

Thus the local fishermen were encouraged to seek easy work in Government offices or private enterprise (mainly trade) as mentioned above. This coupled with the availability of capital, enabled such local fishermen to employ immigrants for their fishing operations.

At the same time the increased standard of living and the increased population caused the demand for fresh fish to increase, and this was accompanied by an inflationary rise in prices. Consequently, the small number of local fishermen who were able to employ immigrant labour enjoyed high incomes from fishing, despite their limited catches, which were due to the use of traditional fishing gear. Such high

incomes for fishermen led ambitious Kuwaitis to form the first modern joint stock fishing company in 1959 (the Gulf Fisheries Co.).

Although a fishing company had been established in Kuwait in 1945, it had gone bankrupt after three years. The new one was successful and was soon followed by the creation of two others, the Kuwait National Fishing Co., in 1963 and the International Fishing Co. in 1965.

These three fishing companies were very active in the Gulf area, and concentrated most of their efforts on shrimp fishing, although a small number of other species were also fished to supply the needs of the local market. But shrimps were a very profitable species, and soon the competition between the three companies, together with competition from the companies of other countries in the area, led quickly to overfishing and the exhaustion of the resources. Consequently, the FAO experts recommended that such competition should be eliminated, and the three companies should be amalgamated into one single Kuwaiti company. In 1971 the three fishing companies mentioned above were united under the United Fisheries of Kuwait (UFK), which was formed under the Emiri Decree on the 3rd of April 1972, as a joint stock company, with the Government owning 47% of its shares, the Gulf Fisheries owning 35%. National Fisheries of Kuwait 11%, International Fisheries of Kuwait 5%. and the other 2% being owned by the Kuwaiti public. The new company (UFK) acquired all the assets, and concessions, of the three earlier companies.

The main aims of the new company were to create new job opportunities and to encourage the development of the fishing industry as a productive sector. The company installed a large processing plant on-shore, for the grading, peeling and cooking of shrimps, and also a boat slipway.

The construction of such facilities has helped to increase both output of fish and revenue. This is itself largely due to the expansion of the company's activities in the wider fishing grounds, and the availability of new techniques and training programmes. Furthermore, the company has extended its activities to include various kinds of edible fish other than shrimps despite the importance of the latter in terms of revenue.

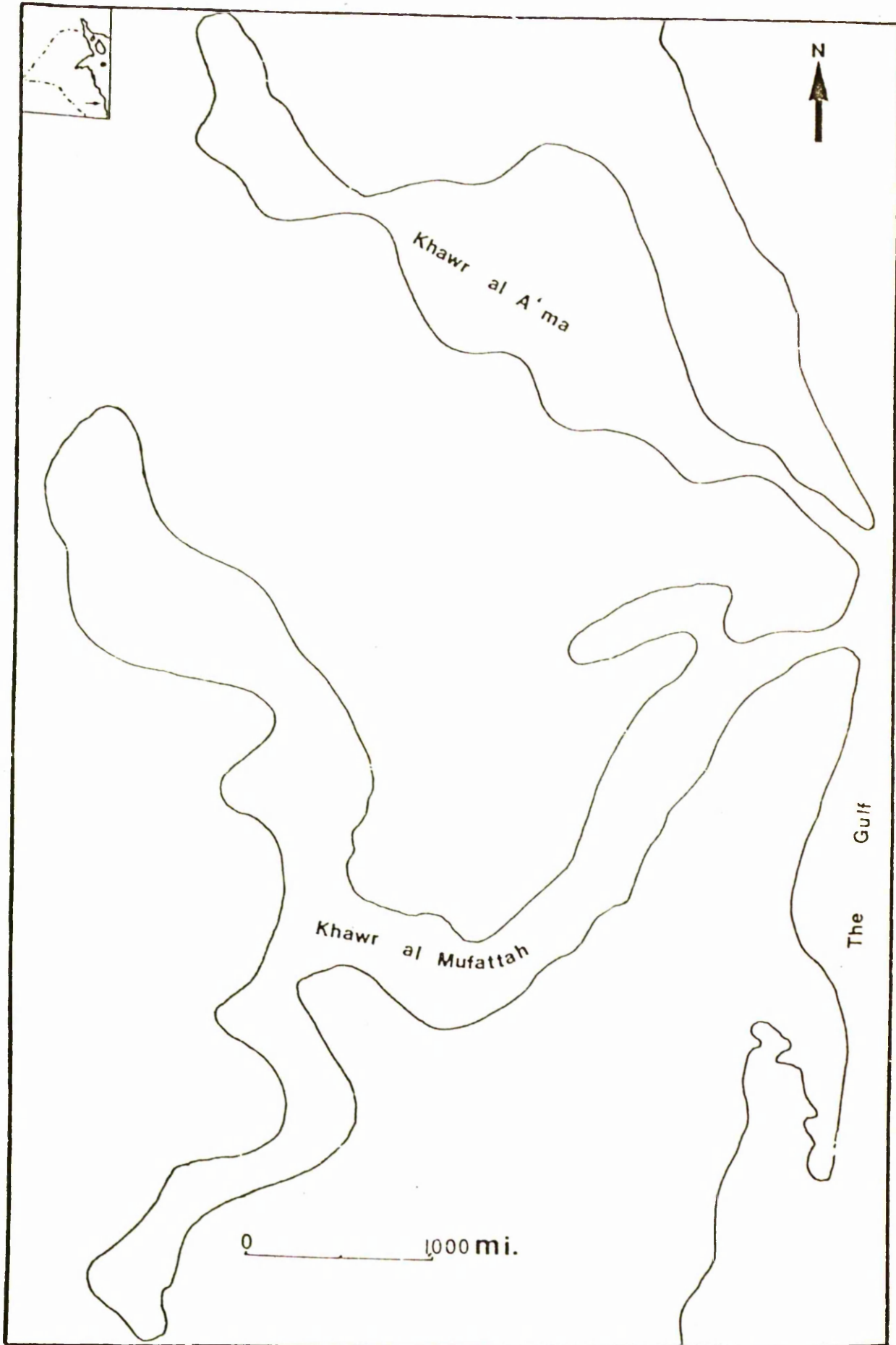
It is difficult to get any precise data concerning the amounts of fish caught because the company is reluctant to give data so as to protect the secret aspects of their activities.¹ However, it has been estimated that there were 200 shrimp trawlers operating in the Gulf in 1970 (about half of which originated from Kuwait), which produced some 15,000 tons of fish during the year.

Fish Farm

At the present time shrimps are the most valuable species within Kuwait's fishing zone and throughout almost all the Gulf region. There has been a recent slump in the shrimp population in the Gulf, causing a decline in production for the fishing companies. It was decided, therefore, that action must be taken to increase the shrimp population in the fishing grounds.²

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1. Many of the company's workers were reluctant to reveal any figures about the company's profit, because they are aware of the effect it might have on the company's share rating in the market.
 2. According to an official of the Institute of Scientific Research no plan has been made to decide the future fishing farm activities or to what extent they will increase the fish population.

Figure 26



Proposed Area for Fishing Farm in Southern Kuwait.

The shrimp hatching process can be controlled artificially, and has been developed in many countries in the world¹; consequently in 1971 the Kuwaiti Government established the first fish farm in the area (at Salmia). (Figure 26).²

In 1972 the operation was intensified, and about 440 thousand shrimps were released in the Gulf waters for the first time.³ However, the actual number of released shrimps caught by UFK Co. or local fishermen is not known due to a fault in the marking system used in distinguishing artificially bred shrimps from the rest.⁴ The expansion of these activities is continuing.

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1. Japan, USA, Poland, Germany, Hungary and Netherlands were the first countries to start such a process and at present about 4,000,000 tons of fish are produced in this way throughout the world every year. This figure is expected to reach 20,000,000 tons by 1985.
 2. It was suggested that Khor-al-Mufatteh in the South would be the best place to install a pilot plant because it has many inlets where it is easy to control its entrance.
 3. A school of female shrimps (natural adults) in spawn are carried to the hatching within 24 hours, and kept in healthy conditions. Afterwards they are transferred to the spawning tank, where the spawn hatches out within a day. The hatched out shrimps start feeding at this stage within 1-2 days. Then they are transferred to the breeding tank, containing organic and inorganic fertiliser with natural sea water at the salinity of the Gulf water, microscopic plants, outatropic bacteria, and heterotropic prolozoans which have been grown in the tank's water, so that the young shrimps start feeding in the biotic community with a small quantity of fertiliser being put in every day. After 30 days they are placed in a net enclosure in shallow water in the sea to acclimatise to natural conditions. During this period animal feeds or artificial compound feeds are given to them for about 14-15 days before they are released into the sea. For further detail see: Kiyoshi Uchihshi, T. Sugita and J. Asasno, *op.cit.*
 4. A recent tagging programme has been successful with 1,800 shrimp returned so far, out of the 10,000 adult shrimp released. This has been encouraged by the financial reward paid by the fishing farm for every tagged shrimp caught by the local fishermen and sent to the farm.

The Company's Fishing Ground

The new company's activities cover all Kuwait's territorial water, and some other areas in the Gulf: Saudi Arabia's waters¹, the international waters of the Gulf, and the waters off the State of Oman.

The company has also acquired rights for fishing outside the Gulf waters², because of the Gulf's limited area which may not be able to cope with the vast activities that are planned for Kuwait's company, as well as for the other fishing companies. These have increased the pressure on the fishing grounds in a way that will not enable the area to keep pace with the increasing demands.

In some areas outside the Gulf the company's activities are run by means of joint ventures with the local companies, for example with the Rivers-Gulf Fishing Company (Nigeria). The main fishing area under

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1. The situation in this area has changed, because of the establishment of the Saudi Fishing Company, and the increased tax imposed on any vessels of any other countries.
 2. Kuwait's coast extends from the junction of Khour As-Sabyah and Khaur Shetanta in the north to the divided Neutral zone between Saudi Arabia and Kuwait in the south. Therefore the total length of Kuwait's coastal area is about 140 km. The latter area is characterised by the presence of bays and inlets, Khour al-Sabiyah, al-Khiran and Khour al-Khafji, with Kuwait Bay being the largest inlet. In 1947 the Ruler of Kuwait declared that Kuwait Bay was part of Kuwaiti national waters and that Kuwait's territorial waters extended from a line drawn from the low water mark at Ras al-Ardh. In the 1949 declaration Kuwait's territorial water was extended to 3 miles from the low water mark, and was extended later to six nautical miles from the coast. The Amere Decree, issued in 1967 extended Kuwaiti territorial waters to 12 nautical miles.

this agreement is in Nigerian and neighbouring international waters. By acting in this way the company (U F K) may, on the one hand, be able to establish itself in the area, and on the other hand, may be able to benefit the local people of Nigeria through the company's programme, by which techniques are taught which are not available locally. Thus better employment opportunities in the host country are created while, at the same time, the company is over-coming its own problem of the lack of a labour force. A further advantage is that, being a joint venture, the company may be protected from nationalisation. A similar policy has been followed with Senegal, Mauritania, Malagasy, and the Peoples Democratic Republic of Yemen.

In addition to these agreements, the company has also acquired fishing concessions in the following areas: Liberia, Dahomey, Ivory Coast, Western Nigeria, Singapore, Indonesia, Pakistan, Somalia, Republic of Yemen¹, Australia² and New Guinea³. Such extensions of the fishing area have two advantages: on the one hand, they do not restrict the company's activities just to the Gulf area, and on the other, they enable fishing activities to take place throughout the year.

The UFK company has overcome the main problems which faced the earlier fishing companies (Gulf, National and

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1. The concession is valid until 1977, and is subject to further extension.
 2. UFK got the right to operate in this area after it took control of all Gulf Fishing Co. property, including the latter's fishing concessions.
 3. UFK leased this area for up to 99 years, and as such has the right to operate in the area as a native company.

International Companies), through such activities and also by promoting itself at the Shuaiba industrial area, where all the necessary facilities are available, such as a good port and enough fresh water. Thus, the fishing industry now appears to be in a favourable position, despite the problems just outlined. While some countries are constrained in their development by lack of capital, this is not true of Kuwait, and indeed capital has helped to launch the fishing industry, enabling the employment of expatriate labour and the acquisition of the necessary equipment. However, there is still one area of major concern, and that is the shrimp industry. Future production is in doubt both because of a lack of knowledge of the Gulf's capacity and resources¹, and because of increased competition from other countries' fleets.

Fishing in the Economy

The economic importance of the fishing industry cannot be measured by reference to its contribution to the GDP, for the price of fish, like the price of other primary products, lags behind prices in manufacturing industries. However some indication of importance can be gained from its contribution to food supply and to employment.

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1. Most of the preliminary studies made in the Gulf area were very limited, either in the area they covered or in their field of study, because they were done to serve certain purposes, such as the preparation for the development of shrimp (cultured) fishing farm, or due to political reasons.

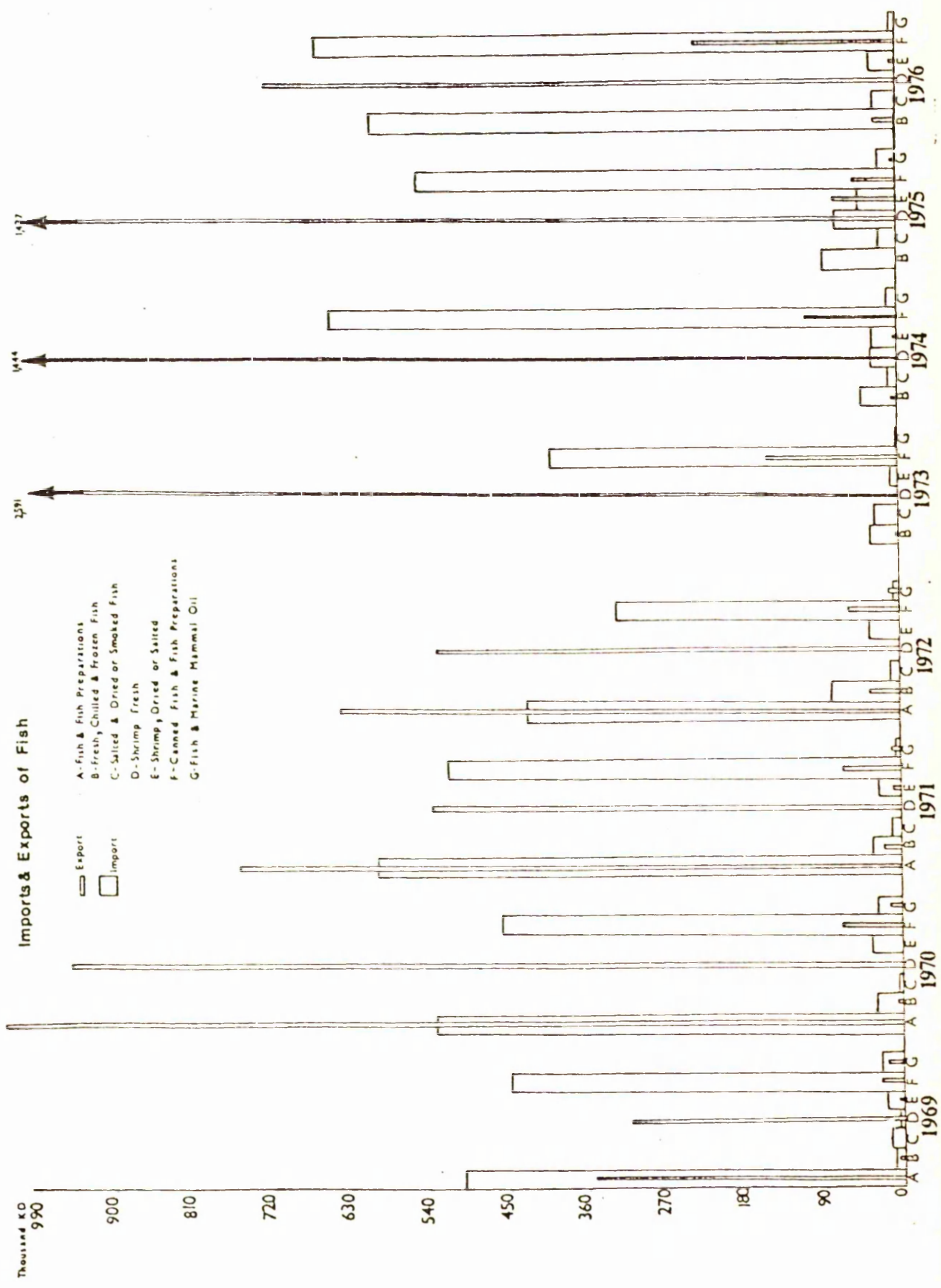
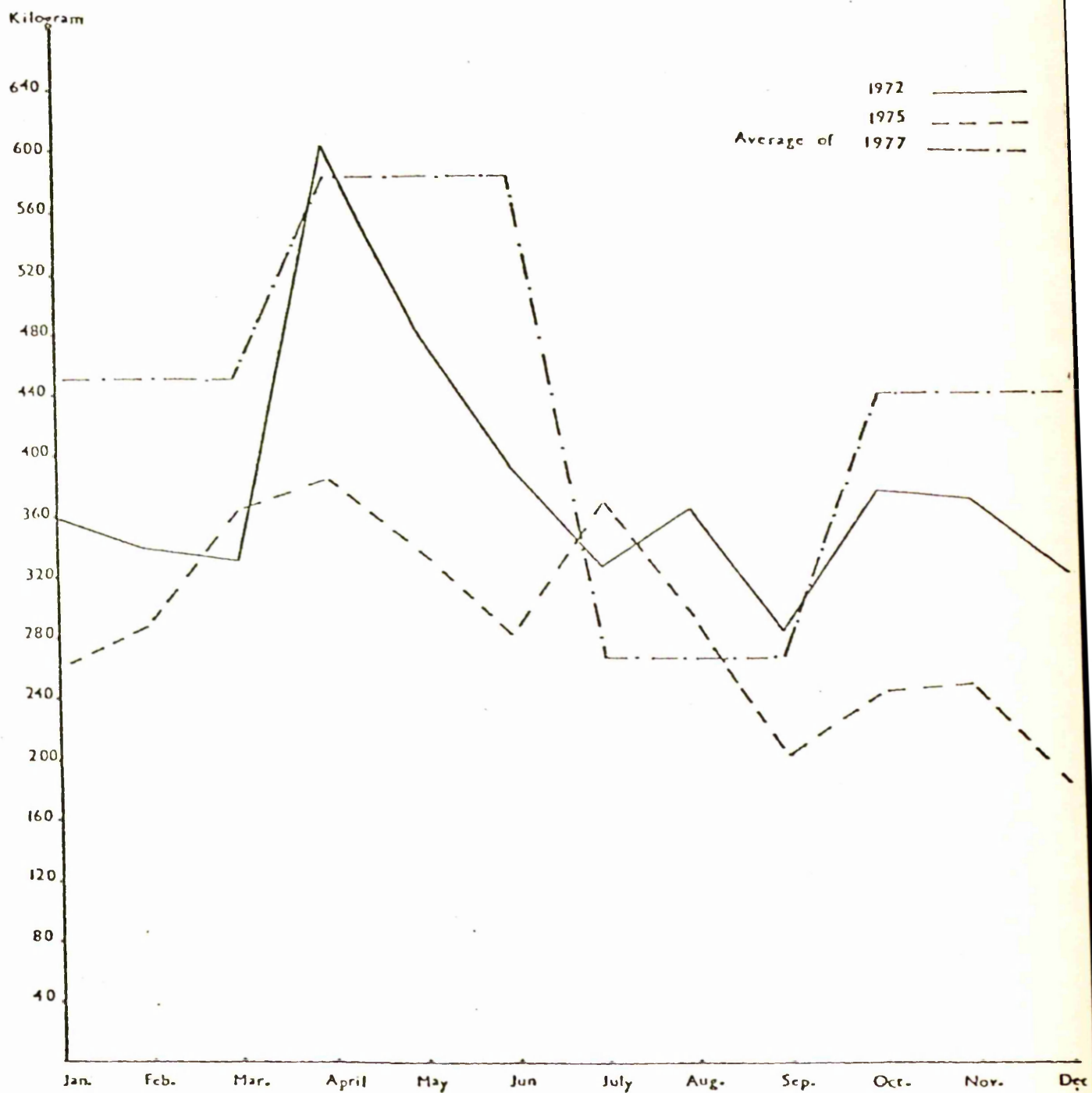


Figure 27. After: Ministry of Planning, Monthly Bulletin of Foreign Trade Statistics.

Fishing as a Source of Food

The people of Kuwait have traditionally depended upon red meat in their eating habits¹, so that the per capita domestic consumption of fish has been estimated to have averaged less than 20 kilos per year.² However, as the price of red meat increased, so did the demand for fish, but this created its problems, for shortages in supply began to occur, which were largely the result of the factors mentioned earlier, but particularly due to overfishing. This shortage caused an increase in the price of fish, which led people to turn to an alternative source of protein. These fluctuations in demand for fish may have been a further reason behind the reappraisal of the fishing industry, with the emphasis being turned away from the local market and directed towards export. Thus, the local market now tends to be supplied by the local traditional fishermen, while foreign markets are supplied by the UFK, although the latter does also supply the local market and may be partly responsible for the rise in consumption from 3,000 tons in 1957 to over 4,000 tons in 1972 (Figure 27.). Another factor behind this increase, however, is the decline in meat production throughout the region, while the creation of settlement schemes in many countries of the area has also served to raise the price of meat.

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1. This may be true in general, but those Kuwaiti with lower incomes were forced at one time to eat fishmeal and this has developed through generations as a habit.
 2. There are no figures available about the amount of fish consumed in Kuwait before 1950.



The Variation of the amount of fresh fish coming to market during 1972 - 1975

Thus, the UFK, using modern methods, is able to supply the market with the most popular species in reasonable quantities and at moderate prices in comparison to meat. At the same time, however, it must be borne in mind that the local fishermen are the main suppliers of fish for the local market, contributing 65% of stocks.

The present importance of fish as a foodstuff may be clearly demonstrated by comparing consumption patterns with those of meat. Thus in 1972 4,433,712 kg (4,367 tons) of fish were consumed locally, but in 1973 this fell to 3,334,989 kg (3,282 tons). This fall may have been due to a shortage of supply which pushed prices up from 203 fils in 1972 to 228 fils in 1973, an increase of 12%. 1974, however, saw an increase to 4,686,607 kg (4.612 tons), with an average price being 214 fils. A similar increase in consumption also took place in 1975. In 1977 the total amount of fish consumed reached 5,336,032 kg (Figure 28).

In the meat industry, however, there has been a decline in the weight of animals slaughtered during the same period. Thus in 1972 the net weight was 14,673 tons, 14,986 tons in 1973 and 10,527 tons in 1974.¹ Nevertheless average consumption per head per day, at 74.7 grams of meat, exceeds that for fish, at 31 grams (1974), so that meat is still more important than fish. However, the average price per kilogram of meat is far higher than for fish reaching 563 fils on average, although peaking at 755 fils for a kilogram of boneless mutton. Such prices are essentially the result of expensive feeding stuffs, which

1. These figures do not include frozen meat or canned meat, which have witnessed an increase in recent years.

have to be imported because of the absence of local pasture resources.

Although both industries show yearly fluctuations, the highcost of meat production seems to suggest that the fishing industry is likely to be the most important sector for development in the future. A further off-shoot of such development could be the production of cheaper animal foodstuffs through fish meal, providing that the over fishing problem has been overcome.

Fishing as a Field of Employment

Employment in the fishing sector includes all people dealing with fishing activities either directly (as fishermen, fishmongers, or sailors on board fishing vessels) or indirectly (fishing company employees or Government employees who are working on fish studies and experiments).

Although until now fishing has played a minor role as a field of employment in Kuwait, there are possibilities for increasing its importance by increasing and extending activities into the industrial field through fish processing, or the development of the production of fish meal, or through the widening of fish farming activities. In recent years fishing has been an unpopular occupation with Kuwaitis since it offers lower incomes, when compared to other jobs, especially in the private sector. Traditional fishing methods are still in use, and these may be responsible for the low productivity and hard work demanded from fishermen.

It is obvious from all the data gathered about fishing activities in Kuwait, that the proportion of the local employees in this field is declining, while the proportion of non-Kuwaitis is increasing (Table 51) despite all the efforts made by the Government and the fishing companies to encourage Kuwaitis to enter the fishing industry.

TABLE 51 Number of Kuwaitis and Non-Kuwaitis in Fishing Sector.

	<u>1965*</u>	<u>1970*</u>	<u>1973¹</u>	<u>1975*</u>
Kuwaitis	100	137	34	126
Non-Kuwaitis	395	1,073	3,662	717

Although one of the major aims behind the new expansion of fishing activities was to create a wider base for employment, there were not enough well trained local employees able to undertake employment with the modern fishing company (U F K). Therefore, most of the company's employees are either of other Arab nationalities or foreign experts on whom the company depends.

At the present time the company employs experts from many different parts of the world², but the company's contracts with these experts are planned only to last until the local population - despite their small number at present - will be able to replace them. But the main problem facing this policy is that Kuwaitis prefer not to

* Fishing employees only.

1. Estimate after the annual statistical abstract (1976) and it includes agriculture, hunting and fishing.
2. U S A , Mexico, Peru, Britain, Holland, Belgium, Portugal, Poland, Norway, Denmark, W. Germany, Australia, Italy, Greece, Middle Eastern Countries, India, Pakistan, Philipines, Japan and Hong Kong.

be employed in fishing activities, because it takes them away from their families for most of the year, while there are many alternative jobs in Kuwait city itself, which may be easier and more profitable even for the young.

The total size of the company's labour force in 1973 reached about 3,696 of which about 3,013 (88%) are sea-going staff. Of these about 46% are working in Kuwait's offshore area, which means that less than half the company's employees are situated in Kuwait. (Table 52).

TABLE 52. Distribution of UFK Co. Employees in the Different Fishing Grounds (1974)

Kuwait (sea staff)	1,568
Yemen	248
Nigeria	338
Malaga (Malagasy)	125
New Guinea	330
Senegal	325
Aden	55
Muscat	25
Total	<u>3,013</u>

Apart from the sea-going employees, there are others whose occupation is dependent upon the fish industry, such as auctioneers and retailers; the latter are concentrated in three main locations: the first in the main city¹, the second

1. The central market is divided into several partitions each one containing one stand and ice box. Recently co-operation centres were established in each suburb and since then the central market has lost its importance.

in Fahaheel, and the third in Failaka Island.

The total number of retailers, according to the number of shop licences granted by the Government, was estimated at 170 during the early 1960's, however, this figure does not include those fishermen who have their products on the road side near the sea shore.¹

The number of fishermen and those who have related occupations fluctuates from year to year and even from season to season, and exact figures for employment in fishing activities in this study are dependent on Government statistics.

Fishing as a Source of Income

Income from fishing in Kuwait cannot compare with that of other lucrative jobs, despite its increase during the last few years. The average annual income per fisherman varies according to the different kind of fishing gear. Thus, those who use the wire basket trap have the higher per capita income, estimated at about KD 645 per year. Next are the drift net fishermen with a per capita income of KD 590 per year, while the income for fishermen using conical nets is about KD 390 per year, and the small craftsmen earn around KD 360 yearly. Apart from the private fishermen there are the UFK's employees whose wages differ according to their qualifications and

1. Most of their catch is prawns, which are placed on the ground in small baskets, each one containing about 3 or 4 pounds. For further details see: Z. Freath, A New Look at Kuwait, George Allen Ltd., London, 1972.

skill.

However, real income from this industry cannot be measured according to individual income, but must be seen in relation to the industry's participation in the GDP. The latter can be measured through an examination of fish output.

Fishing Output

Shrimps form the main species of commercial value in the Gulf waters, so that any study of the Gulf fishing output must consider shrimps first and foremost.

TABLE 53. Export and Import of Fish in Kuwait.

<u>Year</u>	<u>Import</u>		<u>Export</u>	
	<u>Value (KD)</u>	<u>Weight (ton)</u>	<u>Value (KD)</u>	<u>Weight (ton)</u>
1966	406,120	1,483,773	339,526	1,940,786
1967	467,920	1,753,649	294,268	1,653,065
1968	456,654	1,706,543	853,402	2,625,075
1969	502,416	1,887,910	353,124	1,763,263
1970	532,494	2,101,689	1,028,106	2,386,533
1971	594,284	2,442,748	760,074	3,556,503
1972	425,617	1,803,426	641,731	2,735,984
1973	463,534	1,610,019	2,750,426	5,620,479
1974	802,892	2,087,711	1,562,912	1,809,161
1975	784,000	1,613,000	1,559,000	1,450,000
1976	1,407,000	3,553,000	1,005,000	1,614,000

Source: Calculated by the writer from the Annual Statistical Abstract.

A brief comparison between the amount and value of exported and imported fish indicates that imported fish are still very important by both amount and value (Table 53). but this may be due to the fact that large amounts of exported fish caught outside territorial waters by Kuwaiti fishing craft are sold directly from non-territorial water and are not included in the above statistics. Therefore it appears as if both exports and imports of fish are following the same trend. (Figure 27).

An agreement was signed between Kuwait and Saudi-Arabia allowing Kuwait's fishing company to operate in the Saudi fishing ground (1967-1969). Accordingly the total output increased again, although during 1969 the catch again showed a decline. This was because fishing operations off Southern Yemen (The People's Democratic Republic) were unsuccessful and also because the company's concession with Bahrain came to an end.

The late 1960's probably saw the Gulf's maximum production potential reached. During 1969 the price of prawns in the USA and Japan, which constituted 46% and 20% of Kuwait's shrimp market respectively, rose sharply, despite the small size of the fish catch. In 1970 the total catch amounted to 598,000 tons of which some 259,970 tons (about 40%) went to the USA, but this level of production showed a decrease on the previous years, which was due to three main factors:

1. The reduction in the value of shrimps in both the USA and Japan.

2. The increase in the amount of compensation paid to Saudi-Arabia, as a result of the companies' increased operations in Saudi waters.

3. A smaller catch, in bulk, than usual.

In conclusion, it can be stated that the aims of developing the fishing industry have so far been accomplished, mainly through diversification. This is not to say that the industry could as yet cope with unpredictable circumstances, because it is still only in its early stages, and is very dependent on the outside world, while its contribution to the GDP is still very small. With regard to the importance of the sector to employment it is still lagging behind expectation. In the case of food supply it could make the country self sufficient if its activities were not directed mainly towards exports.¹ This could be achieved by increasing the local demand for fish, which in turn would save much of the country's expenditure on meat. At the same time the development of the fish meal industry could give better employment opportunities, while decreasing the value of imported animal foodstuffs, which cost about KD 345,463 in 1972 (the value of re-exported animal fodder is about KD 137,347). The establishment of such a factory could reduce the value of imports, and also help to increase the local production of red meat and poultry meat.

Fishing's proportion of the GDP is less than 5%², and has never exceeded 4%. Similarly, in relation to non-oil activities fishing still lags behind in its development and value to the economy.

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1. This will be possible providing that the fish population does not decrease disastrously in the future.
 2. Fishing and agriculture figures have always been grouped together in all Government statistics because of their minor importance.

Despite the development of fishing industry in Kuwait through the Company's modern fishing gear and well trained fishermen, the Gulf, which forms the main fishing area for the fishing Company is facing the problem of overfishing and pollution.

Such situation has been experienced in neighbouring (Bahrain, Qatar).¹

Co-operation between the countries around the Gulf is essential in order to protect the environment against pollution, and to protect fish population.

1. Financial Times, 26 September 1979.

CHAPTER IXFRESH WATER AND OTHER MARINE RESOURCES

Introduction

Water Distillation

Distillation Operations

Chlorine, Salt and Other Production

New Outlook for Pearl Diving

Building Materials

CHAPTER IXFRESH WATER AND OTHER MARINE RESOURCESIntroduction

The increasing productivity of the sea and its promise of greater production has, in recent years, attracted the attention of scientists and planners throughout the world. This attention can also be seen in the disputes between countries about territorial waters and sovereignty on the sea as a whole, for no such problems were encountered before the sea's value was realised.¹ Increasing competition between nations to obtain as much benefit from sea resources as possible could also increase the importance of the sea.

The sea is particularly important to countries with a lack of inland products, and Kuwait falls into this category. However, after the discover of oil Kuwait's activities in this field were reduced tremendously, although great efforts have been made in the last few years to revive such activities. The development of this sector is still very slow, apart from oil production from the offshore area, and distillation operations, which are dependent mainly on sea water.

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1. The arguments advanced in support of wide and narrow territorial water depend mainly on economic considerations: for example, those nations who are in favour of narrow territorial seas have large fishing fleets active in vast areas. These nations would find such limitations damaging to their economies. Some Governments have opposed very strict conditions concerning the kind of equipment which should be used and the creation of closed fishing seasons in the areas under their control.

The importance of the sea to Kuwait can be seen through the extension of Kuwait's urban area along its coast. This may be due firstly, to the availability of the fresh water in the aquifers which extends along the coastal area; secondly, to the dependence of the population on sea food or food and water imported from other places by marine transport, (up to 1953 almost all Kuwait's supply of fresh water was fetched by boat from the Shatt-al-Arab fifty miles away);¹ thirdly, to the availability of building materials, dominated by coral rocks and mud; and fourthly, to the weather, for the coastal area has better climatic conditions.

Even in more recent years, the extension of urbanisation in Kuwait has taken place along the coast, and particularly on the southern part of the coast. These recent developments may be due to the establishment of distillation plants along the coastal area at al-Ahmadi, al-Shuwaikh, and al-Shuaiba, which cut the cost of water distribution.

Being an arid country, Kuwait has suffered greatly from the deficiency of natural fresh water resources. To solve the water problem Kuwait has directed its attention towards the sea. Therefore this chapter will discuss the importance of sea water as a resource for Kuwait's fresh water supply, and it will concentrate on the importance of the seas in providing fresh water and other economic

1. R.Bullard (ed.), op.Cit., p. 122.

fields in order to measure its future participation in the economy.

Water Distillation

In recent years, Kuwait has witnessed a growing demand for fresh water for domestic uses because of the increasing size of its population, as well as the increase in standards of living, coupled with the country's attitude towards industry. All these factors have led to a shortage of fresh water even for domestic uses.

This situation has given rise to the need for distillation and desalination processes, and has resulted from several factors, as follows:

- a. Average annual rainfall.
- b. The distance from the nearest source of fresh water.
- c. Capital costs which are a major factor behind the expansion or limitation of distillation plants, as Steward, H.B., said, 'When water is needed badly, cost is of secondary importance.'¹

Such costs are themselves influenced by many factors, particularly the source of power, the cost of which varies according to the distillation system. For example, in multi-flash distillation plants energy costs constitute

1. H.B.Steward, Deep Challenge, Van Nortrand Co.Inc., New York, 1966, p.166.

26% of total costs, while they constitute only 10% of the total costs in submerged tube distillation, and the vapour compression and electro dialysis plants' energy costs are the lowest in relation to total costs. (See Appendix IV).

The construction of a desalination plant also involves both large capital investment and continued expenditure for operating the plant, amortization of the investment insurance, replacement parts, and the ultimate replacement of the plant over a twenty or thirty year period. The availability of foreign exchange for such expensive processes can be a problem, but Kuwait has the financial ability to make an integrated effort to overcome such problems (oil income).

d. Availability of labour: almost all plants are constructed and put into operation by the manufacturer using imported labour. However, training the local population would be advantageous to the local economy.

e. Location: the location of distillation or power plants near the sea offers considerable advantages, but on the other hand the cost of both land and the transportation of water from the plant to the distribution system are other factors of location which must be considered. Most of Kuwait's distillation plants are located on the coast and near to the area of consumption. Examples include the Shuwaikh distillation plant, which is close to the sea and near the area of distribution for its products, though some distance from its power supply.¹ The al-Ahmadi

1. Most of the fuel comes from the south (al-Ahmadi Natural Gas) which is pumped from the oil refinery free of cost.

plant has a favourable location from all point of view, as does the al-Shuaiba plant. The latter is far from the area of domestic consumption but is close to the industrial area which it is designed to serve.

f. The quality of water to be desalinated; the saltier and more mineral the water, the higher the cost of desalination. (Table 54). In the Gulf water the proportion of total dissolved solids is very high, it reaches 41% in Kuwait Bay itself. This is attributed to high temperature throughout the year. The figures for Kuwait Bay vary slightly according to location, and this may be due to such factors as the discharge of fresh water at the head of the Gulf, or by varying currents - as mentioned above. Such differences are well illustrated by comparing figures for Shuwaikh and Shuaiba (Tables 55, 56).

In 1966 the total cost of fresh water was 560 fillis per 1,000 gallons. This was made up as follows:

TABLE 54. Cost of Distilled Water

Main Cost	... 220 fillis per 1,000 gals.
The cost of distillation process	.. 190 fillis per 1,000 gals.
The cost of maintenance	... 112 fillis per 1,000 gals.
Other costs	... 38 fillis per 1,000 gals.
Total	560 fillis per 1,000 gals.

The cost of mineralisation of brackish water was about 333 fillis, made up as follows:

Main cost	... 230 fillis per 1,000 gals.
Cost of the treatment	... 66 fillis per 1,000 gals.
Cost of maintenance	... 24 fillis per 1,000 gals.
Other cost	... 13 fillis per 1,000 gals.
Total	... 333 fillis per 1,000 gals.

TABLE 55. Analysis of Sea Water (at al-Shuaiba)

1. Neutral Electrical Conductivity as micromhes at 20°C	70,000-72-500
2. Calculated TDS ¹ in ppm ²	44,400-45,985
3. PH	8.6-9.0
4. Free Causticity in ppm as NaoH	
5. Total Causticity in ppm as NaoH	less than 5.0
6. Total Alkalinity in ppm as Ca CO ₃	130-140
7. Total Chlorides in ppm as Cl	21,500-22,630
8. Total Sulphates in ppm as SO ₄	3,100-3,300
9. Total Hardness in ppm as Ca CO ₃	8,400-8,500
10. Permanent Hardness in ppm Ca CO ₃	8,300-8,400
11. Temporary Hardness in ppm Ca CO ₃	100-100
12. Free Chlorine in ppm Cl ₂	1.0-2.0
13. Calcium Hardness in ppm Ca ⁺²	500-500
14. Magnesium Hardness in ppm Mg ⁺²	1,740-1,760
15. Total free and combined Ammonia in ppm NH ₃ ⁺²	0.5-10.0
16. Total Silica, Soluble and suspended in ppm SIO ₂	5.0-50.0

The sea water is continuously chlorinated. The chlorination rate varies between 1.0 to 2.0 ppm as free chlorine.

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1. TDS : Total dissolved solids.
 2. ppm : Parts per million.

TABLE 56. Analysis of Sea Water (at al-Shuwaikh)

<u>Constituents</u>	<u>Parts per million</u>
Total dissolved solid	43,430
Total Alkalinity as Ca CO ₃	138
Total Hardness as Ca CO ₃	8,800
Calcium Hardness as Ca CO ₃	1,480
Magnesium Hardness as Ca CO ₃	7,320
Calcium as CO ₃	593
Magnesium as Mg	1,754
Sodium as NA	12,700
Bicarbonates as HCO ₃	168
Chlorides as Cl	23,340
Sulphates as SO ₄	3,240
Bromides as BR	65
Silica as SiO ₂	6

Although distilled water is costly, in Kuwait it is cheaper than many other places, despite the fact that the Gulf water has a high proportion of total dissolved solids, in addition to the high cost of labour in Kuwait. The cost per thousand gallons has decreased from 525 fills when the first plant started to 269 fills in the new ones (flash)¹.

Distillation Operations

Despite all the capital costs involved and other obstacles limiting the expansion of distillation plants, Kuwait has no alternative but to carry on with its distillation programme in order to obtain the necessary supplies of fresh water. Over the last twenty five years Kuwait has built up the most advanced desalination capability in the world.

Kuwait's oil company established its first distillation plant despite its high cost in comparison with the cost of fresh water from natural resources. But with the development of science costs grew cheaper and cheaper, while by-products from the processes involved (sodium, potassium and magnesium) reduced costs even more. The most promising method for reducing the high cost of distillation would no doubt be to couple the desalination process with some other industrial process, such as the generation of electricity.

In 1953 Kuwait took the first step towards producing the water needed for both municipal and industrial uses by

1. The total cost of distilled water in the USA is 342 fills per 1,000 gallons.

the construction of a 1.2 million gallon a day submerged-tube evaporator plant at Shuwaikh, named Shuwaikh (A). The plant was the first in a long line, soon to reach Shuwaikh (G).

After the first two submerged-tube evaporators were built, Kuwait began purchasing the new multi-stage evaporators (Appendix IV). By 1965 when Shuwaikh (F) was commissioned, water demand had grown to the point where additional multi-stage flash plants were being built across Kuwait Bay at al-Shuaiba. Shuaiba (A), commissioned in 1965, had a capacity of 3.6 MGD¹. By the end of 1966 some twenty desalination plants, with a capacity of more than 24 MGD of fresh water, were operating in Kuwait, and by the end of 1973 the total installed capacity of distillation plants was 52 MGD.

Similarly in 1956 the peak electrical load was 21.5 MW². By 1966, it had reached 254 MW, in 1974 975 MW, and in 1975 1,446 MW .

The increasing demand for fresh water has been connected with the rapidly increasing demand for power. Such a connection is logical and necessary, because both systems use vast amounts of sea-water, and both use the same source of steam. The demand for fresh water has increased at the same rate as that for electricity, so that an extension in either of the systems is accompanied by an extension in the other, because both of them are linked

1. MGD : Million gallons a day.

2. MW : Megawatts.

with the increase in population and the extension of the urban area, as well as high temperature conditions.¹ In addition to the high standard of living², the construction of fresh water pipeline caused a tremendous increase in domestic consumption. The final factor which has caused an increase in the demand for fresh water and electricity, and which is expected to cause even greater demand in the future, is the development of the industrial sector.

Thus when the first distillation plant was installed, three other gas-heated boilers enabled the completion of a steam turbo-generator plant of 2,250 kilowatts capacity. However, electricity production at the Shuwaikh plant was of subsidiary importance, because fresh water was the first object of the plant.

In such plants sea water is needed constantly, not just for power and fresh water production, but also in cooling operations. Because of tides, it was necessary to construct three jetties along the coast to keep the supply of seas water constant. These jetties have a total capacity of 12 million gallons an hour. Table 57 shows the development in the production of distilled water and its proportion of the total consumption of fresh water, which reveals that distilled water has formed the only supply of fresh water in the country since 1953 but in 1963 the proportion of distilled water had decreased

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1. Because of an increase in the demand for water and electricity for airconditioning, especially in summer.
 2. This has been encouraged by the existence of cheap energy and the availability of capital and the great demand for it.

TABLE 57. The Production of Distilled Water
in Million Gallons.

Year	Shuwaikh Plant	North Shuaiba Plant	South Shuaiba Plant	Total Consump- tion	Percentage of Distilled Water
1966	1,953	465		3,325	72.7
1967	2,018	861		4,284	67.2
1968	2,347	1,507		5,008	76.9
1969	2,810	2,082		5,859	83.3
1970	3,375	2,068		6,638	81.9
1971	3,936	2,541	103	7,675	85.7
1972	3,747	1,367	2,375	8,572	87.3
1973				9,191	
1974	3,253	2,311	3,609	10,023	91.5
1975	3,253	2,633	4,552	11,602	89.9
1976	----	----	----	13,380	96.8
1977	----	----	----	17,321	97.1

TABLE 58. Production of Salt and Chlorine Plants(1964-1977)

Year	Chlorine (tons)	Caustic Soda (tons)	Hydrogen Gas (M ³)	Hydrochloric Solution (Gallons)	Hydrochloric Acid (Gallons)	Common Salt (tons)
1964	808	911	-	-	86,797	2,761
1965	829	935	-	-	97,200	3,913
1966	726	816	-	-	103,707	4,327
1967	929	1,048	-	-	126,528	3,758
1968	1,208	1,363	128,932	88,447	121,585	4,211
1969	1,528	1,724	438,640	159,162	124,163	3,910
1970	1,662	1,875	526,115	166,271	160,709	4,652
1971	1,674	1,890	530,008	94,368	126,774	4,731
1972	1,723	1,944	545,434	105,646	140,786	4,977
1973	3,865	4,361	1,223,623	649,510	193,928	10,030
1974	5,546	6,549	1,753,452	1,974,400	269,469	12,626
1975	7,271	8,203	2,301,832	2,595,868	197,254	18,057
1976	5,370	6,059	1,536,681	1,327,920	219,140	15,426
1977	5,759	6,499	1,735,341	1,195,104	333,430	16,703

Source: Annual Statistical Abstract 1973/1976

to 63.4%. This was due to the exploitation of underground fresh water at al-Rawdhatain. In 1966 the proportion of distilled water reached 72% of the total consumption of fresh water. This increase was due to the production of distilled water from al-Shuaiba plants. (Table 58).

Chlorine, Salt and other Production

In 1958 the Ministry of Water and Electricity decided to establish its own factory for the manufacture of chlorine because of its importance in the distillation operation. Chlorine has two uses in desalination operations. Firstly, it is added to the sea water entering the plant to kill marine life which would otherwise grow inside parts of the plant and reduce their efficiency, and secondly, it is needed for chlorination of fresh water from the distillation plants and the underground sources (Rawdatain, Sulibia, Shaggaih). Consequently its yearly consumption has reached about five or six hundred tons. It was very difficult for the Ministry to obtain such amounts from external markets, because of the difficulties of transportation. It is a very dangerous material to carry any distance and therefore the shipping companies ask high rates for the carrying of such materials. The cost of insurance is also high.

For these reasons, the Ministry decided to establish its own factory¹ because total production reached 506 tons in 1963, about 85% of which was consumed locally for distillation operations. This proportion increased to include all the factory's production.

1. This has been encouraged by the existence of cheap energy and the availability of capital and the great demand for it.

The production of salt is necessary for the production of chlorine, so that it was essential first to establish a salt factory. This depends on the brine carried from the distillation plant which is passed through a triple-effect submerged tube evaporator to remove the gypsum.

Daily production of salt has reached twenty tons of which only 4-5 tons go towards chlorine production. The chlorine itself is dissolved in water and piped back to the distillation plants to be used.

Other by-products of the desalination process, besides salt, are sodium hydroxide and hydrochloric acid, both of which are used in parts of the process in small quantities, although most of this production is bought by the oil companies for part of their work in the oil fields (Table 58). Another incidental by-product of the chlorine factory is sweet water from the brine evaporators and such an operation produces 5,000 gallons a day.

In general, the salt and chlorine factory does not make the best use of brine, because the whole factory uses only 1% of the brine available. The total amount of salt produced may be considered uneconomic because it does not exceed 10 thousand tons a year, while economic production would amount to 100,000 tons a year.¹

Although most of the chlorine produced is for local consumption, the majority of the other by-products e.g. sodium chloride and sodium hydroxide, are produced

1. The chemical operation to produce salt as a whole may be considered un-economic, because of the availability of salt in natural resources. In addition, small amounts of production may increase costs.

TABLE 59. Export of Chemical Products for the Year 1975.

	Units	Local Market	Iraq	Saudi Arabia	Jordan	Qatar	Lebanon	Syria	Omar
1. Chlorine Gas	kilograms	1,064,920	-	-	-	-	-	-	-
2. Liquid Chlorine	kilograms	4,722,296	838,239	198,810	43,920	99,900	63,050	-	9,000
3. Caustic Soda Liquid	kilograms	1,186,954	2,181,383	1,436,870	103,210	-	-	-	-
4. Caustic Soa Solid	kilograms	525,120	-	9,240	234,960	-	-	250,200	-
5. Caustic Soda Flakes	kilograms	531,800	82,400	26,000	70,500	-	-	20,000	-
6. Table Salt	kilograms	1,793,240	-	28,800	-	-	-	-	-
7. Industrial Salt	kilograms	882,480	50,160	296,500	-	-	-	-	-
8. Hydrochloric Acid	Gallons	82,161	-	18,500	8,000	-	-	-	-
9. Chlorosal Liquid	Gallons	158,579	-	-	-	-	-	-	-
10. Distilled Water	Gallons	89,585,000	-	-	-	-	-	-	-

Source: Petrochemical Industries Company; Salt and Chlorine Division.

for export, mainly to neighbouring Arab countries such as Saudi Arabia and Iraq (Table 59). The demand for such products has increased during the last few years especially after the deterioration of the situation in Lebanon. The importance of such a factory for employment is very small, as it only employs 260 persons out of the total labour force of the Ministry of Electricity and Water of 7,271.

Thus Kuwait must devote more research to this field in order to gain substantial benefits and to make such operations economic, with a view to obtaining the world's leading position, especially with the availability of cheap energy sources, and large quantities of brine (after the distillation operation), which will cut the cost of different chemical products, apart from salt (sodium chlorine).

New Outlook for Pearl Diving

The pearl industry has lost its importance completely since 1950, and has almost disappeared, but in recent years pearl production and pearl diving has reappeared on a small scale. At first it seemed to be a hobby rather than an occupation, but larger scale developments have taken place during the last two or three years when the commercial supply of oysters began. This does not indicate that pearl diving will regain an important position in the future, because the demand for such products is concentrated in the local market and is not on a large scale.

Pearls still fetch a high price according to quality but this may be due, not to the price of the pearls on the world market, but to the interest of the people in the area in such a commodity.

Building Materials

Building materials may be considered the least important supply of the marine sector, despite the fact that it had a considerable importance in the past. Coral rock was the main and the most expensive building material in the traditional old houses, but when cement started to be used as a replacement material, sand - mainly from the sea - faced an increasing demand as a construction material especially during the 1950's.

Sand abounds in Kuwait, but most of it is either too fine or impure to be used in any form of construction,¹ although at the start of the development programme the sand along the beaches of Kuwait's shore line from Ras al-Ard to its southern shore was used for construction purposes between 1952-1956. There is a large amount of sand below the coral deposits. Such an increasing demand for beach sand is due to the fact that it is purer than desert sand.² However, this area is no longer the main source of supply, and pockets of sand do occur from place to place in the desert and sufficient quantities for the needs of building have been found in the separated area

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1. Allison T.R.: Particular problems Encountered in Building and Civil Engineering Design and Construction in the State of Kuwait, unpublished report, Kuwait, 1969, p.46.
 2. Beach sand contains 500 ppm., and it is better to be washed before using it, and some shelly sands contain nearly 30% of shell content which may reduce the concrete strength.

between Magwa and Jahra. Beach sand has failed to continue to supply building raw materials (sand), but marine sand is still the most important sand for construction in the country, and there is a considerable amount of it along the beaches.

The sea may be considered as one of the world's great natural resources. Thus it is believed that the sea provides new resources to explore in an environment like Kuwait, where land resources are scarce. In such a situation marine resources could make up for deficiencies in land resources, if utilised in a way that will not cause damage to the physical environment.

CHAPTER XCONCLUSION

Kuwait's problems are long term.¹ It was the forerunner of the desert oil economies, rising to fame and wealth over 29 years ago from humble origins as a trading, pearling and ship building centre. By 1980 Kuwait was a classic oil-rich desert economy and its non-oil resources were almost negligible. Agriculture was restricted to nomadic herding by bedouin and to small oases of cultivation. Industry accounted for only 3% of the national income, the bulk of which was from oil related activities. A comprehensive welfare state had been established on the basis of oil wealth, providing health, educational, social services and employment coverage for the Kuwaiti population. Long term problems stemmed from the overwhelming position of oil in the economy and the lack of obvious or reliable alternatives in the future. Kuwait had good oil reserves, estimated at 67.4 billion barrels in 1976. These, if exploited at the maximum rate permissible under Kuwait law could last for as long as 90 years. However, mindful of the future economic basis of the state, the authorities were reducing production to 1.5 mn b/d. Until banking, trade, fishing or shipping sectors indicated that they would offer a valid alternative to oil, until then Kuwait would remain a state with an immensely wealthy present, but with a bleak non-oil future.

Consequently, diversification was the main aim of Kuwait's planners. Great efforts had been made by the Govern-

1. K.S. MacLachlan, and N. Ghorban, The Economic development of the Middle East oil-exporting states, E.I.U. special, London, 1978, p. 52.

ment and the private sector for diversification, not only in terms of sources of income but by investment of capital in productive sectors. In this respect the private sector had received considerable help from the Government, which was willing to give financial and technical support to encourage the private sector to enter new fields of enterprise to augment the Civil Service and trade activities. Such efforts for diversification have been discussed in the six main chapters.

Although conclusions to each chapter have been presented in relation to various fields of the economy, in this final chapter it is intended to give a general conclusion and an attempt is made to examine the future development of economic diversification. Therefore, this chapter will be devoted to an examination of the various sectors, especially the marine, to view their possibilities as major fields of diversification.

Limited diversification in the past reflected the shortage of capital and qualified personnel, coupled with a narrow economic base. This situation led to the marine sector gaining particular importance. However, the sudden availability of one of these factors, capital, did not necessarily indicate that economic development could be achieved. The new search for diversification needed to be directed towards developing and increasing the productivity of all available sectors, intensifying capital investment, increasing manpower productivity and making use of every possible production field, especially those resources which under certain circumstances, would replace themselves or could be replaced by man. Thus the economic development of Kuwait's natural resources must be prepared carefully, in order to stay within the limits of the natural environment, and to avoid major ecological disruption. Deve-

lopment was dominated by two major factors, first, the quantity of existing resources in relation to the environment. Second was the technical ability of the Kuwaiti people and the way in which it could be used to exploit available resources.

Kuwait succeeded in achieving growth in income and population despite physical limitations. Such success had been determined by the effort made to utilize the environment in a way that would overcome physical limitations. Yet its success in achieving economic growth through its oil revenues had increased the need for economic diversification for the security of the future, especially with an increasing population, the shrinking importance of its traditional enterprises and the increasing flow of capital.

As already stressed, Kuwait's present strong economic position does not secure its future if its economy continues to depend completely upon oil. Although the availability of capital, manpower and material resources are obviously essential for economic development, the manner in which these resources are utilised determines the direction and speed of economic development. Particularly important are the distribution and timing of investment in the main economic and social sectors.

Thus the crucial question is whether the future development and expansion of Kuwait's non oil exports and the revenues from the re-export trade will be expanded sufficiently to balance the country's expected deficit without oil exports? The answer to such a question depends upon action taken vis a vis development during the duration of the oil revenue. So far only modest efforts have been made. By 1980 Kuwait's economy still resembled that of a developing country, despite the increasing income and a high standard of living. The structure

of the economy could be summarised as follows:-

1. High Government income from oil.
2. Rapidly growing population.
3. Growing demand for imported consumer goods.
4. Growing demand for increases in Government spending and jobs.
5. Increasing demand for imported capital goods.
6. Government uncertainty as to the future price of oil.
7. An increasing activity in the financial sector, both locally and internationally, coupled with an increasing value of the Kuwaiti Dinar amongst most of the world currencies.

Despite all the difficulties that faced the Kuwaiti economy, it still achieved a positive balance of payment and a great amount of surplus capital which led the Government to seek capital investments overseas for the benefit of Kuwait's future. By the early 1970's this overseas investment had begun to pay off, contributing a large proportion of Kuwait's income.

However, uncertainty remained as to Kuwait's ability to expand its economy and to keep its balance of payment steady without oil. Even if this were possible, doubt remained as to the strength of the economic sectors that were available in Kuwait or might be available in the future to replace the oil economy. The answer to these uncertainties will be in the development of the available economic sectors:

1. Industrial activities.
2. Financial activities and other services.
3. Trade activities.
4. Marine activities.

Kuwait was far from having a full industrial economy as it lacked the fundamental basis for a diversified industrial country. It possessed neither the raw materials nor the manpower needed for running such an economy. Yet Kuwait was one of the first countries in the Gulf to attempt a degree of industrialisation.¹ The objective both now and in the early years, was to substitute for imports those items which could be manufactured to some profit in Kuwait itself. The main area involved was the construction industry. By the end of the 1960's Kuwait began to realise its potential for refining petroleum products and for converting oil and natural gas into petrochemical products. Despite the construction of two large oil refineries, competition from major oil companies made export of refined products difficult at the beginning. In addition, competition in the Gulf was fierce, particularly from Iran, where construction of all main core units for a fully integrated petrochemicals industry was almost complete, and where, in terms of domestic market, available labour force, costs and scale of production, the advantages appeared to lie. Thus the development of the industrial sector must be carefully prepared and planned according to the resources and facilities of the country and very mindful of the strength of its neighbours, and major competitors in the Gulf.

Agriculture had never been developed on a large scale in Kuwait without substantial losses. During the 1970's two major² plans existed for future development in the agricultu-

1. Ibid, pp. 54-55.

2. Ibid, p. 55.

ral sector. First, utilising high technology to grow crops capable of bearing heavy water and growing costs. Second, based on a less intensive system and making use of large quantities of irrigation water brought by pipeline from the Shatt al-Arab in Iraq. Results in the former experiment proved too expensive, and the latter was complicated by diplomatic disputes. Despite the problems cited, coupled with the ever present limitations of high temperatures, aridity and soil infertility, the Kuwaiti Government would like to possess the ability to produce food-stuffs within the country and provide greater employment in agriculture. The financial input however would be extremely high.

In the short term the financial sector appeared the most affluent one in Kuwait's economy, despite world economic and financial instability.¹ In the past Kuwait was always eclipsed as a financial centre by Beirut. Even during the Lebanese civil war, Kuwait had not taken over Beirut's former role. Difficulty of entry into Kuwait, coupled with a more rigid social life less acceptable to international businessmen were the main causes of this. Overseas investment formed an important sector and its importance and value could increase if world political and financial conditions were stable. Such was the significance of the following statement; 'In fact, recent estimates indicate both countries² can expect their portfolios to be earning by the early 1980's as much as they receive now from oil exports'.³

1. Ibid.

2. Kuwait and Saudi Arabia.

3. H. Askari, J.T. Cummings, 'How Rich is Oil Rich?', Middle East International, No. 87, September 1978, p. 22.

The need for foreign capital was not for the purchase of imports alone, but for the development of the welfare state, employment opportunities for all Kuwaitis, and maintenance of the standard of living at level similar to those experienced during the oil era. By increasing the demand from one sector of the economy, the financial sector, this might expose the country once again to the problems of a single commodity economy. As a result Kuwait would be vulnerable to the danger of any crises that may occur in world financial markets.

Although Kuwaiti overseas financial investment was considered as one of the leading sectors in the economy, apart from oil, based on its proportion of participation in the country's national income, the effect of world inflation might adversely affect its real value. At the same time, its importance as a field for employment was limited. The increase in trade exchange and the rise in the standard of living might be considered as an indicator for the country's development, but a closer look at the structure of Kuwait's trade gives a fairer indication. Consumer goods dominated imports, while one single commodity, oil, dominated the export trade. The continued flow of consumer goods might in the future be restricted or made more difficult, especially with the world wide rise in inflation. Kuwait's re-export trade had gained great benefit from the regional market, but this situation might not continue in the future because a great proportion of the regional market depended upon oil income, either directly or indirectly.

Despite the fact that Kuwait had benefitted from its bonded warehouses and trade as a source of income and as a field for employment, the security of the country's future must be in reducing the amount of imports of consumer goods and

concentrating on the import of capital goods; thereby developing Kuwait's trade not simply for local consumption but to increase Kuwait's importance as an entrepot centre and producer of goods in the area. Although Kuwait's trade and services might achieve more benefit if it extended its activities on a regional scale, the unsettled political situation in the area affected almost all those economic activities able to be expanded on a regional scale. In addition, the military arms race in the area absorbed a great deal of effort and capital at the expense of civil trade.

Consequently, Kuwait needed to transform its traditional economy, in a way that would multiply its source of income and create a field of employment ideally in one of the main sectors that had a productive base. But the problems remained: how could Kuwait transform its traditional economy, to what extent could it change its economy, and which field ought to be given priority for development?

By developing the marine sector, Kuwait would influence and develop other economic sectors, for example services and industry, even though marine resources did not appear attractive in the eyes of the investors, despite its strong start during the early 1960's. A major study and report on the development of the marine economy could prove invaluable, not only to establish the reasons for the industry's apparent decline but also to enable the industry to be re-established on a firmer basis. It would also be helpful to develop long term forecasting for world demand for marine resources. It is felt that a study and development plan for marine resources, coupled with long term forecasting, could transform the marine sector and make it one of the most promising areas for development.

Such a plan would help to point out the best way by which development could take place. Most of the economic development programmes did not follow a specific agreed plan step by step. But the development of most of Kuwait's economic sectors depends on circumstances arising from the country's short term economic situation or various external political factors.

Most of the recent development in the non-oil sectors took place either for political reasons despite the losses that caused to the economy or because of an opportunity seized by the private sector without government aid. Development of any economic sector however should not take place without a very clear plan for the country's economy and population, and a conscious analytical study of every aspect that might enhance future prospects. Also, it must be constructed in a rational way to secure the development of the country's economy. Such a plan would pave the way for the Kuwaiti economy to gain the confidence of the international community and would help its development programmes, as well as building up a basic field for diversification. This however, would not be possible without a well-defined population policy. The stability of manpower is an essential factor for any economic plan, while the continual increase in imported manpower may cause a bottleneck for the development programme.

Kuwait was however, heavily reliant upon foreign workers. At the last census¹ there were 990,389 persons in Kuwait, of whom, over half, 521,269, were aliens. Foreign workers and their families were not entitled to all state welfare benefits

1. Bidib, p. 52.

and did not have security of employment. A large part of this foreign community comprised large national groups, politically educated and articulate. They resented the obstacles put in their way, preventing them from obtaining equal rights as Kuwaiti Nationals and continuing their inferior status. Unless an end can be put to this discrimination, discontent will be likely to grow, a detriment to the country's economic growth and a threat to its stability and security.

On the other hand, a large and growing population would impose great strains upon the welfare services and presented problems in the long term. The Government was uncertain whether to absorb the whole population, both skilled and unskilled, into the labour force or to exclude non-Kuwaitis.

In conclusion, it must be stressed yet again that Kuwait has long term problems even though at first glance this may appear a paradox in a small country so well endowed with long term resources of oil and a subsequent high standard of living, that Kuwait has become the epitome of the oil producing states of the Middle East. Yet it was apparent to the Kuwaiti Government that a diversification of resources was essential, long before oil resources began to run dry. This last chapter has attempted to identify the sectors of the economy that presented the most plausible alternatives to oil. Some sectors, for example agriculture, were so marginal that large scale expansion would prove too costly.

The only other option, which in the long term could have been more feasible, was an equal concentration upon all the major alternatives to oil, namely industrial, agricultural, trade, financial and marine activities. Although individually their contribution may at the moment appear negligible, in

time their productivity would increase sufficiently, so that, combined, their resources could provide a plausible alternative to oil.

This may well prove the most successful long term plan that Kuwait could pursue in its aim to diversify the economy.

APPENDIX ISOURCES OF INFORMATION AND MATERIAL COVERING
THIS SUBJECT COVERED BY INTERVIEWS BY THE AUTHOR

To cover this subject the writer had to interview a number of officials, businessmen and some former fishermen without which this thesis would not have been completed.

Among those interviewed were the following:

1. Mr. A. al-Saqr, Director of Kuwait Chamber of Commerce & Industry.
2. Mr. A. al-Moossa, of the Ministry of Planning.
3. Mr. B. Abdul-Latif, of the Ministry of Trade and Industry.
4. Mr. A. al-Abdul-Razzak, businessman.
5. Mr. D. al-Ateegy, of the National Bank of Kuwait.
6. Mr. F. al-Ghanim, businessman.
7. Mr. M. Madooh, the managing director of United Arab Shipping Company.
8. Mr. S. al-Abdul-Razzak, businessman.
9. Mr. S. al-Shihab, undersecretary for the Ministry of Guidance and Information.
10. Mr. S. al-Nahidh, the director of the Real State Bank.
11. Mr. A. al-Gandi, former member of Kuwait shipping company board.
12. Mr. H. al-Zaid, former undersecretary for Ports Affairs.
13. Mr. A. al-Jarralla and Mr. S. al-Zamel, from the Customs and Port Administration.
14. Mr. M. al-Nassef, of the Ministry of Planning.
15. Mr. al-Attar, from the Fishing Farm.
16. Mr. A. Mulla Hussaid, from the Fishing Farm.

17. Mr. M. al-Shemmalli, former Dean of Kuwait Institute of Scientific Research.
18. Dr. S. Potaichuk, FAO expert.
19. Dr. N. Khromov, FAO expert.
20. Dr. S. Volovik, FAO expert.
21. Mr. al-Tamimi, from the Planning Board.
22. Captain N. Abdula, from the Fishing Company.
23. Mr. G. al-Bader, from the Fishing Company, former Deputy Manager of the KFC.
24. Mr. A. al-Mahmeed, Manager of Kuwait Factory for Salt and other chemical products.
25. Mr. B. al-Bahar, under secretary of the Ministry of Planning.

and many others...

APPENDIX IIThe Port of al-Shuwaikh: Facilities and Extension Programme

The development of al-Shuwaikh took place when the production of oil began on a commercial scale especially during the 1950s. Oil is not exported directly through al-Shuwaikh, but affects the traffic through the port in several ways. It is the export of oil which is directly responsible for the demand for imported goods. In 1946 the Kuwait oil company constructed a jetty in order to off-load the company's equipment, giving the port an international importance and widening its activities.

al-Shuwaikh is favoured by deep water in a narrow channel to a depth of 42-60 feet, an advantage given the increasing draft of ships. The southern coast of the Gulf is dotted with many harbours and ports, starting from Muscat at the entrance of the Gulf to al-Fao at the head of the Gulf. al-Shuwaikh's hinterland exceeds the majority of these ports. Productivity however is a more important factor than the size of the port hinterland. Kuwait is poorly served with respect to both factors as it covers only a small area and has poor natural resources.

The export of Kuwait's oil started with the development of its major oil terminal at al-Ahmadi (north and south), while its commercial activities in general took place after the development of al-Shuwaikh port.

The Government took over the administration of the port in 1953. It was found that the al-Shuwaikh port capacity was unable to handle the increasing demand for goods and the growing numbers and size of ocean-going ships visiting the port every year.¹ It was decided to dredge the channel in order to enable ocean-going ships to berth at al-Shuwaikh close to the long wharf which was planned to be established at the same time (1953). Between 1953 and 1954 the proportional increase in the amount of imported goods was 11 per cent (5,000 tons).² In 1953 a main wharf was constructed at al-Shuwaikh comprising four berths, each 33 feet deep and 600 feet long, in addition to four other small berths ranging from 13-18 feet deep, plus four buoys which were placed in deep water in order to serve as two berths 28 feet deep at a distance of 1200 feet from the major wharf.

The increase in the volume of trade between 1955 and 1959 was 169% with imported goods rising from 420,977 tons in 1955 to 1,133,901 tons in 1956.³ Even with the expansion of the port it was found the volume of commerce in Kuwait expanded during the following year (1956) to 100,000 tons which in turn necessitated another expansion of the available facilities.

Imports decreased in 1960 from 1959 by about 115,000 tons, due to the reduction in the amount of imported cement. This followed the reduction in the total imports and oil exports.⁴

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1. Ministry of Guidance and Information, op.cit., p. 160.
 2. Customs and Ports, Annual Report, 1953, 1954.
 3. Customs and Ports, Annual Report, 1955, 1956.
 4. Customs and Ports, Annual Report, 1959, 1960.

It was found after the opening of the new port that the highest volume of goods off-loaded in any one month during the two years that followed the completion of the ports was 122,000 tons. The proposed full capacity of the port during these years was 1.5 million tons/year.¹

During the second half of the 1960s imported goods rose to 1,251,475 tons (1966). Ships had to wait in the anchorage area offshore for several days, which caused an increase in freight charges. In addition there was a delay in goods, especially those for re-export, so the price was not competitive with that in neighbouring countries where the import duty is high. Consequently it was felt important to expand al-Shuwaikh by replacing the old T head jetty and establishing a new wharf eastwards.²

In 1968 imports reached approximately 1.7 million tons of which al-Shuwaikh port handled about 1.4 million tons. As a result of the rapid increase in the demand for imports, extensions have been approved at the port. These extensions proceeded in two stages:

The first stage, already mentioned, was to replace the old T-head jetty and establish a new wharf eastwards. It has five berths each of 33 ft. depth. This wharf reaches 200 metres in length, and 32 metres in width. In addition there is a small basin behind the new wharf, that is used for harbour tugs, maintenance dhows, tow buoys and pilot boats. The wharf is equipped with all the necessary facilities needed for supplying ships with fuel and water. In addition there are three

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1. Aziz M. Habib, al-Kuwait: A Comprehensive Study of the State of Kuwait, Arabic text, Maktabat al-Anjlu, Cairo, 1971, p. 160.
 2. Customs & Ports, Annual Report 1970, Kuwait, 1970, p. 15.

electric cranes with a capacity of three tons each, and a fourth with a capacity of six tons. All of them are mobile and move on rails built into the structure of the quay.

The old slipway jetty was repaired and a further section was annexed in order to protect the slipway and facilitate the towing of vessels under all tidal conditions. Furthermore, a new intake jetty was established and a pump installed to draw from the distillation plant in al-Shuwaikh. All these works have been completed according to the 1966 contract between the Ministry of Public Works and Ivan Millutinovic of Yugoslavia, with a total cost of KD 1,260,000.¹

When the dredging of the approach channel was completed it was found that the intensive lighting of the city and its reflection on the sea surface tended to misguide vessels and make navigation through the channel difficult. This caused the replacement of the berthing buoys by fixed dolphins, in order to avoid the risk of vessels breaking loose because of the northerly wind and the misleading reflections of light at night - the total cost of these dolphins was KD 297,000 and it was completed in 1967-1968.²

The second stage of the expansion of the western side of the port took place in 1968. This extension will enable the port to handle 3,000,000 tons a year. This expansion involved the following:

The construction of a new pier adjacent to the old one, and the deepening of the surrounding area to 10m. where two vessels of more than 137 m. in length could take up berth. In addition a passenger berth with a length of 6.7m

1. Ibid., p. 16

2. Customs & Ports, Annual Report 1967.

and draft of 10m was built. These two berths are equipped with twelve electrical cranes with capacities between 3 and 6 tons.

Construction of six berths (namely, 3-4, 5-6, 7-8, 9-11, 11-12, 13-14) each 200 metres in length and 10m in draft in order to accommodate large commercial ships. These berths are equipped with 20 cranes of 5 ton capacity and six cranes of 10 ton capacity, in addition to one contained crane of 30 ton capacity located on berth 9-10. The distribution of the cranes differs from one berth to another.

The port also includes a fishing harbour able to accommodate about fifty trawlers and four mother ships in a depth of 6.7m. (its berths are denoted by 14-15 and 16-17). In addition two other berths, each at a depth of 8.5m, have been constructed to accommodate vessels carrying refrigerated cargoes, livestock, vegetables and fruits. The last four berths are equipped with eight electrical cranes, each with a capacity of 3 tons. Also included was construction of a shipbuilding and ship repair yard. The deepening of the basin in the sea area facing all berths to a depth of 10m. and the deepening of the approach channel to the harbour to more than 8.5m. The total volume of material dredged has been estimated at about 9,000,000 cubic metres. As storage facilities are one of the important elements in the development of the port, the scheme included an area of 10,000 sq. metres designated for the construction of cold stores, with different temperature ranges: refrigerated stores with temperature decreases to 20° C below zero;¹ cold stores with temperature 5° C to zero.² In addition to these, three other stores were built for different

1. Customs and Ports, Annual Report 1970, op.cit., p.22.

2. Ibid.

kinds of goods on each of the following berths: 7-8, 9-10, 15-16. However, the area adjacent to berth Nos. 7-8, 9-10 will be designated to receive containers.

In addition four other large stores capable of receiving 20,000 head of sheep or cattle are to be developed as well as other general facilities needed for a port, such as lights, a pipeline network and a telephone system.

APPENDIX III

Customs Duty

Before the oil era Kuwait's Government had very little income. This was either gathered from the tribes living in Kuwait's vicinity - in the form of the Islamic tax (Zakat)¹ or from a tax gathered from pearl diving, or from the customs duty which was about 3% advalorem on goods imported to Kuwait. The customs duty was increased to 5% on all Kuwait's imports in 1899, because of the military action facing the state during Shaikh Mubarak's reign.²

The difficult political and military situation caused a further increase, to 10% advalorem. In addition a tax on property of about 33 per cent was established. Nevertheless, in 1918 the ruler Shaik Salim, and the Kuwaiti merchants agreed the import duty should be 4 per cent advalorem as a fixed amount, which was believed to be enough to meet Government expenditure. However, the ambitions of Kuwait's society to have developments in education, health, municipal systems, which increased this proportion to 6.5%³ advalorem during the first few years of Shaikh Ahmad al-Jaber's reign (1921-1950)⁴

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1. About 2.5 % of the yearly saving. For further detail see: The Encyclopedia of Islam, Vol. IV, part 2, pp.1202-1205.
 2. H. Khaz'al, The Political History of Kuwait, Vol. 2, Arabic text, Dar al-Kotob, Bieruit, 1962. pp. 296-297.
 3. This proportion was divided between the different sectors as follows: 1% for Health, 1% for Education, $\frac{1}{2}$ % for other Government expenditure. For further detail see: Ministry of Guidance and Information, op.cit. p. 160.
 4. Ibid.

In 1951 customs was reduced to 4% and this was the only tax on imported items with the exception of alcoholic beverages where the tax reached 100%. Goods imported for the Government or the oil companies were exempted from any tax. There developed difficulties attributed to import regulation which could affect import preparation. These obstacles appear in the port dues, the charges on goods and demurrages, and port dues on ships. Every ship entering Shuwaikh port has to pay 25 fils¹ per net registered ton each time she enters the port, with certain exceptions: such as the Kuwait vessels under 400 GRT² and foreign ships under 25 GRT. Ships re-entering the port after visiting other Kuwaiti ports are also exempted. The same treatment applies to ships entering the port limits because of major illness, mechanical trouble and weather conditions and those staying within the port limits for less than 24 hours.

However, ships re-entering the port to discharge cargo remaining on board from a former trip pay half of the dues, as is the case for craft having dead weight tonnage.

In the case of tonnage charges, each ship has to pay 80 fils for every ton of cargo loaded or off-loaded within the port limits. Chartered vessels, which carry about 90% of the cement, grain, sugar and oil handled the duty is

-
1. KD 1: 1000 fils.
 2. General registered tons.

50 fils only.¹

Two other charges apply to imported goods in Kuwait:

Demurrages and landing charges. The former are due on any goods that are not removed from the port premises on time.²

Landing charges differ according to the kind of imported goods and how they are stored.³ It was found in 1969 most other ports in the area had started to reduce their formal regulations and were easier with regard to imports.⁴ This will affect Kuwait's trade position in the future if quick action is not taken to safeguard the importance of Kuwait's port.

1. Pilot and berthing charges fluctuated from KD 6 to KD 34 for every time a pilot is used to take into or out of the port inner harbour according to the ships G R T (General Registered Tons). KD 10 is the charge for every time a pilot is used in the outer anchorage or the inner harbour. The charges for each vessel entering the deep berth on the quay is from KD 1-12 for a day, with some difference in charges according to the different berth that is used and the part of port (the deep berth or the low one). Light dues are 5 fils permit registered ton, except for those ships of less than 400 G R T. The charges for fresh water supply are 250 fils per ton on the jetty, but water carried on barges includes the charges of the barges which are further KD 30 per 100 tons. In addition there are charges for other services such as tugs, services, salvage operation, diving units, crane charges, etc. This indicates that not all the port income came from import duty, and this gives an importance to the traffic movement in the port even if it does not supply the local market with any goods.
2. This is charged on goods remaining ten days in the sheltering warehouse and runs at about 150 fils per metric ton per day for the first ten days, 200 fils for the following ten days, and 300 fils per metric ton per day after 20 days. Charges on goods in open areas fluctuates from 100 fils per ton per day to 750 fils per ton per day. Customs & Ports, (1970) op.cit.
3. The charges for goods packed in sacks are KD 1 per ton, while for those in cartons, boxes and cages the charges fluctuated from KD 2 to 7150 according to the kind of goods. For further details see: Customs & Ports, (1970), op.cit.
4. The Kuwait Chamber of Commerce and Industry; (1969) op.cit.p.5

APPENDIX IVTHE DEVELOPMENT OF KUWAIT'S DISTILLATION PLANTS

The first plant to be established in Kuwait was a simple type of installation, known as the triple-effect submerged tube evaporator, and ten evaporators each produced a hundred thousand gallons a day. Each evaporator has four large cylinders lying on their side. Sea water is pumped into the first cylinder and a partial vacuum is created above the water. Steam from boilers heated by natural gas passes through tubes immersed in the water. This steam heats the water, bringing it to the boil quickly under the low pressure conditions. While this steam condenses and passes back to the boiler again, fresh steam evaporates from the heated sea-water and passes through to the tubes immersed in the second tank of sea-water, which is under an even purer vacuum than the first. The process is repeated in the third tank, but this time the steam evaporating from the sea-water is condensed in a specially cooled condensing tank and the resultant water is pumped for consumption.

The second distillation plant (plant B) was established in 1953. It produced, like plant A, a million gallons daily from ten triple effect submerged tube evaporators, so that total daily production reached two million gallons.

The increasing demand for fresh water in 1957 led to the establishment of new plants (called C and D). Each of them was able to produce 525,000 gallons a day. These two plants (C and D) work on a slightly different system

to the triple effect evaporators, using 'multi stage flash evaporators'; this uses less steam and will work for longer periods without needing to be descaled.

In 1960 a further stage of the distillation plant was needed. Thus plant E was constructed consisting of two multi-stage units, each of nineteen stages and was able to produce a million gallons a day. This brought the total capacity of the five plants up to a total of six million gallons a day.

However, this did not mark the end of increased fresh water production, for a new power station will be constructed at al-Shuaiba with three evaporators of one million gallons a day capacity. These will cost KD 1.5 million; the three machines are multi-stage flash evaporators. The plant was designed so as to enable an increase in capacity to five million gallons a day, if more fresh water is needed. A third process uses brackish water as its raw material and extracts the salt by an electro-dialytic demineralisation process. This was established at Shuwaikh in 1959.

The Development of Distillation Plants in Kuwait

<u>Distillation Unit</u>	<u>Its System</u>	<u>Its Capacity m.gal.</u>	<u>Number of its unit</u>	<u>Number of its system</u>	<u>Date of its Construction</u>
al-Shuwaikh(A)	Submerge tube	1	10		1953
al-Shuwaikh(B)	Submerge tube	1	10	3	1955
al-Shuwaikh(G)	Flash	1	2	4	1957
al-Shuwaikh(D)	Flash	1	2	16	1958
al-Shuwaikh(W)	Flash	2	2	16	1960
al-Shuwaikh(H)	Flash	2	2	30	1965
Shuaiba (A)	Flash	3	3	30	1965/6
Shuaiba(C)	Flash	4	2	24	1967/8
Shuaiba(B)	Flash	2	1	24	1968
Shuwaikh new (B)	Flash	4	2	25	1968

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