2000 Country Reports on Economic Policy and Trade Practices
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KUWAIT

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 2/	25,305	29,612	37,312
GDP Growth (pct) 3/	-15.3	17.0	26.0
GDP by Sector:			
Manufacturing	3,004	3,619	4,559
Services	3,894	3,339	4,205
Government	7,174	7,493	9,440
Petroleum	7,772	11,034	14,925
Per Capita GDP (US$)	11,305	13,023	15,738
Labor Force (000s)	1,252	1,226	1,207
Unemployment Rate (pct)	1.3	1.7	3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	-0.8	1.6	3
Consumer Price Inflation (pct)	0.2	3	3
Exchange Rate (KD/US$ annual average)			
Official	0.305	0.304	0.306
Balance of Payments and Trade:			
Total Exports FOB	9,548	12,233	19,000
Exports to U.S. 4/	1,674	1,578	2,156
Total Imports CIF	8,610	7,625	7,608
Imports from U.S. 4/	1,479	909	806
Trade Balance	934	4,608	11,392
Balance with U.S. 4/	192	669	1,350
Current Account Surplus/GDP (pct)	8.7	17.1	19.2
External Public Debt	0	0	0
Debt Service Payments/GDP (pct)	0	0	0
Fiscal Deficit/GDP (pct) 5/	4.0	23.5	-13.6
Gold and Foreign Exchange Reserves (US$ billions)	3.6	3.7	4.6
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ 2000 figures are projections based on data through June 2000.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 Figures are estimates based on data available through July 2000.

1. General Policy Framework

Kuwait is a politically stable constitutional Emirate. The press is largely free and commercial advertising is available. Arabic is the official language but English is widely spoken. Kuwait has a small and relatively open, oil-rich economy which has created an affluent society.

Kuwait still faces several structural problems in its budget: excessive dependence on oil revenue, growing government expenditures due to the need for continued high defense spending, growing social expenditures resulting from high levels of government employment, and provision of heavily subsidized social services and utilities. Primarily because of weak oil revenues during the first half of 1999, Kuwait's budget was projected to be in deficit for the FY 1999/2000. In late 1999 a five-year plan to reduce government employment and subsidies, and to encourage privatization of services, was set forward. However, higher oil prices during the last half of 1999 and through 2000 have significantly alleviated the pressures on Kuwait's budget, reduced the deficit to one percent in 1999 (with projections of a 15.2 percent fiscal surplus in FY 2000) and weakened the impetus for economic restructuring.

Domestic investment is encouraged by provision of low cost land, subsidized utilities and waivers of duties and fees. These are offset by lengthy bureaucratic procedures, and for foreigners, high tax rates and complex procedures to secure work visas. The Kuwait Central Bank uses interest rates as its primary means to control money supply through adjustments to the discount rate and through open market operations of government securities. Kuwait's money supply (M2) in June 2000 was up by 3 percent over the previous 12 months.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond the requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. Since the dollar represents half of the basket, the Kuwaiti dinar has closely followed the exchange rate fluctuations of the dollar over the past year.

3. Structural Policies

Kuwait's government plays a dominant role in the local economy, which should diminish if moves toward privatization and rationalization of the economy are implemented. Kuwait's economy is heavily regulated, which restricts participation and competition in a number of sectors and strictly controls the roles of foreign capital and expatriate labor. Policies favor Kuwaiti citizens and Kuwaiti-owned companies. Income taxes, for instance, are only levied on foreign corporations and foreign interests in Kuwaiti corporations, at maximum rates of 55 percent of taxable income. Individuals are not subject to income taxes, but the government is considering possible changes to its current income tax structure.

Foreign investment is welcome in Kuwait for minority partnership in select sectors. Foreign nationals, except for the citizens of some GCC countries, are prohibited from having majority ownership in virtually every business other than certain small service-oriented businesses, and may not own property. Kuwait's Parliament in May 2000 passed the Indirect Foreign Investment Law allowing 100 percent foreign ownership of all companies listed in the Kuwait Stock Exchange, with the exception of banks, where foreign firms may own no more than 49 percent.

Government procurement policies specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. There is also a blanket agency requirement for all foreign companies trading in Kuwait to either engage a Kuwaiti agent or establish a Kuwaiti company with majority Kuwaiti ownership and management.

4. Debt Management Policies

Prior to the Gulf War, Kuwait was a significant creditor to the world economy, having amassed a foreign investment portfolio that ranged from $80 to $100 billion. Following liberation, Kuwait made the final payment on its $5.5 billion jumbo reconstruction loan in December 1996. The estimated value of the Kuwait Investment Authority's (KIA) foreign assets, concentrated primarily in the Fund for Future Generations, is now approximately $65 billion, while other government-owned foreign assets are estimated at about $35 billion. The government is authorized by law to borrow up to KD 10 billion ($30.5 billion) or its equivalent in major convertible currencies. As of the end of July 2000, the total outstanding balance of public debt instruments in KD issued by the Central Bank of Kuwait was KD 2.48 billion ($8.26 billion), while Kuwait's official external debt stood at zero.

5. Significant Barriers to U.S. Exports

On July 1, 1992 Kuwait began collecting a four-percent tariff on most imports. This flat rate is applied to the Cost, Insurance and Freight (CIF) value of imported goods. Where imports compete with domestic "infant industries," the Ministry of Commerce and Industry may impose protective tariffs of up to 25 percent. In such cases, tariff reviews and determinations are done on a case by case basis.

There are no customs duties on food, agricultural items and essential consumer goods. Imports of some machinery, most spare parts and all raw materials are exempt from customs duties. Oil companies may apply for tariff exemptions for drilling equipment and certain other machinery, including that for new plants.

Kuwait, like other GCC member states, maintains restrictive standards that impede the marketing of U.S. exports. For example, shelf-life requirements for processed foods are often far shorter than necessary to preserve freshness and result in U.S. goods being noncompetitive with products shipped from countries closer to Kuwait. Standards for many electrical products are based on those of the UK, which restrict access of competitive U.S. products. Standards for medical, telecommunications and computer equipment tend to lag behind technological developments, with the result that government tenders often specify the purchase of obsolete, more costly items. Government procurement policies specify local products when available and prescribe a 10 percent price advantage for local firms in government tenders.

The government views its offset program as a major vehicle for motivating foreign investment in Kuwait. The U.S. government opposes this type of program and has recommended that Kuwait carefully weigh all the potential costs to itself of an offset program. Interested U.S. firms should familiarize themselves with the terms of this program to ensure that the offset program does not become an undue obstacle to their business.

Business with Israel is restricted by application of the direct Arab League Boycott. Although Kuwait announced in June 1993 that it would no longer apply the secondary boycott (of firms that do business with Israel) or the tertiary one (of firms that do business with firms subjected to the secondary boycott), it continues to apply the primary boycott of goods and services produced in Israel. Kuwait has taken steps to revise its commercial documentation to eliminate all direct references to the boycott of Israel. If U.S. firms receive requests for boycott-related information from private Kuwaiti firms or Kuwaiti public officials, they are advised to inform the embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. anti-boycott laws. Kuwait, along with many other Middle East countries, continues to enjoy a waiver of the 1996 "Brown Amendment" requirements. The "Brown Amendment" prohibits defense sales to those countries that have not eliminated all vestiges of the enforcement of the secondary and tertiary boycott of Israel, unless waived by the President.

For perishable imports arriving via air, land or sea, customs clearance is prompt. To complete clearance, the importer presents its import license and quality test certificate. Recurring perishable imports can be cleared and taken to the importer’s premises after a sample has been submitted to the municipality for quality testing. Usually, customs assesses duty on imported goods based on commercial invoices. If the customs officials doubts the declared value, they may make their own assessment.

While importers do not need a separate import license for each product or each shipment, they do need an annual import license issued by the Ministry of Commerce and Industry. To be eligible, the company must be registered both in the Commercial Register at the Ministry of Commerce and Industry, as well as at the Kuwait Chamber of Commerce and Industry. In addition, Kuwaiti shareholding in the capital of the company must be at least 51 percent. A special import license is required to import certain kinds of goods, such as firearms, explosives, drugs and wild animals. Some drugs require a special import license from the Ministry of Public Health, while imports of firearms and explosives require a special import license from the Ministry of Interior.

6. Export Subsidies Policies

Kuwait does not directly subsidize any of its exports, which consist almost exclusively of crude oil, petroleum products and fertilizer. Almost 98 percent of Kuwait's food is imported. Farmers receiving government subsidies grow small amounts of local vegetables, which are sold to neighboring countries. However, not enough of these vegetables are grown or sold to make any significant impact on local or foreign agricultural markets. Periodically, Kuwait cracks down on the re-export of subsidized imports such as food and medicine.

7. Protection of U.S. Intellectual Property

Kuwait is a member of the World Trade Organization (WTO) and enacted a copyright law in December 1999. The law requires some further amendments to put it in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement. While the Government of Kuwait has engaged in a number of raids against copyright pirates, no convictions under the law have yet been secured. Kuwait joined the World Intellectual Property Organization (WIPO) in April 1998, but has not yet signed the Bern Convention for the protection of literary and artistic works (copyright) or the Paris Convention for the protection of industrial property (patent and trademark). The U.S. Trade Representative listed Kuwait in 1999 on the "Special 301" Priority Watch List for lack of progress in passing copyright legislation, absence of patent coverage for pharmaceuticals, and Intellectual Property (IP) enforcement problems. Kuwait was downgraded to the Watch List after the passage of the Copyright Law.

Patents: Kuwait's 1961 Patent Law was never implemented and contains a number of deficiencies. The draft patent law being considered by its Parliament represents a significant improvement. While meeting basic requirements of the WTO Accord on Trade Related Aspects of Intellectual Property (TRIPS), questions remain regarding when coverage for pharmaceuticals will begin and how compulsory licensing provisions will be interpreted.

Copyrights: In 1995 the Ministry of Information issued ministerial decrees protecting U.S. and British-copyrighted material. In April 1998 Kuwait's Ministry of Planning issued a decree barring the use of pirated software on government computers. A Copyright Law was passed in late 1999 and went into effect in February 2000. The law is essentially TRIPS-consistent, but there are questions regarding its protection of sound recordings and rental rights (both TRIPS requirements). WIPO is expected to provide Kuwait with assistance on the development of amendments that will cover all TRIPS requirements. Kuwait's Ministry of Information started a program to educate its officials and the Kuwait public on implementation of the new law.

Video piracy, which remains a major concern, is being actively pursued by the Ministry of Information Investigations Unit. Lack of staff and Kuwaiti officials' reluctance to publicize the names and locations where pirated products are seized have been two major obstacles. Uncertain and slow judicial action is also a hurdle. It is hoped that these problems will be addressed as additional government training and public awareness campaigns are implemented.

8. Worker Rights

a. *The Right of Association:* Both Kuwaiti and non-Kuwaiti workers have the right to establish and join unions; latest figures indicate 53,000 workers are union members. The government restricts the free establishment of trade unions; workers may establish only one union in any occupational trade, and unions may establish only one federation. New unions must have at least 100 members, 15 of whom must be Kuwaiti. Expatriate workers, about 80 percent of the labor force, may join unions after five years of residence, but only as nonvoting members. In practice, the Kuwait Trade Union Federation claims that this restriction is not enforced and that foreigners may join unions regardless of their length of stay.

b. *The Right to Organize and Bargain Collectively:* While unions are legally independent organizations, government subsidies provide 90 percent of their budgets, and the government oversees their financial records. This extends to prescription of internal rules and constitutions, including prohibition of involvement in domestic political, religious or sectarian issues. Nevertheless, unions are engaged in a wide range of activities. Unions can be dissolved by court ruling or Amiri decree, although this has never happened; if it did, union assets would revert to the Ministry of Social Affairs and Labor. Only Kuwaiti citizens who are union members have the right within the union to vote and be elected. The law limits the right to strike; all labor disputes must be referred to compulsory arbitration if labor and management cannot reach a solution, and strikers are not guaranteed immunity from state legal or administrative action against them. Foreign workers, regardless of union status, may submit any grievances to the Kuwait Trade Union Federation, which is authorized to investigate their complaints and offer free legal advice.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor "except in the cases specified by law for national emergencies and with just remuneration." Foreign nationals must obtain a Kuwaiti sponsor to obtain a residence permit, and cannot change employment without permission of the original sponsors. Domestic servants, not protected by Kuwait's Labor Law, are vulnerable to abuses of this rule. Sponsors frequently hesitate to grant permission to change employment because of the various expenses they covered to bring the servants into the country, often ranging from $1,500 to $1,800. "Runaway" maids can be treated as criminals under the law for violations of their work and residence permits, especially if they attempt to work for someone else without the required permits. Despite government protections, some sponsors continue to hold their servants' passports as a means of controlling their movement.

d. *Minimum Age for Employment of Children:* Minimum legal age is 18 years for all forms of work, both full and part-time. Employers may obtain permits to employ juveniles between the ages of 14 and 18 in certain trades, for a maximum of six hours per day, on condition that they work no more than four consecutive hours followed by a rest period of at least one hour. Compulsory education laws exist for children between the ages of 6 and 15. Some small businessmen employ their children on a part-time basis, and there have been unconfirmed reports of some South Asian domestic servants under 18 who falsified their age in order to enter Kuwait.

e. *Acceptable Conditions of Work:* In the public sector, the effective minimum monthly wage is approximately $742 for Kuwaiti citizens and $296 for non-Kuwaitis; there is no private sector minimum wage. Labor law sets general conditions of work for both public and private sectors, with the oil industry treated separately. The Civil Service Law, which also pertains to the public sector, limits the standard workweek to 48 hours with one full day of rest per week, and provides for a minimum of 14 workdays of leave per year and a compensation schedule for industrial accidents. The law also provides for employer-provided medical care, periodic medical exams to workers exposed to environmental hazards on the job, and compensation to workers disabled by injury or disease due to job-related causes. Legal protections exist for workers who file complaints about dangerous work situations. Laws establishing work conditions are not always applied uniformly to foreign workers, and foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse.

f. *Rights in Sectors with U.S. Investment:* Two significant U.S. investments in Kuwait in the oil industry, one in the partitioned neutral zone shared by Kuwait and Saudi Arabia and the other in Kuwait proper, operate under and in full compliance with the Kuwaiti labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		-66
Food & Kindred Products	0	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		(1)
Services		20
Other Industries		1
TOTAL ALL INDUSTRIES		163

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.