# Economic Report 2022

# Kuwait

8 August 2022

## Executive Summary

Kuwait's economy depends on oil which accounts for almost 90% of exports and government revenues. Kuwait is OPEC's fifth-largest crude oil producer with 102 billion barrels in proven oil reserves in 2022 which represents 6% of the world's total reserve. The new oil and gas discoveries every year make its oil reserve sustain for the next 100 years. The historical savings from oil profits over the years were accumulated in the Kuwait Investment Authority (KIA), which manages the asset of Kuwait Sovereign Wealth Fund **(Future Generation Fund (FGF) / General Reserve Fund, GRF)**, the oldest sovereign wealth fund in the world (founded in 1953) and the third-largest sovereign fund in the world with assets estimated at USD 737 billion in Feb. 2022. KIA's stakes are distributed in ports, airports, and power distribution systems around the world. The increase in oil prices replenished the GRF, after withdrawal exceeded KWD 43 billion (USD142 billion) since 2014. Financial constraints will no longer delay the execution of projects in the pipeline.

Kuwait is a constitutional monarchy. For several months, it has been plunged into a serious institutional crisis between the executive and legislative branches. The Parliament, that was elected on 5 December 2020, was dissolved by the Crown Prince on 2 August 2022. Parliamentary elections will be held in the next two months. The Emir, who has executive power, and the Heir Apparent are both over eighty years and this poses succession risks and internal rifts within Al Sabah ruling family.

The Kuwaiti monarchy is a generous welfare state. The public sector employs 80% of Kuwaiti citizens, which is creating increasing challenges to public finances due to the growth of the Kuwaiti population. On the other hand, the majority of the 20,000 new graduates who appear on the market each year want to enter the public sector, which will put an even greater strain on the oil rent.

The constant geopolitical tensions are creating instability for the region and are a catalyst for military spending.

The highly dependence on oil requires the introduction of structural reforms which are blocked by legislators, and this creates challenges for doing business in the country. Despite these institutional blockages, Kuwait offers many opportunities for Swiss companies:

Embassy of Switzerland in Kuwait
Address Qortuba, block 2, street 1, villa 122
Phone +965 25340172/3/4/5
E-mail Kuwait@eda.admin.ch
Embassy's website www.eda.admin.ch/kuwait

- Favorable economic climate: rich population, (Kuwait ranked first in the world in billionaire wealth as a percentage of GDP). strong purchasing power of the Kuwaiti Dinar, liberalization of Schengen visas in 2023, which will lead to an increase of Kuwaiti tourists in Switzerland
- Agriculture: Kuwait's quest for food security
- Health
- Sustainable energy
- Infrastructures (Gulf Cooperation Council's railway project)
- Kuwait: potential logistics base for exports to Iraq
- Free-trade zone projects: **"Nuwaiseeb"**, on the border with Saud Arabia, **"Northern Gulf Gateway project" (Silk City)**, on the border with Iraq.

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# 1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

The government's promising infrastructural spending plans, alongside a wide-ranging investment in energy, healthcare, and education, feed into the country's long-term development vision, **Kuwait Vision 2035.** The Finance Ministry says that USD 60 billion has already been ploughed into the economy as part of the reform plan, with another USD 100 billion set to be deployed through 2035. Overall, there are USD 429 billion in planned projects in Kuwait, out of which USD 239 billion in contracts under construction, according to Pro-Tenders, a Middle East construction market research company. Mubarak al-Kabeer port is the centerpiece of the country's development plans. Located on Bubiyan Island near Kuwait's northern border with Iraq, the Northern Gulf Gateway project (Silk City), backed by China, is planned as a free-trade zone. It is designed to attract a range of high-tech industries and tourism and create between 200,000 and 400,000 new jobs.

The subsequent blockages and delays between the Cabinet and the National Assembly have led to successive government reshuffles and dissolutions of parliament, hampering investment and economic fiscal reform.

The reform of the labor market is also one of the main objectives of the 'New Kuwait Strategy Plan'. According to the Ministry of Social Affairs and Labor, foreign workers represent about 70% of the population in Kuwait. The new plan targets a reduction of foreign workers to 60% by the year 2030. Lately, this large foreign population (3.2 million compared to 1.4 million Kuwaiti citizens) has caused a stir in parliament and pushed several of its members to put forward controversial proposals aimed at having the costs related to the reforms shouldered by foreign workers only.

Kuwait makes significant spending on its education system, providing full-tuition government scholarships. Its University City accommodates around 40,000 students in 13 faculties. However, the education system does not achieve the minimum required at the international assessment level. Kuwait's students reflect the continuing imbalance in the educational system.

The current challenges are manifold, like dismissive attitudes among Kuwaitis, the demographic problem of expatriates, the quality of infrastructure, the right to citizenship, corruption, and the social security of its citizens. Overall, the main challenges remain the reliance on oil as almost single source of income and the parliament's opposition to giving its green light to fundamental and structural reforms.

After 8 years of consecutive deficits, the government expects a surplus during FY22/23 of KD9 bn. provided that the average price of crude oil remains at USD105, oil production at 2.7 barrels per day, and the expenses do not exceed KWD 22 bn. ~ USD 148bn.

In the absence of parliamentary authorization for the government to borrow, the public spending was financed by withdrawing from the general reserve fund (GRF). This amount reached KD 43 bn. due to the continuous rise in public spending. To secure fresh funding through external and internal loans, the Central Bank of Kuwait (CBK) recently issued bonds and Tawarruq[1] at a total value of **KWD460 million,** USD1.5bn. at different maturities and rates.

The Chronic economic problems and issues are:

**a) Sluggishness and resistance to austerity measures:**
The legislators have the final decision in approving or rejecting draft legislation on VAT. Kuwaiti nationals and residents had enjoyed a tax-free and heavily subsidized lifestyle for long (KWD 3.9 billion energy and fuel, education, social welfare, housing in 2022). According to tax experts, the value-added tax (VAT) contribution to the overall GDP would be 1.4%. The absence of a law to regulate the tax application procedure would delay the VAT application and the corporate 10 % tax until 2022. Excise tax on tobacco and carbonated drinks are facing strong opposition from MPs. The added tax value of 5% and the corporate tax of 10% will be faced with strong resistance, as citizens consider subsidies as their "due" share of the oil wealth.

**b) Dependence on almost a single source of income:**
Given the absence of sales taxes, budget revenues are almost all from oil exports (92%), and the oil sector accounts for 50% of GDP, leaving Kuwait at the mercy of international markets. The IMF urged the authorities to expedite the reform process through considering the introduction of VAT, excise

[1] **Tawarruq** means the arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent sale of the asset to a third party on a cash basis to obtain cash or vice versa.

taxes, corporate tax on domestic firms, and property tax to boost non-oil revenues while curtailing current spending.

The inflation hit 4.4% y/y in February 2022, up from 4.3% in January. The contributors to the rise were mainly food and beverages (+0.7% m/m; +7.3% y/y), furnishing, equipment and transport. Core inflation, which excludes food and housing, stood at 4.7% y/y.

**c) Dominance of the public sector and empowering the private sector:**
The government sector accounts for 80% of GDP, while the private sector remains marginal due to a lack of incentives and a proper framework sustaining its expansion. Utilities like electricity and water, transport, and postal services remain largely in government hands.

**d) Imbalances in the workforce:**
The total labor force consists of 2.845 million workers in 2020, including domestic helpers, and it forms 60.9% out of the total population (4.671 million in 2020). According to a recent statistic, 78.8% of the Kuwaiti workforce (449.8 thousand workers) are working in the public sector, and 21.2% (~95.4 thousand workers) of Kuwaitis work in the private sector, noteworthy that the percentage of the Kuwaitis labor force in 2020, rose from 14.8% to 15.8%.

Household workers (domestic helpers, drivers, cooks, gardeners) account for as much as 651,000 workers or 25% of the total labor force, mainly from India, Philippines, Bangladesh, Sri Lanka, Nepal, Ethiopia, Ivory Coast, and Madagascar. (Source CBS March 2021). Unproductive marginal workers sponsored by visa traders are one of the main reasons for the demographic imbalance.

**e) Bureaucracy and routine:**
To set up a company or a factory, the approval of more than 10 agencies needs to be secured. Local and foreign companies complain that the burdensome red-tape formalities severely harm the business environment. Kuwait scored an improvement in the Ease of Doing Business which jumped from 97 in 2019 to 83 out of 190 economies in 2020, attributing the success to implementing substantive improvements in the local regulatory framework.

**f) Corruption:**
The Kuwait Anti-Corruption Authority (Nazaha) received, during two months, more than 13 reports on corruption and anomalies against directors of department assistant undersecretaries, and high-ranking officials in government agencies. The Corruption Perception Index 2021 ranks Kuwait 73rd out of 180 countries, dropping five spots from last year.

**g) Wasteful Welfare State for Kuwaiti Nationals:**
Kuwaiti nationals are offered free healthcare services, free education, and social welfare, soft loans for housing, subsidized food rations, in addition to energy and fuel subsidies. The amount currently spent on subsidies is KWD 3.52 billion ~ USD 11.6 billion. The subsidies and salaries form 74.5% of the total budget expenditure, the share of energy and fuel subsidies under the subsidies were the highest (44.6%, USD5.2 bn.), noteworthy that the prices of electricity, fuel, and water are the lowest among the Arabian Gulf neighbors. The share of education support represent 23% of the amount of subsidies, subsidies for social support 12%, and housing support 10%.

**h) Creating jobs for young Kuwaitis:**
As more than 70% of Kuwaitis belong to the working-age groups between 16 and 64, the government is under constant pressure to create new jobs. Approximately 20’000 nationals enter the labor market every year; close to 18’000 join the public sector (Source Civil Service Commission).

The percentage of the national labor force in the public sector reached 82.3% in 2021, their wages represented 55% of total expenditure. Opportunities need to be created in the private sector which is mainly dominated by expats and employs around 1.5 million expat workers (95%), of which only 5%are nationals.

**i) Stimulus and SME support**
In 2000, the number of institutions coming to financial default and failing to pay installments of loans and declaring bankruptcy has increased. Small and medium enterprises have become victims of insufficient and bold studies of closure decisions. The government is setting a relief fund of KD 500 million (~USD1.6 bn.) to resuscitate the sector. The stimulus fund is mainly addressed to Kuwaiti owners of SMEs.

## 2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

The share of the primary sector in Kuwait's gross domestic product is 46%, and the services sector share is about 50.46% with the majority of the services like water, communication, electricity, transportation services in the hands of the government, while manufacturing's contribution registered 4.23% in 2020.

Kuwaiti merchants are powerful and have their influence on the Kuwaiti Society. Six Kuwaiti companies were listed among the top "100 most powerful Arab family companies 2021" by Forbes magazine. The majority of which are Holding companies, active in different fields and different geographical locations. The family businesses passed on more than a trillion dollars of wealth transferred from one generation to the next in the past decade. Seven family companies, included Al Ghanim Industries, Al Shayea Group, Boukhamseen, Al Mulla, Murad Youssef Behbehani Group (founded in 1935, 100 brands in the watch industry, technology, and banking), Al-Sayer holding, and Budai Group contribute to more than 60% of GDP to the region, employ 80% of the overall workforce, and operate in the sectors of distribution, franchising, industries, real estate, construction, and hospitality.

The productivity of the public sector remains very low due to a crowded and unorganized work environment, incompatible educational and labor market requirements, poor quality of education, or even the spread of fake degrees. **Kuwait plans to *kuwaitise* the government sector by 100% by 2028 and to reach 30% to 60% *Kuwaitisation* in the private sector according to sectors.** The current percentage of nationals in the banking sector is 66%, whereas their percentage in the manufacturing and agriculture sector doesn't exceed 3%.

Kuwait stands among the consumer countries, the Kuwaiti Dinar is the strongest circulating currency, with one Kuwaiti dinar equaling USD 3.32, it is reinforced by a strong buffer of sovereign fund of USD730 bn. Kuwait is the fifth richest country in the world in terms of GDP, the total imports registered at the end of 2020 reached USD 27.78 billion.

During this year, the import of certain commodities have increased, mainly the import of pharmaceutical products, gold, immunological products and portable automatic data processing machines (less than 10 kg), and cleaning preparations. Central Statistic Bureau (CSB): Kuwait's imports from Switzerland registered a year on year increase of 14.3% followed by an increase of 12.9% from Bahrain during 2020. Kuwait main imports are: machinery, mechanical appliances, electrical equipment and electronics (24% of total imports); transport equipment (14%); base metals and articles thereof (12%); chemicals and related products (9%) and vegetables (6%). Kuwait's main import partners respectively are: China, United States, UAE, Japan, Saudi Arabia, India, Germany, Italy, France, Türkiye and Switzerland.

The oil industry and government sector dominate the economy, with crude oil reserves estimated at nearly 102 billion barrels, or approximately 6% of the world's reserves. The oil industry accounts for over half of GDP and 90% of government export revenues. The dominant industries are oil, oil refining, and downstream petrochemicals.

Non-petroleum manufacturing and agricultural sectors are limited, consisting of a switch-gear manufacturer for power sub-stations, and factories for building materials, furniture, and food packaging. Innovation and know-how of Swiss companies in this field could attract large Swiss companies.

A sharp improvement in the fiscal balance is expected in FY 2022/23 given the rebound in oil prices, but thereafter the fiscal position would deteriorate in the absence of consolidation of structural reforms. The Kuwaitis are extremely price-conscious, they are also avid and rich consumers. While Chinese and Indian goods increasingly dominate low-end imports, high end Swiss exports remain relatively competitive in Kuwait.

**Banks are well-capitalized and highly liquid, the banking industry** is undergoing transformation. The new business models enable better and more accessible services for customers with the immense potential of digital technology. Digital banks will create added value through innovative business models geared to the service of the economy and the public good through targeted access and responsible use of innovative financial solutions.

Kuwait Vision 2035 initiative aims to transform Kuwait from a petro-state to a logistics and trade hub by 2035. The main objectives for the project's execution are: economic value addition, job creation for nationals, and Science, Technology, Innovation (STI) development.

The potential opportunities for Swiss business actors are:

**1) Agriculture**
Kuwait depends 95% on imports for its food security. It is striving to develop its agricultural field that currently offers many opportunities, especially sustainable and smart solutions to reduce water energy consumption.

**2) Energy**
Kuwait remains overwhelmingly reliant on the export of oil, given that the energy sector contributes to more than 50 % of GDP and 90 percent of revenues. Industrial projects centered upon the hydrocarbon sector will remain a focal point of government investment in infrastructure. Sustainable and key green energy solutions are crucial to this sector.

**3) Heath**
The construction of new specialized hospitals is creating opportunities. The government is working on over USD 4 billion worth of hospital projects as part of its plan to boost the bed capacity of hospitals across the country.

Kuwait's pharmaceutical sector is witnessing a growing number of partnerships with multinational drug makers that will help develop more than 26 patented drugs. Increasing the capacity to locally produce innovative medicines alongside improving regulatory controls and this will contribute to further attracting multinational drug makers.

4**) GCC railways / Nuwaiseeb**
Due to regional pressure, Kuwait will witness the revival of the GCC railway in Kuwait, which initiated the project in the very beginning. It is noteworthy that the establishment of "Nuwaiseeb", a new free trade zone on its border with Saudi Arabia, is considered a vital project that will attract foreign investment given that the railway will be built next to it. The 2,177 km-long Gulf Railway system will connect all six of the GCC countries in Eastern Arabia.

**5) Luxury products export**
The Kuwaiti society is fond of luxury products, watches and brand names. The high purchasing power of the Kuwaiti dinar makes high end products and luxury goods accessible to almost all.

**6) Platform for the Iraqi market**
Kuwait's geographic position plays a crucial role; sharing borders with Iraq makes it a platform to cover the Iraqi market. Kuwait has maintained open diplomatic channels and supported the stability of Iraq, which offers an enormous potential for commerce.

**7) Tourists in Switzerland after Schengen visa liberalization**
The Schengen-visa liberation in 2023 is expected to generate a massive increase in the number of tourists to Switzerland. Switzerland will witness an increase in the number of tourists in addition to the regular visitors, Swiss lovers and Kuwaiti property owners. This will be reflected by a huge demand for restaurants, hotel accommodation, entertainment centers and camps for young people during the summer and winter seasons.

# 3 FOREIGN ECONOMIC POLICY

## 3.1 Host country's policy and priorities

In recent years, Kuwait has shown special interest in strengthening economic ties with Far Eastern trade partners, especially large importers of Kuwaiti oil like China (70 agreements), Korea (13), and Japan (5). Several trade-related and economic agreements have been concluded with these countries in recent years, aimed at boosting Kuwaiti oil exports, building an oil refinery in Vietnam, infusing more investments in these countries. As member of the GCC Kuwait has signed **a free trade agreement with Singapore**. It has been a standing policy for Kuwait as well as its GCC partners that they only sign free trade agreements with third countries collectively as a group.

**Regional agreements**

Almost all of Kuwait's regional economic agreements are within the framework of the Gulf Cooperation Council (GCC), Kuwait signed in Jan 2020 an agreement with Qatar to import 3 million tons of natural gas per year starting 2022. Outside GCC, Kuwait has high-level joint commissions with a number of key regional trade partners, where a considerable number of Agreements and Memorandum of Understanding (MoU) were signed, like Egypt (32), Jordan (28), Morocco (25), Syria (26), Iraq (20 Agreements and MoU), USA (18 agreements in 2019), Turkey and Russia. Kuwait signed in April 2019 two MoUs with China on “Road and Belt Initiative”: The first one was signed with the state’s China Development Bank (related to development, construction, and consultative cooperation), whereas the second MoU was signed with the State Urban Planning Commission (related to the organization of consultative planning). Noteworthy that more than 70 MoUs have been signed between the two countries. Kuwait signed 63 Bilateral Investment Treaties (85 BITs) with different parties, 12 Treaties with Investment Provisions (TIPs), and signed Double Taxation Agreements (DTAs) with 72 countries, in addition to 22 Investment-related instruments (IRIS). Kuwait is also a signatory to the Pan-Arab Free Trade Agreement.

**International accords**

Kuwait signed an agreement between GCC and EU on a Free Trade Agreement. Kuwait has signed and ratified double taxation treaties with 72 countries, covering most of the key jurisdictions in Europe (including Switzerland), North and South America, and Asia. It is actively working to sign such accords with other trade partners.

**As a member of GCC, Kuwait is a signatory to the Free Trade Agreement between Gulf countries and EFTA.** The treaty entered into force in the second half of 2015 after the completion of the procedural formalities. In July 2019, the tariff elimination on products for category (B) was prompted.

Kuwait is also a signatory of a number of framework agreements between the GCC countries and other countries like India, Türkiye and China.

### 3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

Agreements already in force between Switzerland and Kuwait:

- Agreement on the Protection of Investment (1998)

- Agreement on the Avoidance of Double Taxation (1999). The Double Taxation Agreement went into force in September 2013 and after that, the two sides negotiated an amendment of two articles. The protocol of amendment of the agreement was signed in November 2019, and is still pending for the Kuwaiti side to be ratified. (May 2022).

**In the absence of significant Swiss direct or indirect investments in Kuwait, the agreements on Investment Protection and Double Taxation are more advantageous to Kuwait whose investments in Switzerland are substantial.**

- The Air services agreement between Switzerland and Kuwait in 1968 was renegotiated on the side-lines of the ICAO Conference of July 2010 in Jamaica, because Kuwait wanted to introduce an open-skies policy. Further liberalizations were thus agreed upon regarding the national clause of the carriers. A protocol of amendment was signed in Turkey in October 2015, and the constitutional formalities for its entry into force were communicated in October 2016 by the Kuwaiti side, the amended protocol entered into force in 2018.

## 4 FOREIGN TRADE

### 4.1 Developments and general outlook

Kuwait's trade balance registered a decline from KWD 9.38 billion to KWD 3.78 billion (USD 12.5 billion) in 2020 with a decrease of 59.6% due to decreasing oil prices, coupled with exports and imports decreases. The predominant exports of crude and refined oil scored KWD 10.96 billion and formed 89% of total commodity exports in 2020. The crude oil production was 2.33 million barrels/Day in Feb. 2020.

According to Kuwait Oil Company (KOC), Kuwait occupies the 7th rank in terms of estimated proven oil reserves of 101.5 million barrels, which is enough to maintain the current level of production for the next 100 years. Noteworthy that Kuwait recently revealed its discovery of a huge, high-end, and light oil field in the northwest of the country. New extraction techniques to increase and improve oil production, along with the discovery of new fields' yearly, make Kuwaiti oil sustain almost forever.

Kuwait resumed its operations in the neutral zone with Saudi Arabia, and the first shipment from this zone was exported in February 2020.

### *4.1.1 Trade in goods*

Exports:
Exports were estimated at KWD 12.27 billion (USD 40 billion) in 2020, a decrease of 37% from the previous year**.** Oil accounted for 89% of total exports. Major export partners respectively are KSA, China, UAE, India, Iraq, Qatar, and Pakistan. Non-oil exports decreased by 21% year on year in 2020, and Re-Exports dropped 26% in 2020.

Imports:
As agriculture is virtually non-existent and with very modest manufacturing industry, Kuwait relies heavily on imports to meet domestic demand for a very wide range of products, from foodstuffs and consumer goods to equipment, vehicles, and industrial technologies.

Imports, excluding military procurements, were estimated at KWD 8.5 billion (USD 27.9 billion) in 2020, a decrease of 16% year on year. Spending on capital goods imports which were mainly sourced from Asia (60%), Europe (24%), and North America (9.2%).

The main sources of import are China (17.8% of total imports), The USA (9 %), UAE (8.4%), Japan (6.3%), Germany (5%), KSA (6%), India (5.7%), Italy (4%), and South Korea (2.7%). Others include Italy Netherlands, France, the United Kingdom, and Switzerland. Kuwait main imports are machinery, mechanical appliances and electrical equipment and electronics (23% of total imports), transport equipment (14%), chemicals and related products (10%), Iron and steel (11%), and vegetables (6%) live animal and animal products (5%). (CSB Dec. 2020**)**

## 4.2 Bilateral trade

### *4.2.1 Trade in goods*

**The trade balance has always been overwhelmingly in favor of Switzerland since Switzerland does not import oil products directly from the Gulf region.** The very modest Kuwaiti exports to Switzerland are, in fact, re-exports of Swiss merchandise goods (mostly watches and Jewelry), which enter Kuwait temporarily for exhibition purposes and are then "exported" back home. Noteworthy that Swiss import of plastic and rubber registered an increase of 37.4% in 2021.

**Swiss merchandise exports to Kuwait increased by (19.2%) in 2021, reaching CHF 478.96 million.** Pharmaceutical products which form 35% of exports increased by (19%) from last year. Watches exports which represent 31.5% of total exports, increased by (25.1%). The export of jewelry and precious metals registered (44.3%) increase, whereas agriculture products which form 14.1% of total exports, increased by (1.5%) during 2021. A sudden sharp rise in Swiss exports in any given year is often linked to large supplies of machinery and equipment for one major project.

During the COVID-19 pandemic, the retail sector and the private sector faced manifold challenges and a drop of 50% due to severe measures and travel restrictions in addition to due to regional instability. Noteworthy, the online grocery shopping in Kuwait exceeded USD500 million in 2020, with expectations of a further jump to more than $700 million by the end of 2021, an impressive fact for a country known for its overcrowded commercial complexes before the coronavirus outbreak.

### *4.2.2 Trade in services*

There have been visible signs that Swiss banks and wealth management firms (all with no physical presence in Kuwait), as well as a Swiss forwarding company and an insurance firm, were doing good business, while there is also a noticeable demand for Swiss consultancy services (engineering, management, and training). In early 2016, a Swiss aviation services company took part in a tender for a contract to manage Kuwait Airport's new terminal.

On the Kuwaiti side, one of the country's largest transportation and logistics firms in the region - Agility Logistics - has its international headquarters in Zürich and offices in Basel, Geneva, and Novazzano. The new platform's e-commerce segment will offer delivery and returns for consumers and SMEs across the GCC, with "additional reach" into the EU and Africa. The logistics company has an infrastructure in place in more than 120 countries and the capability to distribute vaccines, especially in emerging markets.

Kuwait's largest commercial bank – The National Bank of Kuwait, incorporated in 1952 - has a branch in Geneva (NBK Banque Privée (Suisse)). NBK enjoys a dominant market share with a large and ever-expanding local and regional clientele. Kuwait Airways Corporation opened a branch in Meyrin, and Kuwait Petroleum aviation opened an office in Zurich in 2016.

An investment company owned by leading Kuwaiti businessmen – Helarb Group – is based in Lausanne, where it manages activities in the high-end Swiss watch industry and investments in and around Switzerland.

A Kuwaiti NGO - The Euro-Arab Environmental Organization (EAEO) located in Geneva, works to achieve the transfer of clean technology from Switzerland and Europe to the Arab World.

# 5 DIRECT INVESTMENTS

## 5.1 Developments and general outlook

In the **Kuwait Vision 2035**, the government aims to boost FDI considerably by the end of the plan's term. One channel of FDI into Kuwait is regulated by the **Kuwait Direct Investment Promotion Authority (KDIPA)**, which was established by Law No. 116 of 2013. This law marked a significant change in the framework for promoting FDI and grants KDIPA a wide remit. The institution's responsibilities include processing applications for new investments, promoting Kuwait at international forums, supporting the development of domestic capabilities to attract FDIs, and ensuring progress in terms of technology transfer and job creation for citizens and acquire hi-tech training and developed techniques. As a result of the authorities' efforts, more than 40 foreign companies have invested in Kuwait in areas, such as ICT, health, renewable energy, education, and entertainment.

Kuwait, although an exporter of cash, attracted during FY2020, KD 31 million of direct investments in comparison to KD 62 million in FY 2019. Whereas the foreign direct investments in Kuwait reached KWD 1.075 billion (USD 3.5 billion between 2015- 2020) from different nationalities centered in the service sector. According to the last GCC studies and research institute's report, Kuwait ranked last among its GCC peers with USD15 billion of foreign direct investments during the last 20 years.

Due to its impact on global supply chains, the pandemic provided Kuwait with an opportunity to strengthen its international ties. Kuwait has moved to strengthen its medical supplies and its food security through increased international cooperation with China, the USA, Egypt, India, Pakistan, Turkey, and Europe in addition to that it has engaged to increase its investments in agriculture technology.

## 5.2 Bilateral investment

<u>a**) Swiss investment in Kuwait:**</u> **Swiss investment in Kuwait is practically negligible in the absence of joint ventures or Swiss acquisitions.** Only a handful of Swiss firms have small non-manufacturing branches/subsidiaries. The majority of Swiss firms operating in this market are doing so through local agents and could be considering shifting to a complete hundred percent ownership.

**Swiss banks continue to operate from the outside, having declined to set up branches or representative offices, discouraged by some cumbersome prerequisites as minimum capital and the mandatory employment of local personnel.**

The Ministry of Commerce and Industry issued a new rule in Dec 2018, which allows foreign investors to own and trade in local banks' shares. The ownership of a foreign investor shall not exceed 5% in any Kuwaiti bank. The latest decision comes ahead of the index-compiler MSCI's anticipated move to upgrade Kuwait to emerging-market status.

In November 2020, Roche Diagnostics Middle East (RDME) got its license to operate and expand its local diagnostic operations in the country; after establishing a new company in Kuwait supported by Kuwait Direct Investment Promotion Authority KDIPA.

**<u>b) Kuwait Investment in Switzerland</u>: The steady accumulation of wealth over the 15 years of high petrol prices, the political and security uncertainties of the region, and the highly speculative**

**nature of the local stock market have driven many savvy Kuwaiti investors onto global markets, including Switzerland.**

The Swiss Financial Center remains very attractive to Kuwaiti institutional and individual investors, who mostly favor indirect investment through managed funds and stock portfolios. Although Kuwait Investment Authority (KIA), the Government's financial arm, is rather secretive about the size and allocations of its investments, **knowledgeable sources estimate that Kuwaiti investments in Switzerland have reached USD 15 billion (2020)**. Kuwaiti individual investors are also believed to weigh in as heavily, having a variety of business interests in Swiss banks, hotels, watch industry, real estate, and financial institutions. No figures are available, however.

The National Bank of Kuwait - Kuwait's largest commercial bank - has a branch in Geneva and one of Kuwait's largest corporations listed on the stock market - Agility Logistics Co. - has moved its international headquarters to Zurich and the management of its European operations to Basel.

More than 20 years ago, a group of influential Kuwaiti investors established a company — Helarb — in Lausanne for investing in the capital stock of industrial and manufacturing projects in Switzerland. In 2014, it acquired an industrial plant that manufactures parts and accessories for watches for CHF 30 million.

Kuwait Investment Authority (KIA) is a major shareholder of the hotel chain Victoria-Jungfrau-Collection in Switzerland. The Kuwaiti fund is one of the world's best managed with a clear investment process. KIA officials say they are committed to taking a long-term view and to avoiding what is trendy.

China and Chinese technology have been particularly lucrative for the KIA, both in contrast to the US and other emerging markets. KIA has a visible presence in Europe and is still known today for early investments in companies like Daimler-Benz. (FT)

The Arab-Swiss Chamber of Commerce and Industry (CASCI) was created in 1974, established to promote the economic and cultural relations between Switzerland and Arab Countries members of the League of Arab States.

# 6 ECONOMIC AND TOURISM PROMOTION

## 6.1 Swiss foreign economic promotion instruments

The following is an outline of promotion activities in Kuwait of key Swiss Government-affiliated agencies: The Swiss Business Hub Middle East (SBHME), a network partner of Switzerland Global Enterprise by S-GE (formerly OSEC) in 2005 and based in Dubai - is the most visible Swiss promotion body with activities covering the six GCC countries. Since its inception, the Hub is organizing yearly country consulting events (Länderberatung) in the GCC States. The Hub is also organizing Swiss participation in international fairs held in GCC countries (Dubai Expo 2021), as well as sectorial events in Switzerland (food, health, construction) to support Swiss companies wishing to export to the GCC region. Greater emphasis will now be laid on the promotion of Switzerland as a business location, while the Hub also helps GCC importers find the appropriate Swiss suppliers and business partners.

Switzerland Tourism (ST) organizes annual GCC Road Shows, which are tours of the GCC countries for representatives of ST cantonal offices. This annual event has been quite successful in Kuwait in the past five years and has always received good media coverage. The GCC travelers played a vital role in tourism recovery during 2019-2021 due to direct result of their spending power (spending~ USD10 thousand on their trips to Europe).

Individual company events are sporadic and often associated with the official launch of a Swiss product, mostly consumer goods, like food items, cosmetics, and watches. The last of such events was the launch of exclusive Hublot timepieces with a special edition for the Kuwaiti clientele, which forms 30% of the region's market (Oct. 2018), and the opening of the new Breitling boutique in April 2019. The watch market remains active and prominent marked by the launch of new timepieces in November 2018 by Vacheron Constantin which considers the Kuwaiti market as developed despite being small. In addition to the opening of a new Longines boutique in 2019, in partnership with Behbehani Group.

Nestle Nespresso opened its third branch in Kuwait and held this year its annual promotional event. Swiss financial institutions occasionally organize their own events, but there were none after the global economic crisis.

The mayor of Geneva and the Deputy Director of Geneva Chamber of Commerce and Industry and Services visited Kuwait in November 2016 accompanied by businessmen from the banking, health, education, power station, solar and renewable energy, and watches sectors. The delegation held several meetings and discussed business opportunities with the Kuwait Chamber of Commerce and Industry, the Minister of Health, CEO of Kuwait Airways.

In 2005, the embassy tried to create a Swiss Business Council, but the project failed to take off due mainly to the lack of support from the Kuwaiti businessmen who represent Swiss firms and to the fact that the number of Swiss businessmen and companies based in Kuwait remains very small (18).**The German Business Council in Kuwait (GBCK) comprises representatives from German, Austrian and Swiss Companies.**

The local agents of Swiss brands are always welcoming new business development projects. Swiss companies interested in the Kuwaiti market conclude business deals directly with local agents through their own business network or through S-GE and they contact the embassy when they need assistance.

## 6.2 The host country's interest in Switzerland

Switzerland continues to be a preferred destination for Kuwaiti tourists - who are mostly interested in the Romandie, with many of them owning property there - or people having assets invested in Switzerland. To many prominent businesspersons, Switzerland is home away from home. The influx is believed to have considerably increased since the introduction of the Schengen visa. The number of tourist Schengen visas issued for applicants from Kuwait during 2021 were 1458 visas despite all the travel restrictions until mid-June and the limited number of visa-applications per day. Switzerland remains an attractive destination for rich Kuwaitis Health tourism for treatment and well-being (spas, rejuvenation, and plastic surgery) has always attracted rich Kuwaitis (see point 2.7.).

Concerning education, Swiss summer school camps are of particular interest to Kuwaitis and affluent foreigners living in Kuwait. Representatives of Swiss private schools, some of them based in Dubai, are frequent visitors to Kuwait. In February 2019 the embassy sponsored a successful event for the Swiss International Scientific School in Dubai. University studies are by far less popular given the language barrier.

A memorandum of understanding (MoU) was signed between the Hochschule St. Gallen and the University of Kuwait for cooperation in the field of economics and trade studies, and a similar agreement linking the UNIK and the Université de Genève since 2014 should pave the way to an exchange of students. In 2022, a research institution from Kuwait, “Dasman Diabetes Institute”, was awarded a “Research partnership grant” from the Leading House MENA.

Switzerland's image as a financial center keeps its standing intact among Kuwaitis. Representatives of Swiss banks - who visit Kuwait regularly - say they have not seen any of the adverse effects that had been anticipated in the wake of the hefty losses of UBS after to the sub-prime crisis in the US. However, when UBS accepted to disclose to US authorities the lists of its American customers in 2009, some press commentaries in Kuwait lamented the "death" of Switzerland's time-honored banking secrecy. The initiative on the minaret ban in Switzerland is now gone and forgotten. The burqa ban in Switzerland passed without alarming critics in the local media. Questions about whether the burqa ban has been applied in all the cantons keep coming up on social media.

Kuwaitis investing in Switzerland generally stay away from industries and prefer real estate, equities, and wealth management funds.

## ANNEX 1 – Economic structure

**Economic structure of the host country**

| | Year *X-5* | Year 2020 |
|---|---|---|
| **Distribution of GDP** | | |
| Primary sector (crude oil & Gas, agro+ extraction of crude ) | **57.78%** | **54.33%** |
| Manufacturing sector (excluding oil refining and nuclear fuel) | **3.37%** | **5.52%** |
| Services | **41.05%** | **40.15%** |
| - of which public services | **16.37%** | **20.38%** |

| **Distribution of employment** | **2015** | **2020** |
|---|---|---|
| Primary sector | **1.9%** | **2.5** |
| Manufacturing sector | **5.3%** | **5.2%** |
| Services | **67.7%** | **74.5%** |
| - of which public services | **21.3%** | **21.9%** |

Source(s):

- Central Statistical Bureau (last update is for 2020)
- Public Authority for Civil Information (*release 31/12/2020)

*Kuwait is a welfare state where major services (electricity, water, transport & communications) are in the hands of the Government.

## ANNEX 2 – Main economic data

**Host country's main economic data**

| | **2020-*1*** | **2021-*0*** | **2022+*1*** |
|---|---|---|---|
| **GDP** (USD bn)* | **105.9** | **132.3** | **138.8** |
| **GDP per capita** (USD)* | **22,683.6** | **27,927.2** | **28,821.6** |
| **Growth rate** (% of GDP)* | **-8.9** | **0.9** | **4.3** |
| **Inflation rate** (%)* | **2.1** | **3.2** | **3.0** |
| | | | |
| **Unemployment rate** (%)*<br>Unemployment rate Kuwaiti nationals | **1.3**<br>**3.0** | **-**<br>**6.0** | **-** |
| **Fiscal balance** (% of GDP)* | **-8.3** | **-1.5** | **1.0** |
| **Current account balance** (% of GDP)* | **16.7** | **15.5** | **13.3** |
| | | | |
| **Total external debt** (% of GDP)** | **49.7** | **43.2** | **45.2** |
| **Debt-service ratio** (% of exports)**<br>External Debt USD Bn. | **-**<br>**52.7** | **-**<br>**57.2** | **-**<br>**62.8** |
| **Reserves** (months of imports)** | **11.7** | **11.0** | **10.9** |

* Source: IMF, World Economic Outlook (Oct. 2021)

- www.imf.org/external/pubs/ft/weo

** Source: IMF, Article IV Consultation (or host country statistics) [indicate the date of the Art. IV Consultation report]

- www.imf.org/external/country/index.htm
- https://data.worldbank.org/indicator/DT.TDS.DECT.EX.ZS?most_recent_year_desc=true
- 

## ANNEX 3 – Trade partners

**Trade partners of the host country** **Year: 2020**

| Rank | Country | **Exports** *from the host country* (USD million) | Share | Change[2] | Rank | Country | **Imports** *to the host country* (USD million) | Share | Change[10] |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Saudi Arabia | 656,727 | 1.63% | 1.2% | 1 | China | 5,179,348 | 18.5% | -13.4% |
| 2 | China | 576,767 | 1.43% | -36.6% | 2 | USA | 2,402,200 | 8.5% | -20.7% |
| 3 | UAE | 538,455 | 1.34% | -4.0% | 3 | UAE | 2,353,232 | 8.4% | -16.4% |
| 4 | India | 502,564 | 1.25% | -37.5% | 4 | Japan | 1,682,075 | 6.0% | -20.3% |
| 5 | Iraq | 370,622 | 0.92% | -54.6% | 5 | *KSA* | 1,660,466 | 5.9% | -19.8% |
| 6 | Qatar | 283,239 | 0.70% | -21.1% | 6 | India | 1,372,502 | 4.9% | -27.8% |
| 7 | Oman | 172,255 | 0.43% | -15.5% | 7 | Germany | 1,306,686 | 4.6% | -25.3% |
| 8 | Pakistan | 166,168 | 0.41% | -11.6% | 8 | Italy | 1,059,294 | 3.78% | -26.9% |
| 9 | Jordan | 95,923 | 0.24% | -6.5% | 9 | France | 652,344 | 2.33% | -16.3% |
| 10 | Nigeria | 70,255 | 0.17% | 162% | 10 | Turkey | 631,914 | 2.26% | -2.6% |
| 32 | *Switzerland* | 13,914 | *0.03%* | *-71.8%* | 11 | *Switzerland* | 616,230 | 2.2% | 14.3% |
| | European Union | 136,598 | 0.34% | 7.2% | | EU | 5,356,436 | 19.14% | -20.5% |
| | Total | 40,234,246 | 100% | -37.4% | | Total | 27,988,586 | 100% | -16.3% |
| | | | | | | | | | |

Source(s): CSB 2020

[1] Change from the previous year in %
@3.29 IMF

[2] Change from the previous year in %

## ANNEX 4 – Bilateral trade

**Bilateral trade between Switzerland and the host country**

| | **Export** (CHF million) | *Change (%)* | **Import** (CHF million) | *Change (%)* | **Balance** (in million) | **Volume** (in million) |
|---|---|---|---|---|---|---|
| 2017 | 465.46 | 2.4 | 73.72 | 8.6 | 391.74 | 539.18 |
| 2018 | 464.22 | -0.3 | 54.04 | -26.7 | 410.18 | 518.26 |
| 2019 | 482.82 | 4.0 | 38.82 | -28.2 | 444.01 | 521.64 |
| 2020 | 401.86 | -16.8 | 6.74 | -82.6 | 395.13 | 408.60 |
| **2021** | **479.15** | **19.2** | **13.42** | **99.3** | **465.54** | **492.57** |
| *(Total 1)** | 478.78 | 19.6 | 13.42 | 122.0 | 465.36 | 492.20 |
| **2022** (I-VI)** | **250.85** | **13.6** | **1.13** | **-67.1** | **249.72** | **251.98** |

*) ‘Economic’ total (total 1): not including gold bars and other precious metals, currencies, previous stones and gems, works of art and antiques

**) Change (%) from the previous year

| **Exports** | **2020** (% of total) | **2021** (% of total) |
|---|---|---|
| 1. Pharmaceutical | 35.0 | 35.0 |
| 2. Watches | 30.0 | 31.5 |
| 3. Agricultural products | 16.6 | 14.1 |
| 4. Jewellery& precious metals | 4.2 | 5.1 |

| **Imports** | **2020** (% of total) | **2021** (% of total) |
|---|---|---|
| 1. Jewellery & precious metals | 29.0 | 62.3 |
| 2. Watches | 44.9 | 29.5 |
| 3. Plastic rubber | 4.5 | 3.1 |
| 4. Vehicles and airplanes | 0.5 | 1.6 |

Source: Federal Office for Customs and Border Security

## ANNEX 5 – Main investing countries

**Main investing countries in the host country** **Year: 2020**

| **Rank** | **Country** | **Direct investment** (USD, stock) | **Share** | **Variation** (stock) | **Inflows over past year** (USD) |
|---|---|---|---|---|---|
| 1 | Qatar | 3,288 | 22.5% | -10.75% | 3,684 |
| 2 | KSA | 908 | 6.23% | 30.65% | 695 |
| 3 | UAE | 848 | 5.8% | -3.53% | 879 |
| 4 | Bahrain | 746 | 5.12% | -7.44% | 806 |
| 5 | Oman | 440 | 3.02% | -6.78% | 472 |
| 6 | USA | 61 | 0.42% | -46.02% | 113 |
| 7 | France | 56 | 0.38% | -3.45% | 58 |
| 8 | China | 55 | 0.38% | 0.0 | 55 |
| 9 | Cayman Islands | 14 | 0.09% | -41.67% | 24 |
| 10 | Rep. Korea | 2 | 0.01% | 0.% | 2 |
| … | EU | NA | % | | …. |
| … | *Switzerland* | NA | ..% | % | 3 |
| | Other not specified | 8,147 | 55.94% | 1.27 | 8,045 |
| | Total | 14,565 | 100% | -2.27% | |

Source(s): IMF