HUMAN RESOURCE DEVELOPMENT & THE STRUCTURE OF OIL ECONOMIES: CRITICAL ISSUES WITH ILLUSTRATIONS FROM KUWAIT

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Human Resources Development and the Structure of Oil Economies: Critical Issues with Illustration from Kuwait

by
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Abstract

Oil Economics have unique structural characteristics that present challenges to main-stream economic policies. This paper examines the relevance of some of the conventional economic and human resources policies being proposed for the oil economies. A case is presented to illustrate that many of these policy recommendations are not based on an adequate understanding of the institutional structure of these countries and the unique characteristics of its resources base. They focus on short term issues. First, the paper identifies the special institutional and resource characteristics of oil economies, and illustrates how they lead to contradictory policy objectives and examines the constraints they impose on the political economy of policy formulation. The paper then presents an empirical illustration of the medium-term policy prescriptions. The findings are based on a dynamic Computable General Equilibrium (CGE) Economy-Wide Model applied to the case of Kuwait. Regardless of the policy scenarios, the basic imbalances do not fade away over time. The paper concludes with an outline for an integrated long-term human resources and development vision for an oil economy in transition.

ملخص

تفرد اقتصادات النفط بخصائص هيكلية تشكل تحدياً أمام الاتجاه العام للسياسات الاقتصادية. وتختبر هذه الورقة مدى موضوعية بعض السياسات الاقتصادية وسياسات الموارد البشرية التقليدية المطروحة امام اقتصادات النفط. وتعرض حالة تبين أن الكثير من تلك السياسات لا تستند إلى فهم كاف للهيكل المؤسسي في هذه البلدان وخصائص قاعدة مواردها الفريدة، حيث أنها تركز على قضايا قصيرة الأجل. وتحدد الورقة بداية الخصائص المؤسسية وخصائص الموارد المميزة لاقتصاديات النفط. ثم توضح تأثير هذه الخصائص متمثلاً في المناقشة في أهداف السياسات، بالإضافة إلى اختبارها للضغوط التي تفرضها هذه الخصائص على وضع السياسات الاقتصادية في الجانب السياسي. ثم تقدم الورقة صورة تطبيقية لتوقعات ادخال بعض المقترحات للأتجاه العام للسياسات الاقتصادية وذلك في المدى المتوسط. وتستند النتائج إلى نموذج ديناميكي هو "نموذج التوازن العام القابل للتقدير" (CGE) تم تطبيقه على حالة الكويت. وصرف النظر عن سيناريوهات السياسة الاقتصادية، فإن الاختلافات الأساسية لا تزال مع مرور الوقت. وترتبط الورقة بتقديم خطوط عريضة لرؤية طويلة الأجل للتكامل بين الموارد البشرية والتنمية في اقتصاد نفطي في حالة تحول.
INTRODUCTION

The last three decades have witnessed more than one transition in the field of 'development economics.' As Bruno (1994, p.9) observed: "The 1960's look like the golden age of economic development. -- But the next twenty years were turbulent -- with many setbacks." The 1960's were overly optimistic. In the 1960's, predictions of the development establishment about economic growth patterns and prospects for the 1970's and beyond were often erroneous, giving for example, rosier prospect for Sub-Saharan Africa than for East Asia! These expectations were based on the development planning paradigm of the time. The apparent failure, in policy and predictions brought serious challenges to the prevailing development paradigm based on top-bottom resources allocation process and raised questions about the viability of development economics as an independent field of study. The supply of obituary notices announcing the death of development economics as a separate field in economics increased during that period. Development in the 1970's and 1980's produced the East Asian 'miracles.' The rapid transformations of the 'tiger tribe,' that was a surprise when viewed against the pessimistic predictions of the 1960's, generated the first building block in the development of a new paradigm in economic development, based on the East Asia experience: the search for economic and non-economic determinants and requirements for long-run economic growth and development. However, the evolution of this 'new' development paradigm is still at "the steep end of the learning curve." (L. Preston, 1994, p.8).

But the 1970's and 1980's also produced the 'debt crises' that hit most of the developing world and exposed the fiscal integrity and vulnerability of these countries, and that threatened there development prospects. The resolution of short-run imbalances were viewed as a necessary condition for a return to the long-term growth path, although for many countries, that path was not adequately identified. A second element of the new development paradigm evolved based on stabilization policies and structural adjustments. These policies became an integral part of any development discussion since the 1980's.

By the end of the 1980's and the beginning of the 1990's, with the collapse of the Soviet Union as an economic and political system, the world witnessed, in the words of the late Lewis Preston, President of the World Bank (1994): “the biggest stories of the century: economic transitions in socialist economies.” The development established witnessed the third element of the emerging development paradigm: the transformation from public to private economies with a small public sector and with the integration of the national economy into the world markets of trade and human resources development.

As mentioned above these are elements of a paradigm in transition. That paradigm may be stated following Bruno (1994) as follows: sustainable economic growth is necessary for a sustainable reduction in poverty, adjustment is necessary for the resumption of growth, and fiscal and monetary restraint is a necessary component of adjustment. Sufficient conditions include the development of a competitive supply of
human capital based on a high quality basic education system (a positive lesson of the East Asia example). It also implies the parallel development of opportunities to utilize the growing supply of labor (another positive lesson from the East Asia experience). These two developments should be based on a competitive and efficient market mechanism that is open to international competition and provide the right signals for its clearance mechanism (the socialist negative lesson). Finally, the system's efficient operation depends on the presence of the right institutions (a global experience). The importance of institutions was high-lighted by Bruno (1994, p. 16) as follows: "Practitioners and policy-makers reared in the cultural and political traditions of a particular country know the importance of institutions in shaping what is feasible (that is, both the enhancing and constraining factors) for recommended policies. The problem arises with attempts to replicate policy lessons in another setting, naturally tempting for the emissaries of a multilateral institution. Not all policy applications are institution-sensitive, but many are." [Emphasis added].

The main question addressed in the present paper is to examine the relevance of this evolving new paradigm to the case of oil economies. This is an important question since many policy recommendations adopted in these countries arise from that paradigm. It is our view that many of the economic and human resources policies proposed for adjustment and growth in the oil economies of the Gulf are not based on an adequate understanding of the institutional structure of these countries and the unique characteristics of its resource base. In most instances, these policies focus more on short and medium-term adjustments and not as much on long-term growth -- the first element in the emerging development paradigm. Furthermore, we urge that understanding these institutions is essential for the promotion of sustainable growth, especially since these institutions, and the political economy of these countries in general, are essentially an outcome of their unique resource base. They are also part and parcel of the philosophy of the social contract that guide the development strategies of the oil economies. To use Bruno's words: most of these policies are institution-sensitive. The cost of not mapping policies to context could be quite high. It diverts attention away from the long-run path of sustainable development. In the gulf countries the cost is already high. Oil economies are in the midst of a critical developmental transition: from an oil-based to a non-oil production based economy. As discussed later in this paper, the transition implies some basic structural changes and especially the transformation of human capital into productive resources for development, on the one hand, and the creation of a productive base for the efficient utilization of these resources. It is a difficult transition, partly because of the nature oil revenue as the main source of finance, but mainly because it has no historical resemblance. There is a need for innovative thought and approaches, and above all, a long-term policy commitment -- we conclude.

Although our conceptual discussion of the political-economy consequences of the structure of oil economies is general enough to encompass the various oil countries of the Gulf region, the empirical discussion focuses on the case of Kuwait in order to provide some concrete observations. The conclusions, however are more general. The
The paper is divided into three parts. The first part reviews briefly the development experience in Kuwait and the mounting contradictions in that experience. The discussion is presented in the context of a comparative analysis of the anatomy of an oil economy and that of a non-oil developed economy. The purpose is to illustrate some key structural differences, and the problems of identifying them. Most economic and econometric planning models can identify the basic characteristics of an oil economy and predict the consequences of policies within its basic structure. They could illustrate the consequences of the continuation of present policies and shed light on policies and actions that are required for the structural transformation of the economy. The second part presents the findings of an economic policy scenario. Two important policy issues are being viewed as vital by policy makers and require priority attention in Kuwait and in most oil economies of the Gulf, namely: (a) the mounting budget deficit, and (b) the structural imbalances in the labor force where the majority of that force is expatriate labor. Most recommendations, being part of the emerging paradigm, focus on fiscal austerity and discipline. The economic policy scenario presented in this part of the paper follow this main-stream policy prescription and focuses on the medium term consequences of an increase in government tax revenue while containing spending. It begins with an assessment of the risk associated with the continuation of the same trends and policies of the 1980's, and then simulates the effects of increasing import tariff rates from its 1995 level of 5 percent to 15 percent by the year 2005, on the budget deficit, the structure of the labor force, and other socio-economic indicators. The findings are derived from a dynamic Computable General Equilibrium (CGE) Economy-Wide model for Kuwait, with 1992 data as a base. The model used in the present analyses includes both structuralism and neo-classical features with an enhanced inter-period dynamic part that focuses on population structure, labor force profile, government fiscal policy, management of foreign assets and privatization policy. Regardless of the policy scenarios, the basic imbalances do not fade away over time. The third and final part of the paper presents an overall summary and conclusions. It also outlines an integrated human resources and development vision for an oil economy in transition. The vision is long-term by nature, and requires a drastic change in existing institutions, the incentive system and a strong policy commitment.

DEVELOPMENT IN KUWAIT AND THE STRUCTURE OF AN OIL ECONOMY

To make an assessment of Kuwait's development experience there is a need to understand the philosophical foundation of the country's development vision, the constraints its structural resource base sets on its political system and on the degrees of freedom it could have, to set its economic and social policy parameters, and on the socio-economic achievements that have been realized during the oil decades with the growing built-in contradictions.
A. The Philosophical Bases of Kuwait Development Vision

The philosophy underlying Kuwait development strategies during the past three decades can be stated as follows: a continuous effort to attain and maintain a balance between government legitimacy and citizens' entitlements for the present and future generations. The entitlement system implies that oil is being viewed as a 'common property.' Each member of the common is perceived to have a share in that common property. He or she is guaranteed a certain standard of living based on the depletion rate of the oil reserve and its expected revenue. The institution of a 'future generation fund,' that has been part of the Kuwait constitution reflects this vision of oil as a 'common property'. It is evident that the origin of the philosophy is partly cultural and partly political, but it can only be sustained at its present level, by a steady flow of per capita oil (real) revenue. This is not the same as Sen's concept of 'entitlements.' In the present context, it is perceived by the members of the 'common' as 'rights'.

However, from its early evolution in Kuwait, development strategies based on the philosophy of a close link between entitlements and legitimacy did not differentiate between the right for equal opportunities and the right to guaranteed returns. It made no distinction in its definition of the entitlement system between the citizen’s right to build up his or her productive potentials through free education and health services, and the citizen’s right for a life-time income and free amenities. It provided guarantees for both the development of human resources as well as for their returns, that essentially trivialized the private value of effort. The failure to distinguish between these two rights: the right to social and productive development on the one hand and the right to consumption on the other led to the emerging social, political and economic problems in the oil economies.

Since entitlements are based on an exhaustible resource base, it was inevitable that the definition of the “Kuwaiti citizen” becomes a central part of the development philosophy. Accordingly, naturalization is discouraged. Expatriates are viewed as temporary guests regardless of the duration of their residence, some for generations. Any attempt for the introduction of a rational population policy that links population and labor growth to the capacity of the system to generate a sustainable flow of productive opportunities has been largely constrained by this philosophical vision of an oil economy. Furthermore, the requirements for a restrained fiscal and monetary policies as part of stabilization policies raise fundamental conceptual problems in the context of the structure of an oil economy as discussed below.

B. The Structure of an Oil Economy

We mentioned in the previous sections that the 'philosophical vision' underlying the development strategies and economic policies of oil economies constrains the scope and efficacy of these strategies and policies. We also mentioned that this vision is a natural outgrowth of the unique characteristics of the resource base of these economies. In this section we elaborate on these statements. For that
purpose we will draw a comparison between two economic structures and highlight their differences and political economy implications. The first is a structure of a developing oil economy like that of Kuwait. The second represents an advanced sustainable economy. Figure I represents schematically these two prototype structures and the pattern of their relations with the world economy. Each structure is divided into two parts: a production base and an organization or management base (government). The anatomy of each part is kept to a minimum to highlight its general pattern. Part I-A of Figure I represents the Advanced Industrial Economy, and part I-C represents the Developing Oil Economy, while part I-B represents the relations of the two systems with the rest of the world.

We start with the case of the Developing Oil Economy, part I-C of Figure I that represents schematically an economy like that of Kuwait. We notice the following structural characteristics:

1. The organizational base does not depend for its sources of revenue on the returns from the productive base of the economy. Rather, it depends almost exclusively on the world production base through the latter purchase of oil or from returns on its financial investments abroad. the structure of an oil economy as depicted in Figure I-C does not allow for the presence of a fiscal/tax system as conventionally understood in the context of economic development policies. In the structure of an oil economy, the introduction of a tax system will only reduce the overall economic activities except if it is closely linked to the development of the non-oil production base, i.e., being a part of an overall policy aiming at accelerating the ‘transition’ discussed above. A true fiscal system is essentially absent.

2. The assessment of public debt, illustrated by the circle and dashed line between ‘public debt’ and ‘Rental Revenue’ in the top right-hand side of the Figure is based on the expected future stream of oil/rental revenue and not on the productive capacity of the non-oil production base of the economy through a developed tax system.

3. Government support and involvement in the activities of the production base of the economy is almost universal. The distribution of oil revenue through direct public activities (the public sector employs nearly 93% of the national labor force in 1994) aside from the various consumption and production subsidies, makes the organization base the basic engine for economic activities. The production base of the economy cannot survive without the support of the organizational base, while the latter can survive independently.

4. The relation with the world economy indicates total dependency. Exports have an insignificant national labor content. The bulk of exports is basically oil, a highly capital intensive commodity, and its export proceeds provide the main sustenance of the organizational base and the economy at large. Imports, on the other hand have a high labor content including a large direct labor components. They cover almost the total needs of society. Furthermore, returns on foreign
assets represents, with oil export revenues, another important source of income to Kuwait which necessarily augment the dependency on the outside world.

5. The lack of reciprocity of labor content in international trade mentioned above reduces direct competition between the national labor force and that of the rest of the world. The main elements of competitiveness are those of maximizing the rental income (export of oil), and the maximization of profits in imports of goods, services and expatriate labor. There is no effective exposure to foreign competition in manufacturing or knowledge-based industries. This is a pattern that indicates an oil economy in the early stages of ‘transition’. Given the entitlement and incentive systems and the associated practice of public employment guarantees, competitiveness of the national labor is not tested in the international market place, in spite of the apparent large size of international trade, or in the context of the ‘Dutch Disease’ scenario, the non-tradable good that presents potential inefficiency in the allocation of resources is ‘human resources’ both in the distortion of its relative prices, and its quality and investment allocation.

6. As mentioned earlier, the financial independence of the organizational base and the dependency of the production base on the former, does not allow for the presence of an effective fiscal system. The absence of a fiscal system has serious political implications. It renders the system of public accountability or transparency, less effective. An effective fiscal system is a necessary condition for democratic participation. Sufficient conditions include the presence of a minimum degree isonomy and equity.5

C. Comparing an Oil Economy with an Advanced Non-Oil Economy

There are subtle differences between the structure of an oil economy as illustrated in Figure 1-C and that of an advanced industrial economy illustrated in part A of Figure 1. The main source of revenue for the management base originates from the production base through a developed fiscal system. This is illustrated in the Figure by the reversal of the position of ‘rental income’ and production income in the two structures. It follows that the assessment of public indebtedness is based on the revenue generated from the production base as illustrated by the circle on the dashed line connecting public indebtedness with ‘revenue’. This is contrast to the case of an oil economy where assessment is based on the expected returns from rental income. Accordingly, in the case of the advanced industrial economy, the management base of society has a stake in the growth of the productive base and feel responsible through the fiscal system. These conditions, although may exist in oil economies are not built into the structure of their system as illustrated in Figure 1. The role of the organizational base is much more limited in generating direct production or employment in the production base. Finally, the pattern of exchange with the rest of the world is a two-way stream, with reciprocity in labor and technology content. This reciprocity allows for continuous dynamism and the continuous assessment of the roles of equity and efficiency in maintaining the integrity of the system as a whole.
The lack of such reciprocity in the case of the oil structure reduces the clarity and purpose of such essential assessment.

The differences between the two structures are basic. For example, although the advanced industrial structure is prone to economic shocks that could be at times severe and result in high unemployment rates and severe inequalities, the structure has built-in mechanisms to absorb these shocks. The political economy of the structure is adaptive enough because of the interactive and complementary nature of its two bases: the organization and the production base; and its exposure to the test of international competition. Indeed there are mounting concerns about the moral dimension of the advanced industrial economic system and especially the negative externalities to systems with different moral codes. This is an important that addresses the fundamental question of the meaning of development. However, as we discussed elsewhere, values and sound economic performance reinforce each other, especially in an era of an open world system. Our focus in this paper is on the factors affecting the necessary development transformations of oil economies.

The analysis of the following section illustrates the appearance of contradictions in economic policy and outcomes, and the development negative individual and social characteristics that are not conducive to development. Such development are expected in the context of a rental base social structure. The system, to paraphrase Sen (1988), is facing external shocks, mainly without developmental consequences, that are creating more ‘value heterogeneity’ than the capacity of the system to ‘endogenize’ them. Accordingly, a development strategy in oil economies must integrate economic with social, cultural and political dimensions since they are mutually reinforcing in the present stage of transition in oil economies.

D. Achievements and Contradictions in the Development Experience of Kuwait

Kuwait, similar to other oil Arab Gulf countries, has spent generously on the development of its human resources and on building its basic social infrastructure. All data on human resources and welfare indices indicate a remarkable improvement in the past three decades. Education levels for both boys and girls, health status illustrated by levels of infant and maternal mortality and other economic and social welfare indices have risen dramatically and reached those of the most advanced countries. We need not mention the details of these achievements. The World Bank and the United Nations Development Reports indicate that Kuwait per capita income is one of the highest in the World. Improvements in social indicators are equally impressive. According to the United Nations Human Development Report (1990), life expectancy at birth increased by thirteen years between 1960 and 1987 to a level of 73 years. The Report ranked Kuwait among those countries with a high Human Development Index (HDI). Its score was the highest among all the Arab countries, although it should have been higher given its GNP per capita rank according to that United Nations Report (1990, p. 129). Given these apparently remarkable achievements one may ask whether the concern of the country’s economic health is unduly alarming. Indeed there is a rise in unemployment and in the budget deficit. But that deficit and the
unemployment rate are below most of those of the industrial countries. They were expected as a result of the Gulf war, and could be dealt with through appropriate economic policies, as the analyses of the next section indicates. In this context, Kuwait apparent economic difficulties are short term and should be short-lived. They only require, according to the emerging paradigm, the ‘right dose’ of fiscal austerity and market discipline.

The assessment of Kuwait’s current socio-economic difficulties as short term and transit that could be cured through short term adjustment policies are different from those implied in our discussion of the socio-economic consequences of the unique structure of Kuwait’s oil economy. In that discussion, we viewed the mounting socio-economic difficulties, as part of a long term trend whose reversal requires more time and concerted effort. Socio-economic difficulties should not be examined as isolated elements. They are interrelated and reinforcing. Their combined effect could be serious and long term. There are at least seven major socio-economic difficulties that emerged during the recent history of Kuwait that require close examination. They are discussed briefly below.

1. **The budget deficit**: The emergence of the budget deficit should have been expected. It is best viewed as a natural outgrowth of the high exogenous rate of growth of the Kuwaiti population, the maintenance of high public expenditure per capita and the inevitable decline in the oil resources endowments per capita. We feel that a debate about whether a redefinition of the budget deficit would change the size of the deficit is a divergence from the critical policy question underlying the concept of deficit in the context of an oil economy. In that context, the budget deficit is born with the birth of that economy. **The budget deficit in an oil economy should be defined as the difference between Government revenue from oil and financial returns on foreign investments, and its revenue from taxing non-oil value added.** Such definition focuses attention on the required development transformation and the evaluation of all socio-economic policies as to their contribution to that end.

2. **Population mix and optimum population size**: The lack of coherent population policy in Kuwait could be better understood in the context of the philosophical base of the country’s development vision discussed earlier, but it seems to be one of the factors that inhibit the articulation of an overall coordinated policy vision. The development vision views oil as a common asset with the entitlement system as a basic right. But since oil is non-renewable, more people means less entitlement per capita. An optimum population size could be targeted given a desired standard of living, the rate of oil depletion and the development of a sustainable non-oil production base. Without such vision, a high rate of population growth will lead to inter- and intra-generation conflict. In the meanwhile, the pattern of development led to the extensive reliance on foreign labor. With Kuwaitis accounting for less than a quarter of the total labor force, the policy attention focused on an ‘optimal’ labor ratio away from the fundamental issue of balancing the growth of opportunities with the supply of labor.7 This concern with labor national-expatriate ratio led to the policy conclusion the there is a national labor shortage and to the erroneous prescription that
such shortage requires the maintenance of high fertility. Accordingly, the overall population policies dealing with expatriate labor, fertility and female employment do not provide for an integrated and coherent whole.

3. The demand and supply for foreign labor: As mentioned above, the increase in the size of expatriate labor has received extensive attention in Kuwait's economic and social policies over the past ten years. The concern varied between the social and private cost of that labor, its effect on real wages and opportunities open to the Kuwaiti national labor and its effect on the development of a high value added scenario for Kuwait as it enters the Twenty First Century. Policy options offered as solutions varied between a tighter and more skill-selective control on labor permits to raising the cost to employers through the imposition of higher permit taxes, shifting the cost of health care and other social benefit to the employer or the worker. The consequences of some of these policies have not been examined critically in the context of the factors underlying the supply and demand for expatriate labor. A starting point is to examine the various economic and socio-political roles of expatriate labor. Four such roles can be identified:
   a. As factors of production in the various economic activities.
   b. As factors in non-market activities such as domestic workers.
   c. As tradable commodity where the owners of such trade attempt to maximize returns.
   d. As socio-political agents that serve as a cushion against local unrest, i.e., blaming the foreigner scenario.

To understand the dynamics of the expatriate labor market in Kuwait or other oil economies, there is a need to assess the objective function underlying the demand for these varied services and the relative power of the actors involved. This seems to be an important prerequisite, since the same policy may have different effect on the various roles.

4. The emergence of unemployment among Kuwaiti labor: Unemployment among the Kuwaiti labor supply is considered to be a new phenomenon. Its momentum has been building up for more than a decade however. Unemployment in the oil economies is a structural phenomenon resulting from an imbalance and a mismatch between the supply and demand for labor. The response of the supply of skills to market signals is distorted by the system of public subsidies and entitlements and the development of a robust demand for labor in the private sector. The policy response to the unemployment problem seems to have focused on two interrelated issues: (a) the replacement solution, and (b) the privatization solution.

A main premise of both prescriptions is the reported official statistic, that is widely quoted, indicating that the bulk of the Kuwaiti labor force, more than 90 percent is employed in the public sector, while a large majority of expatriates work in the private sector. The large presence of expatriates in the private sector depresses the wage rate in that sector makes it less attractive for Kuwaiti labor to join the private sector -- thus a replacement policy scenario. The premise of the insignificant presence of Kuwaitis in the private sector, as well as the supporting data needs careful scrutiny.
First, a large proportion of the Kuwaiti workers employed in the public sector has second jobs in the private sector. Second, it is the law that no business is allowed without a Kuwaiti partner or counterpart. There must be a large presence of Kuwaitis in the private sector as managers, workers or joint owners with a stake in maximizing profits in the various private establishments. Indeed many of these establishments, mainly engaged in external and internal trade and construction related activities are economically efficient. Economic efficiency implies the employment of inputs relative to their productivity and wages. Expatriate labor with its low wage levels and long hours of work provide a strong incentive for a strong demand for their services. That demand originates from the Kuwaiti presence in the private sector and their interest in profit maximization. An attempt to raise the cost of expatriate labor may have different consequences. It may lead to higher labor intensity by employers seeking even lower wage workers. It may to higher capital intensity without significant shift in the apparent ratio of expatriate labor. Or, it may lead to increased demand for public jobs because of the reduced attractiveness of private sector employment and profitability. Because of the complex dynamics involved, there is the potential that a policy measure may end up having results that are opposite to the intention of that policy: \textit{an increase in the cost of expatriate labor may result in higher demand for expatriate labor in the private sector and a stronger demand for public jobs.} In the absence of data and analyses of these dynamics in the Kuwaiti labor market it is hard to predict the outcomes of policies.

5. \textbf{The emergence of unemployment among expatriate labor:} This emerging phenomenon is one of the most peculiar contradictions in human resources development in Kuwait. At a first glance, the emergence of such phenomenon should be a remote possibility since workers can only enter the country if they have a work contract and permit, and illegal entry is very much controlled. But our previous discussion of workers as tradable commodities implies that the possibility of unemployment could be an outcome of the labor market characteristics. Labor contractors may extract a fee for providing work permits. The permits may exceed the supply of jobs. Workers my be obliged to shop for jobs but experience periods of unemployment in the process. There is an equilibrium solution based on expected net returns to the expatriate worker. The presence of such practice in the labor market provide incentives for the importation of low skill workers, reduce their motivations and productivity and introduce negative values in society.

6. \textbf{Maintaining high fertility and population growth rates in Kuwait:} This policy is emphasized and repeated in all the Development Plans in Kuwait. Its purpose is maintain a high rate of growth of the labor force to reach parity, in numbers with expatriate labor. There are at least two fallacies in the underlying premise and analysis. The first is that a desirable labor ratio can only be specified in the context of a desirable total population size. A fifty-fifty Kuwaiti-non-Kuwaiti labor ratio can be achieved at a total population of two million or ten million! \textbf{The desired population and labor force nationality structure should be part of a consistent population policy.} Second, the policy seems to overlook the basic demographic law of ‘momentum’. That law is better stated in terms of the momentum of the labor force:
with the presence of a young age structure, such as that in Kuwait, if fertility declines to replacement level, the population will continue to grow. The resultant increase in population will be concentrated in those over the age of 15. The labor force will continue to grow at rates higher than the rate of population growth as fertility declines. It is a fallacy to conclude that labor force declines as fertility declines.

7. The status of women and human resources development: The previous development contradictions and the inconsistencies of solutions proposed bring to the forefront the role of women in the development experience in oil economies. Their is a demand for maintaining high fertility in the face of significant progress in female education and labor force participation. But female education and their labor force participation are basic determinants of low fertility. There is also a social demand for increasing the Kuwaiti presence in the labor force. Maintaining high fertility acts as a disincentive for female work -- a major component of the labor force. It is not evident that society could reverse the trend of declining fertility. The age at marriage in Kuwait, an immediate determinant of fertility has increased substantially in the past decade as is true in many of the Arab countries. What should be an important element of the development vision is to produce persons with the best feasible human capital and motivational characteristics, while concentrating on opportunities and job creation to productively engage this flow of energy, regardless of gender.

AN ECONOMIC POLICY SCENARIO

Most studies dealing with the current status of the Kuwait economy and the potential for its development after the Gulf war have come to the conclusion that, aside from the socio-economic issues and contradictions discussed in the previous section, current and future changes in the regional and international environment should be taken into consideration in the design of any viable developmental scenario. These external circumstances and uncertainties have also brought to light the necessity of maintaining an adequate public reserve fund and a safe portfolio of foreign assets. These considerations seem to be accepted as part of any development vision for Kuwait.

In the previous part we illustrated schematically that the present economic structure is not viable and the importance of starting a process of structural transformation: from an oil-based structure depicted in part C of Figure 1 to a sustainable diversified structure as illustrated in part A of the Figure. In this part of the paper we illustrate empirically the negative consequences of the continuation of present trends. For that purpose, we simulate the socio-economic effects of continuing with the same policies for the next ten years. We then introduce a tariff tax designed to increase government revenue and reduce the budget deficit, and compare the results with the 'no change' scenario. Increasing revenue and/or reducing expenditure are standard prescriptions in programs of adjustments and stabilization policies, recommended by international agencies such as the World Bank or the International Monetary Fund. We are aware
that the choice of the tariff tax scenario is not necessarily an optimal policy. It is only illustrative of its economic and developmental consequences.

In this paper, the purpose of the policy scenarios is to investigate the following questions:
- What are the effects of such policy?
- Could the introduction of such policies, especially in the absence of a comprehensive policy package and a clear long term development vision of the necessary structural transformations, lead an oil economy to the road of sustainable development and growth?
- What would be the risks associated with the adoption of fragmented policies to resolve short-term problems?

These are the questions we try to examine in this part of the paper. The policy scenarios provide the empirical foundation for the conceptual analysis presented in the first part of the paper and that lead to the later discussion of a long term development vision for oil economies. First, we give a brief description of the model used. Next, we present the socio-economic consequences if the economy continued in its present path (a base-line scenario), and the implication of adopting a tariff tax policy Scenario).

A. An Economy-Wide Model

In order to evaluate the effects of continuing present policies or adopting new ones on the various sectors of the economy it was essential to develop a consistent economy-wide model that is able to capture the linkages and feedback’s among the various parts of the economy, and that reflect the behavioral response of the various economic agents. The model should also be designed to model the key financial and human resources sectors, in enough details, to capture the consequences of introducing the policy scenario to key developmental issues such as balancing the budget, the accumulation of international investments, the structure of national wealth, population growth and structure and the labor force, among others.

In its structure, the model is viewed as a dynamic computable general equilibrium (CGE) tool with an enhanced inter-period dynamic part including capital updating mechanism, detailed population and labor force structures, foreign assets management routines, public finance policy module and privatization policy instruments.

The model includes both strutralists and neo-classical elements. The structuralists approach has the institutional structure of the economy as its point of departure. On the other hand, it takes the hypotheses of optimizing agent behavior as its starting point. The structuralists feature of the Kuwaiti model includes, among other things, a supply driven oil sector, fixed nominal wages and the complex structure of taxes and subsidies. However, in several areas, the model incorporates various neo-classical features such as input substitution and the effect of market clearance on output prices (M. Khorshid 1990, 1991, and 1994).
The model is conceptually broken into a within-period and an interperiod parts. The equilibrium solutions of the within-period part may be viewed as being determined by: (a) the independent decisions of the economic agents (households, firms and the government); and (b) the market closure rules that ensure consistency between these two independent sets of decisions. The dynamic path of the economy from one equilibrium point to another is captured by the interperiod relations (Dervies et. al., 1982, Robinson 1989 and Taylor 1990).

The model structure is based on a social accounting matrix (SAM) for the year 1992. The SAM can efficiently capture structural features and linkages within the economy. It is also utilized to estimate the structural parameters of the model. The SAM and the Kuwait model represent an economy with two production activities (an oil and a non-oil sectors), each activity is divided into public and private sectors, five domestic institutions (Kuwaiti and non-Kuwaiti households, public and private companies and general government), five commodity markets (composite, domestic, imported, exported and re-exported goods), and the rest of the world. Factors of production include labor and capital services with the former factor broken by nationality and economic sector. The domestic goods in the model are evaluated at labor cost and producer prices where as imported goods are evaluated at world prices, landed prices and market prices. The complex tax structure in the model consists of import tariff, sales taxes on domestic and imported goods, and other indirect taxes. The tax structure in the model is also designed to capture the impact of direct taxes such as corporate and personal taxes. Finally, the model captures the specificity of Kuwait’s public finance system and the management of its domestic and foreign assets.

B. Findings from the Base-Line Scenario and the Tariff Tax Scenario, 1995-2005

We first present the findings of the continuation of present policies, the Base-line Scenario, on Gross Domestic Product (GDP), the Balance of Payments, Government Budget, Welfare and Wealth Indicators and Population and the Labor Force. These are presented in Tables 1-5. In the second part we compare these effects with the results of introducing the tariff tax scenario. These comparisons are presented in Tables 6-10.

1. The Consequences of Continuing Present Policies

It is assumed in this base-line scenario a reasonable degree of stability in present socio-economic policies at least in its general directions. No major structural change or radical policy changes are anticipated in this scenario. However, to be realistic, the scenario allows for some policy modifications that might lead to improved economic performance, namely:

- the introduction of some discipline in public spending and allowing for some minor increase in non-oil revenue.

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- increase the level of economic activities in the national market as a result of settling the indebtedness crises, the encouragement of foreign investment, and a revival of the private sector.

a. The effect on the growth of GDP:
   The net effect of the expected improvement in the performance of the oil sector on the one hand, and a restrained public spending, that reduces the demand for goods and services on the other hand is a modest increase in the real value of GDP, from KD 3,312 m. in 1995 to KD 3,821m. and KD 4,246m in 2000 and 2005 respectively. This is mainly a result of the poor performance of the private and public enterprises sectors, especially in the last period of the scenario where both declined in absolute terms, as illustrated in Table (1). As a result of the poor performance of the non-oil non-government sectors, the share of oil in Gross Domestic Product increased from 45% to 49% between 1995 and 2005. The share of Government services in non-oil GDP also increased during the period. **If present policies and trends continue, the value of GDP will show a modest increase, mainly a result of expected improvements in oil revenue. The non-oil sector, with the exception of government services, will show a decline. The growth performance of the national economy will continue to depend on exogenous factors through the next century: the price of oil and the returns on foreign investments.**

b. The effect on the Balance of Payment and Trade:
   As illustrated in Table (2), the continuation of the present scenario reduces the returns from foreign investments as a result of using part of these assets to cover the budget deficit. The trade balance will improve slightly while the surplus in the balance of payments tend to decline in the second part of the simulation period.

c. The Budget Deficit:
   As table (3) illustrates: **The optimistic expectations with regards to oil revenue and related foreign investments are not enough to eliminate the budget deficit. That deficit will continue through 2005 although its level will decline significantly from its 1995 level of KD2,334m to KD913m in 2005.**

d. Welfare Indicators:
   Continuation of present trends results in a decline in real per capita Gross Domestic Product (GDP), real non-oil domestic product, and the current value of Gross National Product (GNP). The per capita non-oil domestic product declines from KD 2,218 in the year 1995 to KD 1,991 in 2005. Similarly, per capital Gross National Product (GNP) declines to KD 3,787 by in 2,005, compared to its level of KD 4,299 in 1995 (Table 4). This decline, as mentioned earlier, is primarily the result of the deteriorated performance of non-oil domestic production and in the returns from foreign investment, rather than the effect of the high rate of population growth. Other welfare indicators show similar declining trends. The per capita family income showed a decline of 15% during the period. It decreased from its 1995 level of KD 3,567 level to KD 3,046 in 2005. Moreover, the Kuwaiti per capita real final
consumption indicated similar decline. Accordingly, continuation of present trends will result in the decline of the welfare level of the Kuwaiti citizen as measured by per capita income or expenditure.

e. Wealth Indicators:
As discussed at the beginning of this paper, the concept of ‘common wealth’ is basic to the development philosophy of the country. The practical integrity of that philosophy depends on its economic support. In an oil economy that support comes from two sources: oil and the accumulation of foreign assets. In this section we examine trends in the size of foreign assets per capita. As Table (4) indicates, if present trends continue, the share of Kuwaiti nationals in foreign assets will decline from KD 18,845 in 1995 to KD 4,112 in 2005. The latter share is about per capita GDP in that year. The decline in per capita non-oil common wealth is a consequence of the persisting budget deficit and poor performance of private sector.

f. Population Structure and the Labor Force:
The future profile of population and labor force is determined in the model through three main factors:
- Exogenous factors that affect the structure and growth of the Kuwaiti population.
- The national labor force participation rates in economic activities.
- Development in aggregate income and economic activities as well as in family income, that determine the demand for foreign labor and the size of the expatriate population.

As illustrated in Table (5), the Kuwaiti population will increase by 206,000 to reach 973,000 persons by 2005 -- a 29% increase over its 1994 level. The non-Kuwaiti population will also increase by 130,000 during the ten year period if present trends continue. Accordingly, the share of Kuwaitis in the total population will increase from about 38 to 43 percent. The baseline scenario also indicates that there will be an additional 80,000 Kuwaiti workers added to the labor force during that period ( about 47% increase over the 173,000 Kuwaiti workers present in 1994. The non-Kuwaiti labor will only increase marginally reaching a level of 850,000 workers by 2005. The result is an improvement of the share of Kuwaitis in the labor force -- from 17.5% to 23%. A large part of these findings follow from the assumptions of the model about the exogenous rate of population growth (3.4%), the assumed increase in the national labor force from 24.2% in 1995 to 25.9% in 2005 and the continuation of present policies of replacing Kuwaitis for non-Kuwaitis as well as reducing the dependency ratio of the non-Kuwaiti labor. Furthermore the model captured the negative effect of the decline of economic activities on the demand for foreign labor.

An important finding of the continuation of present trends is related to the sectoral distribution of the labor force. If present trends continue, the proportion of the Kuwaiti labor force in the government sector will increase (from 77-79%) while that in the private sector decline (from 6-4%). That trend is even more
significant for the non-Kuwaiti labor (from 24 to 57%) while the share of expatriate labor in the private sector showed a significant decline (from 57-21%), and their employment in domestic sector increased slightly although household income declined during the same period.

It is evident from the previous findings that the continuation of present policies and trends will, on the whole, worsen existing economic and social conditions. Such continuation is not desirable as a policy prescription. Could a doze of an adjustment element provide a better economic performance? We turn to the findings of the tariff-tax scenario.

2. The Consequences of a Tariff-Tax Scenario

We concluded in the previous section, that the continuation of current socio-economic trends and policies applied in the 1980s, would lead to a deterioration in the growth prospects of the Kuwait economy, a higher degree of vulnerability to external shocks, a substantial decline in the returns from foreign assets, a decline in per capita share of the foreign funds, a reduction in the social and private welfare levels of Kuwaiti citizens, and finally a continuing government deficit up to 2005. This deterioration in the performance of the economy is accompanied; however, by an apparent improvement in the Kuwaiti share in total population and labor force and a reduction in public sector deficit from KD 2,333 millions in 1995 to KD 912 millions in 2005. The increased share of Kuwaitis in population and the labor force were not, however, the positive results of policies designed to generate non-public jobs. They were a consequence of the exogenous nature of population and labor force growth. Their employment was concentrated in the public sector since the private sector did not provide the needed opportunities. The relative increase in the Kuwaiti share in total employment should not be taken as a positive developmental sign under these circumstances.

It seems that Kuwait needs to adopt a development strategy that differ than past practice. Its purpose is to deal with short- and medium-term adjustments in the context of long term growth objectives. It needs to re-structure the production base of the economy away from oil and enhance the efficiency of the national labor force, while dealing with the shorter term issues of controlling the budget deficit and re-building the required cushioning of public foreign assets. Such development strategy requires a comprehensive, consistent and long-term oriented socio-economic policy package as discussed earlier in the paper. We will attempt an outline of such strategy in the final part of this paper. But it is important first to study the consequences of adopting a tax policy with the purpose of reducing the government deficit. The finding of such policy scenario should be useful to evaluate the short and medium-term effects of such policies, the risks associated with the adoption and implementation of fragmented policies to resolve short-term problems in the absence of an articulated long-term vision. Finally, the scenario exercise should provide important insights into the development of a comprehensive long-term policy package for Kuwait, in particular and for oil economies in general.
In the tariff tax scenario it is assumed that the Kuwaiti government will increase the rate of its import tariff from 4% in 1995 to 10% in 1996-2000 and then to 15% over the period 2001-2005. In the remainder of this section we examine the impact of implementing the import tax policy on the social and economic indicators discussed in the continuation scenario. Tables 6-10 presents the findings for the import tax scenario as well as those of the continuation scenario to facilitate the discussion. In each table, the first column provide data for the base year which is similar for both scenarios. Column 2 presents data for the continuation scenario, while the last column presents data for the import tax scenario. The findings are discussed below.

a. **Gross Domestic Product:**

Table (6) summarizes the medium-term effects of both the continuation and the import tax scenarios on GDP. Apart from oil GDP, which is mainly determined by external factors, the increase in import taxes would negatively affect the growth prospects of the economy. By the year 2005, the import tax scenario would reduce non-oil GDP relative to the continuation scenario, dropping from KD 4535 millions to KD 4358 millions. An increase in import tariffs would increase the price of both imported and domestic goods that have the effect of reducing aggregate demand and its composition, and accordingly the growth of the GDP. The tax also reduces disposable income and saving rates. The combined effects of these development is a reduction in the growth of non-oil GDP and in private sector GDP. (Table 6).

To sum up: a tax policy designed to increase government revenue and reduce the public deficit, will not induce a positive response from the private sector, through import substitution for example. The net effect of this scenario is a reduction in the overall level of economic activities when compared with the continuation scenario.

b. **The Balance of Payment:**

As expected, the introduction of a higher import tax improves the performance of the current account of the balance of payments (table 7). Higher prices of imports contribute to a reduction in the demand for foreign goods. But since the value of Kuwait's exports is dominated oil exports which is insensitive to the import tax (about 85% of total exports in 1993), the balance of trade improves relative to the continuation scenario, from 998 and 1203 KD millions. Furthermore, with smaller government deficit, the return on public foreign assets improves considerably and contributes to the increase in net factor income from abroad.

To sum up: an import tax policy improves the performance of the trade balance and the return on foreign assets and accordingly contributes to increasing the current account surplus.

c. **Government Budget:**

Table (8) summarizes the impact on the government budget and its components of raising the import tax. The adoption of the tax policy reduces the government deficit from KD 913 millions (in the continuation scenario) to about KD 359 millions (in the taxation scenario). This improvement is a direct effect of
increased public revenue from KD 2690 millions in the base year to KD 4771 millions at the end of year 2005.

d. Welfare and Wealth Indicators:

Despite the slight improvement in the share of Kuwaitis in population and labor force (resulting from the increase in import taxes), the welfare level of Kuwaitis continues to deteriorate as illustrated in Figure (9). The per Kuwaiti income and consumption decreases from B 567 and 2541 KD, in the base year, to 2996 and 1793 KD in 2005. (The overall drop in per Kuwaiti income and expenditure is 16% and 29% respectively). This deterioration results mainly from the impact of the increase in import taxes on rising prices, depressing aggregate demand for goods and services and the decline in disposable income. These negative consequences are reflected in the performance of per capita GDP and GNP. Total GDP and non-oil GDP decline by 11.4% and 4.9% respectively over the planning period (1995 - 2005). Notice that aggregate GDP is less affected than non-oil due to the constancy of oil production scenario.

As shown above, an increase in import tax increases government revenue and reduces deficit. Accordingly, the tax increases the accumulation of public foreign assets that shows as an increase in per capita Kuwaiti share in foreign assets.

To conclude, most per capita growth and welfare measures are negatively affected by an increase of import tax rate. The share of Kuwaitis in public foreign assets witnessed however, a considerable improvement compared with the continuation scenario.

e. Population and Labor Force:

In table (10), the population structure and labor force profile resulting from the tax scenarios are summarized. In general, Kuwaiti population and labor force are determined by demographic factors outside the model structure, while the non-Kuwaiti population is dynamically adjusted as function of the level of economic activities, the size and level of income of Kuwaiti personal income, and government policies in the areas of labor substitution, non-Kuwaiti dependency ratio, and other policies that raise the cost of expatriate labor. The import tax scenario reduces the size of the expatriate labor force relative to the continuation scenario. Otherwise the effects of both scenarios are quite close.

To conclude: in the absence of a comprehensive and long-term policy package, directed to restructure the Kuwaiti economy and achieve sustainable development, any tax policy, aiming at increasing government income and reducing public sector deficit, will negatively affect the growth prospects of the economy, the welfare level of Kuwaiti citizens and the structure of GDP and labor force. It will, however, improve the share of Kuwaitis in labor and population size, the balance with the outside world and the level of public foreign assets.
TOWARDS A NEW DEVELOPMENT STRUCTURE

In the first part of the paper we illustrated conceptually that the structure of the resource endowment in oil economies has a fundamental influence on these countries development philosophies, the structure of their institutions and the degrees of freedom they have to manage their economies. Their two basic development transformations, from oil-based to non-oil based production and from government employment and entitlement system to an internationally competitive human resources base are basically long-term processes that require a well defined long-term development vision. We also argued, that by its very nature, these economies are frequently exposed to short-term shocks. In most cases the remedial policies dealing with the short-term issues over-shadow the long-term fundamental developmental concerns. Short-term policies, although may appear to resolve current problems, they in reality could aggravate further the potential for transforming the economy towards sustainable development.

In the second part of the paper we examined these propositions empirically for the case of Kuwait. The findings indicate clearly that if the existing development policies and trends were to continue in the future, their negative effects on the economic and social system will increase substantially and will create more pressure for using remedial short-term actions. The result by the beginning of the next century will make it more difficult to pursue the necessary long-term reform. We attempted to test the positive and negative effect of introducing short-term remedial policies to deal with the mounting pressure of the budget deficit and the lack of a viable private sector. The result of the tax scenario although have short-term disadvantages positive impact on the budget deficit, the social and economic costs were high, and similar to the continuation scenario, it was only a postponement and to a large extent would aggravate existing problems which make their resolution more difficult. We come to the conclusion that there is a need to coordinate and combine short-term policies with long-term ones in the context of a clear vision about where society should be heading. This is rather a difficult task, not only because of the challenge in its conceptual formulation, but largely in the required commitment for its implementation, evaluation and continuous adjustments. We can only provide a brief sketch of such vision and some of the policies that require coordination.

A Development Vision for Oil Economies

To start, oil economies should be viewed as economies in transition. The transition should be specified as to end result and mechanism. The utility of all policies should be measured in terms of their contributions to achieve the transition. To illustrate the importance of this vision we may view oil economies as being kept inside an intensive care tent. Their sustenance comes from outside that tent. The maintenance of the economy inside the tent is very costly in terms of the opportunity cost of the resources being used just to maintain the status quo. The economy survives within the tent but not outside its confines. The development challenge is to change the structure of that economy to survive outside the protective system of subsidies and
entitlements. In the context of this exaggerated intensive care example, the real budget deficit started with the birth of the oil economy. It is defined in that context as the difference between government spending and its non-oil revenue. Reducing that fundamental deficit, reduces the outside input into the intensive care tent, and illustrate that the economy is on its way towards sustainable recovery.

The situation is not as pessimistic. For example, in the case of Kuwait, previous development efforts have had many positive outcomes. Examples include the building of a human resources base that is healthy and well educated, and the building of other basic infrastructures. These development outcomes, despite some disadvantages associated with them such as inadequate competitive motivation and productivity represent a valuable base with substantial potential to build upon. Policies should be designed to build upon past achievements with a view to end results. In what follows we present some policy examples in the context of the vision just outlined.

1. Through the imposition of an integrated taxation system, it may be possible to transform the extravagant consumption pattern into a productive one. This is done by the imposition of high taxes on imported extravagant consumer articles, such as cars and others, and impose graded charges to rationalize the use of domestic servants.

Since the desire to maintain such consumption pattern has been deeply ingrained in the social behavior, it is expected that citizens will try to increase their income. Therefore, there should be parallel policies to provide productive job opportunities through openness to the outside world.

2. Through the taxation system, it may also be possible to encourage active involvement by the Kuwaiti labor in the private sector. As mentioned earlier, the private sector already contains Kuwaiti labor as a result of the multiple job system, consequently, the imposition of a taxation system on the second job income can result in some labor moving into the private sector, and emphasis be laid on increasing productivity and income from this sector.

3. Within the framework of upgrading human development policies, youths sent on academic scholarships outside should be allowed time to be involved in production operations inside factories and international institutions, provided that branch offices for these institutions be set up inside Kuwait for the purpose of generating part of the value-added. This would help increase Kuwaiti labor involvement in the world production base which operates by free competition and productivity.

It should be emphasized here that the aforementioned recommendations must be associated with a long-term development objective, which is the transformation of the existing economic structure to a more productive and sustainable one.

Before concluding this paper, we wish to point out that there is an open discussion about the doubtful ability of a small country like Kuwait to achieve sustainable
development in the new world order, which is heading towards economic confederations. We do not quite agree with this theory for two reasons:

First: there are many examples of small countries developing modernity, and becoming able to make headway through hard development of their human resources, and building active political and economic relations with the outside world. However, the terms for entering into economic confederations stipulate the achievement of minimal sustainable development (examples of such countries are Portugal, Spain and Greece becoming members of the European Confederation).

Second: this discussion must not conclude that development depends on those confederations, which would frustrate the zeal for starting infrastructure reformation.

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1. T. W. Schultz raised doubt about the need for a 'separatist' development economics as early as 1964 (Schultz, 1964). Schultz argued that since a rational allocation of scarce resources is a common individual behavior, regardless of the stage of development, as illustrated by his known example of the rational maximizing economic behavior of subsistence farmers, main stream economics, based on these economic motivations, should provide better conceptualization and more sensible policy advice. This view raised a debate that continues till the present. Some, including Bauer (1972), Little (1982) and Walters (1989) among others strongly agree with Schultz’s opinion. Others including Sen (1983), Lewis (1984) and Chenery (1988) among others took an opposite view. For a review of the debate that also provides a positive contribution, see Naqvi (1993).

2. There are apparent similarities between the dual-guarantee system in oil economies and that of employment guarantees in socialist systems. The fundamental difference is in the source of sustaining these guarantees.

3. The political economy of immigration policies is not unique to the case of the Gulf oil countries. One could easily trace the changing French political views about immigration policies as reflected in the French Parliament debates since the beginning of this century, to changes in the French age structure (See for example, J. J. Spengler, 19-- for a historical account). What is unique in the case of the Gulf countries is in linking the demand for migrants to an exhaustible resource base and the absence of a viable non-oil production base.

4. By a development oil economy, we do not mean low per capita income, since Kuwait has one of the highest in the World. Nor do we mean a low score on the UN Human Development Index (HDI), since most of the oil economies have high scores. We simply mean the lack of a viable non-oil non-rental productive output -- an indication of the viability of the economy in the absence of the exhaustible oil revenue. It is the stage in the transformation process from an oil-based to a non-oil based economy that defines the degree of development in the present paper.

5. By Isonomy we mean the certainty of the rule of law. For details see F. A. Hayek (1955) and for an application, see Sirageldin (1994).

6. For a discussion of these issues, see Sirageldin, L. “Islam, Society and Economic Policies,” in this volume. For a recent incisive review of the present state of economics, see Ormand, Paul (1994).

7. The emphasis on labor ratio and the support of high fertility has been reflected in the various official planning documents and parliamentary debates up to the present.

At present, the Government of Kuwait is preparing its next Development Plan. It prepared elaborate policy scenarios that include consistent sets of policy packages. One of the authors of the present paper, M. Khorshed is deeply involved in the preparation of these scenarios and responsible for the development of the Dynamic CGE Economy-Wide model underlying its analyses. We are constraint to provide an example outside that policy framework. The general conclusions of the paper are not affected, however.
REFERENCES


Fig. 1. Economic Structure in Transition

1. A. Advanced Industrial Economy

Production Base

- Savings
- Financial System
- Investment
- GNP
- Consumption
- National Income
- Consumption
- Resources
- Human
- Other Infrastructures
- Management/ Organization
- Distribution Entitlements
- Production Base
- Management Base
- Financial System
- Investment
- Budget (+/-)
- Monetary System
- Public Debt
- Government Spending
- Government Revenues
- Revenue from Productive Base
- Financial System
- Revenue
- Fiscal System
- Distribution Entitlements
- Distribution Entitlements
- Production Base
- Management/Control Base

1. B. The International Economy

New International Order

- International Trade
- Labor Markets
- Science & Technology
- Information Processing
- Int'l Money Market
- Imports
- Exports of Oil
- Investment Revenue
- Oil Revenue

1. C. A Developing Oil Economy
Table (1)
The Performance of Real GDP

<table>
<thead>
<tr>
<th>Socio-economic* Indicator</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil GDP</td>
<td>3312</td>
<td>3822</td>
<td>4246</td>
</tr>
<tr>
<td>Non Oil GDP</td>
<td>4176</td>
<td>4592</td>
<td>4535</td>
</tr>
<tr>
<td>Private</td>
<td>1698</td>
<td>1880</td>
<td>1783</td>
</tr>
<tr>
<td>Public</td>
<td>1229</td>
<td>1346</td>
<td>1281</td>
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<tr>
<td>Government</td>
<td>1243</td>
<td>1365</td>
<td>1471</td>
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<tr>
<td>GDP (Market Price)</td>
<td>7324</td>
<td>8414</td>
<td>8781</td>
</tr>
</tbody>
</table>

* KD Million

Table (2)
The Performance of the Current Account of the Balance of Payment

<table>
<thead>
<tr>
<th>Socio-economic* Indicator</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (FOB)</td>
<td>3110</td>
<td>4511</td>
<td>5416</td>
</tr>
<tr>
<td>Oil</td>
<td>2266</td>
<td>3202</td>
<td>3824</td>
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<tr>
<td>Non-Oil</td>
<td>745</td>
<td>1179</td>
<td>1415</td>
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<tr>
<td>. Imports (CIF)</td>
<td>3458</td>
<td>4193</td>
<td>5217</td>
</tr>
<tr>
<td>. Trade Balance</td>
<td>-348</td>
<td>318</td>
<td>198</td>
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<tr>
<td>. Net Factor Income</td>
<td>1193</td>
<td>1077</td>
<td>998</td>
</tr>
<tr>
<td>. Net Current Transfers</td>
<td>-474</td>
<td>-397</td>
<td>-363</td>
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<tr>
<td>. Current Account Surplus</td>
<td>375</td>
<td>997</td>
<td>833</td>
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* KD Million
Table (3)
Summary of Government Budget

<table>
<thead>
<tr>
<th>Socio-economic* Indicator</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
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<tr>
<td>Government Revenues</td>
<td>2696</td>
<td>3656</td>
<td>4133</td>
</tr>
<tr>
<td>(-) Share of FGF**</td>
<td>269</td>
<td>366</td>
<td>413</td>
</tr>
<tr>
<td>(-) Government Expenditure</td>
<td>4755</td>
<td>4684</td>
<td>4632</td>
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<tr>
<td>(=) Budget Balance</td>
<td>-2334</td>
<td>-1389</td>
<td>-913</td>
</tr>
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</table>

* KD Million
** Future Generation Fund

Table (4)
Some Per-Capita Indicators*

<table>
<thead>
<tr>
<th>Socio-economic Indicator</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
</tr>
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<tr>
<td>Per Capita Real GDP</td>
<td>3894</td>
<td>3842</td>
<td>3685</td>
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<tr>
<td>Per Capita Non-Oil GDP</td>
<td>2218</td>
<td>2156</td>
<td>1991</td>
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<tr>
<td>Per Capita GNP</td>
<td>4299</td>
<td>4008</td>
<td>3787</td>
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<tr>
<td>Per Capita Kuwaiti Income</td>
<td>3567</td>
<td>3239</td>
<td>3046</td>
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<tr>
<td>Per Capita Kuwaiti Consumption</td>
<td>2541</td>
<td>2378</td>
<td>2013</td>
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<tr>
<td>Per Kuwaiti Foreign Assets</td>
<td>18845</td>
<td>9088</td>
<td>4112</td>
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* Kuwaiti Dinars
<table>
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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Kuwaiti Population</strong></td>
<td>706</td>
<td>832</td>
<td>973</td>
</tr>
<tr>
<td><strong>Non-Kuwaiti Population</strong></td>
<td>1174</td>
<td>1298</td>
<td>1304</td>
</tr>
<tr>
<td><strong>Total Population</strong></td>
<td>1880</td>
<td>2310</td>
<td>4207</td>
</tr>
<tr>
<td><strong>Kuwaiti Population Share</strong></td>
<td>37.5</td>
<td>39.00</td>
<td>42.7</td>
</tr>
<tr>
<td><strong>Kuwaiti Labour</strong></td>
<td>173</td>
<td>210</td>
<td>252</td>
</tr>
<tr>
<td><strong>Non-Kuwaiti Labour</strong></td>
<td>818</td>
<td>878</td>
<td>850</td>
</tr>
<tr>
<td><strong>Total Labour Force</strong></td>
<td>991</td>
<td>1089</td>
<td>1102</td>
</tr>
<tr>
<td><strong>Kuwaiti Labour Share</strong></td>
<td>17.5</td>
<td>19.3</td>
<td>22.9</td>
</tr>
</tbody>
</table>

**Percentage Distribution of National Labour Force:**
- Government Labour: 76.8, 78.5, 79.3
- Public Sector Labour: 16.3, 16.0, 16.0
- Private Labour: 6.2, 4.7, 3.9
- Unemployed: 0.7, 0.76, 0.75

**Percentage Distribution of Foreign Labour Force:**
- Public Sector Labour: 23.5, 48.7, 57.3
- Private Sector Labour: 56.8, 31.8, 21.4

* Figures are rounded to one thousand person
Table (6)
The Impact of Taxation Scenario
(GDP Performance)

<table>
<thead>
<tr>
<th>Socio-economic* Indicator</th>
<th>Base Year 1995</th>
<th>Year 2005</th>
<th>Continuation Scenario</th>
<th>Taxation Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil GDP</td>
<td>3312</td>
<td>4246</td>
<td>4246</td>
<td></td>
</tr>
<tr>
<td>Non-Oil GDP</td>
<td>4170</td>
<td>4535</td>
<td>4358</td>
<td></td>
</tr>
<tr>
<td>- Private</td>
<td>1698</td>
<td>1783</td>
<td>1669</td>
<td></td>
</tr>
<tr>
<td>- Public</td>
<td>1229</td>
<td>1280</td>
<td>1218</td>
<td></td>
</tr>
<tr>
<td>- Government</td>
<td>1243</td>
<td>1471</td>
<td>1471</td>
<td></td>
</tr>
<tr>
<td>Aggregate GDP</td>
<td>7324</td>
<td>8781</td>
<td>8467</td>
<td></td>
</tr>
</tbody>
</table>

* KD Million

Table (7)
The Impact of Taxation Scenario
(The Balance of Payments)*

<table>
<thead>
<tr>
<th>Socio-economic Indicator</th>
<th>Base Year 1995</th>
<th>Year 2005</th>
<th>Continuation Scenario</th>
<th>Taxation Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>. Exports (FOB)</td>
<td>3110</td>
<td>5416</td>
<td>5361</td>
<td></td>
</tr>
<tr>
<td>- Oil</td>
<td>2266</td>
<td>3824</td>
<td>3850</td>
<td></td>
</tr>
<tr>
<td>- Non-Oil</td>
<td>745</td>
<td>1415</td>
<td>1334</td>
<td></td>
</tr>
<tr>
<td>. Imports (CIF)</td>
<td>3458</td>
<td>5217</td>
<td>4853</td>
<td></td>
</tr>
<tr>
<td>. Trade Balance</td>
<td>-348</td>
<td>198</td>
<td>508</td>
<td></td>
</tr>
<tr>
<td>. Net Factors Income</td>
<td>1193</td>
<td>998</td>
<td>1203</td>
<td></td>
</tr>
<tr>
<td>. Net Current Transfers</td>
<td>-474</td>
<td>-363</td>
<td>-351</td>
<td></td>
</tr>
<tr>
<td>. Current Surplus</td>
<td>375</td>
<td>833</td>
<td>1361</td>
<td></td>
</tr>
</tbody>
</table>

* Figures are rounded to one million
Table (8)
The Impact of the Taxation Scenario
(Summary of Government Budget)*

<table>
<thead>
<tr>
<th>Socio-economic Indicators</th>
<th>Base Year</th>
<th>Year 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
<td>Continuation Scenario</td>
</tr>
<tr>
<td>Revenues</td>
<td>2690</td>
<td>4133</td>
</tr>
<tr>
<td>(-) Share of FGF**</td>
<td>269</td>
<td>413</td>
</tr>
<tr>
<td>(-) Expenditure</td>
<td>4755</td>
<td>4632</td>
</tr>
<tr>
<td>(=) Budget Balance</td>
<td>-2334</td>
<td>-913</td>
</tr>
</tbody>
</table>

*Figures are rounded to one million
** Future Generation Fund

Table (9)
The Impact of the Taxation Scenario
(Per Capita Indicators)*

<table>
<thead>
<tr>
<th>Socio-economic Indicators</th>
<th>Base Year</th>
<th>Year 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
<td>Continuation Scenario</td>
</tr>
<tr>
<td>Per Capita Real GDP</td>
<td>3894</td>
<td>3685</td>
</tr>
<tr>
<td>Per Capita Non-Oil GDP</td>
<td>2218</td>
<td>1991</td>
</tr>
<tr>
<td>Per Capita GNP</td>
<td>4299</td>
<td>3787</td>
</tr>
<tr>
<td>Per Kuwaiti Income</td>
<td>3567</td>
<td>3046</td>
</tr>
<tr>
<td>Per Kuwaiti Consumption</td>
<td>2541</td>
<td>2013</td>
</tr>
<tr>
<td>Per Kuwaiti Foreign Assets</td>
<td>18845</td>
<td>4115</td>
</tr>
</tbody>
</table>

* In Kuwaiti Dinars
Table (10)
The Impact of the Taxation Scenario
(Population and Labour Force)

<table>
<thead>
<tr>
<th>Socio-economic Indicators</th>
<th>Base Year 1994</th>
<th>Year 2005 Continuation Scenario</th>
<th>Year 2005 Taxation Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>. Kuwaiti Population*</td>
<td>706</td>
<td>973</td>
<td>973</td>
</tr>
<tr>
<td>. Non-Kuwaiti Population</td>
<td>1174</td>
<td>1303</td>
<td>1244</td>
</tr>
<tr>
<td>. Total Population Size</td>
<td>1880</td>
<td>2277</td>
<td>2217</td>
</tr>
<tr>
<td>. Kuwaiti Share</td>
<td>37.5</td>
<td>42.7</td>
<td>43.9</td>
</tr>
<tr>
<td>Kuwaiti Labour*</td>
<td>173</td>
<td>252</td>
<td>252</td>
</tr>
<tr>
<td>Non-Kuwaiti Labour</td>
<td>818</td>
<td>850</td>
<td>811</td>
</tr>
<tr>
<td>Total Labour Force</td>
<td>919</td>
<td>1102</td>
<td>1062</td>
</tr>
<tr>
<td>. Kuwaiti Share</td>
<td>17.5</td>
<td>22.9</td>
<td>23.7</td>
</tr>
<tr>
<td><strong>Percentage Distribution</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of Kuwaiti Labour (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>_ Government Sector</td>
<td>77.2</td>
<td>79.3</td>
<td>79.3</td>
</tr>
<tr>
<td>_ Public Sector</td>
<td>16.2</td>
<td>16.00</td>
<td>16.00</td>
</tr>
<tr>
<td>_ Private Sector</td>
<td>6.1</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>_ Unemployed</td>
<td>0.5</td>
<td>0.75</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Percentage Distribution of</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Labour (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>_ Public Sector</td>
<td>23.5</td>
<td>57.3</td>
<td>58.4</td>
</tr>
<tr>
<td>_ Private Sector</td>
<td>56.8</td>
<td>21.4</td>
<td>19.3</td>
</tr>
<tr>
<td>_ Household Sector (-)</td>
<td>19.7</td>
<td>21.3</td>
<td>22.3</td>
</tr>
</tbody>
</table>

* Figures are rounded to one thousands
(·) Include public enterprises and government services.
(·) Foreign labour working in Kuwaiti household sector.