TRADE PERFORMANCE AND STRUCTURE PROFILES

Kuwait

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TABLE OF CONTENTS

TRADE PERFORMANCE AND STRUCTURE PROFILES: KUWAIT 3

I. Trends in Trade and Investment ................................................................. 3

II. Merchandise trade structure and indicators performance ......................... 6

   Exports ..................................................................................................... 6
   Imports .................................................................................................... 6
   Exported Products ................................................................................... 7
   Imported Products .................................................................................. 7

III. Trade Policy .............................................................................................. 16

TABLE OF FIGURES

Figure 1: Merchandise Exports and Imports, as a share of GDP ......................... 3
Figure 2: The share in world merchandise exports and imports .......................... 4
Figure 3: Kuwait’s Services Trade, 1995-2017, as a share of GDP ......................... 5
Figure 4: Net FDI inflows and outflows, 1996-2017, percent of GDP ..................... 5
Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016 ........................................................ ........................................ 6
Figure 6: Top products exported and imported, 2016 (as a share of exports and imports) ........................................................................................................ 7
Figure 7: Trade Intensity Index ....................................................................... 8
Figure 8: Trade Complementarity Index ............................................................ 8
Figure 9: Hirschman-Herfindahl Index (bilateral export portfolio diversification) ........ 9
Figure 10: Export Diversification Index ........................................................... 10
Figure 11: Export Sophistication ..................................................................... 10
Figure 12: Export Market Penetration Index .................................................... 11
Figure 13: Export Similarity Index .................................................................. 11
Figure 14: Hummels-Klenow intensive and extensive margins (product) .......... 12
Figure 15: Hummels-Klenow intensive and extensive margins (market) ............. 13
Figure 16: Intra-industry Trade Index ............................................................. 14
Figure 17: The composition of the change in bilateral merchandise exports between 2000 and 2016 along intensive and extensive margins ........................................ 14
Figure 18: MFN and applied tariff rates for all products, simple and weighted means ...... 16
Figure 19: Services Trade Restrictiveness Index, 2010 ........................................ 16
TRADE PERFORMANCE AND STRUCTURE PROFILES: KUWAIT

Kuwait’s performance in trade and attracting foreign direct investment over the past two decades have been weak. Kuwait’s merchandise exports, expressed as a share of GDP, have closely tracked developments in oil prices and its merchandise imports have been mostly steady in the 2000s and early 2010s and appear to have plateaued at a slightly higher level since 2015. Kuwait’s services trade, measured as a share of GDP, has been rather volatile over the past two decades, in part driven by fluctuations in oil prices and its impact on GDP. Net FDI inflows have been negligible, with the notable exception of the five-year period starting in 2008. Net FDI outflows, however, have been rather large and sustained since the mid-2000s. Traditional destinations for Kuwait’s exports have mainly been PAFTA and ASEAN+++ countries. PAFTA and sub-Saharan African countries hold relatively favorable prospects for Kuwait’s exports, which show limited extent of diversification and sophistication.

I. Trends in Trade and Investment

Figure 1: Merchandise Exports and Imports, as a share of GDP

Kuwait’s merchandise exports have fluctuated considerably over the past two decades, closely tracking movements in oil prices. For instance, the sharp decline in the GDP share of exports since 2014 coincide with a large drop in oil prices in the same period. Merchandise imports on the other hand appear more stable or slow-moving than merchandise exports.
After a surge between 2000 and 2006, Kuwait's share in world export has gone down steadily and is slightly higher than the level attained in 2000. Kuwait's world import share, after having increased steadily, albeit somewhat weakly, in the 2000s, has surged since 2010.
Kuwait’s services trade, as a share of GDP, has been rather volatile over the past two decades, in part driven by fluctuation in oil prices and its impact on GDP. Kuwait’s services trade, as a share of GDP, had halved between 1998 and 2013, but as of 2016, has regained the level reached in 1998.

Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).
Net FDI inflows into Kuwait are generally low but sustained relatively high levels over the five-year period following the global financial crisis of 2008. Net FDI outflows on the other hand have been much larger in magnitude and negative net FDI outflows, reflecting the dominance of disinvestment of the residents of Kuwait of their assets abroad, were the norm in the late 1990s, up until 2004. Since 2004, Kuwait has recorded substantial net FDI outflows.

II. Merchandise trade structure and indicators performance

This section assesses the trade performance and structure of Kuwait, employing a range of indicators and indices created using highly disaggregated product-level data.

Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016

Based on COMTRADE data, which rely on data declared by countries and might miss partner-level detail, PAFTA has been the top partner for the exports of Kuwait and its share has increased substantially since 2000. ASEAN+++ follows PAFTA as the second most important destination for Kuwait’s exports.

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2 This appears to case with Kuwait, for which a large share of its merchandise exports is not assigned to an identified partner in COMTRADE data.
Mineral fuels, oils and their distillation products has by far been the most important product group in Kuwait’s merchandise exports, though its share has moderated somewhat in 2016. Kuwait’s merchandise imports have been distributed fairly evenly across different products. Nuclear reactors, boilers, machinery and mechanical appliances, vehicles and vehicle parts, and electrical machinery and equipment have been notable products with high import shares.
The trade intensity index captures whether the value of trade between a reporter and partner is greater or smaller than would be expected on the basis of their importance in world trade. Kuwait traditionally traded more intensively with PAFTA countries, though even with PAFTA, Kuwait’s trade is not particularly intensive. As of 2016, Kuwait’s trade is in line with what PAFTA’s world trade share implies.
The trade complementarity index captures how well the structures of a country’s exports and its partner’s imports match, showing the extent of prospects for further exchange. The index takes on the value zero when no goods are exported by one country or imported by the other and 1 when the export and import shares exactly match.

The index for Kuwait attains relatively higher values with PAFTA, followed by sub-Saharan African countries.

Figure 9: Hirschman-Herfindahl Index (bilateral export portfolio diversification)

Kuwait appears to have diversified its export portfolio vis-à-vis most of its partners, with the notable exception of Latin American countries, as measured by the Hirschman-Herfindahl Index. The diversification of Kuwait’s export portfolio vis-à-vis ASEAN, EU and PAFTA countries and Turkey is marked. The Hirschman-Herfindahl Index captures how diversified a bilateral export portfolio is.

A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one product would attain the value of unity (least diversified).
The Export Diversification Index measures whether a country is highly dependent on relatively few products or its export portfolio is diversified. The lower the index, the less concentrated are a country’s exports. As measured by this index, Kuwait’s exports have become less diversified since 2000, despite small gains in the second half of 2000s.
Kuwait has managed to specialize in more sophisticated products over the past decade and has climbed by some ten spots in global rankings as of late, albeit from a rather low global rank.

Figure 12: Export Market Penetration Index

![Export Market Penetration Index](image)

*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*

Kuwait’s penetration into export markets had deteriorated significantly in the 2000s, before slightly improving in the first half of the 2010s, as measured by the Export Market Penetration index. The index is essentially the share of the actual number of export relationships (at the country-product level) forged by the country in question in the maximum possible number of export relationships it can form given its exports.

Figure 13: Export Similarity Index

![Export Similarity Index](image)

*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*
The export similarity index captures the extent to which two entities in question are competitors in a common market. The index value of zero suggests that there is no competition between the two countries and of one that they are perfect competitors. Based on the export similarity index, Kuwait’s main competitors in world markets are PAFTA countries.

![Hummels-Klenow intensive and extensive margins in products](image)

Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

It is interesting to explore whether Kuwait exports larger quantities or a greater variety of goods. To measure the first, the Hummels-Klenow intensive margin in products could be employed, which essentially captures the share of Kuwait’s exports in the world exports of products that Kuwait exports. This index has almost doubled between 2000 and 2016 and reached around 0.07 per cent as of 2016, after a sharp increase in the first half of the 2000s and an increase in the first half of the 2010s offsetting a decline in the second half of 2000s.

Kuwait also experienced a rather sizable decline in the share of the products Kuwait exports in total world exports of all goods, also referred to as the Hummels-Klenow extensive margin in products and gives an indication of how comprehensive the set of goods a country exports is.
It is also of great interest is to see as to whether Kuwait exports larger amounts to its existing trade partners or expands into new markets. As a measure of the former, Kuwait’s share in the total world exports to only those countries that Kuwait exports to, also referred to as the Hummels-Klenow intensive margin in markets, had gone up significantly in the second half of the 2000s but since has declined steadily.

Kuwait has managed to increase, particularly in the first half of the 2010s, its share in the world exports to only those countries that Kuwait exports to in total world exports of all goods, referred to as the Hummels-Klenow extensive margin in markets and captures the extent of expansion into new export markets.

Source: ESCWA calculations based on COMTRADE data (accessed October 2018).
The intra-industry trade index measures the extent to which products that belong to the same industry were being traded between two countries, ranging between 0 and 1 and with values close to 1 corresponding to a high level of intra industry trade. Kuwait has engaged in intra-industry trade primarily with PAFTA countries.

Source: ESCWA calculations based on COMTRADE data (accessed October 2018).
Notes: The abbreviations and the list of the countries included in each group are as follows. The Association of Southeast Asian Nations (ASEAN) is created using Indonesia, Malaysia, Philippines, Thailand, and Vietnam, not including Brunei, Cambodia, Laos, Myanmar, and Singapore. [to be completed]

Between 2000 and 2016, only very limited share of the change in the exports of Kuwait has come from expanding into new products and/or markets. This share is around 60% for the United Arab Emirates and Bahrain, and 25% for Viet Nam. Across different destinations, the EU, ASEAN++, and sub-Saharan Africa stand out as the destination to which new products have a relatively high share in Kuwait’s exports. Latin American and EU countries have been dynamic markets for Kuwait’s exports, with high value shares of new markets.

NAFTA members are relatively stagnant export markets for Kuwait, with a relatively low value share of new products or markets.
III. Trade Policy

Figure 18: MFN and applied tariff rates for all products, simple and weighted means

Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Little change has been recorded by Kuwait since 2002 on tariff protection, possibly on account of already low MFN and applied rates.

Figure 19: Services Trade Restrictiveness Index, 2010

Source: Borchert, Gootiiz and Mattoo (2014).
Policies and regulations on Kuwait’s services trade are somewhat restrictive, more stringent than the world and Arab averages. In particular, telecommunications services and retail trade appear to have substantially more restrictive policies and regulations in place, as compared to the world and Arab region averages.

END NOTE

Kuwait’s weak trade and investment performance in the past two decades appears to have been driven by its failure to diversify its export portfolio and to specialize in more sophisticated products, and restrictive services trade policies and regulations in place. Addressing this performance gap requires a broad and comprehensive policy response, including but not limited to undertaking reforms in the services sector and identifying and following up with opportunities to transform Kuwait’s economy structurally.