

The diversification of Kuwait



Kuwait is the second wealthiest state in the region. Its economy is primarily oil-oriented, representing more than six percent of the world oil reserves. **Ezzat Ellaz**, consultant at **Hodema consulting services**, explains

Kuwait's oil

On the economic level, Kuwait benefited from its enviable situation for many years until it decided in 2010 to stop relying heavily on oil, which still accounts for nearly half of the GDP, 95 percent of export revenues and 95 percent of government income. A development scheme plans to spend up to USD 130 billion over five years to support new industries, attract more investment and boost private sector participation in the economy. Another development plan has also been agreed for the period 2015 – 2020. The reason is that public spending is rising so fast that the country could run out of future savings from oil in a few years. However, the future still looks bright for now: a fiscal surplus equivalent to 27 percent of GDP was recorded in 2013, and another equal to around 29 percent of GDP is planned for 2014. The country's savings abroad also amount to more than USD 200,000 per capita. But Kuwait wants to secure its future as the world starts fearing the day when oil resources run dry. Around 10 percent of its oil revenues are deposited into a "future generations' fund" which is worth more than USD 65 billion.

Kuwait accounts for 102 billion barrels of proven oil reserves and 1,600 producing oil wells. In 2013, oil production amounted to 157 million tons. Moreover, the country is planning to build two olefins plants as part of a USD 270 billion project to be completed over the next 20 years. Oil capacity is expected to reach 4 billion barrels per day, by 2020.

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Kuwait has also 1.8 trillion cubic meters of natural gas reserves. In 2013, production of natural gas was 13.5 million tons of oil equivalent. Vast discoveries of non-associated gas in the north of the country have attracted interest from international companies.

A diversification plan

As a strategy to diversify Kuwait's economy away from its almost complete dependence on oil revenues and state subsidies, much effort is dedicated to support the service industry. The country welcomes foreign investors and workforce: 93 percent of the employees working in the private sector are non-Kuwaitis. A law recently forced companies to save 30 percent of positions for locals. Now nearly 70 percent of working Kuwaitis are employed by the government.

Larger infrastructures to become a regional hub

The upcoming development plan for 2015-2020 aims to turn the country into a trade and financial hub and strengthen its oil and natural gas productions. The development plan involves 82 major projects, five public shareholding businesses and 10 build-operate-transfer (BOT) based enterprises. The main infrastructures will be developed and modernized, such as the expansion of the sewage network; a power generation project, enlargement of the Mubarak Al Kabeer Port on Boubiyan Island and ambitious metro and rail projects linking six states within the GCC. A new terminal is also being built at Kuwait International Airport, which should be completed by September 2016 for an estimated cost of USD 3.2 billion. It will accommodate 13 million passengers, with a potential to increase to 25 million, and, eventually, accommodate 50 million passengers. The development of the city Jaber al Ahmad is also a major project. Located 25 km west of Kuwait City, it will cover an area of 1,200 hectares and house around 80,000 people, hosting universities, technical colleges, hospitals and a major commercial center. The project should be completed by 2015, and its cost is estimated at USD 1.4 billion.

One million tourists by 2015

Within this ambitious development plan, the government has set new targets for the

tourism industry with a five-year tourism development plan that began in 2011. It aims at welcoming one million tourists annually by 2015. According to The World Travel and Tourism Council, tourists' arrival is expected to reach 485,000 by 2023. The boost in transportation infrastructures – with a budget of USD 13 billion – should be a major drive to attract a larger crowd of visitors. The Kuwait Touristic Enterprises Company is also launching a number of tourism, entertainment and sports projects estimated at USD 460 million. Since 2011, leisure spending accounts for 60 percent of the market. However, according to the GCC Hospitality Industry Report published by Alpen Capital in 2013, Kuwait still remains in lower end of the spectrum, as in the GCC region it reaches 70 percent of tourism spending.

The main touristic project is the development of the marina on Failaka Island. Already a





avored destination for tourists, the island will be dotted with new cultural and leisure facilities such as hotels, parks, a shopping area and food & beverage establishments. The project plans to preserve and promote the island's heritage and archeological sites to turn it into a key touristic destination.

The country's hotel industry is also booming, with 10,000 upcoming new rooms expected by 2015, and a large focus placed on the luxury sector. Intercontinental Hotels Group (IHG) – the largest hotel operator in Kuwait with four properties – plans to launch four additional projects. Millennium and Copthorne recently signed a deal to manage the new 307-room Millennium Hotel and Convention Centre in Kuwait City.

Kuwait municipality is also involved in a series of luxury hotel projects, among which The Fair Ground, Al Salam Palace and Sabah Al Salem

University planned, in partnership with the private sector.

Buzzing F&B market

The F&B sector is also doing well. Kuwaitis spend over USD 2.4 billion annually in restaurants, and 15 percent of the population eats out every day, and about a hundred restaurants open locally every year. This trend should last with the new housing projects that will create new neighborhoods, the rising income of the population and the expected larger number of tourists.

The F&B market is dominated by major international key players such as Americana and Al Shaya. The country is also favored by international franchises. To add to its highly developed F&B portfolio, US-based chain Mooyah Burgers, Fries & Shakes opened its first outlet in Kuwait in April 2014. The

Canadian pancake chain Crepe Delicious also launched its first outlet, with eight further eateries planned.

The popularity of eateries amongst the Kuwaiti population has also triggered the trend of social networking around restaurants. Many online platforms enable food enthusiasts to check out and review F&B outlets and rate their service and menus, and submit suggestions. This buzz around restaurants and cafes is contributing to the dynamism of the sector, which should prove successful in the next few years.

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