



Oil and development: The case of Kuwait

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Abstract

This paper aims to answer the question of: is oil as a natural resource with all the wealth that it brings an economic burden? And how can resource curse be mitigated in such oil dependent nations? The case of Kuwait will be used as an example. The paper begins with an introduction of the resource curse and the Kuwaiti economy in general. Then there is an attempt to see that does the curse exist in the case for Kuwait. Furthermore, in the analysis section, an exploration on how the economy is dependent on oil and how oil is more of a burden if there is mismanagement is conducted. Later on, in answering on how to mitigate the problem of a resource curse, the case of Norway is explored. In concluding the paper, the results do show that oil rentals affects the Kuwaiti economy via 2 main channels, these are government spending that are mainly financed via oil rentals and exportation of oil based products. The surprising result was that government spending had a negative impact on GDP (gross domestic product) growth when oil rentals were instrumented on government expenditure, this is due to the issue of rent seeking in which government spending in Kuwait is financing things such as stimulus packages and raising the nominal wages. Yet, when comparing the magnitude of both oil exportation and government spending, the latter has a stronger effect on the GDP (gross domestic product) growth than the former.

A resource curse doesn't seem to exist in the case of Kuwait however, the characteristics of a curse do show in the form of rent seeking in the political sphere, the disruption of the traditional sectors like that of pearl trade and fishing markets. Yet, a curse doesn't show due to the fact that the currency of the nation is very stable and hasn't experienced any appreciation because of the fixed exchange rate system. Moreover, even if we can't say that a curse exists, it is clear to see that the Kuwaiti economy is heading towards one. Whether or not it faces a resource curse will be based on how judicious the nation will be in exploiting their sovereign wealth fund and implementing diversification strategies to be less oil dependent like the vision "New Kuwait-2035" which has been underway since 2017.

Keywords: Development, Resource curse, GDP growth, exchange rate, oil price