

The International Experience in Private Sector Development: Lessons for Kuwait

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Abstract

The State of Kuwait is a small rich oil-based economy characterized by dominance of the large public sector in major economic activities. Such imbalanced structure has limited the role of the private sector in economic activities and has adversely affected economic growth. Based on the review of international experience in private sector development, this paper aimed to substantiate the impact of both private and public sectors growth on economic performance. Analysis of Kuwait's public expenditures verified the public sector dependency on oil revenues and inefficient utilization of resources. The theoretical review revealed a positive direct relationship between high GDP growth rate and the increased role of the private sector in the economy. Moreover, the review of recent transitional economies experiences in constructive economic transformation can be considered as an evidence of a rapid effective private sector growth. Finally, the analysis also demonstrated that Kuwait's public sector expenditures depict a rent seeking behaviour that has negatively impacted the society welfare.

Keywords

Private Sector Development, Public Sector, Economic Growth, Transitional Economies, Rent Seeking, Kuwait

1. Introduction

Kuwait is a small rich economy with abundance in crude oil that is entirely owned by the state. The economy depends heavily on oil exports with an estimated GDP of US\$ 166.5 bn in 2011. Oil revenues accounted for 65% of GDP, 95% of exports, and 94% of government income, CSB [1]. The government of Kuwait in its efforts to share the oil wealth with its citizens has adopted an extensive welfare-oriented approach toward development. The development of Kuwait has overwhelmingly depended on public policies geared toward heavy government spending. Escalating government expenditures have resulted in high standards of living and one of the highest

per capita in the world estimated at \$48,900 in 2011, CSB [1]. Accordingly, such public policies have led to the dependence on the government for the provision of employment and most social services (e.g., education, healthcare, housing, electricity and water). Such dependence has created prolonged structural imbalances that include among others: dominance of public sector over the private sector; heavy dependence of national income, public budget, and aggregate exports on oil revenues; and dichotomy in the labor market with high concentrations of the national labor in the public sector and soaring concentrations of expatriate labor in the private sector.

More importantly these policies have adversely limited the role and the contribution of the private sector in economic activities. This fact has detrimental impact on the sustainability of long-term economic growth. Over the period 2002-2011, the share of the private sector in GDP has averaged around 31.5%, CSB [1]. This small share indicates the limited role of the private sector in Kuwait's economy. It is a fact that the private sector controls the majority of the non-oil activities. However, the contribution of most of these activities to the GDP and non-oil GDP may be said to be minimal, except for the two main activities of transport, storage and communications; and finance, insurance, real estate and business services.

In response to these structural imbalances and pressures on the public budget, and in order to energize the role of the private sector companies in economic activities, the government of Kuwait embarked on a privatization plan. The most important step in Kuwait's privatization initiative was the declaration of the law 37/2010 for regulating the privatization program and operations. Subsequently, the Supreme Council for Privatization (SCP) was established in May 2012 by the Amiri Decree 106/2012 for the purpose of executing and implementing the law. In April 2013, the government has passed the law 98/2013 for the purpose of establishing a national fund for the development of small and medium companies. Prior to that, the law 10/2007 was passed for the protection of competition in Kuwait. While the initiation of these laws is a positive step in private sector development, the government is very slow in establishing the administrative and operational structure of these organizations. Moreover, by reviewing the theoretical background for the role of the public sector in economic development, this paper intends to emphasize the importance of the reducing the public sector size in the Kuwaiti economy.

The main argument to be raised in this regard: will the growth and the expansion of the private sector have a positive impact on the economy in terms of long-run output and employment? In other words, to overcome the public sector inefficient utilization of resources, the government should reduce its share in economic activities in favour for a more vibrant role of the private sector. This paper intends to address this issue by substantiating the impact of both private and public sectors role on economic growth, based on evidence from the theoretical review and the experience of transitional economies in private sector development. The paper will proceed in the following structure. Section 2 highlights the role of Kuwait's government expenditures in the economy by analyzing the components of public finance. Section 3 reviews the theoretical relation between public/private sectors development and economic growth. Section 4 will shed the light on the concept of transitional economies. Section 5 analyzes the experiences of transitional economies in private sector development. Section 6 discusses the issue of public sector role in deepening rent seeking behaviour in Kuwait. Finally, recommendations and lessons for Kuwait are summarized in Section 7.

2. Kuwait's Public Finance

Kuwait's economy is characterized by the dominance of the public sector and heavy dependence on oil exports both in terms of the generated value added and revenues. Due to soaring oil revenues in 2011, total nominal GDP grew substantially by 32.9% from US\$ 125.3 bn in 2010 to US\$ 166.5 bn in 2011. Kuwait's oil and nonoil GDP accounted for 59.9% and 40.1% of total nominal GDP in 2011, respectively. **Table 1** presents the main components of public budget for the last four fiscal years FY 2009/2010 - FY 2012/2013. Government Spending in FY 2012/2013 reached a historical high level at US\$ 68.3 bn, around 74.1% increase from the FY 2009/2010 budget of US\$ 39.2 bn (around 18.5 % growth rate per annum). The massive rise in spending was forced by the hikes in salaries, grants, and transfer payments. Total government revenues were estimated at US\$ 113.3 bn, with oil income constituting 93.6% of total revenues.

More importantly, the primary budget surplus peaked at US\$ 44.9 bn in 2012. In fact, the last 13 public budgets have all posted surpluses in public budgets. Expenditures in Kuwait's public budget are classified into five chapters (categories). For FY 2012/2013, the expenditures were as follows, salaries US\$ 17.1 bn—commodities and services US\$ 12.9 bn—transports, machinery and equipment US\$ 0.5 bn—construction, maintenance and public acquisitions US\$ 5.9 bn—miscellaneous expenditures and transferable payments US\$ 31.9 bn. Expendi-

Table 1. Kuwait public budgets for (FY 2009/2010-2012/2013).

Value in Billion US Dollar				
Description	2009/2010	2010/2011	2011/2012	2012/2013
Expenditures	39.24	58.76	60.75	68.33
Salaries	11.14	12.40	14.66	17.10
Commodities and Services	7.58	10.11	9.86	12.88
Transport, Machinery and Equipment	0.79	0.55	0.52	0.56
Const., Main. and Public Acquisitions	3.77	6.11	5.90	5.85
Miscellaneous Exp. and Transfer Payments	15.96	29.58	29.81	31.94
Revenue	61.70	77.89	108.00	113.27
Oil Income	57.85	72.26	102.05	106.06
Nonoil Income	3.85	5.63	5.95	7.22
Primary Surplus/(Deficit)	22.45	19.13	47.25	44.95
Reserve for Future Generations	6.17	7.79	10.80	28.32
Final Surplus/(Deficit)	16.28	11.34	36.45	16.63

Source: Ministry of Finance, General Accounting Affairs Guidance & System Department, State of Kuwait, 2009-2010, 2010-2011, 2011-2012, 2012-2013.

tures on chapters one and five, *i.e.*, salaries and miscellaneous expenditures (subsidies for electric and water, health, education) constituted around 72% of total public spending. In contrast, the high spending on wages and subsidies overshadows spending on capital investment and developmental projects. *i.e.*, investments on construction projects and maintenance constituted only 9.3% of the total expenditures.

While one can look favorably at the surpluses of Kuwait's public budget, trade balance, current account balance, and absence of public debt; the fact that the budget revenues are heavily dependent on oil income emphasizes its high sensitivity to fluctuation in oil prices. Hence, sustaining a balanced budget in the absence of other sources of income (no tax income) requires high oil prices at all times. The dependency on oil revenues also raises the concern on the future strains that these expenditures will have on the public budget in the light of government lack of efforts to diversify its sources of income. Moreover, it should be emphasized that expenditures on capital formation has lagged behind over the years. Within the context of previous underinvestment, it is necessary that capital spending increases considerably in order to energize the private sector role in the economy. Hertog (2102) has shown that members of the Gulf Cooperation Council (GCC), including Kuwait, were successful in the creation of many efficient State Owned Enterprises (SOEs) within the public sector. These SOEs adhere, to an extent, to some good corporate governance. While one can view these SOEs as a positive effort within the bureaucratic public sector in the state of Kuwait. The government of Kuwait should energize the role of the private sector in the economy by reducing its role, which include privatization of some of these SOEs.

3. The Role of Public and Private Sectors in Economic Growth

In the pursuit of reviewing the international experience on private sector development (PSD), it should be noted that economic theory does not address the issue of PSD per se. However, microeconomic theories have developed in reference to market competition and equilibrium (perfect competition-monopoly-oligopoly). Economic theories focused on how firms in different markets can utilize resources efficiently (capital and labor) in the production of goods and services at lower costs, and the role of prices, wages, and other economic variable in determining equilibrium between demand and supply. Economic theory postulates that efficiency in allocating resources and production can lead to economic growth regardless of the nature of the firm, Hall and Papell [2]. It is also a fact that most of the capitalistic economies adopt the principles of "*free market*", where production of most goods and services lies within the private firms. The right of private ownership of resources and production

is a fundamental concept in capitalistic markets. The role of the public sector in most developed economies is limited to the principles of supervision, regulations, and management of the overall economy. The role of the government is not extended to compete in production with private firms. This is related to the basic assumption that the private firms are more efficient and competitive than public entities; also, to the fundamental fact that the private firm cannot compete against a public entity that simultaneously owns both the resources and the regulatory power (such as the case in Kuwait).

A study conducted by the World Bank [3] indicated that the private sector plays an important role in promoting economic development and growth, in addition to reducing poverty. It contributes directly to enhancing the quality and the standards of living, and achieves integration with the public sector by providing the products and services needed by the society. Dabbah [4] indicated that the allocation of many activities to the private sector reduces the burden of providing such services by the public sector. In turn, the public sector can focus on regulating, supervising, and monitoring these activities through appropriate public policies. Furthermore, the allocation of economic activities to the private sector could foster a competitive business environment that could increase quality and/or reduce cost of the output (products and services). It could also create an enabling environment that might attract foreign investment leading to more competitiveness and gradual removal of monopolistic practices. In a nutshell, reducing the role of public sector in economic activities could minimize inefficient public spending and enhance allocation of resources.

There are limited studies on the impact of private sector development on growth. This is probably due to the fact that in most developed economies the share of the private sector in GDP does not vary to a great extent. Bennett [5] examined the effects of PSD on economic performance, using a panel data on 26 transition economies for the period (1991-2003). The methodology was aimed at examining the effect of growth in factor inputs (capital market and private sector development) on GDP growth. The econometric results revealed that private sector development enhances growth, and it was found that the elasticity of the private sector share on economic growth was around 0.18 percentage point. In other words, a one percent increase in the share of the private sector in GDP would increase the growth rate by 0.18 percentage points.

On the contrary, there is an extensive theoretical and applied literature regarding the relationship between the size of the public sector (share of government expenditure in GDP) and the rate of economic growth. Historically, governments in developed economies have played an important role in achieving high level of economic growth. Most elected governments in developed economies have aspired to regulate the economy properly, implement the laws, and protect property rights. Their efforts to a certain degree have resulted in high level of economic development. On the other hand, the international experience shows that economies controlled entirely by governments (public sector) have witnessed relatively low level of economic growth. This is due to the fact that most economic decisions are controlled entirely by governments with the absence of the private sector interest, Mavrov [6]. This argument leads to this important question, *i.e.*, what is the appropriate size of the public sector that insures optimal economic growth?

Empirical literature has addressed this issue with conflicting results. Ram [7], among others, indicated that economic growth can be stimulated by large government size. On the other hand, Barro [8] and many others contradicted the aforesaid assumption and indicated that as the size of government increases, in the relative term, it reduces the growth of per capita income, Bairam [9]; Grossman [10]. Therefore, these contrasting findings showed that large government size can affect economic growth both positively and negatively. However, Husnain [11] pointed out that within these mixed findings, a consensus emerges that up to a certain level, government activities can stimulate growth, but beyond this level, the size of government may reduce economic growth. Husnain's findings regarding the optimal size of government in Pakistan were among the few studies within the developing countries. The study attempted to determine the optimal size of government in Pakistan using Scully model [12] for the period 1975-2008. The econometric analysis revealed that government size is optimized when public expenditures reach 21.5% of GDP. The estimated threshold size is lower than the current size of government in Pakistan. However, the difference between current and optimal size is very small. The author suggested that enhancing efficiency of public sector expenditures is more important than large fiscal adjustments to improve level of economic growth.

Barro [13] presented an endogenous growth framework that allows government expenditure to increase economic growth through the provision of public services that can be used as an input to private sector production. However, he noted that government expenditure crowds out more productive private investment, and hence, can affect the growth rate negatively in the long run. Barro demonstrated that the growth rate has an inverted U

shape with respect to the size of government expenditure as share of GDP. The U shape indicates that the growth rates increase initially with the rise in share of government expenditure in GDP and then decline. Within this growth framework, Barro [8] addressed the issue of the optimal share of public sector in the economy by examining the public share of 98 countries. He identified a significant inverse relationship between the share of public sector in GDP and GDP growth. He concluded that the average share of public sector in these economies was around 20%. He assumed that this rate is relatively high and indicated that growth rate would increase if public expenditures were to be reduced. Within this context, both Barro and Husnain findings emphasize the fact that the 20% average public share in GDP is extremely low in relation to Kuwait's high public sector share (70% of GDP).

4. Private Sector Development in Transitional Economies

Based on the aforementioned introduction and in order to evaluate the international experience in expanding the role of the private sector, a good starting point is to review the experience of the transitional economies that have taken major strides in moving away from publicly controlled economies toward dynamic role of the private sector. A transitional economy is an economy which adopts combined mechanisms of liberalization, macroeconomic stabilization, privatization, and legal and institutional reform in order to transform itself from a centrally planned economy to a free market. Falke [14] showed that the elements for the transition process to a free market include among many, allowing market forces to set prices rather than a central planning organization, removal of trade barriers, the need to privatize state-owned businesses and resources, and the creation of a financial sector to accommodate the requirements of private capital. The transitional process has been implemented to a varying degree in China, the former Soviet Union and Communist bloc countries of Europe, and in many third world countries. In a wider sense, the definition of transition economy refers to all countries which attempt to change their basic constitutional elements towards market-style fundamentals. This includes heavily regulated Asian-style economies, post-dictatorship Latin American and underdeveloped African countries.

In essence, the transition process can be viewed as the functional restructuring of the role of public entities from being a provider to a regulator and an enabler, with emphasis on the private sector as an engine of growth. The existence of private property rights may be the most basic element of a market economy, and therefore implementation of these rights is the key indicator of transition process, IMF [15]. The European Bank for Reconstruction and Development (EBRD) [16], developed a set of indicators to measure the progress in transition. The main elements of the transition process can be summarized in the following:

- 1) Liberalization: the process of allowing most prices to be determined in free markets and lowering trade barriers that distort the world market price structure.
- 2) Macroeconomic stabilization: aiming to control and lower the expected rise in inflation that resulting from liberalization and the release of restricted demand. This process requires discipline over the government budget and the growth of money and credit (*i.e.* fiscal and monetary policy) and advancement toward sustainable balance of payments.
- 3) Restructuring and privatization: the creation of a viable financial sector and reforming public enterprises to enhance their capabilities of producing competitive goods and transferring the public ownership to the private sector.
- 4) Legal and institutional reforms: redefining the role of the state in these economies from being a provider to a regulator by establishing the rule of law and introducing appropriate competition policies.

5. The Experience of Transitional Economies

This section analyzes the private sector development process of the transitional economies as an evidence of extremely speedy and effective private sector growth. **Table 2** presents the share and average growth rate of private sector in GDP for countries classified as transitional economies according to the EBRD reports for the period 1991-2010. The results in the table indicate clearly that the private sector had increased its share in the GDP to substantial levels in all the listed countries by 2010. The average share of the private sector (output) in GDP increased from 20% in 1991 to 67% in 2010. Detailed examination of the results revealed that at the initial stages of the transition process, the average private sector share in GDP during the 1990s almost tripled from 20% in 1991 to 58% in 2000. The average private sector's share grew modestly during the last decade to 67% in 2010. It can also be seen that 23 out of the 30 countries listed in the table reached an outstanding 67% and more pri-

Table 2. Share and average growth rate of the private sector in GDP for transitional economies.

Countries	Private Sector Share of GDP					Average Growth Rate			
	1991	1995	2000	2005	2010	(1991-1995)	(1996-2000)	(2001-2005)	(2006-2010)
Albania	24	60	75	75	75	53	8	7	6
Armenia	N.A	45	60	75	75	70	9	13	5
Azerbaijan	N.A	25	45	60	75	120	11	17	16
Belarus	7	15	20	25	30	191	77	27	14
Bosnia and Herzegovina	N.A	N.A	35	55	60	N.A	17	8	6
Bulgaria	17	50	70	75	75	37	54	9	6
Croatia	25	40	60	60	70	113	7	7	3
Czech Republic	17	70	80	80	N.A	13	5	5	4
Estonia	18	65	75	80	80	63	11	9	2
FYR Macedonia	N.A	40	55	65	70	12	6	4	7
Georgia	27	30	60	65	75	-35	9	11	7
Hungary	33	60	80	80	80	17	13	7	2
Kazakhstan	12	25	60	65	65	175	12	17	12
Kyrgyzstan	N.A	40	60	75	75	103	21	6	12
Latvia	N.A	55	65	70	70	56	8	11	2
Lithuania	15	65	70	75	75	83	7	8	2
Moldova	N.A	30	50	60	65	N.A	14	14	7
Mongolia	N.A	N.A	N.A	N.A	75	70	9	15	13
Montenegro	N.A	N.A	N.A	N.A	65	-12	-27	7	7
Poland	45	60	70	75	75	28	11	5	6
Romania	24	45	60	70	70	70	40	18	8
Russia	10	55	70	65	65	139	26	18	11
Serbia and Mont	N.A	N.A	N.A	55	60	N.A	30	16	9
Slovak Republic	N.A	60	75	80	80	12	-61	8	4
Slovenia	16	50	55	65	70	39	9	7	3
Tajikistan	N.A	25	40	50	55	125	35	21	18
Turkey	N.A	N.A	N.A	N.A	70	50	48	20	6
Turkmenistan	N.A	15	25	25	25	73	24	19	-152
Ukraine	8	45	60	65	60	-34	15	15	13
Uzbekistan	N.A	30	45	45	45	32	35	23	18
Average Growth Rate	20	44	58	64	67	62	16	12	3

Source: The European Bank for Reconstruction and Development (EBRD) Transition Report (1991, 1995, 2000, 2005, 2010), The European Bank for Reconstruction and Development.

vate share in GDP in 2010. The rapid growth of the private sector in the 1990s coincided with the transfer of assets from the public sector to the private sector. This could be attributed to the aggressive privatization policies

adopted by these economies along with removal of constraints that inhibited private sector development. Once the average private sector share approaches around 60% of GDP, the increment in the share depicts a less dynamic pattern.

The question to be raised in this regard is whether there was any positive impact of increasing the private sector share in these countries on the overall economy. Examination of the GDP average growth rate over the four sub periods listed in **Table 2** indicated clearly that GDP grew at a very high rate as these economies shifted toward more private sector share in the economy. The average GDP growth rate in the first sub period (1991-1995) was the highest at 62% per annum. Even though the average growth rate declined in the following sub periods (1996-2000) and (2001-2005), it was still high at 16% and 12%, respectively. Finally, as the transitional economies moved toward an average of 67% private sector share in the GDP in the fourth sub period (2006-2010), the average GDP growth rate declined to an acceptable moderate rate of 3%. The results seemed to verify the positive direct relationship between GDP growth and a more active role of private sector in the economy. Moreover, the early years of transition witnessed a notable rise in the number of firms, a fundamental shift in the size distribution toward smaller enterprises and the creation of a service sector, largely comprising of numerous small enterprises, Brixiova and Kiyotaki [17].

Private Sector Development in UAE and China

To emphasize the notion of private sector development, this section reviews the experience of United Arab Emirates (UAE) and Republic of China in promoting the role of the private sector. The experience of the UAE, as a regional Gulf country, in diversifying sources of income is very important and suitable to Kuwait future development. The UAE is a prime success case in its ability to diversify sources of income and lessen dependency on oil. This was achieved by effective attraction of foreign investment and increase of the investments opportunities for the private sector in all economic sectors, in particular, the financial, real estate and services sectors. By adopting and implementing aggressive development plans and strategies that focus on PSD, the share of nonoil GDP in total GDP had increased from 46.8% in 2005 to 56.2% in 2010. Considering also that the GDP had increased by more than one third from US\$ 180.6 bil in 2005 to US\$ 297.6 bil in 2010, it could be verified that UAE has maintained high growth during this period while increasing the share of nonoil activities in the economy. The importance of strategic development plans and PSD can be seen in the case of The Emirate of Dubai, where the previous Strategic Development Plan (SDP) for the period 2000-2010 was aimed at to increase GDP to US\$ 30 Billion by 2010. However, due to effective implementation of the plan, Dubai achieved that objective in 2005 (five years prior to the target date). During the plan period, the share of oil revenues in the Emirate government total revenues had declined from 52% in 2000 to 24% in 2008. The recent SDP was formulated around five main guiding principles, including economic development which focuses on the unique partnership between the public and private sector and the ability to adopt free market economy principles to enhance innovation and initiatives, Financial Division [18].

Economic reform in China has resulted in unprecedented economic expansion since 1978, and paved the way for China to become the second largest economy by 2010. According to Kanamori and Zhao [19] the economic reform plan can be categorized into two main components; the development of necessary regulatory laws and policies, and the formation of China economic model. First, in 1987 “The Provisional Act of Private Enterprise of People Republic of China (PRC)” was formed. This law legitimized for the first time the existence of a private enterprise to be fully protected under the PRC law. Second, the development of the Chinese Model based on economic and the political reform. The economic aspect adopted an open door policy, which allows the foreign investors under the provisional act full ownership with no conditional requirements for local partners. The foreign ownership facilitated the transfer of capital, technology, and managerial skills into China and enabled the investors to capitalize on the country domestic resources. This process induced a positive spell over China’s private sector. During the economic growth process, China engaged with global markets by competing with the best manufactures and service providers, leading to the development of modern China today.

On the other hand, the political part was handled by the ruling party who have full control over the government, courts, laws, and flow of information. Callick [20] stated that the combination between China’s model and the mass population, gave the country a manufacturing competitive advantage in terms of cheap labour and low production costs. All of the aforementioned elements have contributed in increasing the GDP from \$356 billion US in the 1990 to \$5926 billion US in 2010, with an average growth rate of 10% per annum, Zheng and Yang

[21]. Moreover, the economic growth is significantly related to private sector expansion in China. Chandrashekar [22] showed that since the induction of “The Provisional Act of Private Enterprise of PRC”, 80% of the state owned enterprises and entities were privatized, leading to an increase of the private sector share in the GDP from almost zero contribution in 1990 to 50% and 65% share by 1998 and 2005 respectively.

6. The Rent Seeking Behavior and Large Public Sector in Kuwait

The rationale behind the argument that economic growth would be reduced as the size of government (share in GDP) increases can be justified and attributed to political factors, Scully [23]. In most political systems, elected governments try to benefit their constituencies by providing opportunities for them (jobs/business contracts) within the public sector. The behaviour of the government and its constituencies is a classical rent-seeking problem. In economics, rent-seeking is defined as an attempt to obtain economic rent by exploiting the social or political environment in which economic activities occur, rather than by increasing the social welfare, or creating new wealth. The spending of money by a political lobbyist in order to be given a share of wealth that has already been created is an example of rent-seeking behavior. A famous example of rent-seeking is the effort to gain various monopoly privileges due to government regulation of free enterprise competition. Tullock [24] indicated that since resources are expended but no new wealth is created, the net effect of rent-seeking is to reduce the sum of social wealth. The origin of the term refers to the gaining control of land or other pre-existing natural resources. Therefore, while profit-seeking implies the creation of wealth, rent-seeking implies the use of the power of the state or government to distribute wealth between different groups of individuals.

In most cases, the expansion of the public sector could affect the economy negatively. In the case of the State of Kuwait (a political systems with nonelected government), the ruling government uses its ownership of resources to satisfy its constituencies through three main mechanisms:

- **Continuous Employment of Kuwaitis in the Public Sector:** The government justifies its employment process as part of its responsibilities according to the Kuwaiti constitution, which states that government is responsible to provide jobs for all Kuwaiti. Article 41 in the 1960 Kuwaiti constitution implies that “Each Kuwaiti has the right to work in a suitable job, and the State has to insure equal provision of jobs to all Kuwaitis”. In 2010, around 280,088 Kuwaitis were employed in the public sector representing around 76.6% of the total public sector labor force. The heavy employment of Kuwaitis exerts pressure on the public budget with no apparent value addition, leading to what is known as “disguised unemployment”. However, the social justification of using public resources for employing nationals in unproductive jobs does not prevent the process of being classified as a rent-seeking phenomenon. In other words, the addition of more Kuwaitis to the public sector will not increase the society’s level of wealth.
- **Lucrative Governmental Posts:** The rent-seeking behavior becomes more apparent when it comes to high paid managerial and governmental posts, where different interest and political groups lobby the government to maintain their share in these lucrative positions that carries vast benefits. Hence, the escalating inefficiency can be attributed to the fact that public sector resources are not allocated and utilized based on productivity criteria.
- **Procurement of Business Contracts:** Due to the large size of the public sector in Kuwait, public spending dominates private spending, particularly in capital formation and investment. The fact that the private sector has limited role in economic activities induces it to increase its profitability by targeting a share in the heavy government spending schemes, mainly through the public sector procurement program. If the process of obtaining a governmental contract is not based on transparent efficient criteria, then the behaviour of the firm can be categorized as rent-seeking. For example, if a specific local firm obtains a lucrative governmental contract, and subsequently it sub-contracts it to another firm, then this firm has maximized its interest and increased its profit without adding to the without adding to the society’s level of wealth.

7. Conclusions and Recommendations

To summarize, Kuwait’s public policies toward increased government spending and employment of nationals in the public sector, have negatively affected the business environment of the private sector. Enlarging the public sector work force has created unnecessary layers for unproductive labor. This would eventually result in the creation of many rules and procedures that have no economic value. The excessive rules and regulations would create hurdles and obstacles to the private sector and unconstructively affect its efficiency and profitability.

Hence, the growth of the public sector in Kuwait has and will continue to undermine the performance of the private sector. This will deepen the structural imbalances leading to the apparent long-run deterioration of the economy.

This paper has reviewed and analyzed the theoretical relation between public and private sectors shares in the economy and economic growth. The analysis revealed a positive direct relationship between high GDP growth rate and the increased role of the private sector in the economy. The reviews of international experience in PSD have also shown that many transitional and developing economies have adopted a combination of privatization, FDI, SMEs, and overall improvement in business environment measures, in order to increase the role of the private sector and achieve high economic growth. The experience of transitional economies can be considered as an evidence of a rapid effective private sector growth.

Based on the analysis of large public sector in Kuwait, theoretical affirmation of the negative impact of large public sector, and the recent transitional economies experiences in constructive economic transformation, the paper proposes the following recommendations for Kuwait in order to progress the economy in the right direction: it is very significant and crucial that Kuwait should be implementing, as rapidly as it reasonably can, the regulatory and business environment improvements, which will enable an environment that is conducive to promote effective large scale private sector engagement in economic activities. Such improvements will create better conditions for all new businesses starting up in the country, as well as for the existing ones; and it will also facilitate higher volumes of investment, both by existing firms, government agencies and publicly owned firms. In order to energize the role of the private sector in economic activities, the government of Kuwait should accelerate the implementation of newly established privatization program. Privatization is an important economic/political tool to rectify economic imbalances of a large public sector, and to speed economic growth through a vibrant private sector. Kuwait should also be taking action to adopt and implement the policies and regulatory changes to facilitate and promote FDI. Both privatization and FDI tend to be accompanied by significant benefits for the domestic economy in terms of management expertise, access to markets and market networks; innovation and new technology, knowledge of modern business methods, skills development and training programmes.

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