

Diversifying Investments in Gulf Countries to Mitigate Financial Risks from Oil Price Volatility: A Case of Kuwait

Noora F. Alibrahim (corresponding author)

Department of Insurance and Banking, College of Business Studies

The Public Authority for Applied Education and Training, Kuwait

E-mail: nf.alibrahim@paaet.edu.kw

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Abstract

The Kuwaiti economy has been highly susceptible to shocks in the global oil prices because of its heavy reliance on oil revenues, which challenges its sustainability financially. This paper explores the importance of economic diversification as a way of addressing these challenges by referring to Kuwait Vision 2035 and its diversification goals. Through an analysis of current economic dependencies, sectoral performance, and global trends, the study identifies the inefficiencies of existing diversification strategies, comparing Kuwait's progress with other Gulf Cooperation Council (GCC) countries. Key findings reveal that the slow implementation of reforms and regulatory barriers have hindered Kuwait's ability to transition toward a more diversified economic base, leaving it exposed to fiscal instability. The study underscores the urgent need to explore emerging industries such as technology, tourism, and renewable energy to build a resilient economy. Recommendations include policy reform, investment in human capital, fostering public-private partnerships, prioritizing sustainable industries, and implementing a robust monitoring framework for diversification strategies. These measures aim to create an enabling environment for entrepreneurship, innovation, and long-term growth. By adopting these strategies, Kuwait can reduce its dependency on oil revenues, enhance economic stability, and align with global sustainability goals. This paper concludes by emphasizing that proactive diversification is imperative for securing Kuwait's financial future and improving the quality of life for its citizens in a rapidly evolving global economic landscape.

Keywords: Economic Diversification, Oil Price Volatility, Kuwait Vision 2035, Sustainable Industries, Public-Private Partnerships, Financial Stability, Global Economic Trends

1. Introduction

The Kuwait and other countries of the Gulf Cooperation Council (GCC) have traditionally based their economic model on the receipts from the sales of oil. Fluctuations in the price of oil in the global markets has since rendered these economies more vulnerable to such financial risks and through policymaking, the economies have since endeavoured to look for ways of diversifying on the risks. While the world today is working towards a new energy mix those charges toward renewables and sustainability, the reliance on oil comes with economic, strategic and developmental issues. For Kuwait, a country that depends on oil as its major source of export, the issue of diversifying the country's investment portfolio is even more important. It is stated that Kuwait needs to diversify investments to minimise the risk expired with fluctuating oil prices. With regards to this study, the analyses of the current state of economy of Kuwait, the impacts of instability of oil prices and the possible opportunities for diversification of investments will help in a more informed understanding of how Kuwait can better ensure a sustainable economy.

1.1 Background

Kuwait like other GCC countries has for many years relied on oil exports as the main economic hub and strength. Since the discovery of oil in the early part of the century there has been relative economic growth thus the improvement in physical structures and facilities such as schools and hospitals. However, the resultant prosperity has been significantly achieved at the expense of the state's economic diversity. This makes Kuwait considerably sensitive to the fluctuations of the international market price of oil since it remains the foremost source of government's income. Previous volatility in the price of oil has been found to have long-term effects on the financial situation of the country, balance of payment and budgetary deficits, social expenditure cuts and cyclical instability of the economy. It has also limited the diversification of other industries such as manufacturing, tourism and Technology, which should provide strong pillars for any economy. In response to the challenges above, the Kuwaiti government has come to understand the necessity of diversifying the economy and has implemented several strategies and policies geared towards the diversification of the Kuwaiti economy to diminishing the nations' reliance on oil. Some of these efforts include Kuwait Vision 2035, focusing on the diversification of revenue sources such as the diversification of revenue sources, FDI promotion and private sector development. Nevertheless the efficiency of these efforts heavily depends on its management, funding, and outlook on the potential issues appearing due to global changes in the economic system.

1.2 Problem Statement

Fluctuations in the international market prices of oil are a major threat to the economic stability and development of Kuwait. Although attempts have been made over the years to diversify the economy, the government's main source of income comes from oil and hence the country is very vulnerable to the volatile oil market. The decline in the oil prices in the recent past has put emphasis on this problem since it has affected the budgets, spending, and

resulted in using sovereign wealth funds to overcome fiscal deficits. This problem is further worsened for the reason that the world's energy matrix is ever evolving and shifting away from fossil fuel dependency and towards the use of renewable energy sources. This shift is strategic for the long term as it threatens oil-relying economies, such as Kuwait, because of a decreased demand for fossil fuel in the next several decades.

1.3 Research Aim and Objectives

The aim of this research is to analyze the effectiveness of investment diversification strategies in mitigating financial risks from oil price volatility in Kuwait. This paper will analyse the contemporary Kuwait economy, analyze the effects of oil price volatility on Kuwait's economy, and analyze the prospects of economic diversification in Kuwait.

The objectives of this research are as follows:

- To measure the degree of Kuwait's revenue dependence on oil revenue as well as the prospective financial risks involved.
- To analyze the impact of global oil price volatility on Kuwait's economy, with a focus on recent trends.
- To evaluate the effectiveness of current investment diversification strategies in reducing Kuwait's financial dependence on oil.
- To identify potential sectors and investment opportunities that could contribute to Kuwait's economic diversification.
- To provide policy recommendations for enhancing investment diversification in Kuwait to achieve greater economic stability and sustainability.

1.4 Research Questions

This research seeks to answer the following research questions:

- What is the current level of dependence of Kuwait's economy on oil revenues?
- How has global oil price volatility affected Kuwait's economic stability in recent years?
- What investment diversification strategies have been implemented by Kuwait, and how effective have they been in reducing financial risks?
- Which sectors present the most viable opportunities for diversification in Kuwait's economy?
- What policy measures can be adopted to enhance the effectiveness of investment diversification in mitigating financial risks from oil price volatility in Kuwait?

1.5 Significance

The value of this study is the fact that it seeks to add to the current literature on the topic of economic diversification in oil-reliant countries and especially in the context of the GCC. As

such, this research work is seen as a country-level analysis of Kuwait's economy for the purpose of informing more effective policymaking among those who may have an interest in the economics of oil exporting countries. The results of this research could be used to improve understanding of existing and future investment diversification policies, enhancing Kuwait's capacity to mitigate the impacts of oil price instability and fostering better economic stability. Furthermore, this work can be useful to other countries of the GCC that also experience similar problems and may potentially become a guide for further actions in terms of adequately preparing for crises and investing in the long-term economic sustainability. In a larger perspective, this research highlights the need to account for the transition to renewable sources of energy and the impacts occurring within the oil-reliant economies. Thus, by discussing different investment opportunities and examining how they can strengthen the economies of Kuwait and other GCC countries in terms of diversification, this research seeks to shed light on the best strategies for overcoming the new challenges facing the global energy industry.

2. Literature Review

Due to the massive oil resources in the GCC countries especially Kuwait, the economies of these countries have been transformed. These economies have benefited greatly from oil, but they are more vulnerable to fluctuations in the price of oil. Literature on economic diversification in oil-exporting countries explain the prospects and constraints of the process of the shift from heavy dependence on a single product. This literature review looks at the following literature: investment diversification as a model, fluctuations in oil prices and their implications on economic stability from the result of diversification exercises done in the context of the GCC and Kuwait. Through reviewing those areas, it is intended to inform the reader of the nature of the considerations that have driven Kuwait toward economic diversification, and the paths toward the creation of a more sustainable economy.

2.1 Economic Dependence on Oil in GCC Countries

The countries of the GCC including Kuwait have always had their economy depend mostly on the export of oil. This has destined these nations' economic, social and political systems with oil revenues having become core funding for the governing budgets, social services and development. Alqahtani & Klein, (2021) and Bollino & Galkin, (2021) state that the GCC economies are the epitome of rentier states, wherein the state's income is obtained solely from the rent of the local resources to the international consumers. This has resulted to the state holding most of the economic wealth, and very little diversification into other sectors. As pointed out by Antwi-Boateng & Al Jaber, (2022), although oil has been the key imperative to the increased growth and development of the GCC countries, it has had reliability pitfalls. This has made these economies over-dependent and very vulnerable to changes in external events such as the changes in international prices of oil. Kuwait has the largest dependence for this variable as it accounts for about 90% of the government's revenue. Concerning that, the literature underlines that this kind of dependence is not only about economy but also social and political points in terms of government's spending, employment, and social stability.

2.2 Impact of Oil Price Volatility on Economic Stability

Fluctuations in global oil prices have remained a persistent issue in economies that heavily rely on oil. As stated by Khalfaoui, Sarwar, & Tiwari, (2019) and Bigerna, Bollino, & Polinori, (2021), studies reveal that oil price changes significantly affect the economy especially if its exports depend on oil. For instance, the economy of Kuwait has been greatly dominated by oil revenues meaning that the nation's economy has been volatile when it comes to the global oil market. Literature review has indicated that other negative effects of low oil prices include decrease in government revenues, budget deficits and reduction of public expenditure as revealed by AlKhoury & Aroui, (2019). Such effects are further exacerbated by the fact that some GCC countries, including Kuwait, have relatively higher breakeven oil prices, which means they need higher oil prices in order to balance their budgets. It also examines the longer-term consequences of oil price fluctuation, such as economic growth slowdown, rising debts, and social conflict.

This shows that oil price volatility is not only a macro level phenomenon since it has trickle-down effects at the sector and firm levels. Alqahtani, Klein, & Khalid, (2019) note that activities by the construction and real estate companies essential in the governmental spending are sensitive to the oil price changes. This makes it imperative that the economy is diversified in a bid to avoid the effects of fluctuating oil prices on the stability of the economy.

2.3 The Role of Sovereign Wealth Funds in Economic Diversification

Sovereign Wealth Funds (SWFs) have been discussed in the literature as imperatives to economic diversification in oil-based economy. The Kuwaiti SWF is the Kuwait Investment Authority (KIA), which is one of the oldest and largest SWFs in existence. As highlighted by Naifar, Shahzad & Hammoudeh, (2020), SWFs act as the key steward of the oil wealth and oversees the investment in a variety of assets to ensure that they can fund the long-term requirements of the economy. Studies on SWFs have indicated that these funds can effectively reduce the risks of oil price fluctuation through balancing during low oil price episodes as well as on account of the enhanced investment income from diversified investment portfolios. However, the ability of SWFs in enhancing the diversification of the economy depends on the strategies of investments and the structure of governance. Based on literature made Aloui & Hamida, (2021) and Al-Fayoumi, Bouri, & Abuzayed, (2023), an integrated idea reiterates that transparency be upheld and accountability enhanced besides an optimum strategic asset allocation so as to afford maximum contribution to economic diversification through the SWFs.

In terms of Kuwait, the KIA has vast investments overseas in equities, properties, and infrastructure. However, there have been some critics in the literature that argue that these investments despite encouraging the moderation of the risk associated with the fluctuating oil prices have not really encouraged the process of diversification of the domestic economy in Kuwait. Thus, it becomes apparent that there is a need for a more comprehensive strategy when it comes to diversification of Kuwait's economy that will include not only financial

investments but the growth of other sectors besides the oil industry.

2.4 Investment Diversification Strategies in the GCC

Analyses for investment diversification are important for improving the sustainability of oil-based economic structures and success across the regions. Other academic works on diversification strategies of the GCC countries include the work done by El-Chaarani, (2019) And Matallah, (2020), for which has been noted in the literature that the countries have developed some strategies as a way of trying to break the traditional method of remitting their revenues through oil exports. Some of these strategies are the diversification of the economy into sectors like finance, tourism, building human capital, infrastructure, and technology. In Kuwait, there are various policies targeting the country's diversification of the economy, including the Kuwait Vision 2035 that seeks to establish it as a financial and trading centre. According to Mansour, Hamdi, Majdoub & Slimane (2020), more details about these initiative and their risks and prospects are discussed below. However, using the literature indicators of the state of the non-oil sectors, much more needs to be done to reduce the structural constraints such as the over reliance on the public sector, inadequate human capital and the need for exploiting sectors through policy reforms.

Foreign direct investment (FDI) is another factor that has a place in diversity of investment when it comes to strategic asset. Elsayed, Nasreen, & Tiwari, (2020) and Bentour & Fund (2021) point out that FDI can become a strong factor towards promoting economic diversification in the GCC region by providing capital and technology know how. However, the literature also indicates that FDI depends on the host country's business environment, which includes political stability, the ease of doing business, and the legal framework. In Kuwait, attempts to attract FDI have had some positive and negative effects, and more efforts are required to enhance the country's FDI attractiveness.

2.5 Challenges to Economic Diversification in Kuwait

Kuwait has several challenges that it encounters in the process of diversifying its economy despite the realization that it is important in the current global economy. The literature raises several structural, institutional and cultural factors that have limited diversification undertakings. For instance, Bugshan, (2021) and Almaskati, (2022), show how the overwhelming control of the Kuwaiti economy by the public sector has limited the growth of the private sector and creativity. The public sector clearly offers a large pool of employment along with providing social welfare hence the dependence on it. The fourth challenge is the skill-deficient human capital that weakens the support to non-oil industries. According to Wang & Luo (2020) and Küçük (2024), the education system fails to provide the right kind of skills which is required by the private sector. This skills mismatch has limited the growth of sectors like technology, finance, and manufacturing that are key in diversifying the economy.

There are also political factors that constrain the diversification of the economy. Research by Elsayed et al. (2024), Downing et al. (2024), and Bacha (2024) indicate that Kuwait, as a rentier state, does not easily adopt to changes that may weaken the authority of the state over the economy. This includes opposition to privatisation, labour market flexibility and the cuts

in subsidies as all these are crucial in the creation of a competitive and mixed structure of demand.

2.6 Pathways to Successful Economic Diversification

As highlighted above, literature provides the following suggestions that might prove useful in the face of the various challenges affecting Kuwait's economic diversification efforts. Another suggestion is to provide structural changes that may influence the economy to shift from being heavily dependent on the public sector to develop private sectors. From Mezghani & Boujelbène-Abbes, (2023) and Elsayed, Naifar, Uddin, & Wang, (2023), it was noticed that there is a need to build a competitive business environment, as well as strengthening the governance and the regulatory environments as a way of encouraging investments. Another way of approaching diversification is through the cultivation of human capital. A review of literature has also revealed that education and training is a critical success factor in talent development to foster innovation and development of products in sectors other than oil and gas. Bugshan, Bakry, & Li, (2023) & Banerjee, Majumdar, & Mohammed, (2023) post that education expenditures are necessary to establish the human capital required to support the drive for diversification for STEM fields.

In the final sections of the literature, the focus is placed on the necessity of regional and international support to diversification strategies. For instance, a study by Hajjiyev, Abdullayeva & Abdullayeva (2024) and Alqahtani & Klein (2021) point towards enhancing integration of the GCC countries in terms of economic cooperation, partnerships with international organisations and investors is needed to avail the required resources and organisational capacities for a diverse economy. This includes capital investments in infrastructure and technologies and efficiency in energy sources such as in renewables to shift the economy away from oil.

2.7 Literature Gap

Despite the extensive body of work that already exists in examining the issues and approaches to managing economic diversification in oil-reliant states with emphasis on the GCC states, the following limitations can be identified. First, there is little prior literature on socio-political and economic characteristics of Kuwait that can be applied to the literature on diversification attempts. Many of the studies tend to apply results at the GCC level, not taking into consideration the unique features in the economic systems, management systems and cultural factors that may affect diversification in Kuwait. Second, while there are extensive studies focusing on effects of SWFs and FDI policies on economic diversification and development within the Kuwaiti economy, the evaluation of efficiency, growth and prospects of such strategies for the development of Kuwait sectors and the promotion of emerging and vital domains like technology and renewable energy is deficient. Further, the effect of international trends to transition towards renewables on Kuwait's diversification plans is still under analysed. These gaps need to be filled to get better understanding of the process of diversification in Kuwait to avoid overdependence on oil in the future.

2.8 Summary

The existing literature on economic diversification in oil dependent countries including the GCC and Kuwait can help in understanding the prospects and constraints of diversification efforts. Although there have been some small achievements towards diversification of the Kuwaiti economy, challenges that are still apparent are structural impediments, public sector dominance and yet again political and economic liberalization. On this basis, the literature indicates that diversification must adopt different strategies such as structural changes, investment on human capital, and regional and international cooperation.

3. Research Methodology

This chapter outlines the methodological framework adopted for this study, including the research design, approach, data collection, data analysis, and limitations. A secondary research methodology is chosen to provide a holistic analysis of Kuwait's oil dependence and effectiveness in diversification strategies in the case of risk factors related to oil price volatility.

3.1 Research Design

A qualitative research design is used in this study which uses secondary data from case studies and other literature on Kuwait's economy and the Gulf Cooperation Council (GCC) countries. The use of secondary data is essential as it provides relevant historical insights about the dynamics of the economy in Kuwait and the other GCC countries (Habu, 2023). Secondary data allows a broad perspective on the impacts of oil price volatility already existing diversification initiatives and the trends over time without the logistical complexities of collecting the primary data.

This qualitative approach allows the exploration of relationships, themes and patterns that already exist on research, policy reports and economic analyses. This study advances the argument by leveraging secondary sources, which provide a rich body of data on the successes and shortcomings of diversification efforts in Kuwait (Delios, 2023). This research design is well designed to answer the questions of the country's economic strategies and the possibility of its oil price resilience through synthesizing findings from case studies and expert analyses.

3.2 Research Approach

The inductive approach employed in this study is fit for exploring the specific and dynamic context of Kuwait's economic dependence on oil, as well as the feasibility of diversification. The study then adopts this approach by refraining from imposing pre-existing hypotheses and instead collects data from specific cases, policies, and literature on Kuwait's economy to identify emergent themes. Through investigating these themes, the research conceptualizes the broader economic implications and how oil price volatility and the transition to sustainable energy could affect Kuwait ((Habu, 2023). The advantage of this method in exploratory studies is that we do not yet expect to find the results, only new patterns and frameworks.

The inductive approach allows for flexibility in the handling of the data and is needed to understand what particular factors play into Kuwait's economic diversification. The study employs secondary data sources such as policy documents, historical economic data and therefore its focus changes with every analysis that results from these findings. This facilitates a nuanced understanding of Kuwait's economic structure, including theoretical application of rentier state theory, a perspective on the socio-political dependencies on oil revenues and economic dependency theories framing structural vulnerabilities. The study grounds these theories in the specific case of Kuwait and provides important insights into how to overcome the challenges of attaining a more resilient and diversified economy (Sundqvist, 2024).

3.3 Data Collection

This study's data collection strategy relies solely on secondary sources drawn from myriad case studies and literature regarding Kuwait's reliance on oil, the Gulf Cooperation Council (GCC) strategies for diversification, and specific policy analyses. The sources are peer-reviewed articles from journals, government reports, international organizations such as the International Monetary Fund (IMF) and the World Bank, and case studies looking at the impact of diversification initiatives within other GCC countries like Saudi Arabia and the UAE (Nayar, 2024). The secondary data give a wide range of historical and contemporary attempts at mitigating the economic risks of oil dependency, particularly in Kuwait. The financial landscape and effectiveness of the economies from these sources with regard to fostering non-oil sectors are assessed to provide a robust understanding of the influence of external factors (such as oil price fluctuations and global energy trends) on economic policy and fiscal stability. This approach presents an evidence-based informed view on the challenges and potential strategies for Kuwait's economic diversification for the future.

The selected case studies examine the efforts of GCC countries, such as Saudi Arabia and UAE, that also pursued similar diversification initiatives to provide the basis for comparative insights on Kuwait's progress. They are relevant because these cases reveal the difficulties and advances in seeking diversification. It is essential to analyze these cases to provide context-specific recommendations (Nasri, 2023). The theoretical basis of this study is found on one side in the literature on economic dependence, rentier state theory, and diversification strategies. These include regional studies of the GCC and global research on economic diversification efforts in resource-dependent economies. These works provide a framework to review the paths and hurdles faced in finding a sustainable path to economic development in the era of oil dependency.

3.4 Data Analysis

This study uses thematic analysis as the primary data analysis technique. The approach of this qualitative method is based on identifying, analyzing, and reporting patterns or themes of collected secondary data on oil dependence and diversification efforts (Saliya, 2023). This study is particularly well suited to thematic analysis as it is flexible for qualitative data analysis and helps extract meaningful themes from various data sources such as policy

reports and economic literature.

Thematic analysis is performed in several stages:

1. **Familiarization with the Data:** First, the case studies and literature are reviewed extensively to identify recurring themes of oil dependence, economic stability and diversification strategies.
2. **Coding:** These key phrases, concepts and arguments are labeled, forming the basis on which the data can be analyzed.
3. **Identifying Themes:** The study identifies core themes such as economic vulnerability, policy effectiveness, potential sectors for diversification and challenges encountered in executing diversification.
4. **Reviewing and Defining Themes:** Themes are refined and interpreted in light of Kuwait's unique situation, and used to analyze how the current policies respond to the risks of oil price volatility.

This study adopts thematic analysis to understand underlying causes of Kuwait's economic dependency and assess the impact of potential measures to diversify the economy, and from this, provide basis for policy recommendations.

3.5 Limitations of the Study

This paper based solely on secondary data, has some limitations that limit its scope and depth. The reliance on existing literature limits the study to what has already been produced thus limiting the study to information generated before the introduction of the new policy as a result of which the study may not reflect swift policy changes or shifts in Kuwait's economic structure. Secondary data may introduce biases stemming from the subjective or planned views of the original authors, consequently hindering the study's objectivity and comprehensiveness (Nayar, 2024). Moreover, the research is restrained in the extent to which it can capture the current sentiments and viewpoints of key stakeholders, including policymakers, business leaders and the public about diversification initiatives, without primary data collection methods like surveys or interviews. A lack of firsthand input may limit the depth of understanding of contemporary challenges and diversity (in my opinion) about diversification (Habu, 2023). Additionally, while insights gained from the findings are relevant to Kuwait's economic structure and strategies, given Kuwait's unique context in the Gulf Cooperation Council (GCC) region, the applicability of results may be limited to other countries, particularly non-oil producing countries or those with different economic arrangements (Nasri, 2023). Furthermore, thematic analysis is a strong qualitative approach, thematic and inherently subjective in possibly serving as the interpretation of the data of what is in patterns in that data and can vary between analysts. Meticulous identification of themes and a lengthy review process are also needed for thematic analysis, yet a process that can be objectively biased by interpretative variations. However, this methodology still allows us to delve in detail into Kuwait's oil dependency and diversification strategies presented by Delios (2023). This research employs case studies and thematic analysis to offer valuable insights to

help Kuwait decrease its dependence on oil and ensure long-term stability in the dynamic context of the global energy transition.

4. Data Presentation and Findings

This chapter investigates Kuwait's economic dependence on oil and the potential for economic diversification through secondary data. Key trends are illustrated through graphs and charts, illustrating Kuwait's revenue dependency, oil price volatility impacts and opportunities.

4.1 Kuwait's Dependency on Oil Revenue

The economy of Kuwait is highly dependent on oil, with almost 90 percent of government revenues generated from this source. Fig. 1 shows that oil revenue and non-oil revenue in Kuwait have been starkly different over a decade, illustrating the huge impact that oil has played in shaping Kuwait's financial structure. The data reveals a consistent trend where oil revenue is far greater than non-oil income and in any year oil was more than 80 percent of total government income. For example, in 2021 oil revenue made up approximately 88% of government income and non-oil revenue just 12%.

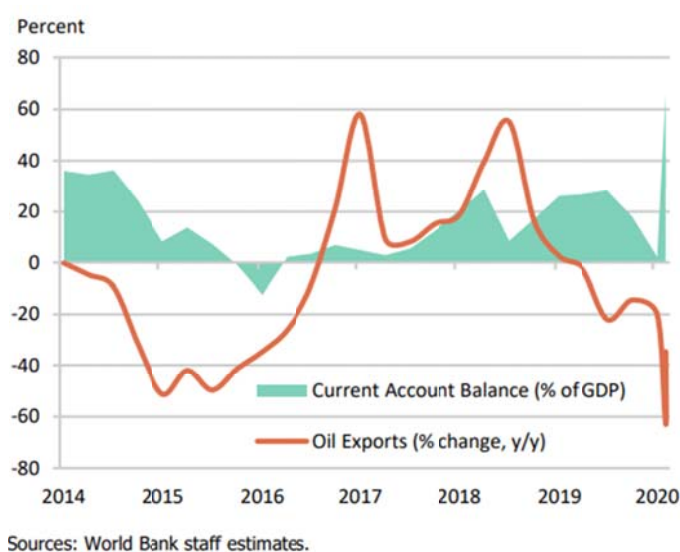


Figure 1. Kuwait's Revenue Composition by Sector - Oil

Kuwait is deep in oil as over 90 percent of government revenues come from oil and its economic framework is nearly defined by this dependence. The reliance underlines the country's dependency on global oil prices, which can swing from good to bad through oil price fluctuations. Kuwait remains highly exposed to external shocks, primarily through any decline in oil prices, because this directly impacts public spending. Such financial burden complicates fiscal planning and taxes the government to cut back on essential social services and infrastructure development, which obstructs overall economic activity. The gap between oil revenue and non-oil revenue is large. Kuwait urgently needs to diversify its revenue source to safeguard itself from the risk of volatility in oil prices. Through increased

investment in sectors, such as tourism, manufacturing, and technology, Kuwait can create a more balanced and less vulnerable to external shocks economy. The goal of these strategic diversification efforts is not only to stabilize the country’s financial position but also to promote long-term sustainable economic growth. Overall, Kuwait must address this critical revenue imbalance to protect its economic future and bolster overall fiscal resilience by creating a more secure, prosperous economic environment for its citizens.

4.2 Impact of Oil Price Volatility on Economic Stability

Kuwait’s GDP growth is very influenced by global oil price fluctuations. Figure 2 shows how Kuwait’s GDP growth has been sensitive to variations in oil prices over the past decade, which is an example of the correlation between global oil expenditures and Kuwait's GDP growth. This illustrates the importance of economic diversification to counteract such vulnerabilities.

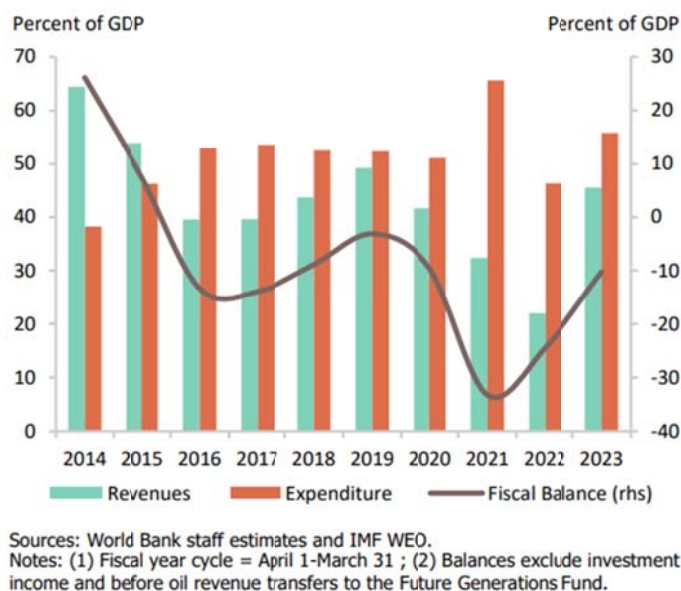


Figure 2. Global expenditure vs. Kuwait GDP Growth Rate

Data shows that there is a direct relationship between economic growth in Kuwait and increasing oil prices, with rising oil prices in turn commonly leading to GDP growth. However, when oil prices decline, GDP contractions have been significant, indicating that the economy is sensitive to global market conditions. For instance, when oil prices tumbled, the GDP growth rate also fell sharply in 2023, which indicates that oil price volatility can negatively affect the stability of an economy. The volatility also impacts the government’s revenue and planning of public expenditure, making the economic environment complex and unstable, thus impeding long-term economic development-initiated projects. In addition, recent oil price recovery trends following the pandemic present opportunities and challenges. At the same time higher oil prices can provide additional government revenue and spur economic growth, the continued reliance on oil revenue is a primary concern of policymakers. Given this, Kuwaiti leaders must carefully appraise the consequences of the fluctuations in oil

prices on public finances and the overall economy. This reality underscores the necessity for comprehensive strategies for diversification that will help diversify risks of oil price volatility, enabling Kuwait to attain sustainable growth free of the global oil market.

4.3 Evaluation of Investment Diversification Strategies

Kuwait has designed a set of diversification strategies to reduce its financial dependence on oil based on its vision for 2035. Figure 3 shows the government's investments across different sectors as balanced, including finance, healthcare, technology, and renewable energy.



Figure 3. Kuwait Vision 2035 (<https://thedocs.worldbank.org/>)

The graph showed an investment strategy balanced fairly on Finance, healthcare and Global Position. This is a diversified strategy designed to create economic growth beyond oil revenues. A set of five-year National Development Plans (KNDP) focused on specific overarching themes, which were realized through the New Kuwait Vision 2035. During the First KNDP from 2010 to 2015, legislative activities were undertaken to foster a conducive environment for growth and investment. The second KNDP (2015-2020) focused on the development of infrastructure, which was a response to critical gaps in the country's physical and digital infrastructure that would support future economic activities. Third KNDP, the ongoing KNDP, which is from 2020 to 2025, emphasizes increasing the engagement of the private sector, which is a strategic shift to a more vibrant and competitive private investment-driven economy. The Fourth KNDP (2025-2030) will also focus on the knowledge-based economy by promoting education, research, and innovation as critical pillars for growth. The Fifth KNDP (2030 – 2035) continues along the same path to a smart Kuwait through the electronic and technological application of government services to improve citizens' lives. These plans outline a holistic strategy for Kuwait's economic diversification and sustainable development.

These diversification efforts are hindered, however, by several obstacles. Regulatory barriers, such as bureaucratic complexity and disparate policies, hinder private sector engagement and reduce foreign investment. In contrast, our attempts to evaluate the strategies used so far

show that Kuwait has set ambitious goals and frameworks. The implementation and its impact have been quite limited. The effectiveness of these diversification strategies depends on how these diversification approaches are implemented, and a reassessment of how these approaches are employed is necessary. This includes brokering closer collaboration between public and private sectors, streamlined regulations and investment in infrastructure that facilitates innovation and develops entrepreneurship. This can foster a better environment for the development of non-oil sectors in Kuwait and help it get closer to realizing the aspirations of Kuwait Vision 2035.

4.4 Opportunities for Economic Diversification

An analysis of successful non-oil industries in the Gulf region was made to identify sectors that can potentially contribute to economic diversification. Figure 4 compares sectoral contributions to GDP across Kuwait and other Gulf Cooperation Council (GCC) countries to demonstrate Kuwait's revenue.

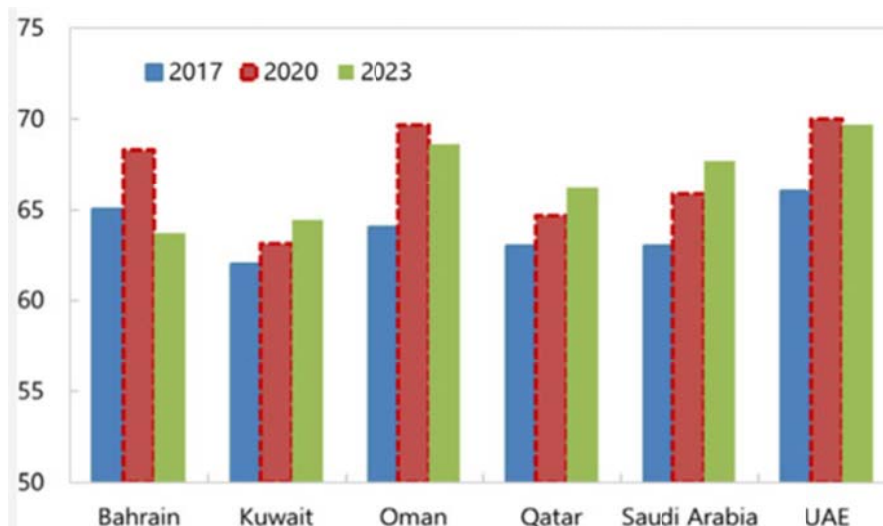


Figure 4. Sectoral GDP Contributions in GCC Countries (2023)

Sources: UNDP

This comparative analysis shows how tourism, technology and financial services have been significant contributors to the UAE and Qatar, while the over reliance of Kuwait on oil revenues has been its Achilles heel. Diversification strategies have successfully made the economies of these nations vibrant with many other sectors that are making huge revenue, devoid of the oil sector. In Kuwait, sectors like renewable energy, healthcare, and information technology are promising, given global sustainability and innovation trends. Renewable energy is especially critical as Kuwait pivots its economy to align with global environmental goals. Solar and wind energy investment could not only help Kuwait break away from its dependence on fossil fuels but also put it in front of other countries in the green energy sector in the region. Moreover, given the rising demand for high-quality medical services and medical technology, the healthcare industry has excellent potential for expansion. Access to relevant skills empowers Kuwait's citizens to enable a smoother transition towards a

diversified economy. However, there is also a need for enhanced collaboration between government entities and private sectors in these areas to improve growth in these areas and consequently lead to more balanced and sustainable economic development capable of withstanding the volatility associated with the oil markets.

Kuwait Finance House's Share of Market Revenue

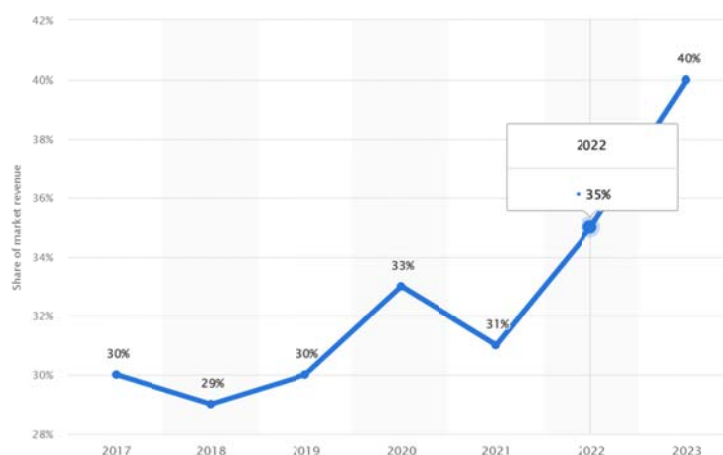


Figure 5. Kuwait Finance House's Share of Market Revenue

Kuwait Finance House (KFH) is a major player in Kuwait's financial market with its market revenue share growing from 2017 to 2023. KFH is one of the largest Islamic banks in the region, and it has chosen to exploit the growth in demand for Sharia-compliant financial products and services. In 2017 KFH market revenue share was around 30% and steadily increased until 2020 around 3%. Several factors are also responsible for the bank's growth – its innovative product offerings, improved customer service, and powerful branding. KFH's share rose further in 2022, pushing it close to 35%, as it continued its ascent into plastic products, retail banking, corporate finance and investment services. According to 2023 estimations, KFH is predicted to stabilize market revenue share at approximately 40% as the bank continues to expand in digital banking and makes more significant technological investments. This shows KFH's resilience in a fiercely competitive banking sector and its importance to Kuwait's balancing of its economy away from oil reliance. The fact that KFH has been able to keep up its growth momentum over the past few years despite the headwinds and growing challenges facing the industry is also due to its continuous ability to innovate and respond to market demand.

4.5 Potential Financial Risks without Diversification

The country still faces financial risks such as a depleted sovereign wealth fund and lost budgetary flexibility without making substantial progress in economic diversification. Figure 5 illustrates projections of Kuwait's fiscal sustainability under scenarios with and without diversification.

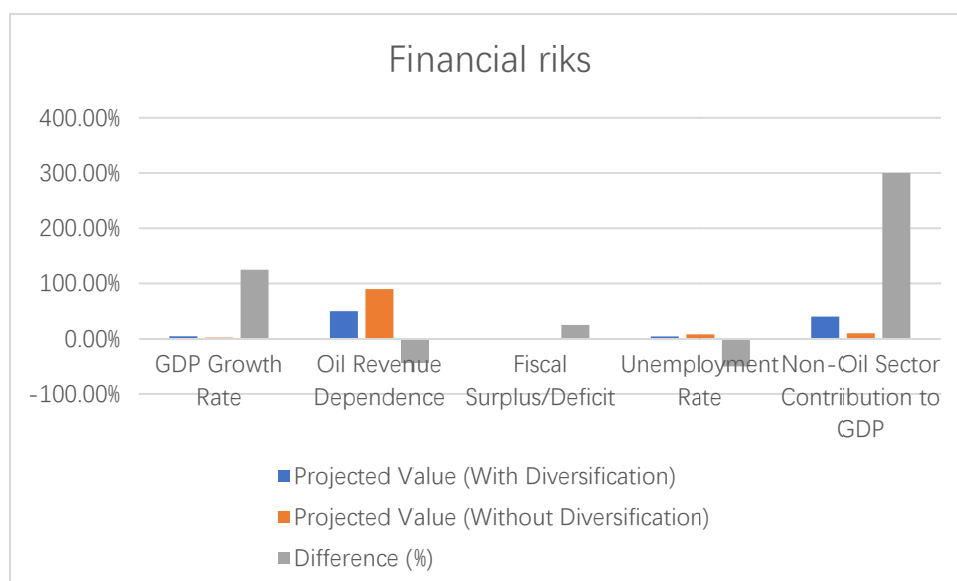


Figure 6. Projected Fiscal Health of Kuwait with vs. Without Diversification (Mirzoev, 2023)

The projections also indicate that Kuwait’s economy will face severe difficulties if it continues to depend to a large extent on oil revenues. The dependency on these global oil prices makes this dependency subject to volatility, which can amount to a large amount of fiscal strain that can lead to debt accumulation, or it could require significant cuts, such as in health and education. The International Monetary Fund (IMF) has warned that heavily oil-dependent economies are particularly at risk of economic shocks that can stifle growth and bring budget deficits (IMF, 2020).

On the other hand, the diversification case is a more sustainable fiscal outlook for Kuwait. The country could improve its economic resilience and reduce exposure to oil price fluctuations with investment in alternative sectors such as technology, tourism and renewable energy. According to research, countries with more diversified economies can receive more stable growth patterns and better fiscal health as their systems can more easily absorb shocks from external markets (World Bank, 2021). Additionally, diversification can generate jobs, inspire creativity, and help to create a more equitably structured economic base for long-term sustainability. To ensure the well-being of future generations, timely reforms and proactive investment in these sectors are imperative for Kuwait to have a robust and sustainable economy (Kuwait Economic Society, 2022).

5. Conclusion and Recommendations

This paper critically underscores the importance of diversifying Kuwait’s investments to mitigate the financial risks of oil price volatility. Kuwait's economy has become too dependent on oil revenues, making it vulnerable to the global market and causing huge budget slack and social spending cuts to endure periods of low oil prices. The findings show that development initiatives such as Kuwait Vision 2035 focused on diversifying the economy through foreign direct investment (FDI) and private sector development are only as effective as the management put in place and the time at which the initiative is implemented.

In addition, if global energy dynamics are evolving toward renewable sources, Kuwait needs to urgently explore other sectors like technology, tourism, and renewable energy to build a more robust economic setting. The proposed policy recommendations underline the need for a holistic approach that strengthens investment in young industries and regulatory environments to attract private investment.

Additionally, this paper has analyzed Kuwait's economic dependence on oil and the critical need for diversification to secure the country's long-term economic sustainability and growth. More than 90% of government revenues for Kuwait come from oil, a factor that puts high vulnerability to swings in global oil prices in the economy. Figures show a direct correlation between oil price volatility and GDP growth and that Kuwait's economy is on the brink. For instance, a sharp drop in oil prices, which in the past have caused a sharp contraction in GDP and budget deficits and undermined public services.

Additionally, considering that Kuwait has launched diversification techniques under the framework of Kuwait Vision 2035, the efficiency of these strategies is slowed down by regulatory problems and slow implementation. A comparison with other GCC countries shows that the contribution of the GDP sector in Kuwait is highly contrasting compared to more diversified economies in terms of tourism, technology, and financial services. Thus, Kuwait's pressing need to expand its economic base is evident, especially in renewable energy, medical care, and information technology.

The paper also highlights the role of key players in the financial sector, such as Kuwait Finance House (KFH), who have shown resilience and growth despite the challenging economic environment. Nevertheless, unless substantial progress is made in economic diversification, Kuwait has significant financial risks, including depletion of its sovereign wealth fund and reduction of budgetary flexibility. According to projections, continued reliance on oil revenues could bring severe economic consequences, necessitating timely reforms and investments in other sectors. The successful diversification of Kuwait's economy is ultimately critical to immediate financial stability and long-term sustainability in a rapidly changing global economic landscape. Kuwait can develop a prosperous future that is less reliant on oil revenues and save its people from bad times by responding proactively to these challenges.

5.1 Recommendations

To navigate these challenges and secure a sustainable economic future, the following recommendations are proposed:

1. **Policy Reform and Regulatory Simplification:** The new Kuwait government should expediently simplify the processes that discourage the private sector and foreign investment participation. This will help to streamline bureaucratic hurdles for a more conducive environment for entrepreneurship and innovation, all of which are very important to diversify the economy.
2. **Investment in Human Capital:** There must be concerted efforts to invest in

education and training programs that acculturate the foundation with the needed skills for new industries to emerge. Kuwait needs a skilled labour force to develop growth in sectors such as technology and renewable energy so that it can experience a shift towards an economy based on knowledge.

3. **Enhanced Public-Private Partnerships:** Collaboration between public institutions and private enterprises will encourage investment in non-oil sectors. Public-private partnerships may support the ability to develop infrastructure and innovate, creating a zone to allow various economic activities to support the growth of overall GDP.

4. **Focus on Sustainable Industries:** Kuwait should actively promote investments in sustainable industries, particularly renewable energy. By prioritizing solar and wind energy projects, Kuwait can not only reduce its dependence on fossil fuels but also position itself as a leader in the region's green energy market, aligning with global sustainability goals.

5. **Continuous Monitoring and Evaluation:** Importantly, a robust framework to monitor and evaluate the effectiveness of diversification strategies is necessary. This framework will help policymakers continuously fine-tune their approaches in line with the flow of economic trends and the performances of the non-oil sectors so that Kuwait continues to achieve its diversification goals.

The findings of this paper highlight the need for Kuwait to reduce its dependence on oil revenue. The implementation of the recommendations stated above will foster a more stable and balanced Kuwait economy that leans more towards internal forces, contributing to increased resilience and future sustainable growth together with a better quality of life for its citizens. This can be fraught with challenges but with certain foresight and commitment, Kuwait can chart a path toward economic diversification away from its oil wealth and towards a prosperous future.

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