IMPACT OF PROTECTIONISM ON ECONOMIC GROWTH: A CASE OF KUWAIT

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Abstract:
International Trade has long debated as a source of economic growth for countries. Economists such as Adam Smith, David Ricardo, Eli Hecksher and Bertil Ohlin, and others have all put forward ideas and models for how countries benefit from international trade, at times building on their predecessors work. Adam Smith started with his theory of absolute advantage of production, and countries specializing in the products they could produce at a lower cost. These goods would then be exported in exchange for similarly produced goods. David Ricardo Expanded this model looking instead at the theory of comparative advantage. Hecksher and Ohlin continued this trend looking at factor endowments for beneficial trade. Trade can increase the welfare in all countries, but import tariffs then reduce the welfare gained from trade. There are many reasons for protectionism including undesirable specialization, instability in the export market, terms of trade deterioration, aiding infant industries and others. These theories are applied to the situation in Kuwait and it's policies of protectionism. Kuwait currently allows only Kuwaiti individuals and Kuwaiti majority shareholder firms to import into the country, and there is a 5% ad valorem tax on most nonfood items. In early 2006 there was a modernization of the Kuwaiti customs system resulting in an increased efficiency, which then caused an increase in imports. This is verified in the data obtained from the World Bank. The result being an ease in trade leads to increased trade and overall welfare.

Introduction

As time goes on, and interconnectedness in the world increases, it becomes increasingly apparent that different countries are at different stages of development. This observation brings up the questions of why are countries and regions at varying levels of development, how do countries grow, and what can be done to help the lesser developed nations along the path of economic growth. Many different theories have been put forth to identify factors that are the most important in meaningful economic development. One common argument is that moving from an agriculture based economy to an industry based economy is necessary. While this explains what needs to happen, this doesn't explain how or why. Factors for increasing growth have included a higher savings rate, structural change, increases in capital stock, and many more. One factor generally agreed to have a positive effect on economic growth, is the presence of international trade.

The benefits of international trade were first developed by Adam Smith in his 1776 book The Wealth of Nations. Smith said that as countries being to trade with one another they will specialize in goods which they can produce at a lower cost than other nations. These countries will then export these goods in exchange for other similarly specialized goods causing net welfare for all participating nations to increase. David Ricardo showed that his outcome would occur even if one country could produce the goods at a lower cost than others. Two Swedish economists, Eli Hecksher and Bertil Ohlin expanded Ricardos ideas to a situation in which countries were equally capable of producing goods. Even in this case international trade would be beneficial because of each countries available stock in the factors of production: capital and labor. While it can be shown that in a variety of situations trade can be advantageous for all countries involved, it is also widely assumed that countries will trade, and do so freely. This is not always the case. Often developing nations will try to be self-subsisting, not relying too much on a world economic power for assistance. To accomplish this, the governments erect barriers to trade as a measure to discourage domestic citizens from importing goods from other countries, usually through import tariffs. When the world equilibrium price for a good is lower than that of the domestic equilibrium price, under free trade assumption, it is rational to import that good. However when a government imposes an import tariff on that particular good, then that increases the price at which firms can obtain the good, leading to a higher price for the consumer pays, and though the government does receive revenue for the tax, the overall welfare of the country goes down. Why governments follow protectionist polices, policies that restrict international trade within a country, has been the subject of much debate with explanations ranging from increasing government revenue to protecting infant industries to effects on the terms of trade. In the end it is decided on a country-by-country basis with some, all or none of these explanations having playing a part in the policy decisions of the government.

This paper intends to show the effects of import tariffs on an economy. It will begin by showing that international trade is advantageous for all countries involved according to the aforementioned theories. Then having established this, it will look at the effect international trade within a given market and its effects on general welfare. Following this an import tariff will be imposed on that market and its effects welfare from the producer's view, the government's view as well as the consumer's. Having shown the impacts of protectionism on the economy different theories for protectionism will be considered. A general case study will follow looking at the State of Kuwait and the effects of its tariff policy on the general welfare of the country.

Theoretical Section

Adam Smith's original theory of international trade focused on the idea of absolute advantage. Smith's idea was that "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own country, employed in a way in which we have some advantage." (Smith 573) This theory states that it is better for individual countries to specialize in goods which they can produce at a lower cost than other nations, and to trade for the remainder of goods.

For example, assume there are two countries, England and Portugal, that can produce two goods Cloth and Wine, which only require labor as an input. Say it takes England 70 men to produce cloth and 120 men to produce wine. Likewise Portugal requires 80 men for cloth and only 90 men for wine. This can be shown in a chart:

Good\Country	England	Portugal
Cloth	70	80
Wine	120	90

The number of men required to produce either cloth or wine is the absolute labor cost for the given good. England then can produce cloth cheaper than Portugal, while Portugal and produce wine cheaper than England. In this case Smith's concept of absolute advantage can easily be seen; England has an absolute advantage in the production of cloth while Portugal has absolute advantage in the production of wine. Thus specialization of by countries will occur with England producing cloth and Portugal producing wine. The resulting trade between the two countries would increase welfare overall for both.

David Ricardo took Smith's model further by adding a new assumption to the model. He took the idea of absolute advantage and applied it to the case in which one country has and absolute advantage in both goods. Changing the previous example slightly leads to a new situation. Now Portugal has an absolute advantage in the production of cloth and the production of wine, leaving England worse off. Ricardo wanted to know if trade in this new situation would still be profitable for both countries given the increased advantage and disadvantage.

Good\Country	England	Portugal
Cloth	100	80
Wine	120	90

The answer to Ricardo's question is that international trade would still be beneficial by looking at comparative advantage instead of absolute advantage. One definition for comparative advantage is "Production of a commodity at a lower opportunity cost than any of the alternative commodities that could be produced." (Torado, Smith 575) In this case the opportunity cost is the production loss of production in one good by increase the production of the other good. Generally, the opportunity cost of good X in country A is:

Absolute Labor Cost of Good X in Country A
Absolute Labor Cost of Good Y in Country A

The same formula can be applied for good Y as well for country B. In looking at comparative advantage between countries the following graph arises.

Good\Country	England	Portugal
Cloth	100/120	80/90
Wine	120/100	90/80

Since the opportunity cost of producing cloth in England (100/120) is less than that of Portugal (80/90), "England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth." (Overbook 57) Similarly the opportunity cost of producing wine in Portugal (90/80) is less than that of England (120/100) and as a result Portugal will specialize in the production of wine. Though Portugal could produce cloth at a lower cost than England trade occur "because it would be advantageous to...employ [its] capital in the production of wine, for which [it] would obtain more cloth from England, than [it] could produce by diverting a portion of [its] capital from the cultivation of wines to the manufacture of cloth." (Ibid) This is the essence of the Ricardian theory, even though one country can produce both goods at a lower cost than the other, trade is still beneficial because both countries will obtain more of both goods with specialization directed by comparative advantage.

Continuing the work done by David Ricardo, two Swedish economists, Eli Hecksher and Bertil Ohlin, came up with a the factor endowment trade theory. This theory adds two more assumptions beyond Ricardo's one country has an absolute advantage in both goods. First is that both countries have the same absolute costs for both goods, effectively eliminating the ideas of absolute or comparative advantage from the situation. The second assumption is that the goods now require capital (denoted as K) in addition to the use of labor (denoted L). The Hecksher-Ohlin model has two main principles: first "Different products require productive factors in different relative proportions", and second "Countries have different endowments of factors of production." (Torado, Smith 577) The second point of differing capital and labor stocks necessitates some way in which to measure these differences. There are two methods for this: total factor ratio, and factor-price ratio.

Total factor ratio looks at the relative stock of capital to the stock of labor in a given country. Known as the capital-labor ratio, it is defined as the amount of capital divided by the amount of labor for a certain country. As such (K/L)A denotes, the capital-labor ratio of country A with (K/L)B denoting the same for country B. Thus, comparing this ratio for the two countries, if (K/L)A is greater than (K/L)B, then country A is said to be capital abundant while country B is said to be labor abundant.

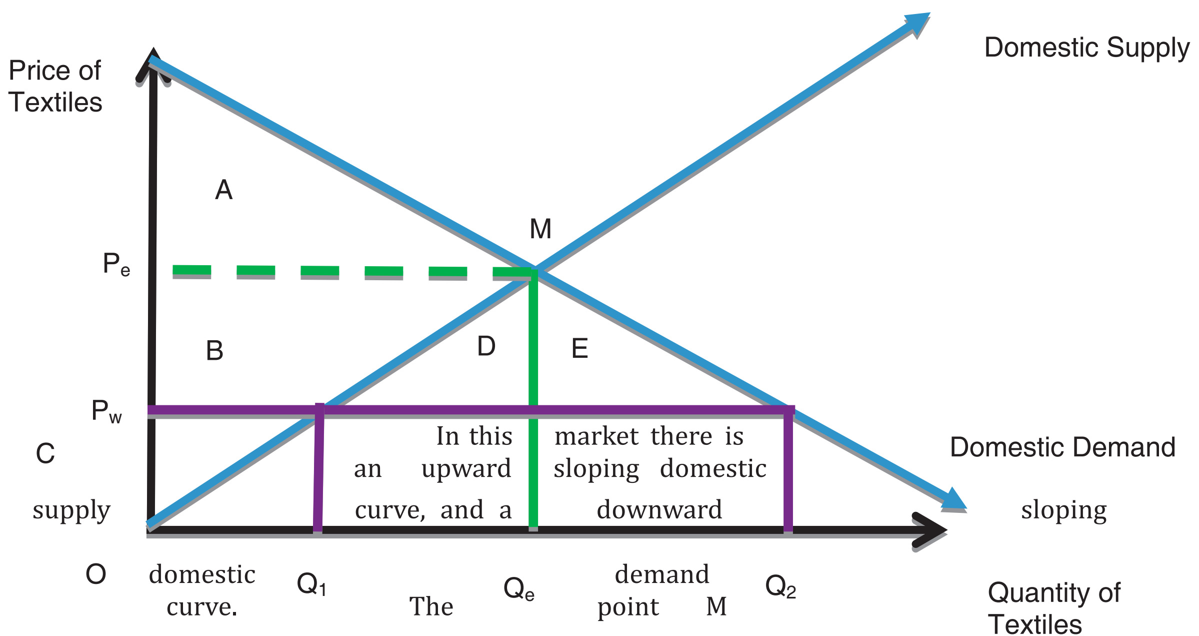
The second measure of factor endowment is the factor-price ratio. This looks at the prices to employ the factors of production. To employ labor, producers must pay workers a set wage (w). Likewise to employ capital producers are assumed to borrow the necessary equipment at a rental rate (r). Thus the wage-rental rate in country A is (w/r)A while (w/r)B is the same for country B. As with the total factor ratio, comparing the wage-rental rates if (w/r)A is less than (w/r)B, then country A is said to be labor abundant because it can employ labor cheaper than country B, while country B is said to be capital abundant.

Returning to the first principle, goods are classified based on the relative amount of capital or labor required to produce them. As with countries, there is a capital-labor ratio for the production of goods as well. Thus if capital-labor ratio for good X, (K/L)X, is greater than that of good Y, (K/L)Y, then good X is said to be a capital intensive good while good Y is said to be labor intensive.

Taking both the abundance and intensity of production factors into consideration, the Heckshер-Ohlin theorem states that as international trade begins, countries will specialize into the goods intensive in the factors of production for which they are abundant. In doing so, the capital abundant country will specialize in the good that is capital intensive, while the labor abundant country will specialize in the labor intensive good. Hence trade between two countries that have the same absolute and comparative opportunity costs can still have meaningful international trade by specializing along factors of production.

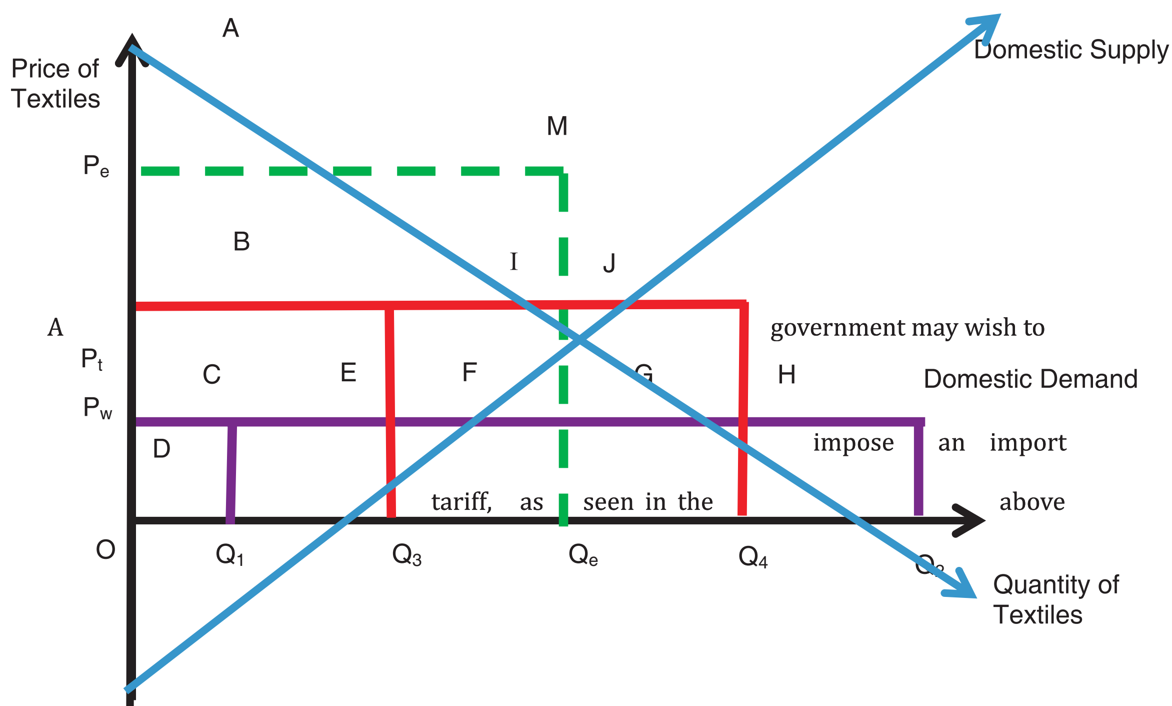
According the Mankiw (2011) there are several benefits from international trade. These include: an increase in the variety of goods in the market, lower costs through economies of scale, increased competition, and enhanced flow of ideas. (Mankiw 180-182) Having an increased variety of goods is fairly self-explanatory as consumers generally enjoy having access to goods that would not necessarily be available without importation. Lower costs by economies of scale go back to the discussion of specialization. Firms and countries that have an advantage in producing goods will naturally specialize into that good. Hence with free trade goods get produced at lower costs and exported around to other markets, increasing the welfare for all involved. Having increased competition is beneficial to the consumer because it lowers the price of goods. The fewer firms there in the market for a given good, the more market power each firm then has to control the market price of the good. As the number of firms in the market increases the market power enjoyed by each decreases, which will drive the overall market prices down. The price the consumer ends up paying then decreases with increased competition as a result of international trade. The increased flow of ideas directly relates to the increased variety of goods available. As trade increases different technological advances get spread around the world granting more people get access to the technology involved. As technology gets dispersed throughout the world people gain better of it and the ideas that come with and from it.

The aforementioned benefits can be applied to developing countries. Trade will create new markets in which commodities produced by developing nations can be sold, and new markets in those countries for existing products. This generates an increased income for the people involved in those industries. If the developing country has a comparative advantage in a specific good, then the lower costs of production will lead to a higher demand for goods from that country in the world market. All of these things enforce the idea that "Trade is an important stimulator of economic growth." (Torado Smith, 581) International trade has been shown to be a great mechanism by which developing economies can grow. Having established the benefits of international trade, it is necessary then to consider the effects those barriers to trade, in this case import tariffs, have on the market. By considering a simple textile market for a country, a domestic supply and demand curve can be established as in the following figure. The static effects of ad valorem import tariff in a small country can be analyzed as follows:



In this market there is an upward sloping domestic supply curve, and a downward sloping domestic demand curve. The point M represents the equilibrium point, with corresponding values Pe and Qe for the equilibrium price and equilibrium quantity respectively. The area labeled as A, which is bounded by the dashed equilibrium price line (PeE), the Domestic Demand curve, and the Y axis is called the consumer surplus in the market. Consumer surplus can be defined as the utility a consumer receives for purchasing a good at a lower cost than the maximum that consumer is willing to pay. Similarly the region B+C, bounded be the he dashed line (PeE), the Domestic Supply curve and the Y axis, makes up the producer surplus, which can be defined as the utility received by producers for selling the product at a higher price than the minimum price they are willing to sell at.

If this market opens up to international trade on the world market, there are three possibilities: the world market price is higher than the domestic price, the world price is equal to the domestic equilibrium, and the world market price is lower than the equilibrium price. Since this the effect of imports is of interest here, only the third situation will be considered as the first two cases would no lead to an importation by the country. This is seen graphically the price Pw which is lower than the equilibrium price. At this price, domestic producers will produce at the quantity Q1, and import up to quantity demanded Q2. The consumer surplus will increase to the regions A+B+D+E, bounded by the Domestic Supply curve, the world market price Pw, and the Y axis. Producer surplus on the other hand will decrease to the region C. The net change of welfare is B+D+E-B=D+E. Thus while producer surplus declined as a result of international trade, the increase in consumer surplus made up for this loss, as well as gaining more.



government may wish to impose an import tariff, as seen in the above chart, on this market for a number of reasons, one of which being to increase government revenue. To do this the government imposes a tariff of amount (t) on the market, which raises the price from Pw to Pt. This has a number of effects on the market and welfare within it: domestic producers sell up to quantity Q3 and then import to Q4 causing a decrease in total imports from Q1Q2 to Q3Q4, the consumer surplus falls to A+B+I+J, the consumer surplus increases to D+C, and the government collects revenue equal to F+G. This leaves the regions E+H unaccounted for becoming a deadweight loss of welfare in the entire market. While consumers lose and producers gain, the amount the government collects in tax revenue in the market does not make up for the total loss of welfare in the market.

There are a few different ways in which tariffs can be levied by governments. The first is Ad Valorem, a tax "levied as a percentage of invoice value." (Tariff) This is better applied when the imported goods have no specific units, such as a case or box, and is instead applied to the total value of the product being imported. The second type of tariff, call a specific tariff, as a tax applied on a per unit basis to the goods imported. A common third method of taxation is simply using a combination of the first two.

Tariff Theory

Having empirically shown import tariffs to reduce the overall welfare in a given market when applied, and presented the value of trade, it would seem irrational to continue with protectionist policies. Yet, there are a number of arguments against free trade policies in less developed countries (LDC's). This first argument is that "free trade forces LDC's to specialize in labour intensive agricultural goods and raw materials, such as metal ores, cotton, sugar and jute-increased production of which does not bring in rapid economic growth..." (Kulkarni Ch. 11) This follows the Ricardian and Hecksher-Ohlin theories which states that labor abundant countries will specialize in labor intensive goods. This concern addresses the problem that labor intensive goods may not bring in the same levels of income and growth experienced by capital intensive goods. As a result, specializing this way will cause developing nations to grow more slowly than their already developed counterparts. Protectionist policies would then be aimed at encouraging the production of capital intensive goods within the country.

The second argument is "free trade does not guarantee a stability of demand for exports of LDCs, which leads to a severe problem of export instability for them..." (Ibid) Depending on the exports of the LDC the demand for the good is not guaranteed. Goods with higher production requirements tend to enjoy more stable markets. Conversely, raw materials are more susceptible to economic shocks and changes in the demand, leading to instability in the market for these exports. By engaging in protectionist policies, LDC's hope to, in some part, reduce the possibly disparaging effects of market instability that can hinder economic growth. In an article for the Journal of Development Economics G.N. Soutar says that developing countries may be able to reduce the amount of export instability by diversifying production within the country. This however has a drawback in that "diversification implies foregoing some production in those goods in which the country has a great comparative cost advantage...hence it implies the country must forego some expected export proceeds in order to obtain relative stability in the export sector." (Soutar 283) Individual countries will have to assess the risk to their specific export markets, as well as the opportunity cost for diversifying. While it may be advantageous from a export stability standpoint to diversify, if that particular market is not likely to see much change, then specialization may not be a bad thing. Ultimately it is up to the individual country to weigh the benefits and costs of such a policy.

The third argument against free trade in LDC's is that "free trade, over a period, leads to a higher increase in the price of imports of LDCs than their exports, so that their terms of trade (TOT) deteriorate compared to the TOT of the developed countries..." (Kulkarni ch. 11) This is generally attributed to a faster import price increase than export price increase, which is caused by market forces allowing for developed nations exports to increase in price, while the unstable nature of LDC's export markets prevents export prices from increasing. This then leads to a deterioration in the terms of trade experienced by developing countries. The increased gap between export and import prices puts more strain the economies of developing nations and as a consequence the standard of living is kept low.

The fourth argument against trade is the infant industry argument. This says the "government should protect a new industry from foreign competition so it can, in time, grow strong enough to hold its own." (McGee 18) Developing nations that are just entering a market may wish to protect the in-country

industries until such a time at which they are mature enough to successfully trade on the world market. This can become problematic as protectionist policies my be difficult to repeal after the industry gets set up. Thus denying it crucial market access and preventing it from reaching full capacity of production.

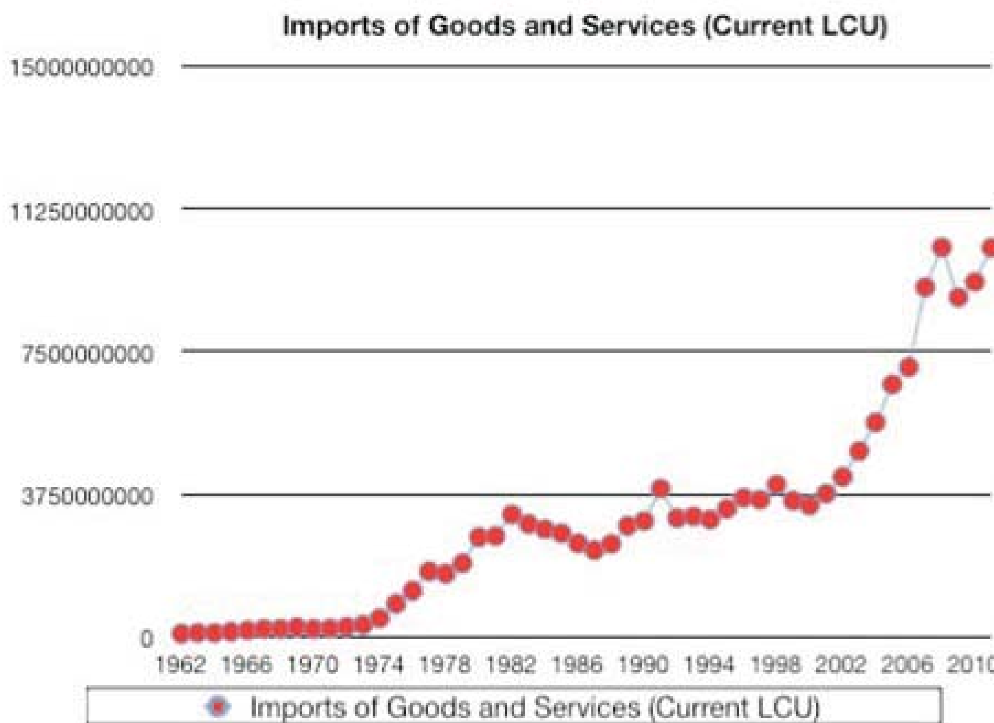
Countries that open themselves up to trade have been shown to experience increased welfare, at least theoretically according to Smith, Ricardo, and Hecksher and Ohlin. Imposing import tariffs on markets then causes a loss to the whole economy even though the government revenue increase makes up for some of the loss. While barriers to trade tend to have a negative impact on the effected markets, nations may have some other reasons for preferring protectionist policies over free trade, especially when free trade seems to have negative implications for the country.

Case Study: Kuwait

Kuwait is a small country in the Middle East located between Saudi Arabia and Iraq on the Persian Gulf. It is has an Arab plurality at 45% of the population, with South Asians making up the second largest group at 35%. Islam is the predominant religion in the country with small minorities of Christians, Hindus and other religions. (CIA) The economy of Kuwait is largely based on oil production and refinement, which accounts "for nearly half of GDP, 95% of export revenues, and 95% of government income." (CIA) According to the World Bank the GDP in U.S. Dollars for 2011 was 176.59 billion and 48.74 billion in Kuwaiti Dinars. The per-capita GDP for 2011 is 62,664.10 USD and 5,740.89 KD. (World Bank)

Kuwaiti customs follow the general guidelines of the Gulf Cooperation Council (GCC) in that it applies a flat 5% tariff of most goods. There are a few exceptions in which Kuwait deviates from this, namely "...417 food and agriculture items, which remain duty-free, as well as tobacco products, which are subject to a 100 percent tariff." (Blaine 83) Additionally, "Kuwait prohibits the importation of alcohol and pork products, and requires a special import license for firearms." (Ibid) This policy preventing pork and alcohol from entering the country is not surprising given the large percentage of the country is Muslim and that those products are forbidden under Islamic law, which is part of the legal system. (CIA)

When it comes to clearing customs, it traditionally took a large amount of time and much paperwork. The system is has supposedly become less complex as well as become more efficient with the installation of a new computer system in early 2006 at all entry ports. (Blaine 84) This decrease in complexity in the customs system should increase the amount of imports. One thing that can easily become a barrier to trade is the difficulty an importer has getting through customs. Regardless of the tariff size, the complexity of getting through customs could be deterrent enough to prevent many firms from importing. If this is true then there should be some evidence that a simpler customs system increases the imports into a country. Indeed from 2006 to 2007 the imports of goods and services jumped nearly 8 billion USD, from 24.54 billion to 32.49 billion, the largest such increase in almost twenty years. (World Bank) While the system was completed in 2006, that the effects were felt in 2007 is likely due to a time lag in firms becoming aware of it, and policy adaptations for the following fiscal year.



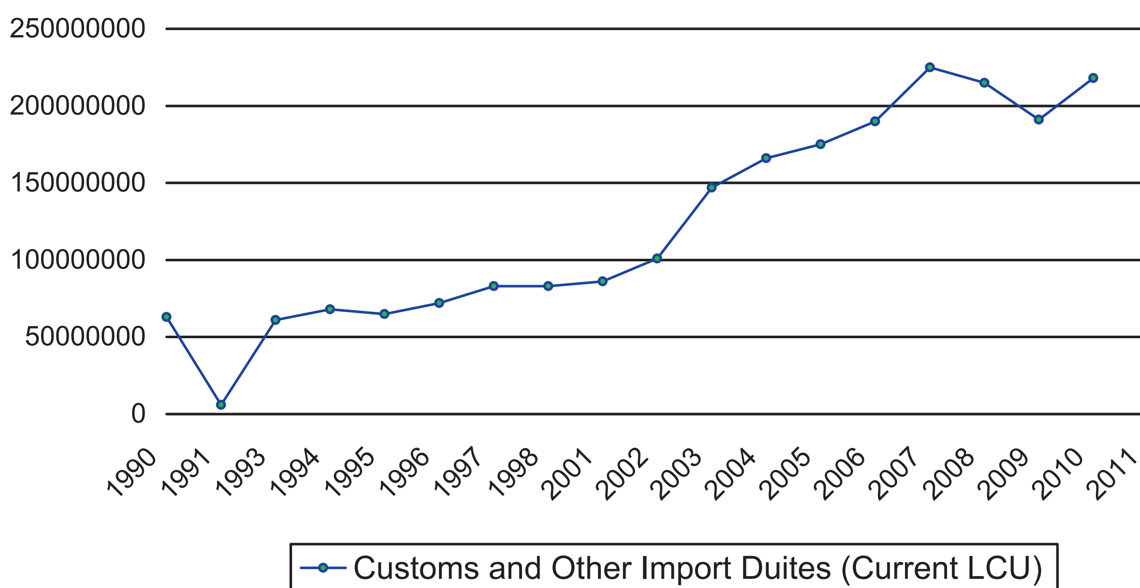
As can be seen in the graphs the amount that was being imported into Kuwait prior to the implementation of this new system was increase as a very fast rate. Then between 2006 and 2007 there is a large leap upwards, larger than any recent or subsequent jumps, and then continuation at that rate, at least until 2008. Due to the decrease in imports soon after this jump it is not conclusive that the change in customs is the cause. However given that in 2008 the world experienced a major economic slowdown, the largest in the US since the Great Depression, it is quite likely that the decrease in imports is due to this, whether it be a lack of demand to do to financial insecurity or if it is a lack of supply. While it is still not for certain what caused the huge increase in demand for imports from 2006 to 2007, the new computers at Kuwaiti ports was likely in part responsible.

To get around prohibitive tariff rates, and in addition, prohibitive customs systems, firms would be likely "...to set up local production facilities to satisfy the demand previously satisfied by exports from their home country..." (Johnson 110) This method of circumventing strict barriers to trade would likely result in the a local production facility being built in the country with most of the necessary resources being imported in. This however would not be possible in Kuwait as the Regulation of Importation prevents it. Article 1 of this document states:

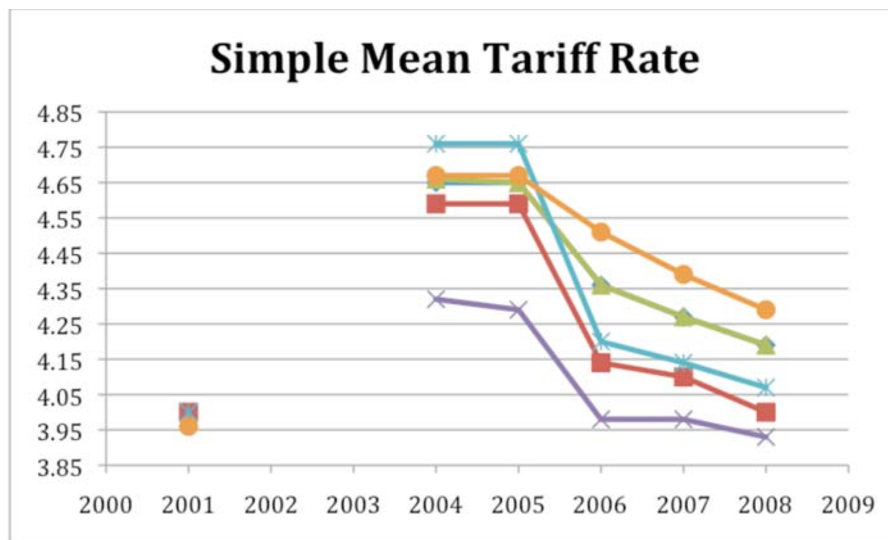
The right to practice the operations for importation of merchandise, materials, and equipment from overseas is hereby restricted to:

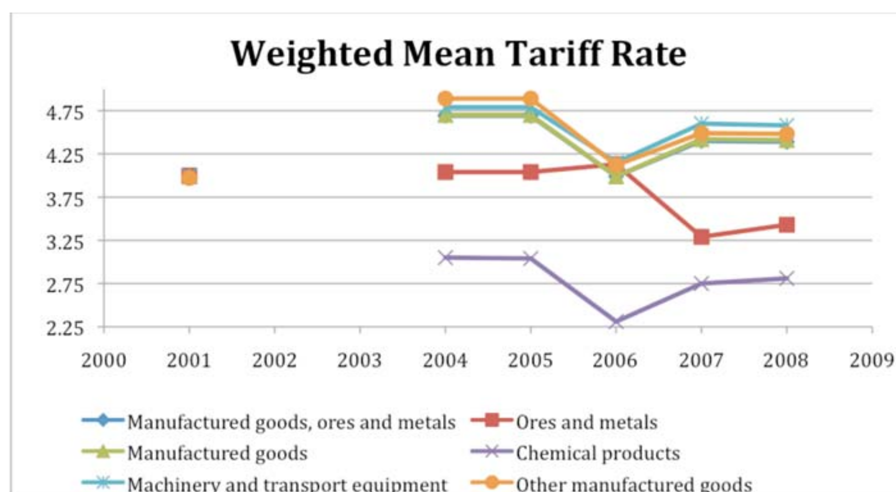
1. Kuwaiti individuals.
2. Kuwaiti companies whose partners are of Kuwaiti nationality.
3. Share companies and companies of limited liability in which Kuwaitis own not least than 51 percent of total capital. (El Mallakh 213)

In this case, unless a company became at least 51% Kuwaiti owned then there was no way to set up a new production facility within Kuwait as a way of bypassing the complex system associated with importation. This policy was enacted in 1964 (Ibid) and is still in effect according to the Kuwaiti Embassy. (Importing Into Kuwait) While it prevents outside firms from setting up production and importing supplies into Kuwait, it also has a positive impact on Kuwaiti firms trying to import merchandise to sell to commercially within the country, due to the absence of foreign based competitors. As seen with the increasing of customs efficiency, there was a large increase in imports as the new system of implemented which assumes that Kuwaiti firms increased their imports. It could be that if this law prohibiting outside firms from importing into Kuwait were abolished, then possibly there would be a corresponding increase in imports as well. Additionally, given that nonfood items have a minimal tariff rate, the increased importation could potentially generate a large amount of tax revenue for the government. The evidence for this again comes from the new, effective import duty system. At the same time that the total imports for Kuwait increased from 2006 to 2007, the Customs and Other Import Duties rose sharply as well, even as tariff rates fell. The import duties collected rose from 190 million Kuwaiti Dinars in 2006 to 225 million Kuwait Dinars in 2007. (World Bank) At the same time the mean tariff rates were generally falling. (UNCTAD) The lower average tariff rate would generally lead to the conclusion that government revenue would decrease at the same time, however there was instead a spike in tariff revenues collected.

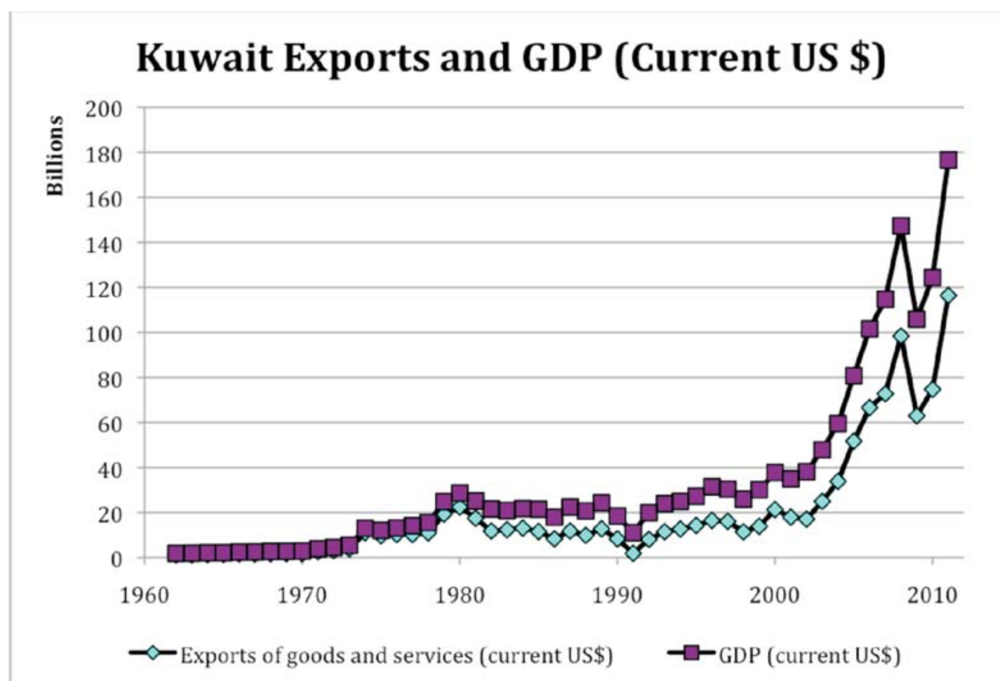


The amount of customs duties collected before 2006 was increasing similar at a fairly steady rate. Then as with the imports of goods and services, there was jump from 2006 to 2007 due to the increase in imports. What is interesting is that at the same time tax revenue increased, the mean tariff rates seemed to fall. As can be seen in the simple mean chart, the average tariff rates were falling for all categories during the same time as the customs system overhaul. The latter effect would have increased tax revenue do to the increased imports, while the former effect would have decreased the revenue due to a lower rate. As such, the increase in goods imported likely outweighed the marginal decrease in average tariff rate. What is interesting to note however, over the same period of time the weighted average for tariff rates generally increased. If the weighted average is a more reliable measure due to preference items by frequency, then it would seem that both tariff rate increases and increased imports would lead to higher revenues.





The increase in tax revenue collected coincides with an increase in the GDP of Kuwait as well. Tax revenue cannot be assumed to be the leading cause of this increase however, at the same time the total exports for the country were increasing very rapidly as well. By looking at the joint GDP and Export graph, it is clear that the GDP has a strong direct correlation with the exports. Thus the increase in GDP was much more likely due to the increase in exports rather than any effects by increase imports.



With this brief survey of the Kuwaiti barriers to trade, it is useful to look at the objections to free trade from the perspective of Kuwait. The first objection about developing nations specializing in labor intensive goods is inapplicable in this context. As previously stated, a large part of the GDP and the majority of the government revenue comes from oil production and export. (CIA) The large amount of oil reserves in Kuwait requires a large amount of capital to both extract and refine. Consequently as the oil industry in Kuwait was beginning, it would have needed to invest in large amounts of capital instead of labor, even if it were a labor abundant country previously. Due to the world's oil reserves being concentrated in a few locations, it was in Kuwait's best interest to develop a comparative advantage in the production of oil, and to export other goods that it needs, such as food and consumer goods into the country. In this way, Kuwait has followed the Hecksher-Ohlin theory and used it's natural resource advantage to gain lots wealth from trade. This trade has put it at number 19 on the list of countries ranked by the CIA according to GDP per capita with respect to purchasing power parity. (CIA) Other countries in a similar situation include Qatar and the UAE, both of which have large oil industries that have lead to high incomes. The other aspect of this objection is that specialization in the production of natural resources tends to be less profitable than finished productions, meaning less wealth for those countries. Kuwait was lucky in that its resource endowments are immensely profitable.

The second argument against freed trade from a developing nation's perspective is the instability of their export market. When it comes to Kuwait, the export market is quite stable, at least in the short run. The world demand for oil has been steady for many decades and, with the given projections for oil capacities, will continue for many more. Since as the only goods that Kuwait exports are oil, oil based products and fertilizer (CIA), it follows that the export market will be based on the oil market which has already been said to be stable. Kuwait could diversify if it so chose without having to worry about losing possible revenue. Regardless this second objection also has little effect on the Kuwaiti reasons for protectionism.

The third argument is the deterioration of trade.In the case with this, as with the previous two, the existence of the oil industry makes this a nonissue. With the steady, if not increasing, oil revenues the terms of trade tend to stay relatively steady. While the price of imports may increase, it will never to be the point that the point that import prices so greatly exceed exports to cause the terms of trade to deteriorate completely.

The last argument may have the most weight to it: the fledgling industry argument. The oil industry in Kuwait has been around for a long time with the first concession granted in 1934, and the first commercial shipment occurring in 1946 (El Mallakh 36). Given this early start for the industry, the need for the protectionism seems to be long passed. I could be that the protectionist policies are so engrained that it is now difficult to remove them. However this cannot be the case due to the fact the Kuwait has now need to import any oil or petroleum products. This then brings up the question of why were such stringent restrictions placed allowing only Kuwaitis to import goods in 1964, 18 years after the first commercial shipment? (El Mallakh 213) The original concession gave rights to British and other foreign companies to drill on Kuwaiti soil. In 1962 over half of the original area was relinquished to the Kuwait National Petroleum Company, a governmentally owned company. (El Mallakh 37) Given this turn of events, it would seem that the Kuwait government was trying to consolidate the oil industry into one nationally owned company, giving all of the profits to the government. With this in mind, it is a politically effective move to prevent foreign companies from setting up within the company. Preventing foreigners from importing goods made it impossible for these unwanted outside firms from starting a production facility and bringing in all the necessary capital from outside the country. The continuation of this policy is not to protect a fledgeling industry, but rather to ensure that the government is so the sole beneficiary of the oil revenues from Kuwaiti oil fields. Some of this income then gets passed on to the population in various forms, leading to such a high GDP per capita.

While most of these arguments are from the perspective of developing countries, the exception being the fledgling industry argument which can be applied universally, and have been shown not to be pertinent to Kuwait, it begs the question if there are any other possible explanations for the tariff rates that it imposes. Much of the basis of concern about free trade comes from the destruction of jobs at the home market. Such arguments include: the deindustrialization argument, claiming that free trade will lead to industry being shipped over seas where labor is cheaper; the hamburger flipper argument, a variation of the previous, which says that as jobs get shipped overseas, the only ones left at home will be low wage jobs, such as those in the fast food industry; and others. (McGee 10-11) These two objections also make little

sense when it comes to Kuwait because the entire economy is based upon the existence of a natural resource. Consequently the industry cannot move away from the physical location of said resource and thus the idea that oil drilling will get shipped overseas is then impossible.

Thus the only economic reason to have such restrictive policies concerning who may and may not import into the country is based upon protection of national interests in the oil industry. If this is so, then what is the reason for any other import tariffs? An ad valorem tax of only 5% would be a slight inconvenience to consumers in Kuwait considering the GDP per capita is 62,664.10 USD. (World Bank) The answer the must lie outside the realm of economics, and in the realm of international politics. The strongest evidence for this tariff rate can be found in the fact that Kuwait s a member of the Gulf Cooperation Council (GCC). The GCC is intent upon the unity of its member states, especially under the banner of Islam. (GCC) As a member of this council, Kuwait is forced to impose the tariffs as guided by the GCC as an act of solidarity even though they may not be necessary for the budget. As mentioned before 95% of government revenue is from oil sales (CIA), it must then be that Kuwait does not want to be seen as forsaking the mandates of the organization. There is an exception when it comes to food prices, being that it is a necessity and to ensure that the government doesn't impoverish its people as a result. The prohibition of pork and alcohol may also be an edict of the GCC as part of its Islamic mission, or it may be an imposition of Kuwait's own will in accordance with the Islamic shari`ah law.

Clearly the classical models for international trade have some truth behind them, especially in the case of Kuwait. It was and still is a country endowed with large amounts of a natural resource that is high demand in the modern day: crude oil. The country then decided to specialize in the extraction and refinement of this resource, to then export it to other nations. As a result of this specialization, and the high demand for oil, Kuwait has become an incredibly wealthy nation. An in depth look at the protection system of Kuwait revealed a minor ad valorem tariff on most goods of 5%, as per the injunction of the GCC, as well as strict regulations governing what institutions and individuals may import goods into the country. From here a number of arguments against free trade and for protectionism were considered regarding Kuwait. It was deemed that these arguments were inapplicable, and that instead the protectionist policies were ones of governmental interest, both in the case of nationalized oil production and international relations with other Arab Gulf states.

One point of contention in this paper could be the choice to use developing nations' complaints against free trade on a country that is widely considered to be developed. As mentioned previously, Kuwait is listed at number 19 according to CIA country rankings according to GDP per capita with respect to purchasing power parity. (CIA) The United Nations lists it as a country with high human development, at number 63 in the world according to the Human Development Index. (UNDP) So in that sense, that criticism is quite valid. That being said, in terms of HDI criteria, Kuwait's lowest score is in education. The mean years of schooling for adults in Kuwait are only 6.1, while the expected years of schooling for children are 12.3. (UNDP) In that respect the education standard for the population is increasing, at least in terms of years of schooling. While Kuwait measures fairly well on the HDI, there are other problems that arise.

One such problem is that of woman's rights. In Kuwait, women won the right to vote, as well as run, in elections just in 2005, with 2009 showing four women elected to parliament. (Human Rights Watch) However under they are still not able to assume the role of public judges and prosecutors. (Ibid) Arguably one of the biggest sources of sources for inequality between men and women is that of the state religion itself: Islam. Many critics of the religion often cite unequal rights under the law when it comes to marriage, divorce, inheritance, and others. As well as there being no prohibition of "domestic violence, sexual harassment or marital rape." (Ibid)

With such occurrences in a country, and the government unwilling to step in to take preventive or corrective measures, as such things are permitted under religious law, one may ask in what way is this country developed. There is no arguing that from an economic standpoint Kuwait is highly developed, yet at the same time there are domestic issues which escape traditional measures of societal growth.

Another area that could be a cause for concern is the lack of diversity in production and exports from Kuwait. While the current market for fossil fuels is expected to remain stable and profitable for many decades to come, if for some reason that industry were to suddenly to fall flat, say by new cheaper renewable energy source, the much of the country's income would be lost. This would then put it in a similar situation as other Middle Eastern countries, namely Jordan, Egypt, and Lebanon. While this is an unlikely scenario, it does raise the question about the long run stability of specializing in only one good.

Most measures of country development look at economic success, few go beyond to include social conditions. As a result countries with enormous amounts of wealth due to one or highly profitable sectors may be ranked highly, while women's rights, and minority rights within the country may not be taken into consideration. That being said, there is no argument that the specialization into oil production on the part of Kuwait has lead to a large income for both the government and the people. The theories put forth by forth by Adam Smith, David Ricardo, Eli Hecksher and Bertil Ohlin, as well as others, may be gross simplifications of the real world, yet at the core there is some thread of truth. Additionally, while Kuwait has minimal trade barriers, the simplification of clearing customs at various ports of entry in 2006 coincided with a large increase in imports. This suggests that loosening restrictions on trade does have positive effects for the country. International trade is then a great source of economic development, with free trade policies yielding the best results.

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