THE REPORT

Kuwait 2015

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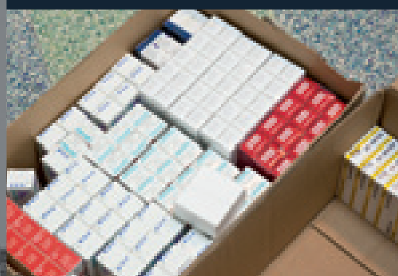
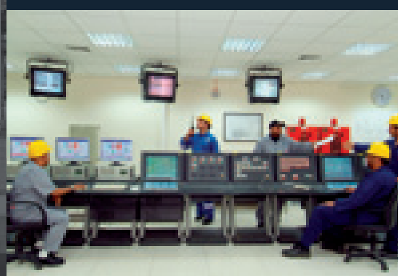
Industry

Further diversification a goal of Kuwait Vision 2035
Support for small and medium-sized enterprises
Petrochemicals exports to Asia a vital contributor
Demographics drive demand for pharmaceuticals




The country has traditionally relied heavily on hydrocarbons exports

Investing in infrastructure

Manufacturing is set for continued growth as the country makes a greater effort to diversify its industrial base

Kuwait Vision 2035 envisages a series of investments and reforms that will transform the country into a regional centre for trade and finance, broadening the role of the private sector.

As part of Kuwait's efforts to expand and diversify its economy, the country has moved to invest in its infrastructure capacity, while a programme to boost oil production levels has stimulated growth in the petrochemical and construction segments. Alongside continued moves to improve the skills of the workforce, as well as to nurture small and medium-sized enterprises (SMEs), Kuwait's industrial sector looks set to grow over the coming years.

FIGURES: In 2013 manufacturing accounted for 6.8% of GDP at current prices, according to the Central Statistical Bureau (CSB). The total value of the manufacturing sector in constant prices in 2013 was KD3.17bn ($10.9bn), compared to KD2.78bn ($9.6bn) in the previous year. Similarly, the total value of non-petroleum exports was KD1.85bn ($6.4bn) in 2013, up from KD1.66bn ($5.7bn) in 2012.

Oil continues to play a major role for economic growth in Kuwait, which has relied mostly on hydrocarbons exports as its main source of public finance and foreign exchange. The recent drop in global crude oil prices thus undoubtedly represents a concern for Kuwait in the short term, given that oil and gas accounts for around 95% of export earnings. In 2014, according to CSB figures, hydrocarbons made up 95.2% of Kuwait's exports, with a value of KD26.83bn ($92.43bn) out of a total of KD28.19bn ($97.12bn), pointing to the need for economic diversification as a priority in the years ahead.

STRATEGY: The authorities are well aware of the need to diversify Kuwait's industrial and trading base. The country already has several advantages in this regard, including an ample capital base with which to fund investment in new industrial capacity, as well as its location at the head of the Gulf. This makes it well situated for trade with countries in the GCC region, as well as fast-growing emerging markets in both South Asia and South-east Asia.

Additionally, sanctions that have prevented international trade with Iran should be relaxed over time as a result of the Lausanne negotiations under way in the summer of 2015, providing a further boost to Kuwait's commercial relations within the Middle East.

The government's development strategy is guided by Kuwait Vision 2035, which seeks to reduce the country's reliance on hydrocarbons exports over the long term. Kuwait Vision 2035 envisages a series of investments, as well as economic and social reforms, that will transform Kuwait into a regional centre for trade and finance. It encompasses a broad range of activities, from improvements in education and health care, to transport infrastructure upgrades, as well as the construction of industrial zones and business parks. Further to this, the plan seeks to broaden the role of the private sector, introducing simpler and more transparent administrative procedures over time, and improve skills and training.

NDP: Kuwait Vision 2035 is underpinned by the National Development Plan (NDP), launched in 2010 with an investment package worth $108bn from 2010 to 2014. Released shortly after the global financial crisis, the NDP was partly intended as a stimulus package to allow the economy to avoid falling into recession, but was also an opportunity to obtain infrastructure improvements at a much lower price than would have been achievable at the height of the oil boom in the mid-2000s.

As part of the NDP, the government allocated significant amounts towards transport upgrades, including $1.2bn for Mubarak al Kabeer (MAK), a new port on Boubyan island, as well as upgrades at Kuwait International Airport to raise its capacity from 9m passengers a year currently to 25m passengers a year by 2020. Investment is also under way on new roads, nine new hospitals and up to 70,000 new homes.

In addition to improving connectivity within the National Development Plan gave a short-term boost to demand for cement and other building materials.

In addition to improving connectivity within the country, and hence its economic competitiveness over the longer term, the plan gave a short-term boost to demand for cement and other building materials. While some of the projects envisaged under the NDP were affected by delays, MAK port is set to open in 2016, while the new Jaber Ahmad al Sabah hospital is also scheduled to open in 2016 at a cost of KD300m ($1.03bn).

Moreover, the KD34.2bn ($118bn) Kuwait Development Plan (KDP) 2015-20, approved in February 2015, will build on the achievements of the NDP. The plan will cover over 500 projects across all sectors, including transport, infrastructure, utilities and energy. For instance, the Kuwait National Petroleum Company (KNPC) is set to invest $35bn on expanding oil and gas projects over the next five years, while the $20bn Kuwait Metropolitan Rapid Transit system will also gain momentum in 2015.

In a boost to the construction sector in particular, the KDP will also facilitate several new contracts for roads and bridges, increasing demand for building materials (see Construction chapter).

OVERSIGHT: A number of public and semi-public bodies are charged with regulating and supporting industry in Kuwait. First, the Ministry of Industry and Commerce is the most senior government department responsible for oversight of the sector, including the registration of companies. Second, the Kuwait Direct Investment Promotion Authority is an independent agency charged with attracting foreign direct investment (FDI) into the country.

Third, the Industrial Bank of Kuwait (IBK) is a government-owned specialised financial institution that supports the development of industries in Kuwait by providing credit. Last, the Public Authority for Industry is tasked with expanding and diversifying the country's industrial base, as well as promoting the development of strategic industries.

INVESTMENT CLIMATE: According to the World Bank's annual "Doing Business" report for 2014, Kuwait ranked 86th out of 189 countries, and 8th out of 20 economies in the MENA region.

Kuwait ranked first regionally in terms of protecting minority investors, but only 17th in terms of the procedures required to start a new business. Net FDI inflows amounted to $1.84bn in 2013, compared to $2.87bn in 2012, according to World Bank figures.

Kuwait is party to a number of trade agreements, including the GCC Customs Union and the Greater Arab Free Trade Agreement. These allow for tariff-free access to a market of more than 150m people. Further trade agreements are currently under discussion on a bilateral basis between the GCC and the EU, which would give Kuwaiti companies access to the world's largest single market.

A number of incentives are available to foreign investors, such as those included in the Foreign Investment Law No. 8 of 2001, which allows them to benefit from a 10-year tax holiday on investments in Kuwait, thereafter paying a flat rate of 15%. Customs exemptions are also available on imports of machinery, raw materials and semi-finished goods.

FINANCE: Some industrialists have reported that the cost of industrial finance in Kuwait can be higher than is generally the case for some other sectors

Obtaining land can be an obstacle, as most of it is state-owned

in the region. However, to longer-term investors, the steadier returns available from industry look more attractive than the sometimes uncertain profits from more speculative types of investment in fields such as real estate. Moreover, IBK finance is available at an interest rate of 3.5%, with financing of up to 65% available for virgin projects, and up to 100% for expansion projects for proven customers.

Meanwhile, in 2014 the country's parliament approved a KD2bn ($6.89bn) National Fund for Development of SMEs. As well as offering credit on favourable terms to young entrepreneurs, the fund will provide valuable know-how, including training in marketing and business planning.

LAND: Obtaining land remains one of the major potential obstacles for industrialists in Kuwait. Most land in Kuwait is owned by the state and has been set aside for military or oil extraction purposes.

Several industrial and infrastructure projects have gone ahead on a build-operate-transfer basis, so as to obviate some of the strictures on land usage. For example, the port at Shuwaikh has a dedicated free

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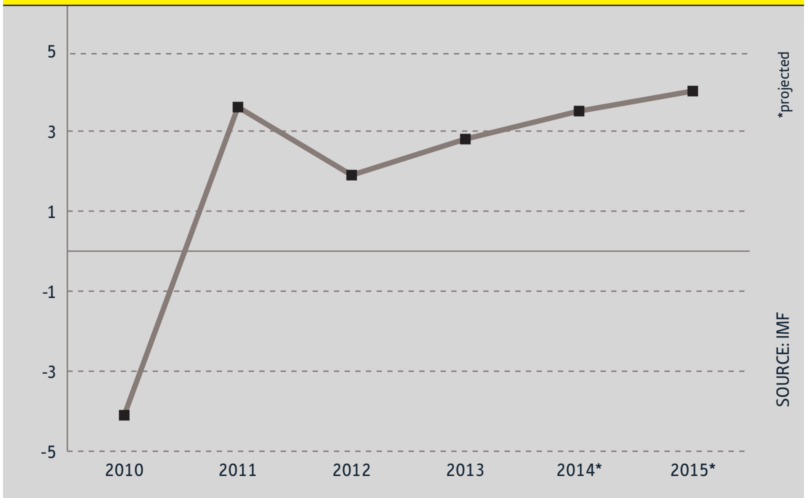
Real non-oil GDP growth, 2010-15* (%)



KUWAIT AROMATICS

A Valued Neighbor

A Committed Business Partner

Kuwait Aromatics Company
PO Box 1084
Safat 13011 Kuwait
T: + 965 9 965 4751

KARO
الشركة الكويتية للعطريات
Kuwait Aromatics Co.

trade zone, within which 100% foreign ownership and tax-free operation is available.

PETROCHEMICALS: After oil and gas extraction, and refining, petrochemicals is the single largest industry in Kuwait, with the bulk of its production exported to markets in Asia. In 2010 the KNPC unveiled a $90bn investment programme to increase production from roughly 2.9m barrels per day (bpd) of crude in 2011 to around 4m bpd by 2020.

Alongside this, the company is upgrading its refinery system at a cost of some KD4bn ($13.8bn) in order to meet increasingly rigorous environmental standards in Asian markets. Under the programme, the 200,000-bpd refinery at Shuaiba is to shut down, while the refineries at Mina Abdullah and Mina Al Ahmadi are to have their capacity upgraded to around 800,000 bpd combined. Additionally, a brand new refinery is planned at Al Zour with a capacity of 615,000 bpd. This will raise the country's total refining capacity from around 900,000 bpd to 1.4m bpd by 2017, when Al Zour opens.

Although the recent drop in global oil prices is likely to have some effect on Kuwait's public budget in 2016, these hydrocarbons projects have largely had their budgets set already. As such, they appear likely to remain largely unaffected.

MAIN PLAYERS: The increase in crude and refined oil products is set to benefit the Kuwaiti petrochemicals industry by providing more feedstock. As early as 1963, the country set up the Petroleum Industries Corporation (PIC), originally as a fertiliser producer, as a means to keep more of the added value from its oil at home. Since then, the company has expanded to add lines in olefins and aromatics.

Approximately 70% of PIC's production takes place in Kuwait, although there are also production sites in other Gulf countries, Europe and the Americas. Most of the company's production takes place through its various subsidiaries and partnerships with other producers. Besides PIC, there are two other main petrochemical groups in Kuwait, Al Qurain Petrochemicals Company (QPIC) and Boubyan Petrochemical Company (BPC).

QPIC, which was founded in 2004, is a subsidiary of the local holding group Kuwait Projects Company (KIPCO), although PIC holds a 10% stake in the company. QPIC reported net profits of KD27.5m ($94.7m) in the 2013/14 financial year, up from KD22.2m ($76.5m) in 2012/13, and reported the total value of its assets as KD364.3m ($1.26bn) in 2013/14, compared with KD299m ($1.03bn) in 2012/13.

BPC was founded in 1995 and is listed on the Kuwait Stock Exchange. It operates a number of joint ventures with PIC and also has interests in packaging materials. BPC reported profits of KD27.5m ($94.7m) in 2014, up from KD26.4m ($91m) in 2013.

Equate Petrochemicals Company was founded in 1995 and commenced operations in 1997. It is a joint venture between PIC (42.5%), Dow Petrochemicals (42.5%), BPC (9%) and QPIC (6%). Equate produces ethylene, polyethylene and ethylene glycol

The rise in oil production is set to benefit the petrochemicals industry by providing more feedstock

for direct sale and produces benzene, styrene, polypropylene, monomers and paraxylene and aromatics for other PIC subsidiaries.

In total, the company produces over 5m tonnes a year of petrochemicals. As of 2015, capacities at Equate's factories stood as follows: ethylene at 1.8m tonnes a year; polyethylene at 825,000 tonnes a year; ethylene glycol at 1.2m tonnes a year; paraxylene at 829,000 tonnes a year; styrene monomers at 450,000 tonnes a year; polypropylene at 140,000 tonnes a year and benzene at 393,000 tonnes a year.

From November to December 2014, Equate carried out a month-long de-bottling and shutdown at its polyethylene plant. This forms part of a larger ongoing de-bottling process due to be completed in 2016, raising capacity from around 825,000 tonnes per year to just under 1m tonnes per year.

Other sector players include the Kuwait Olefins Company, which is owned by the same parties as Equate, according to the same proportions; the Kuwait Aromatics Company (TKAC), which is owned by PIC (40%), KNPC (40%) and QPIC (20%); and the Kuwait Styrene Company, which is a joint venture between TKAC (57.5%) and Dow (42.5%).

Gulf Petrochemical Industries is a three-way joint venture between PIC, the kingdom of Bahrain and the Saudi Basic Industries Corporation, and produces ammonia, urea and methanol in Bahrain. PIC also has two ventures further afield: ME Global, which produces mono-ethylene glycol and di-ethylene glycol in Canada, and the Equipolymers Company, which produces purified terephthalic acid and polyethylene terephthalate in Germany. Both are joint ventures with Dow, on a 50:50 ownership basis.

In addition to its existing capacity, PIC is planning to increase production of olefins, which are generally more profitable. A new plant, Olefins III, is in the planning stages, with total investment in the region of $7bn-10bn. The company is reportedly looking at using a mixed cracker, which would allow liquefied

After hydrocarbons extraction and refining, petrochemicals is the largest industry in Kuwait, with the bulk of production exported to Asia.

The rising population has increased demand for foodstuffs, making for great potential in food processing

petroleum gas, naphtha ethane or propane to be used as feedstock, depending on the economic situation at any given time. Initial estimates for production capacities at Olefins III were: ethylene at 1400 kilo-tonnes per annum (kta); linear low-density polyethylene at 450 kta; high-density polyethylene at 450 kta; glycols at 625 kta; and polypropylene at 450 kta. Locations remain under consideration but the most likely site appeared to be at Al Zour, which would allow for further integration of the refining and petrochemicals industries in Kuwait.

FOOD & DRINK: Food and beverages is another significant industry in Kuwait, with a gross value added of KD142.49m ($491m) in 2012, according to the CSB. The country's rising population has increased demand for foodstuffs, making for ample potential for growth in the food processing industry.

The most significant players are the Kuwait Food Company (branded as Americana) and Kuwait Danish Dairy Company (KDD). Americana is listed on the Kuwaiti bourse and reported net profits of KD52m ($179m) on the back of sales of KD922.4m ($3.18bn) in 2014, compared to net profits of KD50.6m ($174m) and sales of KD866.9m ($2.99bn) in 2013. It operates nine consumer brands, in addition to a number of MENA food and beverage franchises.

KDD, meanwhile, is a closed shareholding group, with operations in food manufacturing (such as tomato paste, juices and ice cream) and packaging.

BUILDING MATERIALS: Kuwait's rapidly growing population is ensuring that the construction industry remains buoyant. In 2012 Capital Standards, a local ratings agency, estimated that building materials companies accounted for some 47% of the total manufacturing segment. Substantial imminent construction projects include the hospitals programme, the new port and the NDP housing programme, as well as projects planned under the KDP, which has provided a roadmap for the construction sector for the years to come (see Construction chapter).

The industrial base consists principally of primary processing industries, with only a small segment producing higher-value products at present.

Kirby Building Systems, which is a subsidiary of the Kuwaiti holding group Al Ghanim Industries, is one of the largest pre-engineered steel buildings companies in the world with five production sites globally, located in Kuwait, Ras Al Khaimah in the UAE, India and Vietnam. Total production capacity stands at around 400,000 tonnes a year.

National Industries Group started life as a building materials firm, although it has since branched out into oil and gas services, infrastructure and utilities. It reported profits of KD36.8m ($126.8m) on the back of sales of KD126.6m ($436.2m) in 2014, compared with profits of KD16.6m ($57.2m) and sales of KD116.9m ($402.7m) for 2013.

Gulf Cable and Electrical Industries Company is the largest single privately held industrial firm in Kuwait, and exports to the GCC and Iraq. In 2014 it registered revenues of KD112.4m ($387m) and profits of KD4.57m ($15.7m), against revenues of KD97.8m ($337m) and profits of KD10m ($34.5m) in 2013.

Kuwait Cement Company is the second-largest manufacturing company in the country. It produces Portland, sulphate resistant and masonry cement, and reported sales of KD83.5m ($288m) and profits of KD23.8m ($82m) in 2014, compared to sales of KD69m ($238m) and profit of KD17.1m ($59m) in 2013. Through both direct and indirect means, the government holds just under 30% of the company.

R&D: Until today, there has been relatively little investment in research and development on the part of Kuwaiti industry. This is partly because the country's universities remain oriented around teaching, with research tending to be a lower priority. Moreover, Kuwait's industrial base continues to consist principally of primary processing industries, with only a small segment producing higher-value products. That said, Kuwait Vision 2035 aims to shift the country towards a knowledge-based economy, with reforms planned for the education system. With a more promising regulatory environment for SMEs, and as primary and downstream industries continue to expand, research is also likely to benefit.

OUTLOOK: The recent drop in oil prices appears unlikely to have a marked effect on Kuwait's petrochemicals industries. Although some projects have suffered from cost uncertainties and administrative delays, they are not overly vulnerable to short-term price fluctuations, premised as they are on meeting growing long-term demand in Asia. However, industries that are more oriented towards meeting domestic consumer demand may witness a slowdown if the government undertakes a retrenchment in current spending levels. At the same time, given that investment in infrastructure has remained largely unaffected in recent years, the outlook for construction materials in particular is more positive. While industry in Kuwait continues to rely heavily on the petrochemicals and construction segments, therefore, the growth of export opportunities and the promotion of SMEs mean the sector is likely to see greater diversification over the medium and long term.

Ahmad Al Jemez, Chairman, Kuwait Aromatics Company

Opportunities for growth

OBG talks to Ahmad Al Jemez, Chairman, Kuwait Aromatics Company (KARO)

What are Kuwait's main advantages for increasing activity and growth in the petrochemicals sector?

AL JEMEZ: Kuwait, and most of the GCC oil producing countries with high refinery processing capacities, is well positioned to play a major role in the aromatics business, as we have good access to the required feedstock, naphtha or condensate. The GCC countries all have different and individual growth requirements. Naphtha production in Kuwait is over 7m tonnes per year and only one third of that is consumed locally for use in the current aromatics plant. With Kuwait's Clean Fuel Project (CFP) and the Al Zour refinery, more naphtha will be made available, and this can be fully utilised in aromatics and olefin production facilities. On top of that the already well established industrial infrastructure at the Al Zour facilities will facilitate new industrial establishments in its immediate vicinity. Kuwait also has plenty of room to create employment opportunities and increase GDP growth from the related industrial and service sectors. Together all these elements will give Kuwait an advantage in pursuing growth in its petrochemicals industry.

Can KARO's example set a precedent for further private sector involvement in the aromatics industry?

AL JEMEZ: KARO is a joint venture between the Kuwaiti government and the private sector. The ownership structure brings value from experience in the refining and petrochemical segments, with a local investor that is eager to meet the industry's potential of Kuwait. This mix of experience and potential sets the pace for future growth in the private sector, both locally and globally, as opportunities emerge and develop around us. Originally, when the private sector entered into petrochemical projects, its share was only at 10% of the total investment. This later increased to 15%, and is up to 20% on new mega-projects. This change in ownership reflects both a greater growth of experience and higher involvement than we planned for. We see the private sector taking more interest in opportunities in future projects; at the same time the stage is being set to establish wholly owned downstream companies in Kuwait, which will then be able to participate in regional opportunities.

Do you feel there is adequate local investment in hydrocarbons resources?

AL JEMEZ: Local investment in hydrocarbons can be divided into three categories; upstream, exploration and production. I believe investment in this sector is well established and is taking the lion's share of spending in Kuwait. This core sector provides a great deal of income for the country, so we must maintain its capabilities and growth potential and meet its challenges as they arise. New opportunities are emerging in new fields and offshore, and the challenges of heavy oil and enhanced oil recovery require more and more investment into the barrels being produced.

The refining sector is now growing with the new additions of the CFP and the Al Zour refinery, with these adding another 615,000 bpd of crude while also retiring a small older refinery. The total refining capacity of Kuwait will increase from 936,000 bpd to 1.42m bpd. This growth will produce a slate of products that can be employed in petrochemical projects. Kuwait is spending $15bn on the CFP and another $16bn for the Al Zour refinery. The petrochemical industry in Kuwait is well established on the commodity side. More opportunities are available today, and in the future, which will come from the refineries' products and from anticipated natural gas production. There is great potential to build facilities similar to the current olefin and aromatics unit but with larger capacities. There are exceptional opportunities available in these areas due to the wide availability of propane, butane and petrochemical naphtha; we simply need to make best use of our resources. Kuwait is currently looking at a new petrochemical complex, which will host a major aromatics plant and olefins facilities with olefin derivatives. A detailed feasibility study into this will be completed at the end of the year.

International groups are required to partner with Kuwaiti distributors

The right dose

Demand for pharmaceuticals is set to rise as the population ages

Kuwait is set to witness significant demographic changes over the coming decades, with far-reaching consequences for the local pharmaceuticals industry. High birth rates and continued immigration mean that the population is increasing in absolute terms and is set to reach 4m by 2020 and 6.3m by 2050, according to estimates by the UN's Economic and Social Commission for West Asia.

The population is slowly ageing: birth rates have fallen steadily, from 5.1 children born per woman in 1982 to 2.6 in 2012, according to World Bank indicators. At the same time, life expectancy continues to rise. Although figures from Kuwait alone are not available, the latest report from Alpen Capital shows that in the GCC as a whole, the number of people over 65 years of age is set to increase from 1.2m to 14.2m, or from 2% of the population to 20%, by 2050.

PUBLIC HEALTH: Many communicable diseases – such as cholera, typhoid and tuberculosis – have become a thing of the past since independence. However, the incidence of non-communicable diseases (NCDs) – including diabetes, cancer and heart disease – has risen markedly in recent years, and can largely be attributed to poor diets and sedentary lifestyles. Tackling NCDs will therefore be a long-term challenge for public health authorities. As a result, demand for medicines in Kuwait is set to rise substantially, prompting greater interest from both the government and the private sector.

The incidence of non-communicable diseases such as diabetes, cancer and heart disease has risen markedly in recent years. As a result, demand for medicines in Kuwait is set to rise substantially.

According to BMI Research, Kuwait's pharmaceuticals market was projected to expand from an estimated KD290m ($999m) in 2013 to KD306m ($1.05bn) in 2014, a 6% rise. Overall health care expenditure was predicted to grow from KD1.43bn ($4.93bn) in 2013 to KD1.56bn ($5.37bn) in 2014, a rise of 9%. This trend is set to continue as population growth and demographic changes persist.

FORMING PARTNERSHIPS: International pharmaceutical groups are required to form partnerships with Kuwaiti distributors, while the government can control the prices of certain drugs. Among the larger such companies in Kuwait are Al Mojil Drug Company, Ali Abudlwahab al Mutawa Company (AAW) and Bader Sultan. Al Mojil started as a pharmacy chain before branching out into the distribution of drugs, and currently holds the local licences for global pharma giants such as Novartis, Pfizer and Johnson & Johnson. AAW holds licences with groups such as Roche and Nestlé Health, while Bader Sultan distributes products from Switzerland's Grünenthal, the US's BioMarin and the UK's GE Healthcare.

As for local manufacturing, Kuwait Saudi Pharmaceutical Industries Company was founded as a partnership with Sweden's Astra Pharmaceuticals (now part of AstraZeneca), but took on a Saudi partner in 1994, assuming its current corporate form. It makes over 120 products geared towards the local market and exports to the GCC, other Middle East states and Africa. The product range spans cardiovascular drugs to antibiotics, painkillers and suppositories.

Kuwait's pharmaceuticals market was worth $1.07bn in 2014

According to Alpen, spending on pharmaceuticals in Kuwait as a percentage of GDP was lower than the world average of 0.6% in 2012, with the country spending 0.4% of GDP. This reflects the demographic profile, with 25% of all Kuwaitis under the age of 15, according to the World Bank, given that older people tend to be the biggest consumers of health care services and medicines. Indeed, given the ageing population, spending on pharmaceuticals could start to rise rapidly in the coming decades.

PATENTED DRUGS: Kuwaiti consumers continue to exhibit a preference for patented drugs over generic ones, as is the case in the GCC generally, where according to Alpen, generics made up just 5-6% of the total market in 2013. However, Gulf governments meet 70-75% of the costs of health care according to the WHO, a figure that rises to 82% in Kuwait, and leading to efforts to introduce greater cost control into the health care system.

The bulk of efforts to reduce extraneous expenditure has so far focused on reducing the amount of government spending on the health care of expatriate workers. However, increasing local production of medicines has become more attractive both from the perspective of securing best value, and in terms of the security of supply. For example, a WHO study from 2012 found that the price of drugs in the GCC was up to 13 times higher than the world average.

According to BMI Research, the value of the Kuwaiti pharmaceuticals market in 2014 stood at KD312m ($1.07bn). In the GCC as a whole, around 80% of medicines are imported, according to Alpen. The bulk of domestic production consists of generic medicines, geared towards common and minor medical complaints. Medicines for more complex illnesses continue to be imported – chiefly from the EU, the US and to a lesser extent Japan – with little to no local production. For instance, despite the high rate of diabetes, Kuwait produces no insulin.

DOMESTIC PRODUCTION: A series of obstacles has historically prevented greater domestic production.

Medicines for more complex illnesses are predominantly imported

Kuwaiti consumers continue to exhibit a preference for patented drugs over generics

For example, Kuwait's small population of 3m has meant that local research and development remains in its early stages. Without a local drug industry in place, the public health system relied heavily on imports, contributing to the widespread perception among consumers that imported branded medicines are always superior to cheaper, generic alternatives.

However, this is beginning to change, as countries across the region – aware of their increasing requirements for medicines over the coming decades – put incentives in place to ensure greater and cheaper production. Most notably, the GCC is gradually implementing a system of common registration and licensing for pharmaceuticals, as well as moving towards an agreement for the bulk purchase of drugs by regional public health authorities. This has allowed for greater economies of scale, and for smaller Gulf states to take advantage of the greater clout on the market that combined purchasing can bring.

The creation of a common pharmaceuticals market for the Gulf stands to benefit countries such as Kuwait in particular, which have hitherto been limited by the small size of their markets. According to IMF projections, the GCC will have a population of 50m by 2020, and given the similar demographic profiles across the region, Kuwaiti producers stand to benefit from a unified market.

In addition, the ongoing conflicts in Syria and Iraq have limited the capacities of the pharmaceuticals industry in those countries to meet demand. This has placed Kuwait in a position to supply those markets, which have a combined population of 50m.

The domestic generics market also looks set to expand, with the country's public hospitals increasingly looking to use generic products, given their clear cost advantage in many cases. Furthermore, patents on products with global sales totalling $223bn in 2013 are due to expire by 2020, and this will create opportunities for the increased manufacture of generic drugs for the domestic market.

The creation of a common pharmaceuticals market for the Gulf could benefit countries such as Kuwait, which have until now been limited by the small size of their domestic markets.