

The kuwait economy before and after the gulf war

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Reliance on oil as the sole source of income led to the overproduction of oil in Kuwait. With large deposits, approximately 94, 525 billion barrels, Kuwaiti suppressed the prices of oil in the international markets (CIA World Factbook). However, overproduction angered the neighboring oil producers, such as Iraq, which was desperate to pay the funds it had borrowed for was. The act of suppressing the process was viewed as an act of economic sabotage.

The government of Kuwaiti maintained a low value of foreign debt that was manageable. The debt owed by Kuwaiti prior to the gulf war was \$8billion. Although the country is oil-rich, it has a small portion of arable land, thus preventing the country from relying on agricultural activities. However, the country engaged in other economic activities such as construction, manufacturing, and financial services. The geopolitical importance of Kuwait was increasing die to instability in neighboring nations. It was the preferred trade route that linked the west and the east.

The hostilities that arose due to suppressed oil prices made Iraq invade Kuwait in 1990. The war devastated the oil wells of the country. According to Murdico (2004), the Iraqi troops burned most of the oil wells in Kuwait. The act sabotaged oil production in Kuwait for a whole year. The per capita income fell from \$8967 in 1990 to \$ 5508 in 1991. The war also led to an increase in international prices to over \$30 per barrel, up from \$20 per barrel in the oil spot market. Although the war did not last long, the effects were visible. First, most of the people ran to neighboring countries, meaning, there was no immediate resumption of production after the war. Second, the oil wells were heavily destroyed and had to be renovated.

Reconstruction of Kuwait after the war cost the country an approximated \$40 billion. The money was sourced as debt and used to repair oil wells and to clean the environment. However, the economy was starting to pick up due to the resumption of oil production. The impact of Kuwait re-entrance into the oil market was characterized by price drops. To date, the influence of Kuwait in the oil market is visible.

In conclusion, the gulf war was the most detrimental occurrence in the Kuwaiti economy. The recovery efforts were costly to the economy and also took time. As discussed, the moral reason for the war was enough to cause such economic damage to the Kuwaiti wells where millions of barrels of oil were burned.