

# BTI 2010 | Kuwait Country Report

<b>Status Index</b>	1-10	<b>5.91</b>	# 56 of 128	
Democracy	1-10	4.68	# 80 of 128	↗
Market Economy	1-10	7.14	# 25 of 128	↗
<b>Management Index</b>	1-10	<b>4.30</b>	# 87 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at <http://www.bertelsmann-transformation-index.de/>

Please cite as follows: Bertelsmann Stiftung, *BTI 2010 – Kuwait Country Report*. Gütersloh: Bertelsmann Stiftung, 2009.

## Key Indicators

Population	mn.	2.7	HDI	0.92	GDP p.c.	\$	..
Pop. growth	% p.a.	2.4	HDI rank of 182	31	Gini Index		-
Life expectancy	years	78	UN Education Index	0.87	Poverty <sup>2</sup>	%	-
Urban population	%	98.3	Gender equality <sup>1</sup>	0.57	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

While 2006 marked a significant year for democratization in Kuwait, there was no comparable progress made in 2007 and 2008. Relations between the government and the parliament are tense and prone to creating blockages in the policy process. For the second time in less than two years, the emir dissolved parliament in March 2008. New elections in May 2008 resulted in an increased number of Islamists and tribal affiliates with seats in parliament. The parliamentary majority is thus now in opposition to most government policies. In December 2008, the cabinet resigned as a consequence of demands made by members of parliament to question the prime minister. The emir then re-appointed most of the ministers from the previous cabinet in setting up a new one.

Kuwait's political system is semi-democratic. On the one hand, citizens enjoy significant freedoms and political participation through parliamentary elections. Parliament plays a meaningful role in legislating and in holding the government accountable, as ministers regularly resign due to pressure from parliament. On the other hand, the government, which is appointed by the emir, does not require parliamentary backing. This explains the difficulties involved with a policy process marked by frequent paralysis. It appears that the country's political system is in search of equilibrium. The deteriorating economic outlook might catalyze changes to the political system, but this could go two ways: either an increased parliamentary role enhances democracy or a suspension of parliament yields authoritarian regression.

With its main income being based on oil and gas exports, Kuwait profited from surging prices until mid-2008 and witnessed significant growth over this period. The fall of oil prices since mid-2008 will not affect the country in the short-term, but a prolonged period of low oil prices would. With its stock market down by 40% at the end of 2008, Kuwait has not been immune to the financial turmoil.

Like other Gulf states, Kuwait's labor immigrant population is larger than its citizen population, which represents only 35% of the overall resident population. There are serious economic, political, social and cultural problems, which are likely to become more marked in an economic downturn. Among Kuwaiti citizens there are cleavages between the Sunni Muslim majority and the Shi'i minority, as well as between urban Kuwaitis and those strongly affiliated with tribes. There have been recurrent tensions between these groups.

## History and Characteristics of Transformation

Kuwait is one of several oil-rich monarchies of the Arabian Peninsula, and has been ruled since its establishment by the descendants of the al-Sabah family. Oil has functioned as both a blessing and a curse for the country, enabling rapid development but also drawing Kuwait into regional and world political affairs. The Islamic Revolution in Iran and three Gulf wars have had a profound impact on Kuwait. The country is one of the world's largest oil exporters, possessing about 8% of the world's known oil reserves. The combination of large oil revenues and a small native population has unleashed tremendous economic development, making Kuwait's infrastructure very modern. Its history has been characterized by rapid population growth: between 1950 and 2005, the population grew twenty-fold, increasing from 150,000 to 3,000,000. The GDP and state budget depend heavily on oil prices and fluctuate accordingly to the price of oil on the world market. As oil prices have been very high since 2003, the country's rapid development has continued apace. In contrast to other Gulf monarchies, the ruling family receives only a small part of the oil-generated profits, as the parliament approves royal salaries. In general, oil-generated profits have allowed the emirate to become a model welfare state.

Kuwait is a constitutional monarchy and has the oldest elected parliament among the Persian Gulf Arab countries, with the National Assembly in existence since 1963. The constitution enjoys great respect among Kuwaitis and is seen as an anchor for political stability. In contrast to many states in the region, the political process largely respects constitutional provisions. The parliament has never been a "rubber-stamp" body, and openly discusses vital Kuwaiti issues. In particular, it has often pressed for more democracy, transparency as regards state financial matters, a greater role for itself in defining oil policies, and more parliamentary oversight over foreign defense contracts. Women have been discriminated in politics for a long time. Only in May 2005 did the parliament finally approve the emir's request and grant women the right to vote and to stand in election. Although women have voted and run for election in the elections since 2006, they have yet to win seats in the parliament (note: four women won seats in the elections of 16 May 2009, which falls outside of the review period and is therefore not considered in this report). At the same time, the emir has begun appointing one or two female ministers to the various cabinets since 2006. Overall, there has been a gradual trend toward greater democratization, observable not only in the fact that electoral rights have been granted to

women: Since 1992, each dissolution of the National Assembly has been in line with constitutional provisions; since 2003, the crown prince can no longer serve as a prime minister, which has improved accountability; and in 2006, following the death of Sheikh Jabar in January of the same year, the National Assembly introduced a new electoral system – against the emir’s wishes – and played a decisive role in the succession crisis. At the same time, the executive-legislature relationship has grown increasingly tense in the last years, which has resulted in the emir dissolving the parliament twice in less than two years. Tensions inside the royal family are said to play a role in fueling wider political tensions.

The process of forming a nation in Kuwait involves sociopolitical and cultural issues. Whereas tribes play a strong role here, other identities such as Shi’a/Sunni or urban/suburban also play a role. There is also the issue of the Bidoon, to whom the government does not grant citizenship. The Bidoon are estimated to comprise more than 100,000 stateless local Arab residents, many of whose families settled in the Gulf generations ago as merchants or workers. In denying the Bidoon citizenship, the government argues that they are in fact Iraqis concealing their former nationality. Foreign residents in general are restricted in their ability to obtain citizenship through naturalization. Temporary foreign workers in particular have no right to naturalization – and they constitute 67% of the population. Thus the majority of the resident population plays no meaningful role in the nation-forming process.

## Transformation Status

### I. Democracy

Kuwait is a constitutional monarchy, that is, a hereditary emirate, ruled by an emir possessing decisive political, legislative and judicial powers. Members of the ruling family hold key portfolios in the Council of Ministers, including the ministries of foreign affairs, defense and interior. Kuwait has a partially elected parliament (National Assembly) with legislative powers. The laws passed by the parliament go to the emir for approval. The emir can veto legislation, but parliament can overturn a veto with a two-thirds majority. The emir is authorized to dissolve parliament at will, but must announce elections within 60 days. Elections to the parliament are generally considered to be legitimate and parliament plays a significant role in providing a forum for public debate, and it holds ministers accountable through questioning and binding non-confidence votes. However, there is no full separation of powers, as ministers (maximum 16) are ex-officio members of parliament, which also consists of 50 elected members.

Freedom House ranked the country as “partly free” ahead of any other Arab country in its 2008 “Freedom in the World” survey, the Economist Intelligence Unit’s 2008 democracy index is more pessimistic, ranking seven other Arab countries ahead of Kuwait. Democracy Reporting International concludes that Kuwait “is not a full democracy, but the most participatory Gulf state.”

#### 1 | Stateness

Kuwaiti authorities exercise complete control over the country. Kuwait has not witnessed any major violent conflicts within its territory since the 1990-1991 war with Iraq, though in 2005 domestic Islamist militants engaged in armed confrontations with security forces.

Monopoly on the use of force

All political groups have moderate orientations. The constitution, which defines the political system and the leading role of the al-Sabah family, is widely respected as a cornerstone of stability. The Kuwaiti opposition, composed mostly of well-educated, wealthy businessmen, wants a stronger say in the decision-making process, constitutional guarantees for the political opposition and freedom of speech. Opposition based in political Islam demands a more prominent role of Islam in politics and is concerned about public morals.

State identity

According to the constitution Islam is the state religion and the Shari'ah is the main source of legislation. Nevertheless, the country generally functions as a modern order with secular institutions. Members of parliament from the Islamist opposition demand that Shari'ah be made the "only" source of legislation. Islamic law is most significant in relation to personal matters.

No interference of religious dogmas

The state bureaucracy is functional, but bloated; many positions were created to provide employment for Kuwaiti citizens.

Basic administration

## 2 | Political Participation

Kuwaitis cannot change their government democratically, as it is the emir who appoints the prime minister and the cabinet. Furthermore, all ministers (maximum 16) are ex-officio members of the parliament. Despite these significant limitations, parliament plays a meaningful role in legislation and in holding government ministers accountable through inquiries and votes of no confidence. Parliament consists of the ministers as well as 50 directly elected members. Democracy Reporting International noted that the framework for elections is largely in line with international standards, but pointed to the overrepresentation of urban districts, which leads to an unequal vote. There are limitations to the right to vote for the police, the army and naturalized citizens, who are barred from participating in elections for 20 years after naturalization. Elections are generally fair and competitive, although 31 candidates appealed the results of the May 2008 elections, claiming that mistakes had been made in aggregating the results. In September 2008, the Constitutional Court annulled the elections of two parliamentary members and declared two others as elected.

Free and fair elections

The role of the partly elected parliament is limited by the fact that the government does not require a majority-backing in parliament. Given that there are no organized political parties, there is no structured legislative program of any one majority in parliament. Legislative initiatives initiated in parliament are based on ad-hoc coalitions of parliamentarians. There have been cases, such as the changes made to the electoral system in 2006, where members of parliament succeeded in adopting legislation against the government's will. Furthermore, the parliament had a decisive role in solving the 2006 succession crisis after the death of Emir Jabir III al-Ahmad al-Jabir al-Sabah. However, members of parliament tend to play a more indirect role in governance, such as conducting inquiries of ministers.

Effective power to govern

There are frequent political demonstrations as well as open and free public discussions in dewaniyas, or other traditional gatherings. The legal framework for assembly has relaxed after the Constitutional Court declared in May 2006 parts of the law on public gatherings unconstitutional. Trade unions do exist and workers have a right to strike, although union activity is still subject to certain regulations.

Association / assembly rights

Foreign workers – who make up the majority of the workforce – constitute a small minority in terms of union membership and by law are not allowed to occupy office positions. Domestic workers are not allowed to form unions at all.

Kuwaiti journalists are among the most free and outspoken in the region, despite the fact that there are still some “red lines” not to be crossed with regard to causing religious offence and criticism of the emir, which results in a degree of self-censorship. There have been some allegations that the royal family is trying to take financial control of some media outlets.

Freedom of expression

### 3 | Rule of Law

There is a degree of separation between the legislature and the executive, although it is mitigated by the fact that emir-appointed ministers are also members of the parliament. Given that the parliament can – with respect to ministers – conduct inquiries and pass no confidence motions, and that it is in fact often openly at odds with the executive, checks and balances in Kuwait are more robust than they are in other Gulf monarchies.

Separation of powers

The constitution provides for judicial independence, but the judiciary can yield to pressure from the emir. Although the judiciary is relatively transparent, judges often take positions that are in line with the official standpoint. Due to the lack of national cadres, many judges are contracted Arabs of non-Kuwaiti origin.

Independent judiciary

The accountability of officeholders remains limited. Nevertheless, some of them, including members of the cabinet that abuse their positions, can face legal or political penalties.

Prosecution of office abuse

People are free to pursue their goals and interests, and there are no restrictions of a general nature. Civil rights are not violated on a large scale. The largest human rights problem by far is the treatment of, as well as the lack of legal protection for, foreign and unskilled domestic workers. Similar problems exist for the Bidoon, and the Shi'i minority sometimes has problems exercising all of its rights.

Civil rights

### 4 | Stability of Democratic Institutions

Kuwait is a relatively stable state. There are no major open conflicts within the ruling family, although the al-Salem branch of the al-Sabah family has recently been sidelined. Procedures for choosing the emir, crown prince, prime minister and the cabinet are clearly defined. Conflicts between the government and the parliament occur regularly, and the emir has dissolved parliament five times since 1976. In the last three cases (1999, 2006, 2008), he heeded the constitutional requirement to call new elections afterwards.

Performance of democratic institutions

While there is a large consensus in favor of Kuwait's constitutional arrangements, there is at the same time dissatisfaction with the performance of state institutions, in particular the paralysis that can result from tensions between the executive and the legislative branch of power.

Although it is difficult to classify all parliamentarians as being either pro-government or in the opposition, the opposition holds the majority in the current parliament. In most parliamentary systems, this would constitute a paradox, but it is possible in Kuwait where the emir appoints the government with no need for parliamentary backing. The government seeks to win majorities for legislative proposals on a case-by-case basis. Sometimes the government initiates democratic change, as was the case with the law granting women the right to participate in elections. The year 2006, however, marked a milestone when a broad coalition of parliamentarians managed to adopt a law that changed the electoral system – against the wishes of the government.

Commitment to democratic institutions

## 5 | Political and Social Integration

Although the constitution does not prohibit the formation of political parties, they are almost non-existent. Political activists who established the "Umma party" in 2005 were prosecuted on various charges, none of which resulted in any criminal sentences.

Party system

There are political groups that play the role of political parties. They make public announcements about their activities, operate openly within the parliament, are active during pre-election campaigns, and serve the interests of certain social groups. These groups can be broadly classified as Islamists expressing differing degrees of conservatism that reflect the range of interests from those of "secular-liberals" to Shi'ites.

Compared with those in other Gulf states, civil society in Kuwait is well-developed. There are numerous trade unions, women's organizations, cultural clubs and some professional associations for journalists and lawyers. On occasion, all of these interest groups make their voices heard and present their demands to the government. At the same time, informal networks of tribal and family members remain very strong throughout Kuwaiti society and are generally able to successfully mediate between their respective groups and the political system.

Interest groups

Most people seem to have a positive view of democracy and a relatively large segment of the population participates in elections. In the last parliamentary elections of May 2008, the turnout of registered voters was 69%.

Consent to democratic norms

Self-organization in civil society still encounters barriers. All formal groups must be licensed and are monitored by the state.

Associational activities



## II. Market Economy

### 6 | Level of Socioeconomic Development

The Kuwaiti economy depends primarily on the oil and petrochemical industries. As agricultural development is limited by Kuwait's climate, the country depends almost entirely on food imports. Approximately 75% of the country's supply of potable water must be distilled or imported. Thanks to high oil prices and a high level of state investment income, Kuwait has shown a strong recovery from the losses of the 1990-1991 Gulf War and benefited from the increase in oil prices until mid-2008. Kuwait ranks 29th in the UNDP's updated 2008 Human Development Report, which reflects a moderate level of development as measured by life expectancy, literacy, education and standard of living. Kuwait's population, which reached 2.6 million in 2008, is highly segmented. Kuwaiti citizens make up only 35% of the country's residents, while temporary foreign workers make up most of the rest. Among the workforce itself, foreigners represent 84.5%. Kuwaiti nationals generally work in the already-overcrowded public sector – which employs 79% of the Kuwaiti workforce – and tend not to seek employment in the private sector due to lower salaries and longer work hours. In order to reduce Kuwaiti nationals' dependence on public sector employment, the government has introduced a plan to "Kuwaitize" private companies in which all companies are forced to maintain a fixed percentage of Kuwaiti nationals in their workforce. However, this process has brought only very limited results so far. The global financial turmoil strongly affected Kuwait's financial sector. The stock market fell by 40% at the end of 2008. Kuwait's economic five-year-plan (2009 – 2014) entails heavy investments aimed at making the country a regional financial center.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	59440.5	80797.9	101647.3	<b>112116.2</b>
Growth of GDP	%	10.7	11.4	6.3	-
Inflation (CPI)	%	1.2	4.1	3.1	<b>5.5</b>
Unemployment	%	1.7	-	-	-

		2004	2005	2006	2007
Foreign direct investment	% of GDP	0.0	0.3	0.1	<b>0.1</b>
Export growth	%	5.8	-	-	-
Import growth	%	10.1	-	-	-
Current account balance	\$ mn.	18161.9	34307.5	51571.1	<b>47470.9</b>
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	4.6	8.2	23.3	<b>16.3</b>
Tax Revenue	% of GDP	1.1	1.0	0.8	<b>0.9</b>
Government consumption	% of GDP	19.9	15.7	13.9	<b>14.6</b>
Public expnd. on edu.	% of GDP	5.5	4.7	3.6	-
Public expnd. on health	% of GDP	2.2	1.8	1.7	-
R&D expenditure	% of GDP	0.1	0.1	0.1	<b>0.1</b>
Military expenditure	% of GDP	5.8	4.3	3.6	<b>3.9</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Kuwait has a competitive market economy. With the exception of the state monopoly on the oil and petrochemical industries, there is very little state intervention. However, it should be noted that these industries generate nearly half of the GDP.

Market-based competition

The ruling family and a few long-established merchant families control key economic activities and sectors, such as tourism, communication and insurance. Informal monopolies and oligopolies do exist, while connections between the administration and private businesses result in uneven market competition. Decisions by the administration related to market activity can be arbitrary and sometimes involve corruption. Nepotism is widely accepted. On the other hand, the informal economy is very limited; virtually all businesses are officially registered and taxes are generally low.

Anti-monopoly policy

In the past, imports of foreign goods and their distribution in Kuwait were allowed only through arrangements with a local dealer, but regulatory laws are changing and become less restrictive. In April 2008, a law was adopted which reduces corporate taxes for foreign entities from 55% to 15%. Regional trade was further liberalized through the launch of the common market of the Gulf Cooperation Council (GCC) members on 1 January 2008, which by law removed all barriers to trade, investments and services inside the GCC. A few problems with implementation of the law were reported.

Liberalization of foreign trade

Kuwait's banking sector is well capitalized and highly profitable. Kuwait's central bank plays a supervisory role. There are several commercial banks, largely private, that are generally well managed and stable. Despite the fact that Kuwait's stock market had fallen by 40% at the end of 2008, Kuwaiti banks – with the exception of the Gulf Bank – do not appear overly affected by the financial crisis. Since 2004, foreign banks have been allowed to set up operations in Kuwait. Citibank and the French BNP Paribas were the first to open branches in Kuwait and were joined by Doha Bank and Qatar National Bank during the fiscal year 2007/2008.

Banking system

## 8 | Currency and Price Stability

Inflation, which is generally low (lower than 2%, 2000 – 2004), rose to 5.5% in 2007. The Economic Intelligence Unit tops the estimates for 2008 with a forecast of 13.5%. The main reason for rising inflation in 2008 was the steep increase in food prices on the world market, which is of special importance for a country with virtually no domestic agriculture.

Anti-inflation / forex policy

In 2007, the Kuwaiti dinar was un-pegged from the U.S. dollar and re-pegged to a basket of foreign currencies, mostly to diffuse risks of external economic shocks and to limit imported inflation. The Kuwaiti dinar is fully convertible and profits can be repatriated. On 30 December 2008, the leaders of the GCC states confirmed plans for creating a single currency for the six GCC members, scheduled for 2010. However, convening again in June 2009, the GCC heads of state decided to delay the currency union until 2013 and limit it initially to Bahrain, Saudi Arabia, Kuwait and Qatar.

Prices for most goods and services are generally subject to free-market principles, with the exception of a range of products that are heavily subsidized by the government, including gasoline for domestic consumption, water and electricity, and communication sector goods. Only oil prices fluctuate, mirroring international trends in the oil market. This has a strong impact on the country's balance of payments. However, the recent significant drop in oil prices does not threaten Kuwait's macrostability, because the government is accustomed to calculating with very conservative oil price estimates. However, Kuwait's Minister of Finance al-Shamali stated in October 2008 that with a long-term oil price below \$60 per barrel, Kuwait might have to modify its ambitious five-year-plan (2009 – 2014).

Macrostability

## 9 | Private Property

Property rights and basic commercial laws are reasonably clear. The constitution forbids foreign ownership of the country's natural resources. Oil and petrochemicals, two strategic sectors, are entirely state-controlled. Most other sectors are largely privately owned. Non-citizens can own stocks, but are not allowed to own real estate. During the period under review, the government indicated that it wants to rearrange property laws to allow a limited foreign ownership of real estate in designated areas.

Property rights

The privatization of state companies is proceeding slowly, because it is not high on the government's agenda. Even when the government proposes to privatize certain assets, it usually faces opposition from the parliament, which either accuses the government of harboring "hidden interests" or expresses concern regarding employment for Kuwaiti citizens. After 14 years of deliberations, a parliamentary committee approved the government-sponsored draft privatization law in 2006, which would allow the government to sell certain state-owned companies (electricity, communications and education services) under certain conditions, such as providing a "golden" government share (i.e., the government retains a significant share in the company's stocks) and five-year job guarantees for Kuwaiti employees. Nevertheless, the parliament postponed a final vote on the bill, which was not adopted until the end of 2008. Another important legislative proposal aimed at boosting Kuwaiti oil output by allowing foreign investment in northern oilfields ("Project Kuwait") remains controversial and has not been adopted since being introduced in 1998. In December 2005, it looked as if the long-standing deadlock had been broken when the government agreed to the parliament's main demands – namely, that the oil produced would remain the property of Kuwait, ownerships would not be transferred, and the contracts would be considered service agreements as opposed to foreign concessions. In May 2008, contracts were awarded to five international companies. At the end of 2008, the project was delayed once again due to accusations by several members of parliament regarding irregularities in the awarding procedures.

Private enterprise

## 10 | Welfare Regime

Kuwait is an oil-funded welfare state. The state assumes primary responsibility for the welfare of its citizens, who are provided with free medical care, government-supported housing, interest-free loans, and free education until graduation from university, guaranteed employment, and even generous financial assistance to defray the (sometimes exorbitant) cost of weddings. In addition, various services, including electricity, water, gas and telecommunications are heavily subsidized. Tribes, clans and extended family networks also play an important role as a

Social safety nets

complement to state support for the elderly, divorced women or orphans. As a consequence of all of the above, there are very few cases of poverty among Kuwaiti citizens. At the same time, foreign blue-collar workers and housekeepers, especially women, are often exploited, living and working in unacceptable conditions. A standardized contract for foreign domestic workers was introduced in October 2006 that has brought about a few improvements, but it nonetheless forbids an employee from changing employers even in the event of abuse. There have been several strikes and other forms of public protest by workers and housekeepers against abuse and exploitation.

The constitution declares men and women to have equal rights, and although they live in a patrimonial society, women increasingly enjoy expanded rights and freedoms. In 2005, Massouma al-Mubarak became the first female minister, initially heading the Ministry of Planning and then the Ministry of Health, resigning in 2007 after a hospital fire, but being elected into the Kuwaiti Parliament as one of the four first female deputies in May 2009. The second female minister to be appointed by the emir, Nouriya al-Subeeh, is responsible for education. The year 2005 also marked the introduction of women's suffrage. It should be noted, however, that the practice of co-ed instruction in schools and universities was abolished by parliament in 1996.

Equal opportunity

## 11 | Economic Performance

Thanks to the rise in oil prices that continued until mid-2008, the Kuwaiti economy has undergone a long period of significant growth. However, real GDP growth has been declining, though it remained solid at 4.7% in 2007 (GDP in current prices reached \$87 billion in 2007). In turn, according to the Economist Intelligence Unit, real GDP per capita reached \$27,430. In 2007, the unemployment rate stood at 6.13% among nationals and at a negligible 0.89% among non-nationals. Kuwait is currently enjoying a comfortable financial situation: Government revenues for the 2007/2008 fiscal year grew by 23%, reaching \$52 billion, of which 93% are generated by the oil and gas sector. The fiscal surplus rose to a very high level of \$32 billion (note: this figure includes the allocations for the Reserve Fund for Future Generations). Tax burdens remain low because the government has no immediate need for tax-generated revenue. Economic growth has been largely due to the surge in oil exports and prices. The value of oil exports overwhelmed the absorptive capacity of the domestic economy. The trade surplus continued to grow for the fifth year in a row (\$33.3 billion in 2007). However, like other economies in the region, the Kuwaiti economy has not been immune to the global financial turmoil, as evidenced by the fact that its stock exchange fell by 40% in the second half of 2008.

Output strength

## 12 | Sustainability

Since the discovery of oil, the government has been able to relieve the poverty of its citizens and satisfy their basic needs, creating good standards of living and building the necessary infrastructure. There are no major environmental problems in Kuwait except for water shortages that have been plaguing the country for years. Kuwait fully recovered from the major pollution caused by burning oil fields during the 1990 – 1991 Iraq war. Since then, public awareness for environmental issues has been relatively high.

Environmental  
policy

Kuwait spends about 13% of its total budget on education. This should improve the quality of education, which to date has not been properly oriented toward the needs of the labor market and is not yet up to international standards. The government wants to reduce Kuwait's dependency on the foreign workforce. Public schools are open only to Kuwaitis; others depend on private schools.

Education policy /  
R&D

# Transformation Management

## I. Level of Difficulty

As long as oil revenues remain high, there are no major structural constraints to the political leadership's capacity to govern. A few of the existing constraints include the country's continued reliance on foreign labor, growing unemployment among citizens, the inefficiency of state bureaucracy, which slows possible economic development, and the continued presence of informal patronage networks. However, the country's high level of economic development, impressive infrastructure, lack of poverty or intense ethnic conflicts, as well as an improving level of education among citizens make governance easier. The fact that the country does not need to undergo any major economic reforms also makes the tasks of governing easier. The National Assembly, whose majority tends to be critical of the government's performance, constitutes the only significant domestic constraint. Furthermore, the unpredictability of world oil prices makes it difficult to plan the country's economic development. In foreign policy matters, the Kuwaiti government's room to maneuver is limited, as it is heavily dependent on the policies of other regional and international actors.

Structural  
constraints

On the one hand, the traditions of civil society are not well established. Public or civic activity is limited, and overall social trust is based more on personal relations than on institutions. On the other hand, Kuwaiti citizens are politically quite active, especially in comparison to other Gulf monarchies. Various political groupings, trade unions, professional associations, chambers of commerce and numerous voluntary groups (for example, women and cultural associations) have existed for a long time. There is a strong tradition of free debate at semi-public *dewaniyas*, the traditional weekly gatherings of male Kuwaitis where all kind of topics are discussed.

Civil society  
traditions

Although Kuwaiti society is quite segmented (nationals vs. immigrants; Sunni Muslims vs. Shi'ites; Islamists vs. liberals; urbanites vs. suburbanites and so on), this situation has not yet led to major conflicts. However, tensions with tribes have become more visible. In advance of the May 2008 elections, the government cracked down on "tribal primaries," and members of parliament involved in these primaries are currently under investigation. At the time of this writing, the

Conflict intensity

parliament is also debating whether or not to lift parliamentary immunity for five of these parliamentarians. Tensions have also surfaced on various issues between Sunni Muslims and Shi'ites.

## II. Management Performance

### 14 | Steering Capability

Preferring stability over change, the Kuwaiti political leadership and the society at large are traditional. A “gradual approach” is the preferred mode of operation. Because the political leadership does not make full democratization a goal, it must conduct broad and inclusive consultations on policy matters, and thereby mitigate calls for more democracy.

Prioritization

The political leadership sometimes claims to be in pursuit of long-term aims such as economic development and improving and expanding education opportunities, but it is usually not able to act with long-term goals in mind. The government generally provides ad-hoc solutions to problems. Although economic reforms are often initiated, follow-up is often insufficient and poorly managed. Examples include the inefficient labor market “Kuwaitization” policy, half-hearted foreign investment reforms, and the sluggish privatization process. Although the right ideas are often debated, the government tends to resort to wide-ranging declarations that pay little attention to details and feasibility. Many Kuwaitis feel that their country is stagnating – caught up in endless public squabbles over minor issues and that its leaders are not advancing transformation like the young, innovative rulers of the neighboring Gulf monarchies have managed to do.

Implementation

The leadership is not very flexible or innovative. Although it sometimes tries to respond to mistakes and failed initiatives with new ideas, old policies frequently repeat themselves. At the same time, the ruling family keeps a close eye on the situation in other Gulf monarchies and sometimes copies decisions made elsewhere. For example, the decision to grant women political rights in Kuwait was in part influenced by similar developments in Qatar and Bahrain. The government does not actively encourage citizens to further develop civil society institutions, as it does not consider them to be either an important source of the regime’s legitimacy or key to the country’s development.

Policy learning



## 15 | Resource Efficiency

Generally, the Kuwaiti government makes good use of the economic resources available. Large revenues from oil exports have financed the development of a generous welfare state providing significant services (i.e., housing, health, education), public infrastructure, and employment or financial assistance to all Kuwaiti citizens. To cope with the foreseeable end of oil revenues, the government has since 1976 been placing 10% of its revenue in a special reserve fund for future generations. Much of these reserves were used to rebuild the country after the 1990-1991 Iraqi invasion, but the fund has since been restored. This fund, together with the General Reserve Fund, which consists of all budget surpluses, add up to more than \$250 billion in funds that are administered by the Kuwait Investment Authority. However, the government does not always use all of its available resources efficiently. Sensitive procedures are rarely transparent, and there is considerable waste in public procurement. There have been several reports of mismanagement of public funds. The government's efficiency also suffers from the public administration's lack of professionalism, as evidenced by the presence of favoritism and random selection in hiring practices.

Efficient use of assets

A disproportionate portion of government spending goes to current expenditure – a large share of this being the costs involved with employing a bloated public workforce. This is a deliberate policy that might arguably be seen as an aspect of welfare policy. On the positive side, there are mechanisms for public sector audits and expenditure control that are probably better-organized than in most other Gulf monarchies. Generally, mismanagement may be more visible in Kuwait than in other states in the region precisely because it has a higher level of media freedoms and a parliament that is often rigorous in holding the executive accountable.

The government often has difficulties coordinating conflicting objectives to form a coherent policy. A key example of this is the fact that unemployment among young Kuwaitis – which represents a very serious political and social problem – has been allowed to grow, while at the same time, hundreds of thousands of foreign workers are hired every year. The policy aimed at nationalizing the workforce is not bringing the expected results because the government is unable to enforce its own laws on the matter, as it faces opposition from Kuwaiti businessmen as well as Kuwaiti job-seekers, who are generally not interested in taking up lower-paying jobs. Another obstacle for coherent policy coordination is the relationship between the government and the parliament. Given that the government is appointed by the emir, it does not need to rally a permanent supportive majority in parliament behind its policy agenda. This means that every legislative or policy proposal can fail in parliament. This problem is exacerbated by the absence of political parties, which makes it difficult for a government to engage in long-term negotiations and agreements with any parliamentary majority.

Policy coordination

Corruption is a growing problem in Kuwait, and it appears that Kuwait has more problems with corruption than other Gulf states like the United Arab Emirates and Qatar. The executive's commitment to combating corruption does not seem to transcend rhetoric. National Assembly members are more effective in this regard. In 2005, for example, a group of parliamentarians launched a local chapter of the Global Organization of Parliamentarians against Corruption (GOPAC) to combat corruption and educate the public about the dangers it poses to society.

Anti-corruption  
policy

## 16 | Consensus-Building

Despite the semi-authoritarian character of the Kuwaiti regime, consensus-building plays an important role in the decision-making process. The emir has always taken into account the interests of particular members of the ruling family, big merchant families, and various tribal groups. Like in other Gulf monarchies, decisions are not imposed but preceded by discussions in order to establish – as much as possible – a consensus among all political allies.

Consensus on goals

There is a wide consensus on the importance of Kuwait's constitution, which is seen as a – or even the – only guarantee for the political system's stability. Given the often protracted and conflict-prone policy process between the executive and parliament, rumors that the emir may suspend parliament and rule without it are frequently circulated. However, although he has exercised his prerogative to dissolve parliament three times since 1999, in each case, he called new elections immediately thereafter, as stipulated by the constitution. The results of elections following these dissolutions were not in the government's favor, which may have reduced the emir's incentives to resort to dissolutions.

Anti-democratic  
veto actors

Islamist politicians have proven to be adverse to some aspects of democracy, as evidenced by their opposition to electoral rights for women in 2006. However, they have neither tried to reverse these achievements, nor are they calling for unconstitutional means to promote their policy programs. On other aspects of democratic governance, such as increasing the role of parliament, they tend to be more vocal than other political groups.

The ruling family has succeeded in containing potential cleavages within the system, including those between Sunni Muslims and Shi'ites, between Islamists and "liberals," and between the urban population (hadhar) and those living in outer districts (badu), which are often of tribal orientation. Apart from using significant financial resources to address political demands, political fragmentation, cross-cutting cleavages and the weakness of political groups have made it easier for the government to manage conflicts. Some fear that this may change once political interests become more organized and articulated. It appears that the government is concerned that political organizations could develop along tribal affiliations. This

Cleavage /  
conflict  
management

may explain the security forces' heavy-handed crackdown in response to the "primaries" held by tribes to select candidates for the April 2008 elections, which the government forbids.

Civil society organizations, in the form of Western-style advocacy organizations, do not have a long tradition in Kuwait, and are therefore politically marginalized. Nonetheless, some civil society organizations, such as the Kuwait Economic Society, have been successful in building grassroots constituencies and have also managed to establish good relations with the ruling elite. In addition, there are other important actors in civil society such as Islamic charity organizations.

Civil society participation

The political leadership is not doing enough to ease tensions between Kuwaiti citizens and the Bidoon, who are often wrongly perceived of as being Saddam Hussein's supporters and disloyal to the Kuwaiti state. Though observers inside and outside the country request that Bidoons should be granted citizenship, in reality this happens only very slowly. There should be more efforts also to avoid splits growing between Sunni Muslims and Shi'ites. In February 2008, two Shi'i members of parliament were widely criticized for attending a rally mourning Hezbollah commander Imad Mughniyah. While many Shi'ites were not in favor of the rally, they were unsettled by the sometimes vitriolic language used by some critics against the Shi'i community in this context. They deeply resent suggestions that Shi'ites are less loyal to Kuwait and harbor hidden affiliations with Iran. Finally, the treatment of non-Kuwaiti immigrants remains an ongoing problem. In general, however, there are no major conflicts that require reconciliation.

Reconciliation

## 17 | International Cooperation

Generally open to international cooperation, Kuwait is a member of all major international organizations, including OPEC and the WTO. It is one of the few Arab countries that supports the United States politically and whose population has a generally pro-Western attitude. The United States' role in liberating Kuwait from Iraqi occupation in 1991 has not been forgotten. While its cooperation with the United States is crucial, Kuwait also maintains important relationships with the United Kingdom, France and Russia. Its economic cooperation with the United States, Germany, Japan and South Korea has expanded in recent years. In particular, Kuwait is near signing an FTA agreement with the United States.

Effective use of support

The role of outside actors in economic reforms and the democratic process is not directly significant, although relations with the United States are likely to have an impact on the government's approach to democratization. Obviously, the move in 2006 to grant electoral rights to women was well-received in the West. While Kuwait is often willing to accept international assistance, recommendations are not always implemented. Examples include the IMF recommendations on state

subsidies and tax reforms; the ILO suggestions for changing Kuwait's sponsorship requirement, or the demands made in 2000 by the United Nations' Human Rights Committee that Bidoons be granted citizenship on a non-discriminatory basis. In turn, Kuwait offers its financial support to various causes regionally and internationally, which is usually given on a humanitarian basis with no political strings attached.

Kuwait is perceived as a relatively reliable partner, not only by the other GCC states but also the international community. This stems in part from its history of voiced opposition to Saddam Hussein and in part from its relatively advanced political system.

Credibility

Kuwait's relationship with Iraq has been marked by the Iraqi invasion of Kuwait in 1990 – 1991. Relations with post-Saddam Iraq have been largely normalized. Kuwait has had occasionally tense relations with Iran and has always been afraid of Tehran's perceived hegemonic aspirations in the Gulf. Kuwait supported Iraq in the Iran-Iraq war (1980 – 1988). In 1986, Iran announced a naval blockade of Kuwait-bound shipping. Both countries currently maintain normal relations, although Kuwait carefully observes Tehran's role in Iraq. Relations with Saudi Arabia and other Gulf monarchies have been generally good, as exemplified by the fact that Kuwait and Saudi Arabia together operate the oil facilities in the so-called neutral zone. Kuwait is an active member of regional organizations, especially the GCC.

Regional  
cooperation

## Strategic Outlook

Kuwait's political developments are marked by significant tensions between the government and the parliament. Two recent dissolutions of parliament (2006 and 2008) as well as the government's resignation in December 2008 point to an unsettled political system in search of a new equilibrium.

While the tensions between the executive and legislative branches of power are beneficial in terms of checks and balances, they have a negative impact on the policy-making process. This is the price to be paid for a hybrid political system in which a freely elected legislature has no role in forming the government.

There have been incremental steps taken toward democratization. These include the move to grant women electoral rights, discontinuing the practice of appointing the crown prince to act as the prime minister, and adhering to constitutional provisions when dissolving parliament. The more assertive stance taken by parliament in recent years also points to a gradual shift in favor of democratization.

It is, however, open to question whether or not Kuwait can continue forward with this process, particularly in the face of the global economic crisis. Should the economic outlook for Kuwait deteriorate, it is unclear if this will fuel the drive for more democratic governance or trigger a reversal toward authoritarianism.

The most important step to be taken to improve the state of democracy in Kuwait would involve the emir finding a stable parliamentary majority to back his government and its policy program during a parliamentary term. However, the government's reluctance to facilitate political party formation makes it very difficult to identify reliable majorities in parliament. In addition, currently majorities are more likely to be found in the Islamist and tribal spectrum of parliament, which does not sit well with the government's more liberal outlook.

It is possible that the government might resort to a more authoritarian form of rule in the face of an economic downturn demanding hard policy choices. The most likely scenario here would involve the earlier unconstitutional practice of suspending parliament without holding fresh elections. This would constitute a significant setback for democracy and a risky move for the emir, whose legitimacy is anchored in the constitution.

In a third scenario, the political status quo would continue. The economic downturn could focus minds in the government as well as the parliament on resolving certain issues, such as finding a means to develop the northern oilfields. Indeed, the relatively open political environment of Kuwait may make it more resilient in an economic downturn than other Gulf states, in which the rulers' legitimacy is more dependent on good economic performance.

Democratic states elsewhere should afford Kuwait's political developments more attention by supporting the steps taken to enhance democracy and lauding the fact that Kuwait is the most democratic of the Gulf states. Kuwait sees itself as a regional leader in questions of democracy, but still does too little to catch up with the performance and characteristics of fully-developed democracies. A failure of Kuwait's political system would constitute a setback for the entire Gulf region.

Decreasing financial means may make it more difficult for the government to respond to competing demands and to address political conflicts. The relations between Sunni Muslims and Shi'ites, and the role of tribes deserve particular attention in this context.

Debates over further economic diversification and the privatization of state assets are likely to continue as the state attempts to diversify its sources of income and cut its dependency on oil revenues by developing aluminum, steel and cement production. Implicit therein are the government's attempts to turn Kuwait into a regional financial and service center by facilitating procedures, modernizing laws, and creating an environment that is encouraging to investors. No breakthrough is expected, but the long-debated law allowing the government to privatize certain companies may be approved. Similarly, it is possible that the law allowing for foreign investment in developing northern oil fields ("Project Kuwait") will finally be accepted by the National Assembly.

To date, Kuwait's demand for foreign immigrant labor remains strong. However, an economic downturn could raise the specter of unwanted immigrant workers who may face slim economic prospects in their native countries.

In terms of regional developments, Kuwait has a strong interest in Iraq's stability and a deflation of international and regional tensions with Iran. Any developments affecting shipping in the Gulf would be highly sensitive for Kuwait.