

BTI 2008 | Kuwait Country Report

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. 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 125 transformation and developing countries are evaluated.

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Key Indicators

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|--------------------------|--------|------|------------------------------|------|----------------------|----|--------|
| Population | mn. | 2.5 | HDI | 0.87 | GDP p.c. | \$ | 23,416 |
| Pop. growth ¹ | % p.a. | 3.0 | HDI rank of 177 | 33 | Gini Index | | - |
| Life expectancy | years | 78 | UN Education Index | 0.87 | Poverty ³ | % | - |
| Urban population | % | 98.3 | Gender equality ² | - | Aid per capita | \$ | - |

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

In the period between 2005 and 2007, Kuwait made several significant steps towards further political liberalization. Firstly, women gained the right to vote and participated in the 2006 parliamentary elections. One woman was appointed member of the cabinet, and additional two became members of the Municipal Council. Secondly, opposition members became a majority in the National Assembly. According to the constitution, the opposition majority is unable to change the government nominated by the emir, but if it is united, it is able to pass various pro-democracy laws and control the government more effectively. In this manner, two ministers were forced to resign in 2006 after being questioned for allegations of abusing power, as well as corruption and mismanagement. Thirdly, a new press law approved by parliament in March 2006 broadened the freedom of expression and allowed for new newspapers licenses. At the same time, the Constitutional Court abolished the old law on public gatherings, which required citizens to obtain prior authorization for public meetings. Moreover, the period under observation witnessed an increase in popular political activity, particularly street demonstrations. Traditional debates in diwaniyyas (social gatherings) continued. At the beginning of 2005, Sunni Islamists announced they were establishing the Hizb al-Ummah Party (Party of the Muslim Community), challenging the regime's ban on political parties. The public prosecutor charged the organizers with plotting to overthrow the government, though the case never went to trial. In January 2006, the long-ruling Emir Sheikh Jabr al-Ahmed al-Jabr al-Sabah passed away. He was succeeded by the crown prince, who turned out to be unable to rule because of his poor health. During this period, defined by political crisis, parliament voted for the prime minister for the first time. At the time, Sheikh Sabah al-Ahmed al-Jabr al-Sabah, who was to become emir, appointed his brother crown prince and his nephew prime minister. Despite these wide-ranging changes, Kuwaiti policies, both domestic and international, did not change. In spring 2006, the emir dissolved parliament, which

tried to pass a law limiting the number of electoral districts to discourage the buying of votes and other irregularities in elections. This represented a miscalculation by the emir, as the opposition, especially the Islamists, only grew stronger afterwards. Due to high oil prices, the Kuwaiti economy has been undergoing a period of significant growth. In particular, the real GDP surpassed an impressive 8% in 2005 and in 2006. Government revenue is so high that despite steady growth in expenditures, the fiscal surplus remains strong, which keeps the tax burden low. The large numbers of foreign workers making up two-thirds of Kuwait's population represent the main problem for the government. There are serious economic, political, social and cultural problems associated with their presence.

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. Kuwait 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 has continued its rapid development at 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 parliament has never been a "rubber-stamp" body, and has always openly discussed 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. The parliament's criticism of the government caused the emir to dissolve it on several occasions, most recently in 2006. Women have been discriminated against in politics for a long time. Only in May 2005, after years of heated political debates and despite opposition from some Islamists, did the parliament finally approve the emir's request and grant women the right to vote. In April 2006, women voted in the parliamentary elections for the first time. While several women ran

for office, none were elected. At the same time, the government appointed a woman as Minister of Planning and Administrative Development Affairs, and appointed two women to the Municipal Council. The nation-forming process in Kuwait involves sociopolitical and cultural issues. Foreign residents 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. In addition, the government is not prepared to grant citizenship to the “bidoon”, the large group (over 100,000 people) of stateless local Arab inhabitants, many of whose families settled in the Gulf generations ago as merchants or workers. The government remains unwilling to make the bidoon citizens, as it claims they are in fact Iraqis concealing their former nationality. Wide-ranging changes in the country’s political leadership in 2006 did not lead to any meaningful positive change in Kuwaiti policies.

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 with some legislative powers. The laws passed by the parliament go to the emir for approval. If for any reason the emir disagrees with the bill, he has the right to return it to the parliament. If the parliament insists on its position, a two-thirds majority is required. If the two-thirds majority is secured, the emir must pass the bill. On the other hand, laws passed according to the decrees of the emir must subsequently be ratified by the National Assembly, which has at times refused to do so. The emir has the power to dissolve the National Assembly at will, but must announce elections within 60 days. The meaning of the constitution, the separation of powers, and thus the role of the parliament is not the same as in Western constitutional monarchies. In Kuwait, the emir and the ruling family perceive the constitution and other rights as their gift to the population, whereby they have agreed to consult with the population on certain matters but not agreed to limit their ultimate authority. In turn, for much of the Kuwaiti opposition, the constitution is seen instead as a contract between the rulers and the population in which citizens agree to allow rulers to play a leading role in the country but only as long as they operate within the boundaries of the constitutional order. These contradictory perceptions often lead to tensions between the opposition and the ruling family. Today, members of the opposition, even Islamists, speak quietly but firmly about moving toward a constitutional monarchy based on the European model and many anticipate that Kuwait can become a pluralist political party system. Kuwait has been described as a “partly free” country in Freedom House’s “Freedom in the World” survey. In turn, in 2005 the Economist Intelligence Unit’s political freedom indicator (based on a scale ranging from one to 10, with 10 being the most free) gave Kuwait a score of 5.95, the second best in the Arab world.

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 groupings are moderate forces that do not question the legitimacy of al-Sabah to rule the country. Like in other monarchies of the Gulf, the combination of a small population and huge financial resources has allowed for a consensus about the nature of the governing system, which accords a high degree of legitimacy for the ruling family. While 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, a merit-based government willing to share some power with them, and more opportunities for their private businesses, it does not demand changes to the existing regime.

State identity

Islam is the state religion but the country generally functions as a modern order with secular institutions. Nevertheless, the constitution states that Shari'ah is a main source of legislation. Radical Islamists repeatedly attempted to change the constitution and make Shari'ah the main source of legislation but so far failed in their attempts. Islamic law is significant as regards personal matters. Religious minorities are generally permitted to practice their religion freely but law bans missionaries from preaching.

No interference of religious dogmas

The state bureaucracy is bloated; many positions were created simply to provide employment for Kuwaiti citizens. It suffers from corruption and low managerial and technical skills.

Basic administration

2 | Political Participation

Kuwaitis cannot change their government democratically as it is the emir who appoints the prime minister and the cabinet, though the constitution does mandate that the emir share legislative power with the National Assembly to a certain extent. The parliament is composed of 65 members, out of which 50 are elected. The remaining 15 members are cabinet ministers, and, the number of parliamentarians could potentially be less than 65 if the ruling family decided to appoint some parliamentarians as ministers. Until recently, only 15% of the Kuwaiti citizen population was allowed to vote. Women obtained this right only in 2005, but “naturalized” citizens of less than thirty years’ citizenship, and members of the armed forces and the police are still excluded from elections.

Free and fair elections

There is a broad representation of various groups in the National Assembly, although the fact that political parties are not formally allowed in Kuwait makes it hard to assess individual members' political affiliation. Many members of parliament's characterize themselves either as pro-government or Islamist. Nevertheless, following the 2006 elections, it can be said that the parliament is comprised of 12 Islamists (from both Shi'a and Sunni groupings), six so-called liberals and some 32 "independents," including 23 parliamentarians that function as representatives of various tribes.

Effective power
to govern

The years 2005 and 2006 saw an increase in public demonstrations. Many were related to women's political rights, while others supported the National Assembly's anti-corruption campaign and a pro-democratic five-electoral district plan. Open and free public discussions in diwaniyyas, or traditional private gatherings, have continued. Trade unions do exist and workers have a right to strike although union activity is still subject to certain regulations. Foreign workers, a large majority in the workforce, constitute a small minority in terms of union membership and by law are not allowed to occupy office positions. Domestic, as well as maritime workers are not allowed to form unions at all.

Association /
assembly rights

Kuwaiti journalists are among the freest and most outspoken in the region, despite the fact that there are still heavy penalties for religious offences, criticism of the emir, and calls to overthrow the government. As the government enforces law arbitrarily, many journalists practice self-censorship. In Freedom House's 2006 "Freedom of the Press" report, Kuwait ranked 116th out of 194 countries, which is the highest ranking of all Arab countries.

Freedom of
expression

3 | Rule of Law

The existence of an elected parliament allows for certain checks and balances that are relatively significant in comparison to other Gulf monarchies, but very weak if compared to Western democracies, insofar as the dominance of the executive over the legislative branch is obvious. The government is not responsible to parliament but rather to the emir, which can dissolve it any time. Also, the parliament can be dissolved by a decree of the emir.

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. Senior members of the ruling family can be immune from prosecution. Nevertheless, in January 2007, for the first time in Kuwaiti history, a member of the ruling family was sentenced to death for drug trafficking. Due to the lack of national cadres, many judges are contracted Arabs of non-Kuwaiti origin.

Independent
judiciary

The accountability of office holders remains limited. Nevertheless, some of them, including members of the cabinet that abuse their positions can face legal or political penalties. For example, in 2005, several National Assembly members demanded the resignation of Muhammad Deif Allah Shara, deputy prime minister and minister of state for cabinet affairs, for corruption, abuse of power and misappropriation of public funds. The minister of health, Muhammad al-Jarallah, also resigned after being questioned for alleged mismanagement.

Prosecution of
office abuse

People are basically 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, as well as the lack of legal protection, of foreign and unskilled domestic workers. Similar problems exist for the bidoon, and the Shi'a minority sometimes has problems exercising all its rights. The Kuwait Human Rights Society finally gained official recognition in 2004. In turn, in 2005 the pro-government Kuwaiti Society for the Basic Constituents of Human Rights was established by Islamists, which duplicates to some extent the work of the Kuwait Human Rights Society, although it does not adhere to the principles of the universal declaration of human rights.

Civil rights

4 | Stability of Democratic Institutions

Kuwait is a relatively stable state. There are no major 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. Separating the posts of crown prince and prime minister, a move long demanded by the opposition to the point of causing tensions, was finally implemented in 2003, though it should be noted that this separation allows criticism of the prime minister, but not of the crown prince. Conflicts between the government and the National Assembly occur quite often, and the emir dissolved the parliament on four occasions: in 1976, 1986, 1999 and 2006. On each of the first two occasions, the National Assembly was suspended for several years but in the latter two elections were called promptly within 60 days.

Performance of
democratic
institutions

In the current parliament, the opposition holds the majority. In many other parliamentary systems this paradox would be impossible over any significant time period, as a government cannot act effectively without majority support. But while Kuwait displays more democratic features than many of its neighbors, the regime does not allow a majority in the National Assembly to determine the final nature of political authority. Yet, this may be changing now. In the past, most of Kuwait's political groups regarded each other as rivals rather than allies. Given this situation, the government could easily play these groups against each other and break up any opposing coalition. In 2006, however, the various factions

Commitment to
democratic
institutions

managed to put together a coalition supporting an electoral reform package calling for the 25 electoral districts to be reformed into five. They have called for the abolition of buying votes, changing residences (i.e., in order to be eligible to be elected to a particular district) and have initiated attempts to force candidates to run on political platforms rather than utilizing tribal, family and neighborhood connections. When the government appeared to be sabotaging these efforts, some parliamentarians undertook the unprecedented and bold step of submitting an interpellation to the prime minister. Rather than allowing his nephew to suffer from this indignity, the emir decided to dissolve the National Assembly. Yet, the subsequent elections brought an unpleasant surprise to the ruling family. Even though it was held under the old 25 district system, the elections produced a solid majority for the opposition. Rulers are cautious about broadening democracy, as they fear the potential consequences. During confrontations between the government and the parliament in 1999, the Crown Prince and Prime Minister Sheikh Saad al Abdallah al-Sabah warned the opposition that the security of the country would always be placed “over and above democracy.” Yet, sometimes it is the government that paradoxically initiates democratic changes. This was, for example, the case with the law granting women the right to participate in elections. This move can perhaps be explained by the fact that the government was under the impression that on the whole, women constitute a moderate, pro-government force, which could mitigate the opposition.

5 | Political and Social Integration

Political integration is limited. This is linked to the fact that political parties are not permitted. In practice, however, various groups play the role of political parties, make public announcements about their activities, operate openly within the parliament and are active during pre-election campaigns, and serve the interests of certain social groups. Several Islamist groups of varying degrees of conservatism are active in the parliament. There are also various “liberal” movements, such as the Kuwait Democratic Forum, the National Democratic Rally, and the Popular Action Bloc. Tribes have their political representation too, as many of their leaders are in parliament. Opposition parliamentarians have occasionally tried to unite to form a bloc. Most recently, members of three major parliamentary blocs – liberal, populist, and Islamic – attempted to create a “Bloc of Blocks.” They drew up a list of 12 laws that they agreed to approve and which they said are necessary to combat corruption and speed up key projects. Nevertheless, suspicion among the Islamists and all other blocs remains strong. Whereas the Islamists regard populists and liberals as lacking popular support and accuse them of not being committed to democracy, liberals and populists regard the Islamists’ commitment to democracy as a means rather than an end and suspect that the Islamists would sell out their allies if they were offered an

Party system

opportunity to impose their deeply conservative social agenda. At the beginning of 2005, a great deal of confusion in the Kuwaiti political scene was caused by the establishment of the Hizb al-Ummah political party by the hard-line branch of the Sunni Islamist Salafi movement. The public prosecutor charged nine of its leaders with plotting to overthrow the government. The case never came to trial, though Kuwait's prime minister announced that there were no plans to legalize political parties at all.

Nevertheless, in comparison to other Gulf states, civic society is well-developed. There are numerous trade unions, women's organizations, cultural clubs and some professional associations of journalists and lawyers. On occasion, all 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 in April 2006, for instance, the overall turnout was 65% (though only 35% of all eligible women went to the polls).

Consent to democratic norms

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

Associational activities

II. Market Economy

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. About 75% of the country's supply of potable water must be distilled or imported. Thanks to high oil prices and high level of state investment income Kuwait has recovered strongly from the losses of the 1990–1991 Gulf War and currently its economy does not have many obstacles that impede its rapid expansion.

6 | Level of Socioeconomic Development

Kuwait ranks 33rd in the UNDP Human Development Index (2006 report), which reflects a moderate level of development as measured by life expectancy, literacy, education, and standard of living. Kuwait's population reached three million in 2005 and it is highly segmented. Only 33% of the population are Kuwaiti nationals with citizenship, while temporary foreign workers make up most of the rest. Their percentage has been continuously growing, having expanded even

Socioeconomic barriers

recently, from 62% in 2000 to 67% in 2006. This development may have negative political, economic and cultural repercussions. The situation is even worse among the workforce, in which foreigners represent 82%. Kuwaiti nationals generally work in the already-overcrowded public sector, and tend not to look for employment in the private sector due to its competitiveness, lower salaries and longer work hours. This situation, combined with rapid population growth and a high number of graduates every year, has caused rising unemployment and threatens social stability. At the same time - paradoxically - hundreds of thousands of foreign workers were hired in the last years and the process of "Kuwaitization" of parts of the workforce has brought only very limited results so far.

| Economic indicators | | 2002 | 2003 | 2004 | 2005 |
|---------------------------|----------|--------|--------|---------|----------------|
| GDP | \$ mn. | 38,122 | 47,832 | 59,267 | 80,781 |
| Growth of GDP | % | 5.1 | 13.4 | 6.2 | 8.5 |
| Inflation (CPI) | % | 0.9 | 1 | 1.2 | 4.1 |
| Unemployment | % | 1.1 | 1.3 | 1.7 | - |
| Foreign direct investment | % of GDP | 0.0 | -0.1 | 0.0 | 0.3 |
| Export growth | % | -12.1 | 30.9 | 5.8 | - |
| Import growth | % | 6.9 | 13 | 10.1 | - |
| Current account balance | \$ mn. | 4265.0 | 9427.2 | 18162.9 | 32634.2 |
| Public debt | \$ mn. | - | - | - | - |
| External debt | \$ mn. | - | - | - | - |
| External debt service | % of GNI | - | - | - | - |
| Cash surplus or deficit | % of GDP | 1.4 | 5.7 | 4.6 | 8.2 |
| Tax Revenue | % of GDP | 1 | 1 | 1.1 | 1 |
| Government consumption | % of GDP | 25.3 | 23.0 | 19.9 | 15.4 |
| Public expnd. on edu. | % of GDP | 6.6 | 6.5 | 5.7 | 5.1 |
| Public expnd. on health | % of GDP | 2.8 | 2.4 | 2.2 | - |
| R&D expenditure | % of GDP | 0.2 | - | - | - |
| Military expenditure | % of GDP | 7.5 | 8.2 | 7.9 | 4.8 |

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | 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.

Market-based competition

The ruling family and a few long-established merchant families control key economic activities and sectors. In effect, informal monopolies and oligopolies do exist, while connections between the administration and private businesses result in uneven market competition. Administration decisions 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.

Liberalization of foreign trade

The banking sector is sound. Kuwait's central bank plays a supervisory role. There are several commercial banks, largely private, that are generally well managed and stable. Since 2004, foreign banks have been permitted to set up operations in Kuwait. So far, four have been established, including Citibank of the United States and the French BNP Paribas.

Banking system

8 | Currency and Price Stability

The government keeps inflation at a very low level (below 2% average between 2000 and 2004). In 2005, inflation reached 4.1%, but this was mainly due to changes in the basket of goods and services on which the consumer price index is based. In 2006, it went down again, to 2.5%. The currency is fully convertible and profits can be repatriated. The Kuwaiti dinar has been pegged to the U.S. dollar since 2003 as part of a plan to create a single currency for all six Gulf Cooperation Council states. This monetary union is scheduled for 2010, but it has suffered a certain lack of support due to significant economic and political obstacles. A rarity occurred in May 2006 when the central bank slightly devaluated the dinar by 1%. Kuwait's large currency reserves and high level of foreign currency earnings from oil exports are likely to continue and ensure that the dinar exchange rate will remain stable.

Anti-inflation / forex policy

Prices are mostly free, with the exception of several products which are heavily subsidized by the government, including gasoline for domestic consumption, water and electricity, and the communication sector. Only the oil prices fluctuate, mirroring international trends in the oil market. This affects the country's balance of payments quite heavily.

Macrostability

9 | Private Property

Property rights and basic commercial laws are reasonably clear. The Kuwaiti 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 are generally not allowed to own real estate but can own stocks.

Property rights

The privatization of state companies is proceeding slowly, both because privatization is not high on the government's agenda (as it simply did not need additional sources of income recently) and because, even when the government proposes the privatization of certain assets, it usually faces opposition from the National Assembly, which either accuses the government of "hidden interests" or opposes it because of fears that it would endanger the employment of Kuwaiti citizens. After 14 years of deliberations, in May 2006, a parliamentary committee approved the government-sponsored draft of a privatization law. It would allow the government to sell certain state-owned companies (electricity, communications, and education services) under certain conditions. Namely, the government must maintain a "golden" share, which gives it a veto power in the board of directors and Kuwaiti employees would retain the right to a five-year contract with the new private owners at full salary. Nevertheless, the parliament has postponed a final vote on the bill. A very important item of legislation, the proposal allowing foreign investment in northern oilfields to boost Kuwaiti oil output (called Project Kuwait), has gone undecided since 1998. In December 2005, it looked like the long-standing deadlock was broken as the government had agreed to the National Assembly's main demands – that the oil produced would remain the property of Kuwait, ownerships would not be transferred, and the contracts would be considered service agreements and thus not foreign concessions. On the other hand, many parliamentarians seemed to agree with the reasoning that, with oil selling around \$60 a barrel, any delay in increasing production means Kuwait will be missing out on the greatest oil boom in three decades and billions of dollars in profits every year.

Private enterprise

10 | Welfare Regime

Kuwait is an oil-funded welfare state. The state assumes primary responsibility for the welfare of its citizens. Kuwait's citizens 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. Additionally, various services, including electricity, water, petrol, and telecommunications are heavily subsidized. As Kuwait remains to some extent a tribal society, the role of

Social safety nets

the family in securing the needs of its members, especially the elderly, divorced women or orphans, continues to be strong, complementing existing state support schemes.

There are very few cases of poverty among Kuwaiti citizens. At the same time, foreign blue-collar workers and housekeepers are often exploited and live and work in unacceptable conditions, which occasionally even led them to engage in strikes and other forms of public protest.

Equal opportunity

11 | Economic Performance

Thanks to high oil prices, the Kuwaiti economy has been undergoing a long period of significant growth. Real GDP has grown continuously and maintained an impressive 8% in 2005 and 2006; GDP surpassed \$92 billion in 2006. In turn, GDP per capita reached \$29,332 in terms of PPP, according to the Economist Intelligence Unit. Kuwait currently has a comfortable financial situation. Government revenue in the 2006/7 fiscal year reached \$60 billion, accounting for nearly 65% of the GDP. In reality, revenue was even higher than reflected in this figure, as the official budget excludes significant revenues from government investment income. The revenue growth amounted to an impressive 11%. The expenditure rose even more sharply, but the fiscal surplus stayed at a high level (\$2.2 billion). The current account balance grew to over \$40 billion in 2006. Given this situation, the government does not need revenue from taxes – as such, the tax burden remains low. Economic growth is possible thanks to a surge in oil exports, which increased to \$44.4 billion in 2005 and \$53.5 billion in 2006, exceeding 58% of nominal GDP in 2006, and constituting 89.1% of all government revenues that year. Exports jumped by 55% in 2005 due to a huge increase in oil exports. As usual, the value of oil exports overwhelmed the absorptive capacity of the domestic economy, generating a trade surplus of more than 40% of the GDP in 2006. The stock market was overvalued at the beginning of the period under scrutiny. In 2005, it grew by approximately 80%, only to face significant corrections at the beginning of 2006. In view of the famous 1982 “Souk al-Manak” collapse, in March 2006 the Kuwaiti government intervened to support the stock market by purchasing shares of Kuwaiti stocks.

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. Furthermore, it secured adequate economic growth while taking the steps necessary to secure the ability of future generations to meet their own needs. There are no major environmental problems in Kuwait

Environmental policy

except for water shortages that have been plaguing the country for years. Public awareness is relatively high due to the memories of the consequences of major pollution caused by burning oil fields during the 1990-91 war.

Budget allocations for the Ministries of Education and Higher Education are high and have been grown steadily during the last few years. 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.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

As long as oil revenues are high, there are not many structural constraints to the governance capacity of the political leadership. The constitution itself and the lack of judicial review do not limit the rulers' rights much. Among the few existing constraints are the country's continuous reliance on foreign labor (which has not serious problems but definitely poses potential danger to the country's future stability), growing unemployment among citizens, the inefficiency of state bureaucracy (slowing down possible economic development), and the existence of informal patronage networks. On the other hand, the high level of economic development, the impressive infrastructure, the lack of poverty and intensive ethnic conflicts, as well as citizens' improving education level make governance easier. Governance is also eased by the fact that the country does not need to undergo any major economic reforms. The only serious domestic constraints come from the National Assembly, whose members are becoming more united in demanding more powers for the parliament. In turn, unpredictability of world oil prices makes it difficult to plan the country's economic development. In foreign policy matters, the Kuwaiti government has limited room to maneuver, as such is heavily dependent on policies of other actors in the region.

Structural
constraints

On the one side, the traditions of civil society are not well established. Public or civic activity is limited and overall social trust continues to be based more on personal relations than on institutions. On the other hand, Kuwaiti citizens are quite politically active, especially in comparison to other Gulf monarchies. Various political groupings, trade unions, professional associations, chamber of commerce and numerous voluntary groups (for example, women and cultural associations) have existed for a long time.

Civil society
traditions

Although Kuwaiti society is quite segmented (nationals vs. foreigners; Sunnis vs. Shiites; Islamists vs. liberals, etc.), this situation has not yet lead to major conflicts. However, protest movements have become stronger in recent years, and political actors show increasing interest in mobilizing ethnic and social groups. Tensions between different groups do exist. There are an increasing number of demonstrations by Shi'as, protesting their discrimination and the low-paid Asian workers staged protests against their exploitation in 2005.

Conflict intensity

II. Management Performance

14 | Steering Capability

The Kuwaiti political leadership, as well as the society at large, is traditional, preferring stability over change. Therefore, a “gradual approach” is always the policy directive. Regime survival and maintenance of maximum power are leadership priorities. Full democratization is not a goal. Although the political leadership is authoritarian and not elected, this is done against the framework of the recognition that any changes introduced must find consensus within the Kuwaiti population in order to be considered acceptable. Policies are executed in a way that other partners are not negatively impacted.

Prioritization

The political leadership sometimes claims to pursue long-term aims such as economic development and education but is usually not able to act with a long-term perspective. The government more often only reacts to problems as they emerge, rather than trying to foresee them in advance. Although economic reforms are being tackled, these often happen with insufficient follow-up and inefficient management. Examples of this tendency include the inefficient Kuwaitization of the labor market, the half-hearted foreign investment reforms, and the slow-moving privatization process. Although the right ideas are often debated, the government tends to resort to general-type declarations with little attention to details and feasibility. The Kuwaiti government’s organizational capability is weak. It has difficulty in managing reforms intelligently as a result of inadequate managerial capacity and the relatively low professionalism of Kuwait’s governing elite. This seems to be changing, however, insofar as there is a growing awareness that the pace of reform must be increased. Many Kuwaitis feel that their country is stagnating, caught up in endless public squabbles over minor issues, instead of transforming it like the young, innovative rulers of the neighboring Gulf monarchies 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. Concurrently, the ruling family closely observes the situation in other Gulf monarchies and sometimes replicates decisions made in that context. For example, providing women with political rights in Kuwait was definitely influenced, among other factors, by similar developments in Qatar and Bahrain. The government does not actively encourage citizens to further develop civic 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

On one hand, the Kuwaiti government makes efficient use of available economic and human resources. Large revenue from oil exports have been used to develop a generous welfare state, to build up numerous human services (housing, health, education) and public infrastructure, and to guarantee all Kuwaiti citizens employment or financial assistance. To cope with the predictable end of oil revenues in the future, the government has placed 10% of its revenue into a special reserve fund for future generations since 1976. The sources from the fund were used in large quantities to rebuild the country after the 1990 – 1991 war, but have since been restored. On the other hand, the government does not always use all available resources efficiently. A disproportionate portion of government spending goes to current expenditure – a large share of this being the cost of employing a bloated public workforce. The government’s efficiency also suffers from the public administration’s lack of professionalism, as evidenced by both favoritism and random selection in hiring practices. Sensitive procedures are often non-transparent, and public procurement is a field of considerable waste. Mismanagement of public funds was reported on several occasions. On the other hand, public sector auditing and expenditure control do exist and are probably better-organized than in other Gulf monarchies.

Efficient use of assets

The government often has difficulties coordinating conflicting objectives to form a coherent policy. One prime 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. Nationalization of the workforce is not bringing the expected results because the government is unable to enforce its own laws on the matter while facing opposition both from Kuwaiti businessmen, who do not support the idea, and from Kuwaiti job-seekers, who are not interested themselves in taking up low-paid jobs lacking any prestige.

Policy coordination

Corruption is a problem in Kuwait. The country ranks 46th among 163 countries in the 2006 Transparency International Corruption Perception Index with a score of 4.8. Despite its relatively good ranking, Kuwait has more problems with corruption than its neighbors, the United Arab Emirates and Qatar. Kuwait’s ranking has continuously worsened in recent years, moving from 35th in 2003 to 45th in 2005. The executive’s commitment to combating corruption does not seem to transcend rhetoric. National Assembly members are much 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 to combat corruption and educate the public about its societal dangers.

Anti-corruption policy

16 | Consensus-Building

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

Consensus on goals

There is general agreement to further develop a market economy and to keep the welfare state privileges limited to Kuwaiti citizens. At the same time, actors in this process are often split on details, which stalls implementation of many projects. In turn, most political groups do agree on the need to further expand democratic elements; the ruling family and wealthy businessmen, however, accept certain aspects of democracy only if they do not limit their rights.

Anti-democratic veto actors

The ruling family has succeeded in containing potential cleavages within the system, including those between Sunni -and Shi'a, between Islamists and "liberals," and hadhar and badu. Political fragmentation and the weakness of political groups has made it easier for the government to keep conflicts from escalating. This might change, however, if political movements become strengthened.

Cleavage / conflict management

Civil society, as it has come to be defined by aid organizations, namely, as western-style advocacy organizations, does not have a long tradition in Kuwait and hence it is still politically marginalized. Despite this, 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.

Civil society participation

Political leadership is not doing enough to bring about reconciliation and mend fences between native Kuwaitis and bidoon, often wrongly perceived of being Saddam Hussein supporters and disloyal to the Kuwaiti state, as well as Sunni and Shi'a communities, which occasionally conflict over various issues. In general, however, there have been no major "wounds" in the Kuwaiti population which require special "healing."

Reconciliation

17 | International Cooperation

Kuwait is generally open to international cooperation. The country is a member of all major international organizations, including OPEC and the WTO. Kuwait is one of the very few Arab countries that supports the United States politically and whose population has a generally pro-Western attitude. Its military

Effective use of support

cooperation with several Western countries is significant: while its cooperation with the United States is crucial, it also has important relationships with Great Britain and 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 the FTA agreement with the United States and is an active member of regional organizations, especially the Gulf Cooperation Council. Kuwait is perceived as a relatively reliable partner.

The role of outside actors in economic reforms and the democratic transformation process is insignificant although it was likely U.S. pressure and the experience of neighboring countries with women's suffrage (coupled with internal demands) which finally transformed the electoral law in Kuwait. While Kuwait is often willing to accept international assistance, recommendations are not always implemented (like the IMF recommendations on state subsidies and tax reforms; the ILO suggestions for changing the sponsorship requirement, or the Human Rights Watch demands to improve the situation of the bidoon). In turn, Kuwait offers its financial support to various causes regionally and internationally. The assistance is usually given on a humanitarian basis with no political strings attached.

Credibility

Until recently, Kuwait had turbulent relations with Iraq, which even invaded and occupied the country in 1990 – 1991 (despite the fact that Kuwait supported Baghdad during the Iraq-Iran war, 1980 – 1988). Relations with post-Saddam Iraq have been largely normalized. Kuwait has had occasionally tense relations with Iran and has always been afraid of Teheran's hegemonic aspirations in the Gulf. In 1986, Iran even announced a naval blockade on Kuwait-bound shipping. Now, both countries maintain normal relations, although Kuwait carefully observes Tehran's activities 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).

Regional cooperation

Strategic Outlook

No sudden changes in Kuwait's policies are expected in the near future. The new emir, Sheikh Sabah al-Ahmed al-Jabr al-Sabah, seems likely to continue dominating the political scene. The government, under Prime Minister Sheikh Nasser Mohammed al-Ahmed al-Sabah, will most likely continue its cautious reform program. Few ministers are likely to be replaced; if so, then mostly under pressure from the National Assembly or by being accused of mismanagement of state funds and abuse of power. Tensions created by such movements may even prompt the entire cabinet to resign and allow a new cabinet to be established (as occurred in March 2007). The parliament will most probably continue to play an active role in scrutinizing the government. The loose coalition of opposition groupings, which emerged during the election campaign in 2006 and the fight for the electoral districts reforms, may strengthen and push for various reforms, including legalization of political parties.

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.

Given that global oil prices are expected to remain high, Kuwait will likely be able to further-increase the state's revenues and expenditures, and thus pursue various development projects, especially in infrastructure and housing, as the state budget continues to show a considerable surplus. At the same time, numerous services (gas for domestic consumption, water, electricity, communication) will in all likelihood continue to be heavily subsidized. All indications suggest Kuwait's GDP will continue its impressive 8% growth rate, and inflation also seems likely to remain low (around 2%). However, despite its fiscal freedom to cope with the power and water shortages that have plagued the country for years, they are likely to continue due to bureaucratic inefficiency.

Kuwait's population is likely to continue its rapid growth, particularly as a result of the continuing influx of foreign workers. Similarly, the government

will likely continue with its programs for a more extensive Kuwaitization of the workforce, but is not expected to achieve significant results. Some bidoon will receive Kuwaiti citizenship, whereas growing Shi'a power in Iraq may strengthen the Kuwaiti Shi'a community and exacerbate tensions with the Sunni Kuwaitis. Female political activity is poised to grow, preparing women for the next parliamentary and municipal elections. Another war in the region is about the only event that could change the situation in Kuwait dramatically.