

BTI 2012 | Kuwait Country Report

Status Index	1-10	6.05	# 52 of 128	
Political Transformation	1-10	4.95	# 77 of 128	➔
Economic Transformation	1-10	7.14	# 27 of 128	➔
Management Index	1-10	4.38	# 85 of 128	

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

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	2.7	HDI	0.760	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	3.4	HDI rank of 187	63	Gini Index		-
Life expectancy	years	74	UN Education Index	0.577	Poverty ³	%	-
Urban population	%	98.4	Gender inequality ²	0.229	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Although 2006 marked a significant year for democratization in Kuwait, no comparable progress has been made during the review period. Relations between the government and parliament are tense and prone to creating blockages in the policy process. For the third time since 2006, the emir dissolved parliament in March 2009 in the context of parliament's demand to question the prime minister, something the emir refused to concede. New elections in May 2009 resulted in the election of (four) women to parliament – a first in Kuwait's history.

The elections did not resolve tensions between the executive and the legislative branches of power. However, the emir eventually agreed to the prime minister being questioned, which in effect signaled an expansion of parliament's power by precedent. This incremental increase in parliamentary power suggests that democratization, however slow, is underway.

The semi-democracy of Kuwait seems to be in search of equilibrium. 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. As a result, the policy process is marked by frequent paralysis as the executive and legislative branches are often at odds with each other.

Nevertheless, parliament has succeeded in passing some important items of legislation during the reporting period. Most significant perhaps is the privatization bill passed in May 2010, which had been discussed for many years.

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 country was affected by the global financial crisis mainly through falling oil prices. Its recent recovery can be attributed to rebounding oil prices.

Like other Gulf states, Kuwait's labor immigrant population is larger than its citizen population, which represents only 35% of the overall residents. On a positive note, the government has expressed its intention to abolish in 2011 the controversial sponsorship system (kafeel), which gives employers extensive powers over migrant workers.

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 constitutional monarchy 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 2010, 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 with the price of oil on the world market. As oil prices have been very high since 2003, falling only in the wake of the financial crisis, 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 has the oldest elected parliament of all 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 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. However, women have been discriminated against in politics for a long time. Only in May 2005 did the parliament finally approve the emir's request, granting women the right to vote and run for election. Although women have voted and run for election in the three elections since 2006, it was not until 2009 that four women succeeded in gaining seats. At the same time, the emir has begun appointing female ministers, the first being Massouma al-Mubarak (2005 – 2007).

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. 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. In 2009, the emir agreed for the first time to allow a member of the executive branch – in this case, the prime minister – to stand before a parliamentary inquiry. At the same time, the executive-legislature relationship has grown increasingly tense in the last five years, a situation that has led to the emir dissolving the parliament three times (2006, 2008 and 2009).

Disagreements within the royal family are said to play a role in fueling wider political tensions. Whereas sociopolitical and cultural tensions between tribes play a strong role shaping the formation of the nation-state, so too do tensions between other identities such as Shi'a/Sunni or urban/suburban. There is also the issue of the Bidoons, to whom the government does not grant citizenship. The Bidoons 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. 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, who constitute 67% of the population, have no right to naturalization. The majority of the resident population therefore plays no meaningful role in the nation-forming process.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

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. The military, with its approximately 15,500 troops, operates under the supreme command of the emir, and no loyalty conflicts have been reported from within the army so far.

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, and tribal leaders, wants a stronger say in the decision-making process in addition to constitutional guarantees for the political opposition and freedoms of speech. The opposition based in political Islam demands a more prominent role of Islam in politics and is concerned about public morals. All political forces also represent economic interests focused on securing a share of the oil wealth.

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.

Question
Score

Monopoly on the
use of force
10

State identity
8

No interference of
religious dogmas
6

Kuwait is administratively divided into six governorates, al-Ahmadi, al-Asima (in Arabic “the capital,” comprising the area around Kuwait City in which ca. 96% of the total population resides), al-Farwaniyya, al-Dschahra, Hawalli und Mubarak al-Kabir. The state bureaucracy is functional but bloated; many positions were created to provide employment for Kuwaiti citizens without having their suitable competences in focus while recruiting.

Basic
administration
8

2 | Political Participation

Because the emir appoints the prime minister and the cabinet, the electorate has no direct impact on government formation. Furthermore, all ministers (16 maximum) 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; recently, the prime minister also agreed to be questioned.

Free and fair
elections
4

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 over-representation of urban districts, which leads to an unequal vote. Limitations to the right to vote are in place 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.

After the emir dissolved parliament on 18 March 2009, early elections took place on 16 May 2009. The results were accepted. For the first time, (four) women were elected to parliament.

The role of the partly elected parliament is limited by the fact that the government does not require a majority-backing in parliament. Electoral results thus have no direct impact on the composition of a government. Given that there are no organized political parties, there is no structured legislative program of any one majority in parliament. Legislative initiatives in parliament are based on ad-hoc coalitions of parliamentarians. There have been situations in which members of parliament succeeded in adopting legislation against the government’s will, as was the case in 2006 when changes were made to the electoral system. The parliament also played 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 into the executive’s conduct.

Effective power to
govern
2

There are frequent political demonstrations as well as open and free public discussions in Diwanias (gathering places run by families or tribes), 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. The government was criticized after police violently broke up a political gathering in December 2010 that involved members of parliament. The prime minister was questioned in parliament about the incident and narrowly survived a vote of no-confidence in January 2011.

Association /
assembly rights
6

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 sentencing.

There are, however, political groups that play the role of political parties. For some Kuwaitis the concept of parties has negative connotations because of the sectarian-partisan strife observed in countries like Iraq or Lebanon. For one, “real” political parties might require full commitment of their members, reducing their personal freedom in political attitudes, and for another, constitutionalized political parties might be perceived by some as tools for outside powers to intervene in Kuwait’s domestic politics.

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.

Freedom of
expression
6

In 2010 media freedoms were under attack; Al-Jazeera’s operations were banned after it reported on the violent break-up of a demonstration in December 2010.

Human Rights Watch noted that “the government continued criminally prosecuting individuals based on nonviolent political speech, denied academics permission to enter the country for conferences and speeches, and cracked down on public gatherings.” Reporters Without Borders downgraded Kuwait in its 2010 World Press Freedom Index to position 87 (with a score of 23.75) from position 60 (scoring 15.25) in 2009 citing the detentions of journalist Mohammed Abdel Qader Al-Jassem who was accused of “harming national interests and undermining the status of Kuwait’s emir.”

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 conduct inquiries into the government 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
5

The emir can dissolve parliament but has to organize new elections within 60 days, although in the past he did not always respect that obligation. The lawmaking power rests with parliament, but the emir can demand that a bill be reconsidered, in which case the assembly must affirm it by a two-thirds majority. Democracy Reporting International notes: "Given that up to 23% of the assembly can be Amir-appointed ministers, it may be difficult to find a majority to over-rule a request for reconsideration."

As a result of suspected financial irregularities, the prime minister accepted demands that he be questioned by parliament in December 2009, marking a first in Kuwait's history. He survived a subsequent no-confidence vote with a significant margin. A second questioning and confidence vote took place in January 2011; the prime minister was supported again, though only with a narrow vote margin. Accepting parliament's right to question the prime minister indicates an increase of parliament's power.

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
4

According to some observers, judges have become drawn into political conflicts.

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
5

Parliament forced Prime Minister Nasser Mohamed al-Ahmed al-Sabah to resign four times, each in the context of corruption allegations, but the emir re-appointed him in all four cases.

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 Bidoons, and the Shi'i minority sometimes has problems exercising all of its rights.

Civil rights
7

On a positive note, Amnesty International reports that the Constitutional Court ruled in October 2010 that the 1962 law requiring a husband's permission for a woman to obtain a passport contravened constitutional provisions guaranteeing personal freedom and gender equality.

4 | Stability of Democratic Institutions

Kuwait is a relatively stable state. The ruling family is of one mind most of the time, but rumors say that the al-Salem branch of the Al Sabah family has recently been sidelined, and it is believed that tensions within the ruling family reverberate in parliament and in the public debate.

Performance of
democratic
institutions
3

Recruitment procedures for the state's top representatives (i.e., the emir, crown prince, prime minister and the cabinet) are clearly elaborated and respected. Political disputes between the executive and the legislative occur regularly, which is mirrored in the fact that the emir has dissolved parliament six times since 1976. In the last four cases (1999, 2006, 2008, 2009), he heeded the constitutional requirement to call new elections afterwards.

Parliament plays a meaningful role in legislating and in holding the executive accountable, but it does not have a say in the formation of the government.

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.

Commitment to
democratic
institutions
3

Although it is difficult to classify all parliamentarians as being either pro-government or in the opposition, often opposition-minded members hold the majority in parliament. This would constitute a paradox in most parliamentary systems, but it is possible in Kuwait because 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.

5 | Political and Social Integration

Whereas 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 sentencing.

Party system
2

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 other Gulf states, civil society in Kuwait is well-developed. It comprises trade unions, women’s organizations, cultural clubs and diverse professional associations, including those for journalists and lawyers. These groups regularly engage in the political process and express their wishes. In addition, tribal and family networks of an informal nature have kept their strong ties to parliament and have crucial importance for conflict mediation between their members and the state institutions.

Interest groups
6

Diwanias, family- or tribe-run gathering places, play a significant role in Kuwait by providing fora for consultations and semi-public spaces for civic and political activism.

Most people seem to have a positive view of democracy, though many Kuwaitis are not satisfied by the regular stand-off between parliament and the government and the high number of elections in the last years. Voter turnout has dropped to under 60% of registered voters in the 2009 elections. However, the few studies done show strong democracy support among Kuwait’s citizens. For example, 85% of the Kuwaitis support the statement that “democracy is the best form of government for their society” (Global Barometer finding, published 2008), and “when asked if, despite its problems, democracy is still the best system of governance, the overwhelming majority of respondents agreed. Overall, 36.5% of respondents stated that they strongly agreed while 52.0% stated that they agreed with this statement” (Arab Barometer finding, published 2006).

Approval of
democracy
n/a

As is the case in many Arab states, there are numerous charitable welfare organizations, most of them faith-based. The Legatum Prosperity Index ranks Kuwait high in terms of social capital, basing this on indicators like willingness of individuals to donate for charitable causes and significant access of individuals to religious and family networks.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers

8

The Kuwaiti economy is based 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 Kuwait'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 – until mid-2008 – in oil prices. Kuwait ranks 47th in the UNDP's 2010 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 2.9 million in 2010, is highly segmented. Kuwaiti citizens make up only 35% of the country's residents, while most of the rest are temporary foreign workers. 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 affected Kuwait's financial sector, but the stock market has recovered from a drop by 40% at the end of 2008.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	114721.8	148782.7	109462.8	-
GDP growth	%	4.4	-	-	-
Inflation (CPI)	%	5.5	10.6	4.0	4.0
Unemployment	%	-	-	-	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	0.1	0.0	1.0	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	41330.1	60239.3	25774.1	36822.0
Public debt	% of GDP	11.4	10.0	12.9	10.5
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-
Cash surplus or deficit	% of GDP	12.6	20.0	-	-
Tax revenue	% of GDP	0.9	0.9	1.1	-
Government consumption	% of GDP	14.0	13.3	20.5	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.2	2.0	3.3	-
R&D expenditure	% of GDP	0.09	-	-	-
Military expenditure	% of GDP	3.6	3.0	4.4	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

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 little state intervention. However, it should be noted that these industries generate nearly half of the GDP.

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.

Market-based
competition

7

Anti-monopoly
policy

5

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 loosening. Regional trade was further liberalized through the launch on 1 January 2008 of the common market of the Gulf Cooperation Council (GCC) members, which by law removed all barriers to trade, investments and services inside the GCC. A few implementation problems were reported. Kuwait ranks 74th of 183 countries in the World Bank's Doing Business 2011 report with little change in the period under review.

Liberalization of
foreign trade

8

In February 2010, government and parliament agreed on a \$108 billion strategic economic five year plan for the period from 2009 to 2014, which is the first of six consecutive development plans. The lawmakers hope to turn Kuwait into the leading regional financial and trade center by 2035, and thereby reduce the dependency on the oil sector.

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. Kuwait's banking system suffered somewhat as a result of the financial crisis (the Gulf Bank had to be rescued by Kuwait's central bank), but appears to be doing well again. Foreign banks have been allowed to set up operations in Kuwait since 2004, which has resulted in the current mix of local, Islamic and foreign banks. In March 2009, Kuwait passed a \$15 billion financial stability law stipulating that the government guarantee 50% of new loans from local banks to productive sectors.

Banking system

8

8 | Currency and Price Stability

Inflation, which is generally low (lower than 2% for the years 2000 – 2004), rose to 10.6% in 2008 but fell to 4% again in 2009. Since inflation for 2010 is estimated to be around 4% again, the 2008 rate seems to be an outlier. 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

8

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, initially scheduled for 2010. However, the implementation is delayed and with the United Arab Emirates and Oman having withdrawn, as well as the problems of the euro, a quick implementation seems unlikely.

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, as well as 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. Nonetheless, a significant drop in oil prices like that witnessed in 2009 does not threaten Kuwait's macrostability in the short term since 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 if the price of oil should remain below \$60 per barrel for the long term, Kuwait might have to modify its ambitious five-year plan (2009 – 2014).

Macrostability
8

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. Until now, the common mode for foreign investors is a Build-Operate-Transfer arrangement.

Property rights
8

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. In May 2010, the parliament approved a privatization law that allows the government to sell certain state-owned companies (excepting the important health, education and energy sectors) 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. This helped pave the way for the privatization of the Kuwait Airways Corporation, which is scheduled for 2011. 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 May 2008, contracts were awarded to five international companies. But at the end of 2010, the project remains on ice as a result of objections in parliament. The tribes, gathering increasing weight in parliament, demand benefits from privatizations, thus slowing down the process.

Private enterprise
7

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, 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 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. There have been several strikes and other forms of public protest by workers and housekeepers against abuse and exploitation. The government plans to abolish in 2011 the controversial, traditional sponsorship (kafeel) system, which gives the employer full legal and economic responsibility.

Social safety nets
8

The constitution declares men and women to have equal rights, and although they live in a patrimonial society, women increasingly enjoy 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.

Equal opportunity
6

On the negative side, the practice of co-ed instruction in schools and universities was abolished by parliament in 1996. Freedom House reports a range of persisting gender discrimination, including the prohibition of women serving as judges, and the lack of equality in social security, pensions and inheritance.

11 | Economic Performance

Thanks to long-standing high oil prices, which recovered quickly after a drop in 2008, the Kuwaiti economy has undergone a long period of significant growth. However, real GDP shrunk by 2.7% in 2009 due to the global economic and financial crisis and the resulting drop in oil prices (GDP in current prices reached \$111 billion in 2009). In turn, according to the IMF, real GDP per capita reached \$31,483. 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 2009/2010 fiscal year reached \$63

Output strength
8

billion, of which \$59 billion are generated by the oil and gas sectors. The fiscal surplus rose to \$22.3 billion (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. Kuwait used to have a considerable trade surplus (\$23.12 billion in 2009). With its openness and its strong links to western economies, the Kuwaiti economy has not been immune to the global economic and financial crisis, but was in recovery largely through the end of 2010.

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. Kuwait ranks 113th of 163 countries in the Environmental Performance Index, which is average compared to other countries in the Middle East and North Africa region. However, according to the UNDP, ensuring environmental sustainability in Kuwait remains a challenge because of outdated environmental laws and regulations, the absence of coordination between institutions, limited institutional capacities and insufficient public information on environmental issues.

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 towards the needs of the labor market and is not yet up to international standards. Kuwait's literacy rate (94.5%) is amongst the highest in the Arab world. The government wants to reduce Kuwait's dependency on the foreign workforce. Public schools are open only to Kuwaitis; others depend on private schools.

Environmental
policy
3

Education policy /
R&D
6

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 government bureaucracy (which slows potential 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.

Structural
constraints

3

The unpredictability of world oil prices makes it difficult to plan the country's economic development. In foreign policy matters, the Kuwaiti government's scope of maneuverability is limited, as it is heavily dependent on the policies of other regional and international actors.

On the one 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 (e.g., women and cultural associations) have existed for a long time. There is a strong tradition of free debate at semi-public Diwanias, the traditional weekly gatherings of male Kuwaitis where all kind of topics are discussed. On the other hand, traditional relationships (i.e., families, tribes) remain strong and are generally able to successfully mediate between their respective groups and the political system.

Civil society
traditions

8

Kuwaiti society is segmented: Nationals live side-by-side with immigrants, there are tensions between the majority Sunni Muslims and the Shi'ite minority, Islamists disagree on many issues with liberals and the urban population is concerned about increasing demands by the population (tribes in particular) in the outer neighborhoods of Kuwait city.

Conflict intensity

4

Yet, there is little violence and a culture of debate and consultation generally prevails. The significant oil revenues allow the government to respond to most economic demands.

II. Management Performance

14 | Steering Capability

Preferring stability over change, the Kuwaiti political leadership and society at large are traditional. A “gradual approach” is the preferred mode of operation. Because the political leadership does not pursue full democratization, it must conduct broad and inclusive consultations on policy matters, and thereby mitigate calls for more democracy. Part of this process involves the government being compelled to consider various and changing interests, which makes prioritization difficult.

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.

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.

Question
Score

Prioritization
5

Implementation
3

Policy learning
5

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, adds 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

6

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 yielding the expected results because the government is unable to enforce its own laws on the matter. This is attributable to the fact that the government 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

4

Corruption is a growing problem in Kuwait, and it appears that Kuwait has more problems with corruption than do 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

3

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
7

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. Recently, parliament managed to create a precedent for expanding its powers by questioning the prime minister.

Anti-democratic
actors
3

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.

Cleavage /
conflict
management
5

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 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
4

The political leadership is not doing enough to ease tensions between Kuwaiti citizens and the bidoons, who are often wrongly perceived as being former supporters of Saddam Hussein 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.

Reconciliation
n/a

There should be more efforts also to avoid splits between Sunni Muslims and Shi'ites. Shi'ites resent suggestions that they 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.

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 openly 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. The United States and Kuwait are cooperating under a Trade and Investment Framework Agreement (TIFA) and there are intentions to conclude a free trade agreement. 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, China, Germany, Japan and South Korea has expanded in recent years.

Effective use of
support
5

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's military closely cooperates with the U.S. army. Some 5,000 U.S. troops are stationed within the country, and joint maneuvers between both armies occur regularly.

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 open political system.

Credibility
6

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.

Regional
cooperation
9

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, and in January 2009 Kuwait hosted the first Arab Economic Summit.

Strategic Outlook

Kuwait's political developments are marked by significant tensions between the government and the parliament. Three recent dissolutions of parliament (in 2006, 2008, 2009) point to an unsettled political system in search of an equilibrium.

While the tensions between the executive and legislative branches of power are beneficial in providing 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, eventual acceptance of parliament's right to question the prime minister and adhering to constitutional provisions when dissolving parliament.

It is, however, open to question whether or not Kuwait can continue with this process, as the public grows increasingly tired of the legislative-executive squabbles and frequent elections. It is to be seen if the liberalizing pressures of the spring 2011 events in Tunisia, Egypt and many other Arab countries will reach Kuwait. If so, the system is better equipped to respond through institutional reforms than most others in the region. 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 difficult to identify reliable majorities in parliament.

It is likely the political status quo will continue, though this depends to a great degree also on regional developments. 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.

Debates over further economic diversification are likely to continue as the state attempts to reduce 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.

Overall, however, the country's economy hinges to a large extent on the price of oil. Rising international food prices may also become an issue, as they lead to inflation in a country that imports almost all food.

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