

BTI 2014 | Kuwait Country Report

	scale	score	rank	trend
Status Index	1-10	5.96	# 53 of 129	
Political Transformation	1-10	4.70	# 81 of 129	➔
Economic Transformation	1-10	7.21	# 26 of 129	➔
Management Index	1-10	4.29	# 86 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	3.3	HDI	0.790	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	3.9	HDI rank of 187	54	Gini Index		-
Life expectancy	years	74.3	UN Education Index	0.620	Poverty ³	%	-
Urban population	%	98.3	Gender inequality ²	0.274	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Kuwait has experienced major political crises throughout the period under review. Wide-spread popular protests, the forced resignation of the prime minister and two dissolutions of parliament summarize Kuwait's political stalemate during this period. In comparison with the profound changes many Arab states have undergone as part of the Arab Spring uprisings, the developments in Kuwait have appeared less dramatic; yet they are still – even for a country with a storied history of political bickering – entirely exceptional. Parliamentary opposition and popular mobilization throughout 2011 forced the resignation of Prime Minister Nasser Mohammed al-Sabah in November and the emir's subsequent dissolution of parliament in December. The February 2012 elections resulted in an opposition-dominated parliament, but the results were annulled in June by the constitutional court, which ruled that the emir's decree was unconstitutional. In response, in October 2012 Emir Sabah al-Ahmad al-Jaber al-Sabah dissolved the reinstated former parliament again, and unilaterally amended the electoral law by abolishing a complicated system that allowed each voter multiple votes – a decision the effects of which was widely regarded as to privilege pro-government forces. The subsequent opposition boycott of the December 2012 elections resulted in a historically low voter turnout of around 30% to 40% (compared to 60% to 80% in earlier elections) and many pro-government groups winning seats in parliament.

The underlying structural problems of an emir-appointed government and an elected parliament, which has led to adversarial relations between the legislative and executive, have not yet been addressed. Calls for establishing a more democratic system, with the formation of genuine, full-fledged political parties as part of a constitutional monarchy, are becoming louder. An increase in parliamentary power with popular backing during the period was not however channeled into a robust and effective governmental system, leaving Kuwait's political system in a state of uncertainty at the beginning of 2013.

The political impasse negatively influenced the Kuwaiti economy, which has – in theory – ideal starting conditions. Peaking global oil prices resulted in high budget surpluses for the oil-exporting

country of over \$40 billion, which amounts to nearly 30% of GDP. The country's important banking sector recovered well from the global economic crisis, and large infrastructure and development plans were supposed to be implemented, particularly by setting up public-private partnerships (PPP). However, due to the erratic nature of the political system, Kuwait in 2013 remains the big underperformer in the Gulf Cooperation Council (GCC). In terms of foreign direct investment, the country lags far behind its neighbors. On a positive note, Kuwait introduced a new companies law in 2012 which aims to introduce regional best practices, stipulating among others the creation of a "one-stop shop" for businesses and the separation of the board of directors from executive management.

Kuwait's labor market is heavily reliant on foreign workers. Over 80% of Kuwaiti citizens are employed in the public sector, while skilled and unskilled expatriates dominate the private sector. The political leadership is – like in all other Gulf States – trying to "Kuwaitize" its national labor force, but progress is slow.

Among Kuwait's population, the main divide is between nationals and expatriates. Within Kuwaiti society there are cleavages between the Sunni majority and the Shi'a minority as well as between a historic distinction between urban and tribal Kuwaitis. The bidoons, or stateless Arabs residing in Kuwait, form a distinct group that is demanding full citizenship rights.

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 in 1979, and three Gulf wars (1980 – 1988, 1990 – 1991, and 2003) have had a profound impact on Kuwait. The country is one of the largest oil exporters globally, 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 and allows citizens to lead a comfortable life. Its history has been characterized by rapid population growth due to the import of foreign labor: between 1950 and 2013, the population grew twenty-fold, increasing from 150,000 to over 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 general, oil-generated profits have allowed the emirate to become a model welfare state.

Kuwait has the oldest elected parliament of all Arab Gulf countries; the National Assembly was established in 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 of granting women the right to vote and run for election. It was not until 2009 that four women succeeded in gaining seats in parliament. At the same time, the emir has begun appointing female ministers, the first being Massouma al-Mubarak (2005 – 2007). Three women are represented in the December 2012 elected parliament, and there are two female ministers in the cabinet.

The period under review has seen setbacks for Kuwait’s democracy after a decade of gradual steps toward greater democratization, observable not only in the fact that electoral rights have been granted to women. Since 2003, the crown prince can no longer serve as a prime minister, which has improved accountability. In 2006, following the death of Sheikh Jaber in January of that 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, which built up the pressure for the prime minister to step down in November 2011. 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 five times (in 2006, 2008, 2009, 2011 and 2012). The unilateral changes to the electoral law in 2012 by the emir profoundly destabilized the parliamentary system and led to increasing extra-parliamentary protests. Due to the opposition’s boycott of the elections, the parliament as elected in December 2012 is in its majority supportive of the government but lacks popular legitimacy.

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 in shaping the formation of the nation-state, so too do tensions between other identities such as Shi’a/Sunni or urban/suburban Kuwaitis. 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 around 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 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Kuwaiti government 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. However, since 2011 Kuwait has seen the largest demonstrations in its history, with tens of thousands of Kuwaitis taking to the streets, protesting against corruption and a growing authoritarianism. Occasionally, the police ended these demonstrations violently. The military, with its approximately 15,500 troops, operates under the supreme command of the emir, and no loyalty conflicts have been reported so far from within the army.

The constitution, which defines the political system and the leading role of the al-Sabah family, is widely respected as a cornerstone of stability. Kuwaiti opposition voices, composed mostly of well-educated, wealthy businessmen, as well as tribal and religious individuals, want a stronger say in government decision-making in addition to constitutional guarantees for the political opposition and freedoms of speech. Opposition groups based on political Islam demand a more prominent role of the Islamic Shari'ah in politics and are concerned over public morals. All political forces also express economic interests, focused on securing a share of the oil wealth. Bidoons, who are denied full citizenship rights, represent about 10% of the population. These stateless Arab residents are regularly suspected in public discourse to unjustly seek citizenship to profit from subsequent material benefits.

According to the constitution, Islam is the state religion with Shari'ah being one main source of legislation. Nevertheless, the country generally functions along modern principles with secular institutions. Members of parliament from the Islamist opposition who dominated the February 2012 parliament have demanded that Shari'ah be made the “only” source of legislation. Salafi Islamists, who espouse a more fundamental interpretation of Islam, are actively engaged in influencing and changing Kuwait politics and society according to their religious beliefs, having secured in 2003 a law to segregate the sexes in university settings and to put

Question
Score

Monopoly on the
use of force
10

State identity
7

No interference of
religious dogmas
6

restrictions on mixed-gender sports. In general, the emir blocks fundamental Islamist policies. Islamic law holds the most significance in relation to personal matters.

Kuwait is administratively divided into six governorates, al-Ahmadi, al-Asima (in Arabic “the capital,” including the area around Kuwait City in which approximately 96% of the total population resides), al-Farwaniyya, al-Jahra, Hawalli and 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. Therefore, the state administration suffers with underemployment in most of its governmental institutions.

Basic
administration
8

Kuwaiti nationals are entitled to free social services such as healthcare and education, the quality of which is somewhat deficient. Infrastructure projects are key aspects of the national development plan 2010 – 2014, but progress has been slow. The basic infrastructure in Kuwait is fairly advanced, but power cuts are common during the summer due to the increased use of air conditioning.

2 | Political Participation

Kuwait’s democracy suffered through two hectic years, 2011 and 2012, with the dissolution of two parliaments, the emir unilaterally changing the electoral law and a subsequent opposition boycott of elections. Early elections were held on 2 February 2012 but were later declared unconstitutional by the constitutional court. New elections were then scheduled for 1 December 2012. The top-down decision by the emir to modify the electoral law and abolish multiple votes prior to the December 2012 elections was widely perceived as a move to weaken the opposition’s presence in parliament. Thus, to show their discontent, the opposition boycotted the vote. Turnout sank to an all-time low, with officially 43% of the electorate participating, but oppositional groups spoke of a 28% maximum.

Free and fair
elections
4

The parliament (majlis al-umma) consists of 50 directly elected members and up to 16 ministers who are directly appointed by the emir. The NGO Democracy Reporting International has noted that the framework for Kuwait’s elections is largely in line with international standards, but has 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.

The role of the partly elected parliament is limited by the fact that the government does not require a majority-backing in parliament. In other words, the power of the royal family and its handpicked cabinet is virtually unrestricted. However, even with its little actual legislative power, the Kuwaiti parliament has traditionally focused on

Effective power to
govern
2

controlling the executive and questioning government initiatives through the “grilling” of ministers. The adversarial relationship between the government and the parliament is exemplified by the fact that parliament was dissolved five times since 2006 in the reign of Emir Sabah al-Ahmad al-Sabah.

Given that there are no organized political parties, no structured legislative program of any majority exists in parliament. Legislative initiatives in parliament are based on ad-hoc coalitions of parliamentarians. The makeup of the December 2012 parliament is dominantly pro-government due to the opposition’s election boycott, but a pending constitutional court verdict on the legality of the electoral law is suggesting another short-term election period.

There are frequent political demonstrations as well as open and free semi-public discussions in diwanias (gathering places run by families or tribes), or other traditional gatherings. The legal framework for assembly rights had relaxed in May 2006 after the constitutional court declared parts of the law on public gatherings unconstitutional. Since 2011, however, the government has increasingly used measures to suppress public displays of dissent. Inspired by the regional uprisings of the Arab Spring – but also predating them – thousands of Kuwaitis demonstrated for reform in 2011 and 2012, climaxing in the “march of dignity” in October 2012, where tens of thousands of people gathered to protest against the decreed electoral law changes. Security forces dispersed these mostly peaceful gatherings with the use of tear gas and sound bombs. In light of this, the interior ministry issued a ban on gatherings and marches.

Association /
assembly rights

6

According to Human Rights Watch, the Kuwaiti government also issued repeated warnings that bidoons should not gather in public, after the group had staged frequent public demonstrations asking for more rights.

Kuwaiti journalists are among the freest and most outspoken in the region, although there are some “red lines” that are not to be crossed, such as subjects that may cause religious offence or criticism of the emir, which results in journalists exercising a degree of self-censorship. According to Article 54 of the constitution, the person of the emir is immune and inviolable. Reporters Without Borders during the period under review registered an increased number of judicial consequences for insults against the royal family. In October 2012, the famous and outspoken opposition parliamentarian Musallam al-Barrak was arrested after criticizing the emir directly; in April 2013 he was sentenced to five years in prison. Similarly, online journalist Ayyad al-Harbi was sentenced to two years in prison on 7 January 2013 for insulting the royal family.

Freedom of
expression

6

Reporters Without Borders however upgraded Kuwait slightly in its 2013 World Press Freedom Index, to 77th from 78th in 2012; in general, Kuwait heads the list of Arab states by a significant margin. In 2011, authorities allowed the Qatar-based al-

Jazeera news channel to reopen its services in Kuwait after shutting it down in late 2010 over critical reports on the violent break-up of demonstrations in December 2010. There have been several incidents where the state banned newspapers or prosecuted citizens and journalists on allegations of undermining the status of the emir or over sectarian issues, particularly regarding the relation of Kuwaiti Shi'ites to Iran.

3 | Rule of Law

There is a degree of separation between the legislature and the executive, although it is mitigated because emir-appointed ministers, as well as the prime minister, are members of the parliament. Hence, roughly one-third (up to 16) of the members of parliament is not elected. Given that the parliament can conduct inquiries into government actions and pass motions of no confidence, and that it is in fact often openly at odds with the executive, checks and balances in Kuwait are more robust than in other Gulf monarchies.

Separation of
powers

5

The emir can dissolve parliament – as was done in December 2011 and October 2012 – but has to organize new elections within 60 days; although in the past this obligation was not always honored.

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. As up to a third of parliamentary members (the government) are directly appointed by the emir, the cabinet has almost a blocking majority in parliament.

In late 2011, after months of public protests dominated by Kuwaiti youth and repeated parliamentary questionings – and a move unheard of until then in the Gulf – Prime Minister Sheikh Nasser al-Muhammad al-Ahmed al-Sabah resigned his post and the cabinet was dissolved. The opposition-dominated parliament elected in February 2012 filed eight motions to question the prime minister between the election and June 2012. In an unprecedented step, the emir adjourned parliament in June 2012 for a month. Accepting parliament's right to question ministers, and even the prime minister from the royal family, indicates an increase of parliament's power in the period under review.

The constitution provides for judicial independence, but the judiciary can yield to pressure from the emir. In practice, the emir appoints all judges, thus wielding considerable power over the judiciary. However, the World Economic Forum's Global Competitiveness Index considers Kuwait's judicial independence fairly good, at 4.9 (of 7), ranking the country 36th of 144 considered states.

Independent
judiciary

4

In 2012, the constitutional court for the first time ruled to dissolve parliament, declaring the February 2012 elections legally invalid and saying that the dissolution

of parliament by the emir in December 2011 had been unconstitutional. If in theory this move appeared as a sign of judicial independence, in effect it exchanged the February 2012 opposition-dominated parliament with a pro-government one from 2009. A subsequent request by the emir for the constitutional court to deliver a verdict on the 2006 modified electoral law was turned down, however.

The accountability of officeholders remains limited. Nevertheless, some officeholders, including cabinet members who 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. In December 2011, the emir finally dismissed the prime minister after public and parliamentary pressure over corruption allegations; yet the prime minister was not the only officeholder who faced such allegations. At least one-fifth of members of parliament in 2011 was investigated for graft, following the discovery of multimillion-dollar transfers into lawmakers' accounts.

Kuwaitis 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, but occasional crackdowns occur. In May and June 2012, Kuwaiti police arrested hundreds of young people on spurious grounds, including "sexually immoral behavior" and "satanic rituals."

Civil rights

7

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 bidoons, who are excluded from full citizenship, despite their long history in Kuwait. A step toward greater inclusion came in March 2011 when the government granted bidoons the right to basic services, such as free health care and education, among others.

Women in Kuwait still face legal discrimination. Kuwaiti nationality law does not cover passing on citizenship to a child of a Kuwaiti woman and a foreign father. On a positive note, Human Rights Watch reports that in April 2012, the administrative court cancelled a ministerial order that barred women from entry-level jobs at the ministry of justice. Furthermore in 2012, Kuwait University had to abolish a policy that required female applicants to exceed the exam scores of male students to enroll in certain colleges, such as architecture and medicine.

4 | Stability of Democratic Institutions

The country's traditionally stable political system has increasingly come under pressure, as calls for reforms toward a constitutional monarchy have become more insistent. During 2011 and 2012 Kuwaitis took to the streets in exceptionally large numbers to call for change. Because of the opposition boycott of the December 2012 elections, extra-parliamentary opposition is on the rise.

Performance of
democratic
institutions
2

The parliament essentially did not function throughout most of 2012, yet when it did, its relation with the government was strained. Political disputes between the executive and the legislative occur regularly, exemplified in the emir's dissolution of parliament five times since 2006. In these five cases (in 2006, 2008, 2009, 2011 and 2012), the emir did heed the constitutional requirement to afterwards call for new elections.

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.

Succession procedures for the 83-year-old emir at the time of writing are unclear; leadership does not automatically pass to the emir's oldest direct offspring. The beginning of Emir Sabah al-Ahmed's reign saw deep leadership competition within the ruling family, often played out over proxies in parliament.

On the whole, Kuwaitis are proud of their tradition of active political participation and hold their political system in high esteem. At the same time, there is a growing dissatisfaction with the performance of state institutions, in particular the paralysis that has resulted from tension between the executive and the legislative branches of power. Parliament has lost much public good will following the widely spread revelations of parliamentary corruption in 2011. Election participation of around 30% to 40% of the populace – according to different sources – in the December 2012 election raises doubts about the body's legitimacy and general acceptance.

Commitment to
democratic
institutions
2

Although it is difficult to classify all parliamentarians as being either pro-government or in 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 without 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 in 2005 granting women the right to participate in elections.

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. For some Kuwaitis the concept of political parties has negative connotations, from examples in Iraq or Lebanon where sectarian-partisan strife is commonly observed. For one, “real” political parties might require full commitment of their members, reducing their personal freedom in choosing political attitudes, and additionally, constitutionally approved political parties might be perceived by some as a stepping stone for outside powers to intervene in Kuwait’s domestic politics.

Party system
2

There are, however, political groups, movements and alliances that perform some of the functions 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 Muslim Brotherhood-affiliated, Salafi or Shi’ite Islamists as well as secular and leftist nationalists. Tribal belonging plays an important role for voting decisions.

Amid corruption charges against members of parliament, changes to the electoral law and the dissolution of parliament by the emir and a subsequent election boycott by the opposition, 2012 was a particularly unstable year for Kuwaiti parliamentarism. The opposition has recently been vocal about changing to a full parliamentary system – albeit in a constitutional monarchy setting – based on legalizing political parties.

Kuwait has long stood out for its robust public sphere and active civil society. It comprises trade unions, women’s organizations, Islamic associations, 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 for consultations and semi-public spaces for civic and political activism.

Most people seem to have a positive view of democracy in general, though many Kuwaitis are not satisfied by the regular stand-off between parliament and the government and the high number of elections in recent years. Voter turnout dropped to under 40% of registered voters in the 2012 elections, a historical low for Kuwait, which used to see participation rates of around 80%. The low voter turnout should not be understood as a rejection of democracy as such but rather as a protest against

Approval of
democracy
n/a

the emir's continuous interference in the parliamentary process. Kuwaitis – and particularly youth who make up a majority of the population – are increasingly wary of the corrupt realities of their parliament and the authoritarian style of government. The growing public protests and calls for reform by Kuwaitis in light of the Arab Spring can be interpreted as calls for a more direct democracy.

A 2008 Pew study assigned Kuwait a low 27% in social trust, the lowest ranking among countries in the Middle East included in the study (Egypt, Jordan, Israel, Morocco, Turkey, Palestinian Territories and Lebanon were also included). 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 57 of 142 countries in terms of social capital, basing this on indicators such as the willingness of individuals to donate to charitable causes and the ease of access of individuals to religious and family networks.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

The Kuwaiti economy is based primarily on the oil and petrochemical industries. Thanks to peaking oil prices in 2011 and 2012 and a high level of state investment income, Kuwait has shown a strong recovery from the global economic crisis. Kuwait ranks 54th in the UNDP's 2012 Human Development Report, which reflects a moderate level of development as measured by life expectancy, literacy, education and standard of living.

Socioeconomic
barriers
8

Kuwait's population, over 3 million in 2012, is highly segmented. Kuwaiti citizens make up only 30% of the country's residents, while most of the remaining residents are temporary foreign workers from South Asia and the Arab world, who are often socially excluded and economically exploited. Among the country's total workforce, foreigners represent 84.5%. Kuwaiti nationals generally work in the already overcrowded public sector – which employs over 80% of the Kuwaiti workforce – and have little incentive to seek employment in the private sector, due to lower salaries and longer work hours. To reduce Kuwaiti nationals' dependence on public-sector employment, the government has introduced a plan to "Kuwaitize" private companies, which would establish a rule that 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, also because women in the labor force have not been fully promoted.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	105911.3	119934.7	160912.7	-
GDP growth	%	-5.2	-2.4	6.3	-
Inflation (CPI)	%	4.0	4.0	4.7	2.9
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.1	0.3	0.2	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	28383.8	36957.6	67157.0	79209.3
Public debt	% of GDP	11.3	10.9	8.1	7.3
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	19.3	18.1	27.5	-
Tax revenue	% of GDP	1.0	0.9	0.8	-
Government consumption	% of GDP	18.5	17.3	14.8	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.3	2.1	2.2	-
R&D expenditure	% of GDP	0.11	-	-	-
Military expenditure	% of GDP	4.0	3.6	3.4	3.3

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Kuwait has a competitive market economy, ranking 82 out of 185 countries in the World Bank's Doing Business 2013 report. With the exception of the state monopoly in the oil and petrochemical industries, there is little state intervention. However, it should be noted that these industries generate around half the country's GDP. In the Global Competitiveness Report 2012 – 2013 by the World Economic Forum, Kuwait ranks overall 37 out of 144 countries.

Market-based
competition

7

Despite its ambitious development strategy “Kuwait Vision 2035” and the five-year National Development Plan announced in 2010, which among other goals foresees the growing privatization of the national economy, Kuwait has not moved significantly forward throughout the period under review. Most projects have been stalled because of political stalemates. Informal economic activities are very limited, as virtually all businesses are officially registered.

The ruling family and a few long-established merchant families control key economic activities and sectors, such as tourism, communication and insurance, private schools and universities. 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. Different political actors protect their economic interests by blocking privatization plans. The Global Competitiveness Index places Kuwait only at rank 106 in its effectiveness of anti-monopoly policy.

Anti-monopoly
policy
5

In the past, the import of foreign goods and their distribution in Kuwait were allowed only through arrangements with a local dealer, but regulatory laws are changing and loosening. In 2010, Kuwait’s import tariffs compared very favorably even to some of the most developed economies with an average tariff of 4.7%, according to the WTO. Regional trade was further liberalized on 1 January 2008 through the launch of the common market of Gulf Cooperation Council (GCC) members, which by law removed all barriers to trade, investments and services within the GCC. However, with the exception of the free flow of capital and free right of establishment, neither the common market nor the customs union has been put into practice. Plans for a common currency and taxes have been postponed.

Liberalization of
foreign trade
8

In 2012, Kuwait introduced its new Companies Decree Law 25/2012, approved by parliament in January 2013. The law, which aims at introducing regional best practices in Kuwait, stipulates the creation of a “one-stop shop” – a central facility which bundles all services for foreign investors – and permits single shareholders to establish businesses, among others services.

Kuwait’s banking sector is well-capitalized but maintained flat profits over the period under review, because of a buildup in provisions according to the IMF. 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 has again stabilized. The rating agency Fitch announced in late 2012 that a prolonged political stalemate could undermine Kuwait’s rating through its impact on the economy, but so far Kuwait has kept its AA rating.

Banking system
8

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. The latter's activities are confined to investment banking, however. Overall, Kuwait's banking system must be described as protected, with a strong central bank using regulating and intervening means.

8 | Currency and Price Stability

Inflation, which was generally low (lower than 2% for the years 2000 – 2004), rose to 11.6% in 2008 but fell to 4.7% in 2011 and to around 3% in 2012. The main reason for rising inflation was the steep increase in food prices on the world market, which is of special importance for Kuwait with virtually no domestic agriculture. Furthermore, high commodity and oil prices led to the all-time peak inflation level in 2008. The Economist Intelligence Unit expects inflation to hover around 4% in upcoming years.

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 the risks of external economic shocks and to limit imported inflation. The Kuwaiti dinar is fully convertible and profits can be repatriated. The Central Bank of Kuwait can rely on a huge stock of foreign currency assets to support the Kuwaiti dinar, as well as Kuwait's large current account surpluses.

Kuwait reached a record budget surplus in 2011 – 2012 of KWD 13.2 billion (over \$40 billion) which amounts to nearly 30% of GDP. The reason for this were conservative estimations of oil prices for budget planning – with the oil-related incomes making up most of the state revenues – and peaking oil prices in reality. The government of Kuwait has increased the percentage of state revenues being transferred to the Future Generations Fund – established in 1976 to secure Kuwait's future generations' well-being in the post-oil era – from 10% to 25% in 2012.

Macrostability

8

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.

9 | Private Property

Property rights and basic commercial laws are reasonably clear. Kuwait ranks 38 (out of 144) in the Global Competitiveness Index for property rights. The 2013 Index of Economic Freedom assigns Kuwait 50 points on the case of property rights, ranking it worse than Qatar (70), Bahrain and UAE (both 55) but better than Saudi Arabia

Property rights

8

(40). This ranking also considers how effectively property laws are enacted by the government.

The constitution forbids foreign ownership of the country's natural resources. However, lawmakers in parliament have the right to pass laws that allow for foreign companies to invest in 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 limited foreign ownership of real estate in designated areas. Until now, the common mode for foreign investors is a build-operate-transfer arrangement.

The privatization of state companies is proceeding slowly. Even when the government proposes to privatize certain assets, it usually faces opposition from parliament, which either accuses the government of harboring "hidden interests" or expresses concern regarding employment for Kuwaiti citizens. Merchants also monopolize the privatization process. The tribes, gathering increasing weight in parliament, demand benefits from privatizations, thus slowing down the process. However, in 2008, Kuwait established the Partnerships Technical Bureau (PTB), which is responsible for and intends to boost public-private partnerships (PPP) projects in the country. The al-Zour North power and water project is the PTB's first project and it was finally awarded in January 2013, after overcoming opposition in parliament.

In May 2010, the parliament approved a privatization law that allows the government to sell certain state-owned companies (excepting health, education and energy sectors) under certain conditions, such as providing a "golden" government share (the government retains a significant share of the company's stocks) and five-year job guarantees for Kuwaiti employees. This helped pave the way for a long-stalled plan to privatize the Kuwait Airways Corporation, which was approved by parliament in early 2013.

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 (though a growing shortage of housing units poses a big problem to the Kuwaiti government), 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. In 2012, in an attempt to calm public demonstrations, the Kuwaiti government increased public wages by 25%. Tribes, clans and extended family networks also play an important

Private enterprise

7

Social safety nets

7

role as a complement to state support for the elderly, for divorced women or for orphans.

As a consequence, there are very few cases of poverty among Kuwaiti citizens. This does not however apply to the bidoons, who do not carry Kuwaiti citizenship. This group has seen some improvements to their situation in the period under review, as the government has granted them general benefits, such as free health care and education. Human Rights Watch has reported on complaints, however, that tangled bureaucratic processes have hindered bidoons from profiting from these benefits and – most important of all – such benefits still do not lead to full citizenship.

Also, foreign blue-collar workers and housekeepers, especially women, are often exploited, and live and work under unacceptable conditions. However, migrant workers have seen a few improvements, such as the introduction of a minimum wage. For some time now, the government has considered abolishing the controversial yet traditional sponsorship (kefala) system, which gives an employer full legal and economic responsibility over an employee.

The constitution declares men and women to have equal rights. And although Kuwait is essentially a patrimonial society, women are increasingly enjoying more rights and freedoms. A big milestone in Kuwait's history for women's rights was the introduction of women's suffrage in 2005. Currently, three female members of parliament are represented in the December 2012 parliament, following a contest in February of that same year when no female candidate was elected. The December 2012 cabinet includes two female ministers, with Dhikra al-Rashidi as minister of social affairs and labor, and Rola Dashti as minister for development and parliamentary affairs.

However, women still face legal discrimination in different areas. Kuwaiti women married to foreign men cannot pass on their nationality to their children, for example. Furthermore, women encounter difficulties in the job market. Despite high literacy rates and good education levels – topping male enrollment – women are underrepresented in the Kuwaiti labor market, according to UNICEF's MENA gender equality profile. While 83% of males older than 15 years work, in contrast only 45% of women have a job. In 1996, conservative law makers abandoned co-ed instruction in universities and colleges.

On a positive note, the High Judiciary Council decided in 2012 that women will be able to work as public prosecutors and judges.

Equal opportunity

6

11 | Economic Performance

Kuwait's GDP reached record heights in the period under review, with an estimated \$173.4 billion in current prices in 2012, averaging annually over \$50 billion more than in 2009 and 2010. Accordingly, GDP growth moved from negative in 2009 and 2010 to a robust positive rate of over 5% in 2011 and 2012. The main driver of this growth has been the surge in oil prices and exports. On the other hand, this has led to higher inflation rates than previously experienced at around 4.7% in 2011 and 3% in 2012, but such rates are still much lower than the double-digit inflation rates experienced in 2008. With its openness and its strong links to Western economies, the Kuwaiti economy had not been immune to the global economic and financial crisis, but has largely recovered during the last two years.

Output strength
9

The unemployment rate for Kuwaitis is low at around 2%, with the majority of nationals being employed in the public sector. The government is trying to "Kuwaitize" the private-sector workforce to establish a more sustainable labor market and to accommodate a growing number of young Kuwaitis.

Tax burdens remain low because the government has no immediate need for tax-generated revenue.

In terms of foreign direct investments (FDI), Kuwait is largely underperforming, particularly in comparison with neighboring GCC countries like the United Arab Emirates or Saudi Arabia. Kuwait's FDI amounts to around \$300 million – \$400 million annually.

12 | Sustainability

Since the discovery of oil in Kuwait, the government has been able to lift the burden of poverty from its citizens and meet their basic needs, ensuring a good standard of living and building the necessary infrastructure. However, from an environmental perspective, Kuwait ranks 126 out of 132 countries in the 2012 Environmental Performance Index and has one of the worst negative trends with regards to environmental protections worldwide. According to the UNDP, the reasons for this are the country's outdated environmental laws and regulations, a lack of coordination between institutions, limited institutional capacities and insufficient public information on environmental issues. Nonetheless, it should be noted that environment-related events have increased and local media are increasingly covering stories related to the environment.

Environmental
policy
3

The performance of Kuwait's education system is mixed. The country's Global Competitiveness Index ranking on the quality of primary education is 89 of 144 countries; the quality of higher education and training, however, is 104 of 144 countries. Yet according to the Human Development Index, an estimated 61.2% of respondents reported in 2011 that they were satisfied with education quality, compared with an average of 50% in all Arab countries. Enrollment rates are generally high in Kuwait.

Kuwait's literacy rate (93.9%) is among the highest in the Arab world. The government wants to reduce Kuwait's dependency on foreign workers. Public schools are open only to Kuwaitis and are free of charge; others residents attend private schools.

Education policy /
R&D

6

Transformation Management

I. Level of Difficulty

A major structural constraint on governance in Kuwait is the adversarial relationship between the government and parliament, with every project threatened by the potential blockage to policy efforts. Further limitations include the country's continued reliance on foreign labor, extreme climatic conditions in summer, 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, lack of poverty and 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. Political instability and security issues in Iraq, political turmoil in Bahrain and rising tensions between the international community and Iran further constrain Kuwait's development.

Traditionally, Kuwaiti citizens are politically quite active, especially in comparison to other Gulf monarchies. In the period under review, many Kuwaitis took to the streets and publicly called for reforms, organizing themselves with the help of social media. There is also a strong tradition of free debate at semi-public diwanias, the traditional weekly gatherings of male Kuwaitis, where all sorts of topics are discussed.

Civil society
traditions

6

Various political groupings, trade unions, professional associations, the chamber of commerce and numerous voluntary groups (e.g., women, Islamic and cultural associations) have existed for some time. However, their societal roots are disputed; for example, less than 5% of workers are organized in trade unions, according to the International Trade Union Confederation.

Kuwaiti society contains various groups, which can be distinguished along confessional, historical, political and national lines, though they are often intertwined. A major historical cleavage is between the badu and hadhar, that is, nomads with strong tribal affiliations and urban people. Further differences exist between Sunni and Shi'ite Muslims (although both groups are well-integrated and

Conflict intensity

4

only recently tensions with Iran have led to more pronounced differences), between liberals and Islamists, and the most obvious, between Kuwaiti nationals and expatriates – with the bidoons somewhere in between.

There is little violence and a culture of debate and consultation generally prevails. Significant oil revenues allow the government to respond to most economic demands. However, if extra-parliamentary protests such as those of 2012 cannot be reintegrated into the political system, tensions will broaden.

II. Management Performance

14 | Steering Capability

The government has set strategic goals with its national development plan 2010 – 2014 and its long-term plan, “Kuwait Vision 2035,” yet implementation has been a struggle amid the political standstill during the period under review.

Generally, a gradual approach to problems 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 long-term 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 mostly insufficient and poorly managed. Kuwait is regionally known as the big underperformer in the Gulf Cooperation Council. Examples include the inefficient labor market “Kuwaitization” policy 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 regardless of its potential, not moving forward like its neighboring Gulf monarchies. However, in early 2013 the government had the backing of the December 2012-elected parliament, an election the opposition boycotted. Economically the year began well, with the al-Zour North water and power project, valued at \$2 billion, being awarded by the Partnerships Technical Bureau.

Question
Score

Prioritization
5

Implementation
3

Kuwait's leadership is not very flexible or innovative. The Global Competitiveness Report 2012 – 2013 placed Kuwait's level of innovation at 108 of 144 countries. Although the government sometimes tries to respond to mistakes and failed initiatives with new ideas, old policies frequently repeat themselves. With nations like the United Arab Emirates and Qatar pursuing impressive economic development, Kuwait's government closely watches policies and initiatives in the other Gulf Cooperation Council member countries and sometimes tries to copy them. One example of this is the introduction in 2012 of a "one-stop shop" for companies to register under the new companies law.

Policy learning
5

In 2012, the emir initiated the National Youth Project, "Kuwait Listens," where youth activists can present their ideas on the future development of the country. Initiatives like this show a certain willingness to be innovative and flexible, but a lack of results reveal such plans to be just gestures rather than a concrete agenda.

15 | Resource Efficiency

Generally, the Kuwaiti government uses its available economic resources efficiently yet lags with regard to the use of human and organizational resources. Large revenues from oil exports have financed the development of a generous welfare state, which provides a broad range of services (such as health care, housing loans, free education) as well as 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%, and from 2012 25%, 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, the main treasurer for the government, totaled in 2011 to more than \$296 billion, and is administered by the Kuwait Investment Authority.

Efficient use of
assets
5

Administratively, the government does not use 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. In terms of wastefulness of government spending, the Global Competitiveness Index ranks Kuwait at 100 (out of 144). Government efficiency also suffers from a lack of professionalism within public administration, as evidenced by favoritism and random selection in hiring. Furthermore, wages and salaries of the bloated public sector eat up most government spending.

The government often has difficulties in forming coherent policy amid conflicting objectives. The most obvious of examples is the stalemate between government and parliament for most of the period under review. Conflicting interests between members of parliament (and their constituencies) themselves and between parliament and the government have proven difficult to solve, as an institutional setting for

Policy
coordination
4

solving conflicts is missing. Another key example is the growing unemployment among young Kuwaitis – an increasingly serious political and social problem – that has continued to rise, while at the same time, hundreds of thousands of foreign workers are hired each year. A policy to nationalize the workforce has not yielded the expected results as the government is unable to enforce its own laws on the matter; at root is the opposition from Kuwaiti businessmen as well as Kuwaiti jobseekers, who are generally not interested in low-paying jobs.

Corruption is a problem in Kuwait, but the authorities' commitment to combating corruption does not seem to transcend their rhetoric. A scandal in 2011 however did end with the dismissal of then-Prime Minister Nasser Muhammad al-Sabah, on allegations of corruption. Furthermore, at least one-fifth of the members of the 2011 parliament were investigated for graft. In January 2013, the National Assembly approved an anti-corruption and wealth disclosure decree that calls for setting up a national anti-corruption authority.

Anti-corruption
policy
3

16 | Consensus-Building

In very general terms, major political actors agree that democracy and market economy are the country's long-term goals. However, 2012 has seen major setbacks in democratic consensus-building. The emir's unilateral changes to the electoral law led to the opposition boycotting elections in December 2012 and growing extra-parliamentary protests. Opposition parliamentarians and protesters saw the electoral law change to be a deliberate attempt by the emir to reduce their influence. Parts of the population are demanding reforms for a more democratic political system, but in a constitutional monarchy setting.

Consensus on goals
6

There is a wide consensus on the importance of Kuwait's constitution, which is seen as a guarantee – 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 the emir has exercised his prerogative to dissolve parliament five times since 2006, 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. In light of public protests, however, 2012 has seen the emir acting with a more authoritarian hand.

Anti-democratic
actors
3

Islamist politicians have proven to be adverse to some aspects of democracy, as evidenced by their opposition in 2005 to electoral rights for women. However, these politicians have neither tried to reverse these achievements nor have they called upon unconstitutional means to promote their policy programs. Recently, Islamist members of parliament propagated changing Article 2 of the constitution from Islam

being “a” source to “the” source of legislation. This proposal was blocked by the emir in May 2012. 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 managed to contain most 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. In 2011 and 2012, however, the political conflict that erupted on the streets of Kuwait can be described as a generational cleavage and a general expression of discontent by Kuwaitis of different backgrounds. The government reacted harshly to the protests and reverted to violence in many cases.

Cleavage /
conflict
management
4

Another conflict which is not sufficiently addressed by the Kuwaiti leadership is the situation of the stateless Kuwaitis. Positive change is slowly evolving, with parliament’s decision to grant citizenship to up to 4,000 bidoons (out of roughly 100,000 in total).

Recently, with rising tensions between the Gulf Cooperation Council and Iran, concerns about the alleged affiliations of Shi’a individuals with Iran appear more often in public discourse and are not being prohibited.

The political leadership does not interface with civil society organizations in any institutionalized way. Nonetheless, some civil society organizations have been successful in building grassroots constituencies and have managed to establish good relations with the ruling elite. In light of the Arab Spring, the government is setting up initiatives such as the National Youth Project, where a number of youth activists can present their ideas for Kuwait’s future. Dozens of trade unions, under the umbrella of the Kuwait Trade Union Federation (KTUF), joined the demonstrations against the political crisis in late 2012 and early 2013.

Civil society
participation
5

The political leadership is not tackling the issue over Kuwait’s bidoons at its core, but instead resorts to pronouncements and political lip service. Relations with Iraq are related to the perception of the bidoons, as they are sometimes wrongly perceived as being former supporters of Saddam Hussein and thus disloyal to the Kuwaiti state. Relations between Kuwait and Iraq are problematic, but there are calls for reconciliation talks and political support for normalization.

Reconciliation
n/a

The same allegation of a lack of loyalty to Kuwait applies to Shi’a individuals, who are seen to have some purported hidden affiliation with Iran, at a time when political relations between the countries of the Gulf Cooperation Council and Iran are at a low.

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 cooperate 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. Kuwait works together with Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ) and the UNDP for technical cooperation.

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 2005 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. On 30 January 2013, an international donor conference was held in Kuwait with the aim to raise \$1.5 billion in assistance funds for U.N. agencies to support humanitarian needs in Syria; Kuwait, Saudi Arabia and the United Arab Emirates alone pledged \$900 million, yet it is clear that political interests are certainly involved.

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

Kuwait is perceived as a relatively reliable partner, not only by the other Gulf Cooperation Council states but also by the international community. This stems in part from its history of voiced opposition to Iraq's Saddam Hussein and in part from its relatively open political system. Amid the Arab Spring in late 2010, Kuwait has not been very active in propagating its own agenda. In January 2012, Kuwait denied that a Kuwaiti organization donated funds to Egyptian Salafists.

Effective use of support

6

Credibility

6

Throughout the period under review, Kuwait has not been in the international limelight. Even though protesters took to the streets and the country's democratic process stalled, the international focus remained on events in the North African states, Syria and Yemen.

Kuwait is an active member of regional organizations, especially the Gulf Cooperation Council (GCC). Kuwait supports further integration of the GCC, however diverging from common policy if its national interest is at stake. Thus Kuwait long blocked the implementation of a GCC security agreement from 1994, considering some articles of it – like the extradition of suspects – incompatible with the Kuwaiti constitution. In November 2012, however, all GCC countries, including Kuwait, agreed to the security pact. The GCC also spoke in a united voice, when on 12 November 2012, all six member states recognized the National Coalition for Syrian Revolutionary and Opposition Forces as the legitimate representative of the Syrian people.

Regional
cooperation
9

Kuwait's relationship with Iraq has been marked by the Iraqi invasion of Kuwait in 1990 – 1991. Relations with a post-Saddam Iraq have largely normalized, though incidents like Kuwait's announcement to build the Mubarak al-Kabir port – in competition with Iraq's Fao port project – soured relations in 2011.

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 and the Iranian nuclear program, particularly because of their nuclear facilities close to the Gulf coast. In March 2011, both countries had recalled their ambassadors after a Kuwaiti court had sentenced four Iranians to death (later transformed into lifelong prison sentences) for alleged spy activities; two months later, both ambassadors were re-deployed. Seemingly in retaliation, Iran arrested two Kuwaitis in November 2011, also on suspicion of espionage.

Strategic Outlook

Kuwait's political development is marked by significant tension between the government and parliament. Five dissolutions of parliament (in 2006, 2008, 2009, 2011 and 2012), the opposition's boycott of the 2012 elections, and growing popular protests all point to a political system in crisis. A much-awaited constitutional court ruling on the legality of the emir's controversial electoral law change is set for 16 June 2013. Whatever the verdict, Kuwait's near political future does not look rosy. If the court rules the amendment to be unconstitutional, parliament would have to be dissolved again; if not, extra-parliamentary protest is likely to grow. Kuwait's political leadership must focus on steering heated political conflicts back into the parliamentary arena. For this to happen, the process of democratization, which Kuwait has seen in the last decade, needs to be taken a step further: the government should be elected by and accountable to the democratically elected parliament. This would also end the political stalemate and the never-ending legislative-executive squabbles. The majority of the population has not – until now – questioned the role of the emir and the monarchical system, giving the emir the capability to guide Kuwait out of the current crisis. Should parliament receive increased powers, it remains to be seen how Islamist politicians envision the country's democratic progress. The future of Kuwait's political development will also have repercussions to how other Gulf States' view democracy.

Kuwait's future economic development is closely linked to the political sphere. The National Development Plan 2010 – 2014, estimated at \$108 billion, shows the potential of the economy – in particular because of high budget surpluses in recent years – but many projects during the period under review were postponed. Ambitious public-private partnership projects and a new companies law are signs of a further move forward from a state-dominated economy to a competitive market economy. Debates over 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 foreign investors. However, in the foreseeable future, Kuwait will largely remain dependent on oil-related income.

In the regional context, Kuwait finds itself with unstable neighbors. Bahrain is going through a deep political and social crisis, the development of which will effect Kuwait. Nonetheless, major Sunni-Shi'a conflicts are not anticipated in Kuwait, where the Shi'a population is better integrated. The looming conflict between the international community and Iran over its nuclear program as well as Iran's ambitions as a regional power pose a direct threat to regional stability. Lastly, Iraq's stability is of prime importance to Kuwait, which shares a border of approximately 250 km with its neighbor.