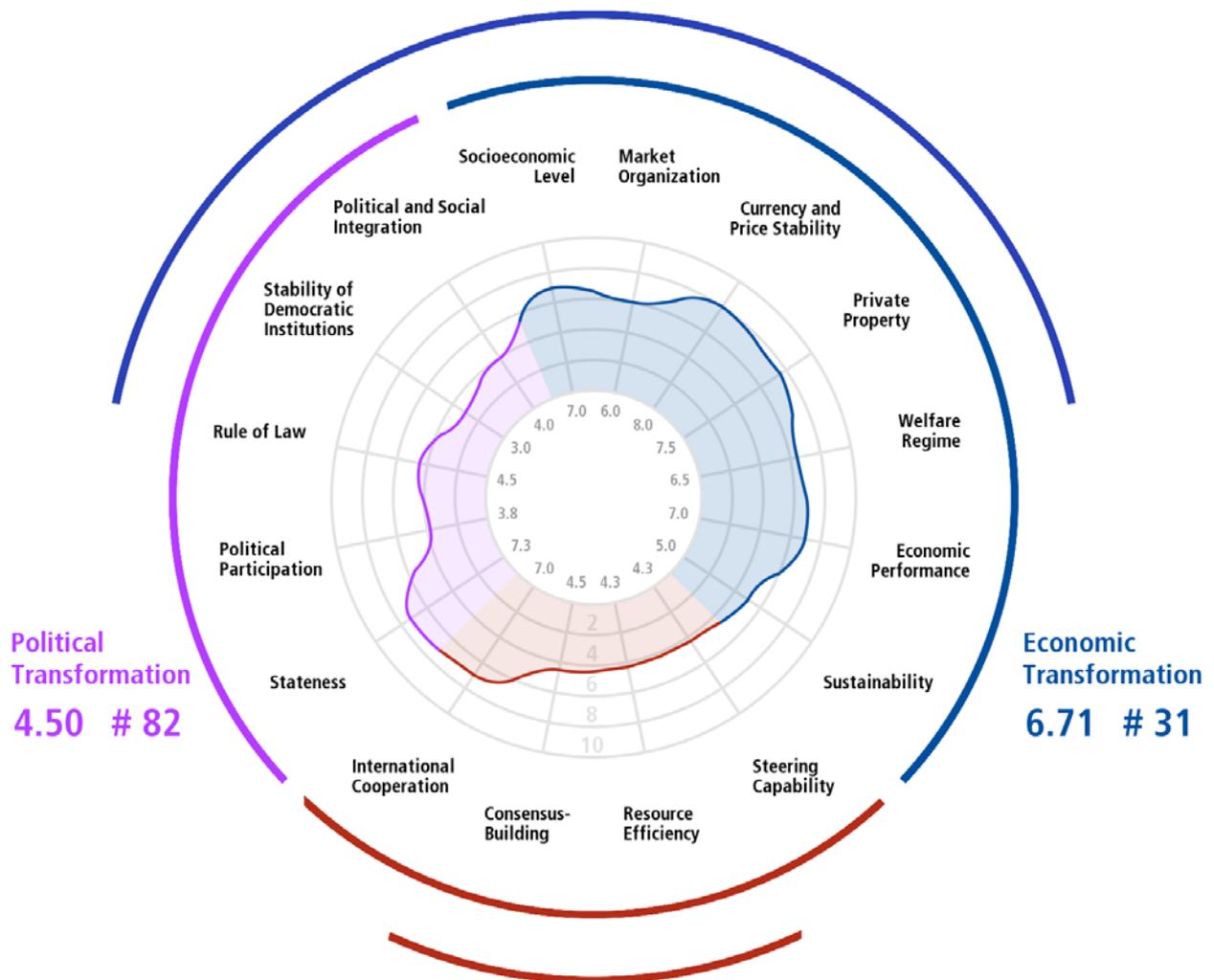


Kuwait

Status Index

5.61 # 60

on 1-10 scale out of 129



Political Transformation
4.50 # 82

Economic Transformation
6.71 # 31

Governance Index

4.37 # 82

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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	4.1	HDI	0.800	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	2.9	HDI rank of 188	51	Gini Index	-
Life expectancy	years	74.7	UN Education Index	0.644	Poverty ³	% -
Urban population	%	98.4	Gender inequality ²	0.335	Aid per capita \$	-

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The period under review has been less contentious for Kuwait politically than previous periods, but more challenging economically. Faced with falling oil prices and growing state expenditures, resulting in a looming budget deficit, the government tried, rather unsuccessfully, to implement economic reforms. This included cuts in subsidies and public sector wages, shifting employment to the private sector, diversifying sources of income and attracting foreign investments. However, the government's attempts to implement these policies incited strong popular discontent. One of the most vivid examples was the three-day strike of oil sector workers, which effectively paralyzed the country's most vital industry. As a result, most of the government reform measures could not be fully implemented. Meanwhile, the government was able to launch a record number of new and long-awaited development projects that had previously been delayed (e.g., the Az Zour North Power Plant, the Clean Fuels Project, Kuwait International Airport, et cetera).

The National Assembly, elected in 2013, was dissolved in September 2016, only nine months before the end of its four-year term. New elections were held on 28 November 2016 and brought back the opposition into the formal political scene. The 2013 assembly lacked popular support due to a widespread election boycott following a controversial electoral system change in October 2012. Due to its pro-government and pro-business stance, there were fewer clashes with the government compared to the previous period. At the same time, pro-reform opposition forces found themselves outside the formal political scene, with no means to influence decision-making and little ability to mobilize the population for public rallies. The authorities continued prosecution of opposition leaders and activists, and further made sure, through a legislative amendment, that those convicted would not be able to return to parliamentary politics.

The new elections in November 2016 re-introduced an Islamist opposition into the formal political scene, which has opened a period of potential renewed antagonism between the legislative and executive branches, and could potentially lead to the empowerment of pro-reform forces.

Although the active power struggle within the ruling family has seemingly died down, conflictual relations between the sheikhs still represent a risk to the country's stability, the closer the succession of Emir Sabah al-Ahmad al-Jaber al-Sabah, born in 1929, comes. Rifts within the ruling family continue to exist. Most prominently, the contending prince, Sheikh Ahmad al-Fahad al-Sabah (nephew of the current emir), who is trying to accumulate power prior to succession and is challenging some of the most powerful members of the family, was forced to publicly apologize for coup accusations that he leveled against senior officials. He seemingly left the political scene afterwards, but still has support among some of the opposition groups and tribes, and can use his influence within the assembly to continue his political struggle.

History and Characteristics of Transformation

Kuwait has been ruled by the Al Sabah dynasty since the mid-18th century and became fully independent from Great Britain on 19 June 1961. From early on, the authority of Al Sabah family members has been founded on an accord with local tribesmen and merchants and was based on mutual interest and exchange. The position of the Al Sabah changed fundamentally with the discovery of oil in 1938 and the first exports in 1946. Abdullah al-Salim al-Sabah, who became the first emir of Kuwait upon independence, used the wealth to create a comprehensive welfare state with extensive education and health facilities and initiated infrastructure projects. Today, 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. Kuwait's history has been characterized by rapid population growth due to the import of foreign labor: between 1950 and 2016, the population grew 27-fold, increasing from 150,000 to over 4.1 million.

Kuwait has the oldest elected parliament of all Arab Gulf countries; the National Assembly was established in 1963. 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.

In order to create a counterbalance to the influential nationalist-leaning merchants, the ruling family naturalized many Bedouins ("badu") from the 1960s onwards and offered them jobs in state bureaucracy and security forces. The conservative badu kept their strong tribal allegiances and were loyal to the Al Sabah. Over time, Bedouin tribal members integrated into Kuwaiti urban life and achieved higher education and better professions. Despite their increasing numbers and becoming the majority of the Kuwaiti population, their influence did not grow accordingly. Consequently, tribal activists sought their way into parliament to exert political influence independently from tribal chiefs loyal to the government. While many tribal groups were naturalized, some were not, and today they constitute a group of over 100,000 Bidoons, or persons

without legal documents. These stateless local Arab residents, many of whose families settled in the Gulf generations ago as merchants or workers, are denied citizenship and corresponding rights.

Sunni-Shi'a relations have been less contentious than in other Gulf states, but tensions still exist. The conflict between Iran and the Arab Gulf states, as well as the crises in Bahrain and Syria, have furthermore sparked a divide, with some Kuwaitis staunchly supporting the protesters in Bahrain and others seeing them as Iranian cronies. This sectarianism is used by sectarian identity-entrepreneurs to further their interests.

The successor to the emir is a hot topic in Kuwait, as it is determined not by primogeniture but by consensus of the ruling family. For a while the position of the emir alternated between the two main branches of the family – the Jaber and the Salem branch. However, in 2006 that rule was skipped when Sheikh Sabah al-Ahmad became the successor of the late Sheikh Jaber al-Ahmad, because the designated heir, Sheikh Saad al-Abdullah, was deemed too ill. Since then, the main political power has been concentrated primarily in the hands of the Jaber princes, and power struggles soon started to occur within the Jaber branch.

Since 2003, the crown prince can no longer serve as 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 years, a situation that has led to the dissolving of parliament seven times (in 2006, 2008, 2009, 2011, 2012, 2013 and 2016) during the reign of the current emir. The unilateral changes to the electoral law in 2012 by the emir profoundly destabilized the delicate executive-legislative balance and led to increasing extra-parliamentary protests and electoral boycotts.

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 and a monopoly on the use of force in the country. Kuwait has not witnessed any major violent conflicts within its territory since the war with Iraq (1990-1991). The advance of the Islamic State (IS) group in Syria and Iraq, as well as a proxy conflict between Saudi Arabia and Iran in Yemen pose potential security threats to Kuwait. In June 2015, a suicide bombing took place in the Shi'i Imam Sadiq Mosque, the responsibility for which was claimed by the IS. Two months later the authorities uncovered a terrorist cell composed of 26 Shi'i Kuwaitis, who had stored a large amount of weapons, ammunition and explosives at a farm near the Abdali border crossing with Iraq, and were accused of espionage for Iran and Hezbollah. Therefore, in the period under review the government has been putting particular effort into identifying and monitoring sympathizers of terrorist groups' ideology within Kuwait, as well as subjecting charitable fundraising to stricter oversight and regulation. However, the activism of such groups and individuals within Kuwait does not essentially affect the state's monopoly on the use of force.

Neither is the state's monopoly on the use of force threatened by large-scale opposition rallies and protests. Although in 2011 to 2014 Kuwait experienced some of the largest demonstrations in its history and on multiple occasions the authorities resorted to violence to disperse the protesters, in the period under review, street protests have generally died out.

The nation-state is largely accepted as legitimate, and the power of the ruling family and the constitutionally defined political system is generally not questioned.

Kuwaiti citizenship and its distribution has always been a contentious issue because of the welfare and political rights that come with it. Historically citizenship would be sometimes granted by the government to certain groups in the population in order to gain their political support and thus overpower opposition groups in the parliament. Likewise, citizenship can be withdrawn from individuals and their families in order to suppress political dissent. In 2014 citizenship rights were revoked for former

Question
Score

Monopoly on the
use of force

10



1

State identity

6



1

Islamist member of parliament Abdullah al-Barghash, the owner of the pro-opposition television station al-Youm, Ahmad Jaber al-Shemmari, opposition activist Saad al-Ajmi, as well as a number of Islamist activists including popular cleric Nabil al-Awadhi. However, in October 2016 the court restored al-Shemmari's citizenship, which paves way for other politicians and activists to try to overturn the government's decision.

Access to Kuwaiti citizenship is highly restricted and is normally granted to a very limited number of individuals each year through a special emiri decree. In 2016, as a humanitarian act, the emir granted citizenship to 300 people, who were mostly the children of Kuwaiti widows and divorcees of Kuwaiti citizens.

There used to be grades of citizenship, which defined the citizens' political rights. For instance, those who were naturalized later and had a lower class of citizenship were not allowed to run in elections. Although, the grades were unified in 1995, the time of naturalization and one's origin still play a big role in the socioeconomic hierarchy and common perceptions of loyalty to the state. Thus, some of the more recently naturalized tribes are often accused of holding dual citizenship, the second being Saudi citizenship, which would allow them to enjoy welfare benefits in both countries. Similarly, the loyalty of the Shi'i population is sometimes questioned because of family ties and religious ties to Iran.

Bidoons – stateless Arab residents, who are regularly suspected in public discourse to hold other citizenships and unjustly seek Kuwaiti citizenship to profit from material benefits – are denied full citizenship rights despite the fact that they constitute about 10% of the population and often have lived in Kuwait all their lives. In the period under review, the government continued its reluctant attempts to solve the Bidoon problem and to grant citizenship to those who have sufficient evidence of being Kuwaiti. However, in April 2016 the authorities announced that 80,000 out of 110,000 stateless residents have no hope of receiving Kuwaiti citizenship, and the government is continuing its negotiations with the Comoros and other countries, which could offer their citizenship to the Bidoons.

Kuwait's large expatriate community, which constitutes about two-thirds of the population, has no access to citizenship at all.

According to Article 2 of the constitution, Islam is the state religion and Islamic Shariah is a main (but not the only) source of legislation. Nevertheless, the country generally functions along modern principles with secular institutions.

Kuwait's Islamist groups (Salafis and the Muslim Brotherhood) have been pushing to make Islamic Shariah the ultimate source of legislation. In the period under review, those calls have not been successful. However, as the parliament elected in November 2016 has a large Islamist representation, similar calls are likely to be renewed. There

No interference of religious dogmas

5

'06 '18 10



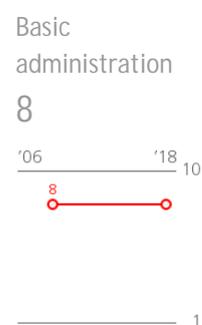
have been further calls from some members of parliament to restrict the construction of churches and celebrations of Christian religious holidays in Kuwait.

Previously, a parliamentary proposal to introduce capital punishment for blasphemy was overturned by the emir. However, in June 2016 the government adopted an election law amendment that barred those convicted of insulting “the Almighty Allah, the prophets and the emir” from participating in parliamentary elections.

Religious dogmas have a larger influence in spheres like education and personal matters. In December 2015, a group of activists and students issued a petition to the Constitutional Court claiming that the 1996 law on sex segregation in the universities is unconstitutional; however, the petition was rejected.

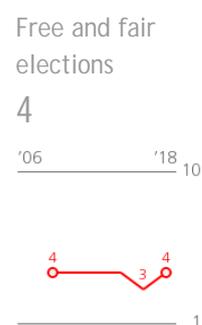
Kuwait is administratively divided into six governorates, al-Ahmadi, al-Asima (in Arabic “the capital,” including the area around Kuwait City in which approximately 96% of the total population resides), al-Farwaniyya, al-Jahra, Hawalli and Mubarak al-Kabir. The state bureaucracy is functional but bloated; many positions were created to provide employment for Kuwaiti citizens without focusing on merit or needs.

Kuwaiti nationals are entitled to free social services such as health care and education, the quality of which are somewhat deficient. The aging infrastructure, quick growth of population and sluggish and inefficient bureaucratic environment, which is a roadblock to quick innovation, are the main reasons why government-delivered services are now far from satisfying. In the period under review, the authorities put efforts into solving the shortage of housing, which has become one of the major issues of discontent among the population. Multiple new residential areas are currently under development. The government also made a decision to separate public medical services for nationals and expatriates, where certain hospitals will be reserved for Kuwaitis only in order to avoid overcrowding and prioritize the provision of health services for nationals.



2 | Political Participation

Parliament (majlis al-umma) consists of 50 directly elected members and up to 16 ministers who are directly appointed by the emir. The legal framework for Kuwait’s election is largely in line with international standards, with the inequality of the vote being the major flaw, according to Democracy Reporting International. The lack of parties poses structural difficulties and the limited powers of parliament are inconsistent with international obligations. Limitations to the right to vote are in place for soldiers and naturalized citizens, who are barred from participating in elections for 20 years after naturalization.



Women were granted the right to vote and run in elections in 2005. However, in the period under review, only one woman was elected to the assembly in the November 2016 elections.

Parliamentary elections have been one of the most contentious issues in Kuwait politics. As it is important for the government to ensure the election of a loyal and non-obstructionist National Assembly with a minimal opposition element, some of the previous elections were reportedly rigged or manipulated through changes in election laws and voting districts.

Despite being prohibited, vote-buying, tribal primaries and securing votes in exchange for services (wasta) are widespread practices.

The 2013 National Assembly was elected after the emir's unilateral decision to change the election law to the "single, non-transferable vote" system in 2012 (known in Kuwait as "one person one vote"). The amendment proved to be detrimental to opposition political blocs and large tribes, as several candidates from the same tribes or blocs would run in the same districts and therefore compete against each other with little scope for coordination. In protest against the amendment, many opposition members boycotted both the 2012 and 2013 elections, and the subsequently elected assemblies were strongly pro-government.

As the weak 2013 parliament could not oppose the government's plans to introduce austerity measures and reduce petrol subsidies, it quickly lost popular support and was dissolved in September 2016. Elections were held in November 2016. Some of the opposition groups, namely the Salafi bloc and the Muslim Brotherhood, ended their boycott and participated in the elections securing almost 50% of the seats. Other opposition groups (populist and liberal-leftist) are still demanding the abolition of the "one person one vote" system and refuse to participate in elections.

Furthermore, an election law amendment in June 2016 barring for life those convicted of blasphemy and insulting the emir from running for parliamentary elections also targets leaders of the opposition, many of whom were charged with insulting the emir after the opposition movement in 2011-2014. For instance, Musallam al-Barrak, one of the most prominent opposition figures, who is currently serving a two-year jail sentence, cannot participate in elections as a result of the amendment.

The role of the elected parliament is limited by the fact that ministers are also members of the assembly, so the government often does not require a majority backing in parliament to adopt new legislation. However, the Kuwaiti parliament is not a rubber-stamp body and has traditionally focused on controlling the executive and questioning government initiatives through the interpellation, or "grilling," of ministers. The parliament also has a say in the selection of the crown prince.

The adversarial relationship between the government and the parliament is evident in the fact that not a single parliament elected since 1999 served its full term. Given that

Effective power to govern

3

'06 '18 10

2 3

1

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. There were calls for an elected government in 2011-2014; however, currently this demand has only limited support among opposition groups.

In the period under review, during the term of the mainly pro-government assembly elected in 2013, there were also numerous attempts to question ministers, particularly in relation to the government's economic reforms and austerity measures. However, the parliament was generally too weak to cause a major cabinet reshuffle (although six ministers resigned during the 2013 assembly's term) or reverse government decisions. The newly elected and more opposition-leaning assembly (November 2016) has been much more active in challenging ministers and government measures. It is likely that relations with the government will further deteriorate and this assembly will also be dissolved prematurely.

Kuwait's constitution guarantees the right to freedom of assembly for Kuwaiti citizens. 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. Official government permission is required for marches, while illegal gatherings are prohibited by law and are often forcibly broken up by the authorities.

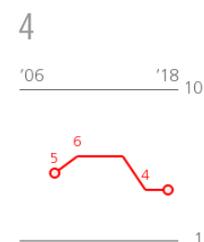
In the period under review, public gatherings and demonstrations by the opposition occurred less frequently than in the 2011 to 2014 period, largely due to the fact that there were multiple internal disagreements and a lack of consensus among the opposition groups themselves.

However, unlike in other Gulf Cooperation Council (GCC) states, labor unions are allowed in Kuwait and have historically been very influential. In April 2016 Kuwait oil-sector workers went on a three-day strike protesting the government's plan to reduce their wages and benefits. The strike undermined the country's vital industry, and the government ultimately had to abandon its austerity measures, at least temporarily.

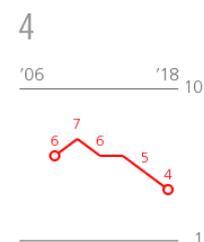
The Kuwaiti constitution guarantees freedom of expression, but includes a wide-reaching clause of limitations. The law criminalizes defamation of Islam, the emir and the constitution.

Kuwaiti media is 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 offense or criticism of the emir. According to Article 54 of the constitution, the person of the emir is immune and inviolable. Therefore, journalists exercise a degree of self-censorship, and the authorities have persecuted dozens of critics who have spoken out on sensitive subjects.

Association /
assembly rights



Freedom of
expression



In April 2014, two newspapers, al-Watan and Alam al-Yawm, were suspended for two weeks for not abiding by the media gag on reporting about video tapes that allegedly reveal plans to stage a coup d'état involving a member from the emir's family. In the period under review, the licenses of those two newspapers, which often expressed the views of the opposition, were permanently revoked.

In February 2016, a new electronic media law was introduced, under which all web-based publications, including electronic news services, bulletins and the websites of newspapers must obtain a license from the government in order to carry out their operations legally. The law further criminalizes online criticism of the government, religious figureheads or foreign leaders. Local activists, opposition leaders and Amnesty International criticized the law for providing the government with yet another tool to silence the dissent.

In the 2016 World Press Freedom Index, Kuwait was further downgraded from 90th place in 2015 to 103rd.

3 | Rule of Law

There is a degree of separation between the legislature and the executive, but it is weakened by the fact that emir-appointed ministers, as well as the prime minister, are ex officio members of the parliament. Hence, roughly one-third (up to 16) of the members of the parliament are not elected.

Lawmaking power rests with parliament, but the emir can veto any legislative measures by the assembly. In theory, the parliament can then overturn the emir's veto by a two-thirds majority. However, as up to a third of parliamentary members (the government) are directly appointed by the emir, the cabinet has almost a blocking majority in the parliament.

The assembly has the power to conduct inquiries into government actions and pass motions of no confidence against ministers, or no cooperation against the whole cabinet. Thus, checks and balances of the executive in Kuwait are more effective than in other Gulf States.

The emir can dissolve parliament, but new elections are supposed to be called within two months. However, in the past this obligation was not always honored (for example, in 1986).

Separation of powers

4

'06 '18 10



1

The constitution provides for judicial independence, and on multiple instances the court has ruled against the government's or the emir's decisions. Most recently, during the last election in November 2016, the court reinstated several candidates' right to run in the election after they were barred from participation by election authority. In October 2016, the court also ruled that the government should restore citizenship for pro-opposition media owner Jaber al-Shemmari and his family.

In the period under review, the 2013 National Assembly adopted an important law, which grants the right to individuals to pursue lawsuits in the Constitutional Court.

However, in practice, the emir appoints all judges, thus wielding considerable power over the judiciary. It is difficult to assess whether the seemingly "anti-government" decisions by the court are made without the prior knowledge of the emir and the top officials.

The opposition-dominated parliament of 2012 tried to introduce a law that would guarantee the independence of the courts. However, the assembly was dissolved before voting on the law took place. The 2013 assembly continued to discuss the law, but never passed it.

The World Economic Forum's 2016-2017 Global Competitiveness Index considers Kuwait's judicial independence fairly good, at 4.7 (out of 7 points), ranking the country 39th out of 138 states. This is a two-point drop compared to the 2014-2015 ranking.

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

One of the most notorious corruption cases that emerged in the period under review was that of Fahad al-Raja'an, the former general manager of the Public Institution for Social Security, the local social insurance authority, who was reported to have embezzled \$200 million. The government requested a freeze on his overseas assets and demanded his extradition to Kuwait.

The main corruption allegation scandal of 2014 was connected to former Prime Minister Nasser Al-Mohammad al-Sabah and former Speaker of Parliament Jassem al-Khorafi, who were accused by opposition leaders and a rival ruling family member of plotting a coup and transferring \$50 billion to foreign accounts. In March 2015, the public prosecutor declared that he would not press charges against the two high-level officials, stating that the evidence presented was not credible.

Independent judiciary

5

'06 _____ '18 10



Prosecution of office abuse

4

'06 _____ '18 10



Kuwaiti citizens generally enjoy rights and freedoms. However, during the reporting period, Kuwait has continued to endure instances of political and civil rights abuse, albeit not on the same scale as during the previous period. While not systematic and widespread, there have been targeted violations, in particular the revocation of the citizenship of government critics and their families. Furthermore, in certain cases under investigation (such as the Abdali cell case), the individuals being prosecuted alleged torture and abuse.

The government has also increased the pre-trial detention period from 10 to 21 days. The age for minors was reduced from 18 to 16 years, resulting in full criminal responsibility for everyone over the age of 16.

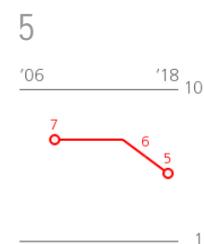
Following a suicide attack in a Shi'ite mosque in June 2015, the government also adopted a DNA Sample Collection Law mandating collection of DNA samples from all residents in order to facilitate comparisons to samples collected from terrorist attack scenes. The law was harshly criticized by members of the opposition and in public as affecting fundamental human rights and personal freedoms protected by Kuwait's constitution. Opposition to the new law ultimately led to the emir announcing in November 2016 that DNA testing will only be applied to convicted felons.

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. Women in Kuwait still face legal discrimination. Kuwaiti nationality law does not stipulate that a child of a Kuwaiti woman and a foreign father should receive citizenship. Furthermore, despite increased opposition from Kuwaiti activists in the period under review, Kuwait's penal law still protects "honor killing." Article 153 states that if someone finds his wife, daughter, mother or sister with a man in an adulterous relationship, and if he kills her or her partner right away, he will face no more than three years in jail and/or a fine of 225 Kuwaiti dinar (ca. \$740.00).

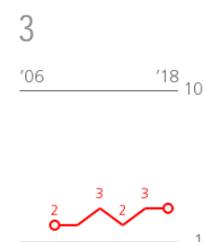
4 | Stability of Democratic Institutions

Kuwait's government is not legitimized by democratic elections involving a majority vote within the unicameral National Assembly. The legislature has certain monitoring rights over the executive. It can overturn decrees made by the emir when it is not in session and can veto the appointment of the prime minister and the crown prince. Furthermore, it can remove ministers by a majority vote, and State Audit Bureau representatives can attend legislature sessions and raise questions directly to ministers. These control mechanisms are mitigated by the fact that government ministers are, by office, members of parliament and entitled to vote. However, ministers are not allowed to participate in the work of assembly committees, and they

Civil rights



Performance of democratic institutions



cannot vote when parliamentary questioning leads to a no-confidence vote against one of the cabinet members.

Kuwait's constitutional setup creates a conflict-prone relationship between the government and parliament, as the latter has mainly negative powers. In the period under review, however, the parliament instated in 2013 was mainly pro-government, lacking any substantial opposition element. Therefore, the government was able to pursue its policies and launch development and infrastructure projects without being obstructed by the assembly's inquiries and allegations of corruption. Still, when the cabinet decided to cut spending and launch austerity measures that would affect the welfare of the population, the parliament was caught between strong popular discontent and inability to challenge the government, and was ultimately dissolved.

The new parliament has a much more prominent opposition element; therefore, its relations with the government have already been more strained.

At the same time, parliamentary power can be often used by interest groups (such as business elites or ruling family members) to promote their political and economic agendas and to undermine their rivals in the government.

On the whole, Kuwaitis are proud of their tradition of active political participation, and the country stands out among all GCC members in terms of stability and performance, particularly of its parliament. The constitution is widely respected, even if it is not always interpreted in the same way. Various groups within Kuwaiti society, (i.e., tribes, urban business elite, religious groups (the Muslim Brotherhood, Salafis and Shi'ites)) and secular political blocs all have been actively participating in the country's parliamentary life. Although some of the ruling family members have previously tried to diminish the powers of the National Assembly, calls for the abolition of parliamentary system are generally uncommon.

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. These are due to constitutional design that limits parliament to a largely negative role, with no right of government formation.

Due to the lack of opposition members of parliament and weakness vis-à-vis the government, the 2013 National Assembly became increasingly unpopular during the period under review and ultimately lost its legitimacy.

The November 2016 elections, however, were used by some opposition groups to return to the official political scene, and opposition candidates received significant support from voters, securing 50% of the seats. Because of the participation of opposition groups in the elections, the turnout was very high (70%), compared to the previous, boycotted elections (50%). The overall turnover rate was 60%, with only 20 out of 50 of the pro-government former members of parliament re-elected. In some

Commitment to democratic institutions

3

'06 '18 10



districts, the turnover rate reached an unexpected 80%. Such results are evidence of strong popular discontent with regards to the outgoing pro-government assembly, and show that the Kuwaiti population has high expectations that the new members of parliament will be able to bring about change.

Despite this, liberal, leftist opposition groups continued to boycott the political system and did not participate in the last election. They do however coordinate action with some of the opposition-leaning members of parliament within the assembly.

5 | Political and Social Integration

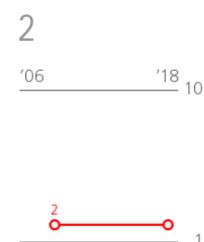
Legally, there exist no political parties in Kuwait, but members of the National Assembly are organized along political blocs, which include groupings such as liberals (the National Democratic Alliance), leftist nationalists (e.g., the Kuwait Democratic Forum), populist (the Popular Action Bloc) several Shi'i blocs (e.g., the National Islamic Alliance and the Justice and Peace Alliance), Salafi Islamist groups and the Islamic Constitutional Movement affiliated with the Muslim Brotherhood. These blocs act as quasi parties and are perceived as such by the population, as they partly run own TV stations and print media.

In a much-criticized move, the emir amended the electoral law by decree in October 2012, reducing the number of candidates that a voter could elect from four to one. The previous election system made it easier for political groups to run lists of candidates. For example, if a voter supports a liberal bloc, he or she could cast four votes for four candidates from the same bloc. Now, when a voter can only vote for one candidate, it effectively makes representatives of the same group compete against each other, so votes are more spread out, and only very popular or prominent politicians from blocs win the seats, with their ability to form coalitions within the parliament subsequently curbed.

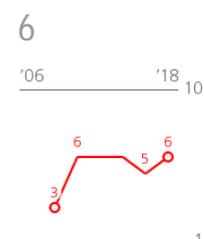
Calls for the introduction of political parties are one of the main demands of the opposition groups, as it would be the first step toward an elected government, and effectively, a constitutional monarchy.

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, express their wishes to the government and are used to shape public opinion. Kuwait has strong business associations, such as the Kuwait Chamber of Commerce and Industry, which is a strong lobby group and able to influence policy-making through formal and informal connections to the government. Kuwait's public sector labor unions are exceptionally strong in their ability to protect the privileges of public sector employees, and strike

Party system



Interest groups



actions in various government sectors have been quite common in the period under review.

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. 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 and are proud of Kuwait's parliamentary tradition. However, many are not satisfied by the regular standoff between the parliament and the government and the high number of elections in recent years, which hampers development and results in Kuwait lagging behind its more authoritarian, but more advanced neighbors, like the UAE and Qatar. The high turnout of 70% during the last election and lively public debate suggest general support for democratic institutions.

Kuwaitis – and particularly youth who make up a majority of the population – are increasingly wary of the corrupt realities of their parliament, the authoritarian style of government and the inequality of the distribution of oil-generated wealth. This is likely to push more young people into parliamentary politics, which has already been evident in prior elections. Youth candidates currently make up about one-third of the new assembly, four of them being under forty years of age.

The World Economic Forum's Global Competitiveness Report for 2016-2017 rates "public trust in politicians" at three out of seven possible points, ranking it 73rd out of 138 countries, which is a substantial drop from the 56th place it occupied a year earlier.

Kuwaiti society is highly stratified and divided along sect lines (Sunni/Shi'a), origin (Arab/Persian), social background (i.e., membership in a certain family, tribe, urban elite, et cetera), time of naturalization/settling in Kuwait, and religious and political views (Islamist/liberal). Therefore, tensions and, occasionally, mistrust indeed exist among different groups of society, often exacerbated by the overspill of regional conflicts and political events.

According to the 2016 InterNations Expat Insider survey, Kuwait was (for the third time in a row) rated as the worst place for expatriates globally, reflecting various unsatisfying aspects of foreigners' professional and private lives.

Charitable religious endowments are active and well-supported, and there exist multiple non-governmental and civil society initiatives and organizations. In the period under review, in the wake of an increased threat of terrorist attacks in Kuwait, the Ministry of Social Affairs and Labor has taken several steps to regulate and monitor charitable fundraising. In 2015 the ministry dissolved two licensed and

Approval of
democracy

n/a

'06 _____ '18 10

n/a _____ 1

Social capital

4

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several unlicensed charities. New regulations require individuals and organizations to register and apply for government permits.

II. Economic Transformation

6 | Level of Socioeconomic Development

The state of Kuwait has an abundance of oil reserves and is thus – even with the currently declining oil prices – a very wealthy country. Among Kuwaiti nationals, absolute poverty does not exist. However, wealth is quite unevenly distributed, although there is no official data from the World Bank on poverty or the Gini coefficient. Literacy is high at 96.1% and access to education is fairly good and equal from a gender perspective. However, Kuwait ranked 51st (out of 188) in the UNDP’s Gender Inequality Index in 2015 with the index value of 0.335, which is the second worst result among the GCC states after Qatar.

Kuwait’s UNDP Human Development Index value for 2015 was 0.800 — which put the country in the “very high human development” category. The Kuwait population, however, makes up only around 30% of the total population, while most of the remaining residents are temporary foreign workers, mainly from South Asia and Arab countries, who are often socially excluded and economically exploited. According to official statistics, as of 2014, 258,608 Kuwaitis (or 81% of total employed national population) worked in the already saturated public sector, as opposed to 61,652 (19%) in the private sector, constituting only 4.2% of the total number of private sector employees. Kuwaitis have little incentive to seek employment in the private sector, due to lower salaries and longer work hours. In order to reduce the burden of public sector employment on the budget and to avoid unemployment among Kuwaitis, the government has launched a plan to “Kuwaitize” the labor force in the private sector through introducing quotas of national employees in private companies. However, this process has brought only very limited results so far, as there are multiple ways by which private sector can avoid meaningful implementation of the “Kuwaitization” requirements.

There is increasing pressure to fix the demographic imbalance and reduce the number of foreigners in the country. So far, the government and the parliament have discussed proposals to introduce quotas on foreign workers of certain nationalities, deport a large number of expatriates over a period of three to five years or increase living costs and impose taxes on foreigners working in the private sector.

Question
Score

Socioeconomic
barriers

7



1

Economic indicators		2013	2014	2015	2016
GDP	\$ M	174161.5	162631.8	114041.2	-
GDP growth	%	1.1	0.5	1.8	-
Inflation (CPI)	%	2.7	2.9	3.3	3.2
Unemployment	%	3.5	3.4	2.8	2.4
Foreign direct investment	% of GDP	0.8	0.3	0.2	-
Export growth	%	-4.0	1.4	1.0	-
Import growth	%	-0.1	8.0	5.1	-
Current account balance	\$ M	69492.8	53965.9	8584.2	930.0
Public debt	% of GDP	6.5	7.5	11.0	18.5
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	26.1	7.6	-21.0	-
Tax revenue	% of GDP	0.8	0.9	1.4	-
Government consumption	% of GDP	16.4	17.8	24.6	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	2.2	2.6	-	-
R&D expenditure	% of GDP	0.3	-	-	-
Military expenditure	% of GDP	3.3	3.6	4.8	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The state maintains a monopoly in the oil and petrochemical industries, which generate around half of the country's GDP. Other industries are dominated by the country's well-established business elite. However, the private sector is also extremely state-dependent and is greatly reliant on government contracts and subsidized utilities.

There are no quantitative restrictions on imports, however imported goods need to comply with government regulations, and certain products are prohibited for security

Market-based competition

6

'06 '18 '10



or religious reasons. The Kuwaiti dinar is freely convertible and there are no restrictions on capital transfers.

Overall the business environment in Kuwait is monopolistic and protectionist, and notorious for bureaucratic red tape. Administered pricing (e.g., price freezing) is also occasionally introduced to protect local consumers. Thus, Kuwait is considered to be a very difficult environment from which new businesses can emerge and for foreign businesses to make investments. Despite recent attempts to increase Kuwait's attractiveness for FDI, the country has been continuously downgraded in the World Bank's Ease of Doing Business ranking, and has dropped from 98th (in Doing Business 2016) to 102nd (in Doing Business 2017) out of 190 countries.

Before 2013 one of the main roadblocks for business development was the constant rift between the opposition-dominated parliament and the government, which resulted in development and infrastructure projects being delayed and cancelled. With the election of the 2013 National Assembly, the government was able to speed up development. It has drastically increased the number of infrastructure projects (e.g., expansion of Kuwait Airport, and the building of Jaber Causeway and Jaber Hospital) and projects that are aimed at expanding the country's sources of income, particularly in petrochemical industry (e.g., al-Zour Refinery, the Clean Fuels Project), and increasing its competitiveness in the energy sector and logistics (e.g., the North Zour Water and Power Plant, a new liquefied natural gas (LNG) terminal and Mubarak al-Kabir Port). The government has vowed to keep up spending on crucial projects despite the budgetary strains, and the next five-year plan includes 32 megaprojects worth 23.5 billion Kuwaiti dinar.

The 2013 parliament also reversed and amended legislative provisions that were harmful for business interests. The Build-Operate-Transfer (BOT) Law was amended in June 2014 to enhance public-private partnership; a privatization law is currently under consideration. However, this trend could be reversed with the recent election of a more opposition-dominated parliament.

The difficulty of doing business in Kuwait, especially for SMEs and young entrepreneurs, has led to the growth of the informal economy, particularly in recent years with the rise of trade on social media platforms (e.g., Instagram). Many young Kuwaitis resort to conducting their business informally to avoid complicated licensing procedures and bureaucratic hurdles. Currently, however, there are no official estimates of the percentage of informal economy as part of GDP.

The ruling family and a few long-established merchant families control key economic activities and sectors. 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. The business community is further able to influence political decision-making through connections to the government and

parliament, as well as lobbying of the Chamber of Commerce. Therefore, it has tools to shape economic policies in a way that protects its privileged, monopolistic position in the market. The 2016-2017 Global Competitiveness Index shows a slight improvement in the effectiveness of Kuwait's anti-monopoly policy, placing the country at 115th out of 138, compared to number 131st a year ago. However, it still shows that anti-monopoly regulation in Kuwait is very weak.

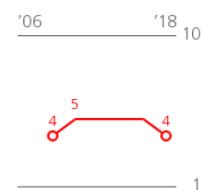
In February 2016, the government adopted a law allowing foreign businesses to have more than one agent or distributor in Kuwait, which could be a major blow to the monopolies by local agents that have been in place since 1965.

The economic benefits and business opportunities of Kuwaiti merchant elite were secured by various non-tariff barriers for market entry for foreigners, such as protectionist legislation, domestic subsidies, rigid licensing for foreign companies, strict state standards for products and services and state procurement regulations. The Commercial Companies Law (Law No. 15 from 1960) barred foreign companies or individuals from operating in Kuwait, unless they have a local agent or partner who retains at least 51% of company ownership, while the ownership of shareholding companies was restricted to Kuwaiti nationals. However, the regulatory environment has been lately changing and loosening.

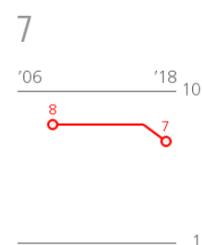
In 2008 a resolution was passed extending permission for foreign ownership to non-listed shareholding companies, while the recent Companies Law No. 97 of 2013 eliminated foreign ownership restrictions in shareholding companies altogether, allowing up to 100% ownership, but maintaining the restrictions for other types of companies. The latest step in this direction was the amendment of Kuwait's Tenders Law in June 2016, which permitted foreign companies to bid for government tenders without a local agent.

With the drop in oil prices and increasing pressure on the budget, the government has started to pay more attention to attracting foreign investment and businesses to Kuwait as a way of diversifying the economy. The Kuwait Direct Investment Promotion Authority established in January 2014 is aimed at facilitating this process. In 2014 the government also established the Capital Market Authority, which was one of its most serious efforts to improve the capital market environment in Kuwait. However, so far there has been little impact on the ground, and Kuwait is still notorious among foreign investors for its unwelcoming business environment.

According to the IMF, Kuwaiti banks are amply capitalized and liquid, with stable profits. 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. Although Kuwait has allowed foreign banks to open branches in the country, few banks have used the



Liberalization of foreign trade



Banking system

7

opportunity so far, and even those branches that opened in Kuwait operate not for retail purposes, but in order to finance infrastructure projects.

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 in Kuwait was 3.29% in January 2017, compared to 3.51% in December 2016, which is slightly higher than the average inflation rate of 3.08% recorded in the 1995-2017 period. The government’s attempts to introduce austerity measures and curb subsidies for petrol, electricity and water pose a potential inflation risk, as businesses are likely to raise prices. However, in April 2016 the government introduced a temporary price freeze, which meant that businesses were not allowed to pass increased expenses on to consumers.

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 (CBK) can rely on a huge stock of foreign currency assets to support the Kuwaiti dinar, as well as Kuwait’s large current account surpluses. The CBK’s board of directors include representatives from the Ministry of Finance and Ministry of Commerce and Industry, and is not fully independent.

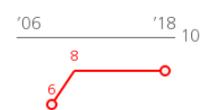
Kuwait saw a budget deficit of 5.5 billion Kuwaiti dinar (ca. \$18.2 billion) in the 2015/2016 fiscal year – the first shortfall after 16 years of surpluses. The budget deficit for the current year is predicted to reach as much as KD 9.5 billion (\$31 billion). The deficit will be covered by borrowing from the local and international bond markets, as well as from the country’s General Reserve Fund. In order to cut budget spending, the government is further trying to implement its economic reform plan, which includes a reduction in subsidies, increasing the private sector’s contribution to the economy, as well as labor market and civil service reforms.

Despite the budget deficit, in the late 2016 Fitch Ratings affirmed Kuwait’s Long-Term Foreign and Local Currency Issuer Default Rating (IDRs) at “AA” with a “stable outlook,” due to the country’s relatively sound financial situation. It is estimated that the assets of Kuwait Investment Authority, the country’s sovereign wealth fund, exceeded 152 billion dinar (ca. \$500 billion) at the end of 2015. Part of it is the Reserve Fund for Future Generations, which is estimated to be 117 billion dinar (\$384 billion) and continues to increase due to regular investment of 10% of the government’s revenue. However, the General Reserve Fund, which holds the



Anti-inflation /
forex policy

8



Macrostability

8



accumulated government surpluses from previous years, has fallen for a second year in a row.

The government also announced in July 2016 that it would finance the budget deficit by borrowing from domestic and international markets. The Ministry of Finance plans to borrow up to 2 billion dinar (ca. \$6.5 billion) from domestic banks and up to 3 billion dinar (ca. \$9.8 billion) from international banks.

9 | Private Property

Property rights and basic commercial laws are reasonably clear. Kuwait ranks 55th (out of 138) in the 2016-2017 Global Competitiveness Index for property rights, which reflects a downgrade of just four points from the previous year. In terms of days and procedures necessary to register property, in Kuwait it takes slightly more than MENA average, namely 49 days and eight procedures, according to the World Bank's Doing Business rating.

Previously, only Kuwaitis had the right to freely own real estate. Citizens of Arab countries could acquire ownership of only one estate with permission from the Council of Ministers. Foreign countries were permitted to possess real estate for the purpose of housing their diplomatic missions. Furthermore, companies with non-Kuwaiti partners, apart from joint stock companies, were not allowed to own real estate.

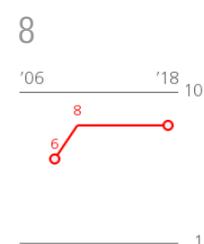
However, in April 2014 Kuwaiti media reported that the cabinet had granted expatriates permission to own property in Kuwait, which includes apartments, houses and land. Foreigners are required to meet certain criteria, such as having no criminal record, a source of income certificate and a minimum salary, and would have to obtain approval from the Ministry of Interior. Apart from that, the common mode for foreign property ownership in Kuwait is through a BOT arrangement.

Kuwait has been previously put in the "priority watch list" by the United States Trade Representative (USTR) for its lack of intellectual property rights protection. In May 2016, the government finally adopted a law on copyright ownership; however, the country still remains in the USTR Special 301 "priority watch list."

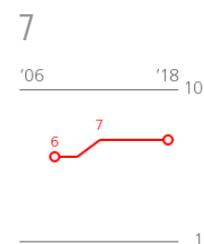
After the recent fall of the oil price the government has prioritized increasing the role of the private sector in the economy and national employment. Yet, setting up new business takes cumbersome steps 61 days and 12 procedures, according to the World Bank, which is much worse than in most other countries.

In June 2014, the BOT Law was amended to provide better conditions for businesses and thus attract them to participate in public-private partnership projects. Since the adoption of the law in its previous version in 2008 not a single BOT project was launched, whereas after the amendment the parliament rushed to launch several major

Property rights



Private enterprise



new projects and revive those that had been previously cancelled. At time of writing this report, projects like North Zour (Shimal al-Zour) Independent Water and Power Plant Phase II, al-Khairan IWPP, a wastewater facility, and transportation projects (railroad and metro) were all being tendered or undergoing pre-tendering procedures.

Furthermore, the calls for privatization have intensified recently because of the government's decreasing ability to provide an adequate level of basic services to the population in such areas as post, telecommunication, health care, et cetera. It is widely assumed that private companies could provide better services and reduce the government's financial exposure. However, there is major popular opposition to the privatization of crucial sectors, especially oil, as it can lead to mass layoffs of national employees and will increase the cost of services. Therefore, since the adoption of the privatization law in 2010 there has not been any substantial progress in this area, apart from the privatization of Kuwait Stock Exchange in April 2016.

One of the major examples illustrating the contention around privatization policies is the case of Kuwait Airways Company (KAC). Although the privatization law for KAC was passed in January 2008, it is still fully owned by the state.

Separately, the government also plans to extract more revenue from the local private sector by introducing a 10% corporate tax on Kuwaiti companies. The measure was agreed upon in 2016, but has not yet been implemented.

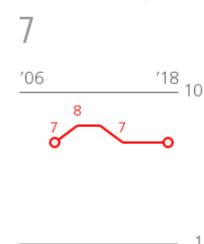
The government has made several attempts to encourage and support national SMEs, the most recent and significant of them being the launching of a 2 billion Kuwaiti dinar fund in March 2013. However, due to red tape and bureaucratic complications the fund is reportedly not fully functioning as of the present day.

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 and guaranteed employment. In addition, various services, including electricity, water and petrol, as well as some of the staple foods, are heavily subsidized.

However, since the drop in oil prices, reducing subsidies has been one of the government's priorities. In the beginning of 2015, the country already tried to increase the price of diesel. The measure immediately triggered opposition and strikes from affected businesses, which forced the government to halt its plans to reduce subsidies for other subsidized commodities for almost a year. However, pressure from the IMF and the World Bank and the prospect of a downgrade of the country's

Social safety nets



credit rating by Moody's served as strong incentives for the Kuwaiti government to start moving forward with reforms on electricity and water subsidies. From January 2016, it launched an awareness campaign aimed at preparing and convincing the population that lifting the subsidies was an inevitable measure.

Nevertheless, the National Assembly rejected the initiative. The counterproposal from parliament excluded all Kuwaiti citizens from being affected by the price hikes. Instead, electricity and water subsidies would be removed for expatriate households, as well as governmental, commercial, industrial and agricultural sectors.

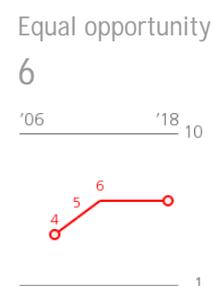
The government was more assertive with increasing the price of petrol by 40 to 80% in September 2016. It did so while parliament was in its summer recess. However, the decision is still challenged by members of the newly elected assembly.

Another measure was to reduce the allowances for medical treatment abroad while improving domestic medical services. In 2014, medical tourism cost the government 441 million Kuwaiti dinar (ca. \$1.5 billion) and funded 11,000 medical trips. Despite strong opposition from some of members of parliament, next year's budget already has lower allocations for medical treatment abroad, which means that the government is determined to implement the reform.

Despite the recent austerity measures, the welfare system in Kuwait is still very generous. There are very few cases of poverty among Kuwaiti citizens. This does not however apply to the Bidoons, who do not have Kuwaiti citizenship. Also, foreign blue-collar workers and housekeepers, especially women, are often exploited, and live and work under unacceptable conditions.

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. There were 15 female candidates (out of approximately 400 candidates in total) during the last parliamentary election. Also, for the first time in the country's history, Kuwaiti women were among judicial authorities overseeing the election in November 2016. Since 2015 Kuwaiti women have been allowed to become public prosecutors and some of those subsequently supervised election committees. However, currently, there is only one elected female representative in parliament and one female minister, putting Kuwait at the bottom of global rankings for women's representation.

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 in secondary and tertiary education – women are underrepresented in the Kuwaiti labor market, with 27.2% of the total workforce being women in 2014, according to the World Bank.



Furthermore, as mentioned above, Kuwait’s law still protects highly discriminatory “honor killing,” which rules that any man who kills his female relative for “engaging in illicit acts” will be punished with a misdemeanor charge of up to three years in jail or a fine.

Furthermore, opportunities are much more restricted for non-citizens – Bidoons and low-waged foreign workers. Many Bidoons are denied basic civil rights, such as being issued birth, death or marriage certificates, identification cards, driver’s licenses or travel documents, admission to state schools, access to public health care and opportunities for legal employment.

Kuwait’s kafala system is the major source of inequality and discrimination against low-waged, low-skilled foreign workers, as it makes them completely dependent upon their local sponsors or employers. The latter often hold on to employees’ passports, which can lead to restrictions on movement, exploitation and abuses of human rights.

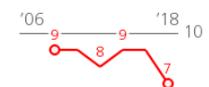
11 | Economic Performance

In the period under review, Kuwait’s economy registered a significant drop in GDP from \$162.6 billion in 2014 to \$114 billion as of December 2015. The country had a relatively low and stable inflation rate of 3.29%. The Kuwait Investment Authority maintains the 6th largest sovereign wealth fund in the world, according to Sovereign Wealth Fund Institute ranking.

However, in the 2015/2016 fiscal year, Kuwait experienced its first budget deficit of 5.5 billion Kuwaiti dinar after 16 years of surpluses, and is likely to face an even larger deficit in the following year, due to low oil prices and extremely high current budget spending. Kuwait’s economy is highly dependent on oil and not diversified, which means that revenues are very volatile and affected by fluctuations of oil price. Furthermore, the government’s employment policies, whereby practically all Kuwaitis are entitled to jobs in the public sector as a means of wealth-distribution to citizens, led to the bulging of the public sector and the subsequent fast increase of budget spending on wages and benefits. Public sector salaries and subsidies increased by 540% within the 2001-2011 period.

In order to address the fiscal pressure, the government designed a reform plan in March 2016. Its main points comprised fiscal reform, restructuring the state role in the economy, increasing private sector’s contribution, as well as labor market and civil service reforms. This implies introducing austerity measures, (i.e., cutting subsidies and reforming public sector payroll, as well as shifting part of the employment burden to the private sector through “Kuwaitization” of the private labor force). Another aim of the policy is to prevent the rise of youth unemployment in the country. Although, according to official statistics, the unemployment rate is currently

Output strength
7



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low – 2.2% as of December 2015, the already saturated government sector has been expanding at an annual rate of 9% since 2005. This means that the government is still putting effort into creating jobs, which leads to the development of a redundant, unproductive, counterproductive workforce. This has come to be known as “disguised unemployment” (batala muqanna‘a).

The government further tries to diversify its sources of revenue by attracting FDI and carrying out strategic projects aimed at expanding the country’s sources of income, particularly in petrochemical industry (e.g., al-Zour Refinery, Clean Fuels Project), and increasing its competitiveness in the energy sector and logistics (e.g., North Zour Water and Power Plant, a new LNG terminal and Mubarak al-Kabir Port).

There is also consideration for introducing 10% corporate tax on local companies, 5% VAT, as well as taxes on expatriates’ income and remittances.

12 | Sustainability

In recent years, environmental issues and goals have increasingly been taken into consideration and talked about by the Kuwaiti government and the media. In October 2014, a new environment law took effect, establishing a new environmental police division, as well as introducing very strict penalties for violators.

Kuwait plans to source 15% of its energy requirements through the use of renewable energy by 2030, developing wind energy, solar thermal, building solar power stations, et cetera. In November 2016 the solar and wind power station in Shaqaya was linked to the state power grid under the supervision of the Kuwait Institute for Scientific Research and Ministry of Electricity and Water.

Kuwait has very high emissions rate, ranking 3rd worldwide in terms of emissions per capita, with oil and gas industry being responsible for the bulk of the emissions.

In April 2016, it was reported in local media that Kuwait was listed among the countries with the highest rates of electricity and water consumption, because of the cheap price of utilities due to the government subsidies. Therefore, the government’s recent attempt to reduce the subsidies for electricity and water also partly aimed at lowering public consumption. However, as the subsidies reform ultimately became confined to the expatriate population and the commercial sector, it will hardly achieve those goals. The affected sectors represent the minority in terms of overall consumption: expatriate households (apartments) consume 20% of total electricity and 22% of water, as opposed to 40% and 43% by private houses, respectively. By targeting expatriate residents only, who, in any case, consume less due to the smaller size of residences, the reform misses out on private households, where most of the waste occurs.

Environmental
policy

4

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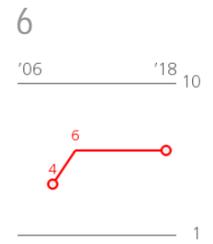
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Kuwait's performance in the education sector is mixed. The public education system enrolls around 60% of nearly 600,000 pupils. Kuwait University is the country's only public university but there are plans to establish a second public institution, the Sabah al-Salem University (al-Shadadiya project). The construction of the new campus started in 2004, but has been subject to constant delays. Furthermore, there exist nine private universities.

Kuwait has a high literacy rate of 96.1%, with almost no difference between the sexes, which is one of the highest in the Arab world. However, according to the Global Competitiveness Report 2016-2017, the quality of Kuwait's education system is not rated very high: it comes 86th out of 138 countries. The education system is generally criticized for not preparing students for the labor market. In May 2016, it was reported in Kuwaiti media that, although the government was in need of 9,536 employees in various fields of specialization, none of the Kuwaiti graduates who were then waiting for a government job were qualified for the available job slots.

Although there exist various research institutions, like the Kuwait Foundation for Advancement of Sciences and the Kuwait Institute for Scientific Research, the Global Competitiveness Report 2016-2017 rated the quality of scientific research institutions very low, placing Kuwait at 104th out of 138 countries.

Education policy /
R&D



Governance

I. Level of Difficulty

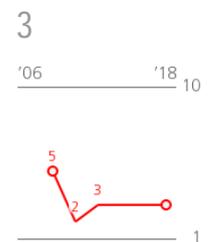
Kuwait's reliance on oil, a highly volatile and unpredictable source of revenue, is the country's main structural constraint. However, the government's capacity to diversify the economy is constrained by multiple structural factors. Kuwait's location, extreme climate conditions in the summer and lack of non-hydrocarbon resources hamper the development of agriculture and industrial activity (apart from petrochemical sector). Kuwait's aspiration to become a regional logistic hub is undermined by the country's proximity to unstable Iraq and regional foe Iran. The Iranian issue is of particular importance to Kuwait since blocking the Strait of Hormuz by Iran would cut Kuwait off from international trade. Moreover, Kuwait's construction of Mubarak al-Kabir Port on Boubyan Island, which has been previously disputed between Kuwait, Iraq and Iran, could potentially provoke minor maritime disputes. Kuwait's tourism industry is extremely underdeveloped and is not likely to become a significant source of revenue due to strict religious norms, conservative attitudes in society and a complete ban on alcohol products.

Economic reforms are very difficult to implement due to long-standing patterns of wealth-distribution among the population. Any serious attempt to cut public welfare creates a risk of political discontent and loss of legitimacy, which the government needs to avoid. At the same time, it is hard for the authorities to convince the population to accept austerity measures, when businesses and the political elite preserve their benefits and privileges and are involved in corrupt practices.

Reforms of national employment are further difficult to fulfill because of the mismatch between the education and skills of the national workforce and the demands of the labor market, as well as the unwillingness of the private sector to hire more expensive and less qualified national employees.

The growing rivalry between different interest groups over resources, and the adversarial relationship between the government and parliament resulting from it, is the major structural constraint the government has been facing throughout Kuwait's modern history.

Structural
constraints



On the bright side, 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.

In comparison with regional peers, Kuwait has a relatively long history of civil society activism dating back to the early 20th century when the merchant community started establishing the country's first schools to provide public education. Civil society activity further experienced a boost during the spread of Arab Nationalist Movement in Kuwait in the 1950s and upon the establishment of the Kuwaiti branch of the Muslim Brotherhood in 1947. In the 1970s, Shi'a religious groups started to appear in Kuwait under the influence of Iraqi clerics.

Currently Kuwaiti civil society comprises trade unions, women's organizations, Islamic associations, cultural clubs and diverse professional associations, including those for journalists, lawyers, accountants and economists. Sport clubs (especially football clubs) also play a significant role in the country's civic and political life.

However, as mentioned earlier, the government has recently taken several steps to put charitable fundraising under tighter regulations, and in 2015 several charities were dissolved. In May 2015, Minister of Social Affairs and Labor and State Minister for Planning and Development Hind al-Subaih dissolved the board of directors of Kuwait Transparency Society, alleging that its reports amounted to undue political pressure on the National Assembly and its members. Transparency International suspended membership of the group, a serious blow for anti-corruption efforts in Kuwait.

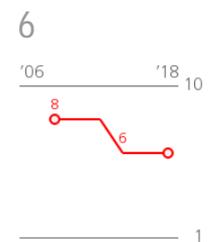
There is also a strong tradition of free debate at semi-public diwanias, the traditional weekly gatherings of male Kuwaitis, where all sorts of topics are discussed.

Kuwaiti society is divided along sect lines (Sunni/Shi'a), origin (Arab/Persian), social background (i.e., membership in a certain family, tribe, urban elite, et cetera), date of naturalization/settling in Kuwait, and religious and political views (Islamist/liberal). Thus, conflicts between various groups do exist.

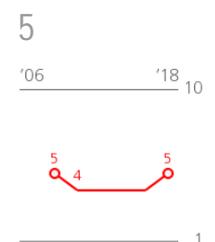
Class conflict between the business elite/urban upper class and the less well-off and more numerous population has become more pronounced recently, particularly as resources are diminishing and the government has to introduce budget cuts. The inequality of wealth distribution and the corruption among business and political elite was one of the main reasons for the rise of the opposition movement and large public rallies in the 2011 to 2014 period.

The conflict between hadhar (urban) population and badu (tribes) overlaps with class divisions. The old merchant families of Kuwait are mostly urban. They consider themselves to be "original" Kuwaitis, the founders of the country along with the ruling family, and therefore they often look down on the tribal populations, who were naturalized later and often do not have the same amount of socioeconomic capital.

Civil society traditions



Conflict intensity



However, as the tribal population has advanced in education, become more politicized, and started demanding fairer treatment and wealth-distribution, the conflict between the two groups has increased.

Relations between Sunni and Shi'a communities are better than in other GCC states; however, they are still vulnerable to regional conflicts. In the period under review, one could observe deterioration in the relationship between the two groups after the bombing of a Shi'a mosque in June 2015 and the discovery of the terrorist Abdali cell composed of 26 Shi'a Kuwaitis in August 2015.

Finally, in the period under review, there has been a noticeable rise of xenophobia toward expatriates in parliament and government circles with calls to deport 100,000 migrant workers per year, caused by the urge to fix the demographic imbalance and solve the problem of national employment.

II. Governance Performance

14 | Steering Capability

The government has set strategic goals with its new national development plan 2015-2019 and its long-term plan, "Kuwait Vision 2035." Yet, these visions – often developed by foreign consultants – largely remain rhetoric to capture international attention. The current development plan mainly focuses on big business projects such as the metro network, airport, port, the Silk City project and others, many still dating from the previous development plan.

Since the drop in oil prices, which caused a significant budget deficit, the government has prioritized economic reforms, adopting a reform plan in March 2016. The bulk of the reform measures concentrate on the empowerment of the private sector and national employers and economy diversification, as well as attracting foreign businesses and investments to Kuwait. However, at the same time, the government's parallel policies targeting population restructuring, such as the new Labor Law aimed at reducing the number of expatriate laborers, potential restrictions on labor import and the considered increase in "Kuwaitization" quotas, may have detrimental effect on Kuwait's business environment and deter foreign companies from the Kuwaiti market.

Thus, it shows that prioritization of government policies is somewhat problematic in Kuwait, as the government does not manage to chart a course between various, often contradictory interests.

Question
Score

Prioritization

5

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Implementation of government policies, particularly unpopular ones, is difficult in Kuwait. The economic reform measures encountered strong opposition from the population and some parliament members. Subsidy cuts on electricity and water ultimately excluded Kuwaiti households and were confined to expatriates and commercial and industrial sectors. The plan to reform the payroll for public sector employees resulted in a strike in the country's oil sector, and the government has not been able to implement the reform measure yet. So far, the authorities have only been able to reduce subsidies for petrol. The new prices came into force in September 2016. However, contention against this measure resulted in the dissolution of the parliament. The new assembly is still aspiring to reverse the measure.

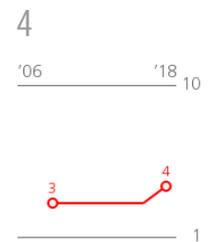
Similarly, the government has to face strong opposition from the country's powerful business community, which does not look favorably on measures such as increases in labor nationalization quotas, the introduction of a tax on local businesses and price freezing.

Thus, the progress implementing reforms is very slow, despite the urgency. Therefore, the government is likely to focus on less contentious economic policies, such as boosting development projects and attracting foreign investments and businesses, and will continue covering the budget deficit through loans and borrowing from General Reserve Fund.

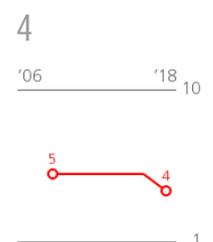
Implementation of development and infrastructure projects has been easier during the period under review, due to the absence of the opposition from the previous parliament. Since 2013 the government has drastically expanded its capital spending, launching a record number of infrastructure and development projects compared to recent years. In the current fiscal year 165 new projects worth 4.7 billion Kuwaiti dinar will be implemented. However, the risk of the projects falling victim to parliament/government rifts and business rivalries is always high. For instance, the project of Kuwait International Airport has been tendered, awarded and cancelled several times since 2014, before being ultimately awarded to a Kuwaiti-Turkish consortium in 2016.

Kuwait's leadership is not very flexible or innovative. The 2016-2017 Global Competitiveness Report downgraded Kuwait's level of innovation to 110th out of 138 countries. Although the government sometimes tries to respond to mistakes and failed initiatives with new ideas, old patterns frequently repeat themselves due to the specificities of political system. 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. For instance, with the new airport and seaport projects, Kuwait is aspiring to become a logistic hub. The government is also trying to establish Kuwait as the financial center in the region. However, unlike its GCC peers, the Kuwaiti government is not completely autonomous in its decision-making and has to

Implementation



Policy learning



respond to and coordinate with the National Assembly. Due to the peculiar political system, parliament is mainly left playing a negative or delaying role.

The government does however cooperate with academics and researchers in Kuwait University and the Kuwait Foundation for the Advancement of Sciences (KFAS) as well as the Kuwait Institute for Scientific Research (KISR). In the period under review, it has also been advised by Ernst & Young (EY) on developing strategies to rationalize subsidies of energy and goods, and has signed various partnership agreements with the World Bank (for example, to monitor municipality activities).

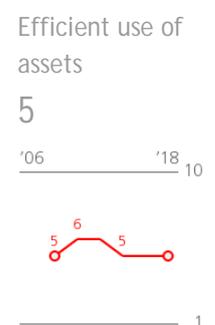
15 | Resource Efficiency

The Kuwaiti government uses its available economic resources relatively 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 revenues in a special reserve fund for future generations. This fund, together with the General Reserve Fund, the main treasurer for the government, is administered by the Kuwait Investment Authority (KIA). The sovereign wealth fund is not transparent with regards to its total assets and investments. There is no direct oversight by the parliament, and income from KIA's foreign investments is not counted as part of Kuwait's budget. The sovereign wealth fund is required to present a report on its assets and performance to the cabinet, but is strictly forbidden from sharing this information with the general public.

Kuwait's budget deficit is growing, but is still manageable due to large financial reserves. In the recent years actual budget spending rarely coincided with budget plans. Due to the government's inability to implement its planned development and infrastructure projects, the budget for capital development was most often underspent.

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, including by KIA. In terms of wastefulness in government spending, Kuwait scored quite badly, ranking 90th (out of 138 countries) in the latest Global Competitiveness Index.

In terms of using its human resources the government is highly inefficient. The public sector is overstaffed with unneeded employees, which results in a huge burden on the budget and the creation of impenetrable bureaucratic red tape. The staff in the



government sector is employed with little regard to skills and education, and often through nepotism.

Furthermore, employing the majority of the citizens in the public sector is a convenient tool for the government to control political discontent. By acquiring such a big role in the provision of day-to-day means and benefits to its citizens, the state also reserves the right to revoke them when necessary. Thus, government employees avoid expressing opposition views out of fear of losing their jobs.

As mentioned earlier, the government has made attempts to “Kuwaitize” the labor force in the private sector in order to reduce the burden of national employment on the public sector and improve the latter’s efficiency. However, these measures have met with very limited results so far.

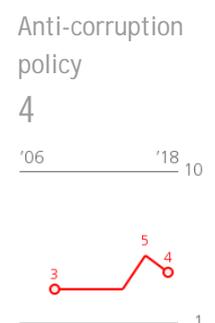
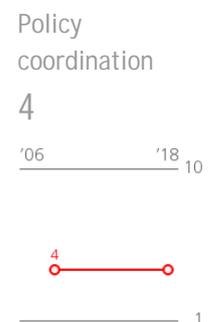
The government often has difficulties in forming coherent policy amid conflicting objectives. The recent attempts at economic reforms are the prime example of the government’s failure to coordinate among popular interests, business interests and economic demands. For this reason, policies often lead to conflicting results. For instance, as mentioned above, on the one hand, the government is currently pursuing policies aimed at strengthening local businesses and attracting foreign investors, while on the other hand, it is trying to restrict the employment of foreign laborers and drastically reduce the number of expatriate residents.

Nevertheless, the cabinet meets on a weekly basis under the prime minister’s chairmanship to discuss and coordinate policies. Ministers further coordinate policies with relevant parliamentary committees. However, implementation is impeded by multiple conflicting interests.

Corruption is a big problem in Kuwait with corruption allegations dominating the political sphere and discourse. Popular opposition protests in 2011 were largely triggered by the leaked information that in 2009 the prime minister distributed bribes to a dozen members of parliament in order to buy their support during parliamentary questioning. The scandal is still being investigated and occasionally surfaces in parliamentary debates.

It is a widespread notion that bribery is common among public sector officials. Namely, some respondents working in the private sector suggest that businesses often have to pay officials to surmount red tape.

However, the most common and deeply embedded type of corruption practice in Kuwait is arguably nepotism and favoritism (*wasta*), where a lot of day-to-day dealings and services are based on informal social relations. This type of corruption is widespread on all levels from the distribution of government contracts to the most basic interactions. It is expected by the public that members of parliament would



perform such “wasta” functions (help with employment, medical treatment abroad, et cetera) in exchange for votes.

In the latest Global Competitiveness Index Kuwait occupied the 85th place (out of 138) in the category “favoritism in decisions of government officials.”

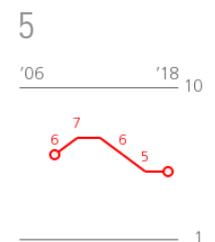
In 2012 the cabinet established an anti-corruption authority, which became operational in early 2015. However, already in December 2015, the Constitutional Court ruled that the emir’s decree establishing the authority was not in line with the constitution, and the authority was subsequently dissolved. In 2016 the parliament worked to re-establish the authority in accordance with the constitution, and in April 2016 Law No. 2/2016 was issued, which signified that a new Anti-Corruption Authority was to be established. However, due to a delay in the issuance of bylaws, the authority started operating only in the beginning of 2017.

16 | Consensus-Building

There is a general consensus in Kuwait on the prominent position of the ruling family. How far this influence goes, and over what kind of political system the emir presides, is being debated. The emir and the ruling family accept political participation by the National Assembly, as long as the emir’s leading role is not questioned. Kuwait remains a half-democracy: while most of the National Assembly is elected in competitive, genuinely democratic elections (with flaws, such as unequal voting weight among districts), it does not form the government and thus only has limited positive policymaking powers. The country is fundamentally divided on whether it should develop toward more democracy or into a constitutional monarchy, with political parties and an elected cabinet, or instead diminish the role of the National Assembly, which is often seen as the main roadblock to development, and adopt the “Dubai model.”

“Kuwait Vision 2035” defines as its goal developing the country into a financial and trade center, based on market economy principles. However, the majority of Kuwaitis is employed by the state and would thus only profit indirectly from a growing private sector. The merchant families are strong supporters of a growing market economy – on the premise that their privileges stay untouched and they can benefit from new development projects. However, populist opposition and leftist groups argue that a market economy would only benefit the elite, and therefore they are very protective with regards to the welfare of the population and oppose austerity measures that could potentially harm ordinary Kuwaitis.

Consensus on goals



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, in previous instances, when the emir attempted to do so (for example, after the 1986 dissolution), all social forces got mobilized to protect democracy and demand the restoration of the parliament. Thus, the repetition of such a scenario (the unconstitutional dissolution of the assembly and the abolition of the parliamentary system) is highly unlikely.

Overall, the reporting period was not as detrimental to reformers as the previous one, as the opposition partly made a comeback in the formal political scene during the last election. However, since the current speakership of the parliament, as well as roughly 50% of its members are pro-government, the reform process is not likely to speed up.

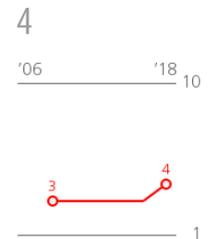
Furthermore, in 2016 the government adopted the above-mentioned law, which bans people convicted of blasphemy and insulting the emir from participation in the elections. This will prevent leading opposition figures like Musallam al-Barrak and liberals like Mohammad al-Saqr from participating in elections, thus weakening the forces for reform.

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 of tribal origin. It maintains relations with these groups through neopatrimonial practices, using the country's wealth to buy their loyalty and reduce tensions.

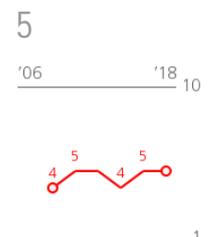
The government's management of these cleavages partly involves emphasizing some divisions – using the strategy of divide and rule – in order to strengthen its own position. In recent years the authorities successfully used hadhar/badu and Sunni/Shi'a divisions to break up the opposition and co-opt urban families and Shi'a. This was done to prevent the repetition of the scenario resulting in the 2011 mass protests, when opposition-leaning groups of all backgrounds cooperated. Nevertheless, such divide and rule tactics are not sustainable, as youth groups tend to reject differences in background in order to challenge the government's corruption and undemocratic practices as a united force.

The political leadership does not interface with civil society organizations in any institutionalized way. However, informal mechanisms of communication, for example, through diwaniya meetings do exist. Professional societies (e.g., a lawyers' society, an economic society, labor unions) are frequently engaged in discussing new laws and reform initiatives. With government officials and members of parliament attending the meetings/diwaniyas, those societies are able to communicate their opinions to decision-makers, and politicians are able to popularize government

Anti-democratic actors



Cleavage / conflict management



Civil society participation

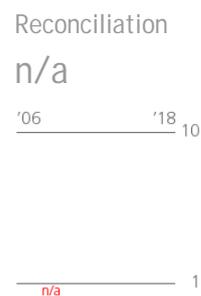
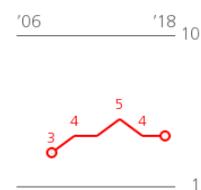
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measures and influence public opinion. The strength and importance of informal connections in Kuwait facilitates this exchange.

Despite the deterioration of freedom of expression in the period under review, journalists and public intellectuals can still criticize the government to a certain extent and thus influence public opinion.

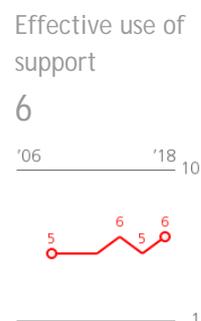
Ultimately, despite the political leadership’s tough stance on political dissent, it has to take publicly voiced demands into account.

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 have been problematic, but are improving. Iraq was supposed to start paying out \$4.6 billion in reparations to Kuwait in January 2016; however, at the request of the Iraq government, and as a sign of good will, Kuwait agreed to defer the payment until early 2017.



17 | International Cooperation

Generally open to international cooperation, Kuwait is a member of all major international organizations, including OPEC and the WTO. The government generally submits reports to the U.N.’s reporting bodies, but often leaves recommendations by these international bodies unaddressed. 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. While Kuwait is often willing to accept international assistance, recommendations are not implemented.



The role of outside actors in economic reforms has been growing in the recent years. As Kuwait is faced with more difficult economic conditions, which require the government to implement reform measures more quickly, it seems to be paying greater attention to recommendations by international organizations. In 2016 the pressure from the IMF and World Bank and the prospect of downgrading of the country’s credit rating by Moody’s were strong incentives for the Kuwait government to start moving forward with reforms. The authorities further publicized negative forecasts by credible international bodies in order to justify their unpopular measures and convince the broader population that reforms are necessary.

However, in general, there is quite a lot of skepticism toward recommendations by international organizations, like the IMF and the World Bank, among the Kuwaiti population, particularly with regards to welfare cuts.

Kuwait is perceived as a relatively reliable partner, not only by the other GCC states but also by the international community. The country offers its financial support to various causes regionally and internationally, which is usually given on humanitarian grounds. In 2014 the secretary general of the U.N. recognized the leadership of the emir of Kuwait for his humanitarian support in the Middle East and other regions. In the period under review, Kuwait has been particularly active in supporting the Syrian cause. It has hosted three fundraising conferences for the U.N.'s Syria appeal and has been one of the most generous donors.

Formally, Kuwait did not take in any Syrian refugees, as the country is not party to the U.N. protocols on refugees, and therefore is excluded from refugee-counting mechanisms. However, in September 2015 the Kuwait government granted long-term residency permits to Syrian expatriates who had overstayed their visas, thus exempting them from the legal requirement to leave Kuwait. The country hosts approximately 120,000 Syrian expatriates.

Kuwait's credibility as an international partner was shaken when, in 2014, it was accused by the U.S. government of fundraising for terrorist groups in Syria. In response, Kuwait increased its emphasis on international counterterrorism cooperation and improved its controls over charitable fundraising, including monitoring transfers to international beneficiaries and regulating online donations. It also joined the Small Group of the Global Coalition to Counter ISIL.

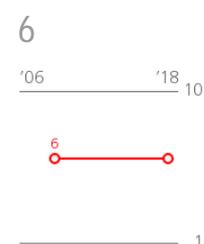
Furthermore, international NGOs, such as Amnesty International, Human Rights Watch and Transparency International, have continuously criticized Kuwait for its deficiencies in human rights protection and democracy.

Kuwait is an active member of regional organizations, especially the Gulf Cooperation Council. It generally follows the GCC political line, although Kuwait's involvement in Saudi-led military operations (in Bahrain in 2012 and Yemen in 2016) has been very limited. Instead, Kuwait hosted Yemen peace talks in April 2016. Kuwait also has not fully cooperated with other member states on the GCC security pact in dealing with internal security. Despite pressure from the government, the National Assembly has not yet ratified the pact.

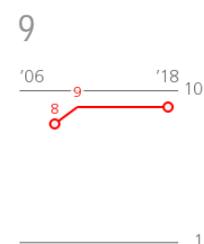
Furthermore, although Kuwait officially supports the Saudi-led stance on Iran, it separately tries to maintain peaceful relations with the latter and play a mediating role. In June 2014, Emir Sabah al-Ahmad al-Sabah made his first visit to Iran since his inauguration in 2006. In January 2017, Kuwait's foreign minister made a trip to Iran, which was very soon followed by the Iranian president visiting Kuwait.

Relations between the Iraq and Kuwait governments have also improved in the period under review.

Credibility



Regional cooperation



Strategic Outlook

The key challenge facing Kuwait is the combination of deficiencies of the present semi-democratic political system and the necessity of restructuring the economy of the country in order to create a more sustainable model.

Kuwait's parliament is, on the one hand, a genuine representative body, which controls and restrains the autonomy of governmental decision-making. On the other hand, it serves as a platform for political empowerment and fulfillment of personal rent-seeking interests. The combination of these two roles (i.e., the merging of institutional accountability powers and self-interest) is often responsible for the recurrence of an antagonistic stalemate between the legislative and the executive.

In order to break this vicious cycle, the government should allow the parliament to transform into a more constructive political force, first, through introducing a party system, and second, through allowing the parliament to elect the prime minister and the cabinet based on a party agenda. With an empowered legislative branch and a potential for changing the government, parliament's role would eventually become more constructive and there would be clear accountability for decisions, in contrast to the current situation, where both sides accuse each other of blocking reform measures. Furthermore, the introduction of a political party system would diminish the role of informal connections (e.g., through family, tribe, sect, et cetera) and the subsequent nepotistic practices during parliamentary elections. In such a system, candidates would be voted for based on their political programs, rather than their personality or family background. Furthermore, ministers should not automatically be members of parliament, as this undermines the separation of powers.

It is also important to impose stricter control over potential conflicts of interest in the parliament, in order to avoid situations where members of parliament pursue their own or their family's business agendas by political means.

In terms of economic reforms, it is most likely that the government will not be able to abandon its long-standing welfare distribution patterns. However, some scholars and specialists on the region have been advocating monetizing subsidies, which could potentially reduce excessive consumption and waste of utilities. They further suggest that the problem of public sector employment could be solved by regular distribution of an equal amount of cash to every Kuwaiti (as a "basic salary"), which he or she can then top up by working either in the private or public sector. This approach would spare the government from creating unnecessary jobs and overcrowding the public sector even further, and national employment in both sectors would eventually become meritocratic and skill-based. Apart from that, the government should also seriously approach the problem of the mismatch between skills of citizen graduates and labor market demands by reforming education programs.

Once the public sector is less crowded with a redundant workforce, it will be easier for the government to reduce red tape and bureaucratic roadblocks, and thus improve the country's business environment for attracting foreign investments and expertise. In order to make Kuwait more foreign investor-friendly the authorities should also resist the lobby of the powerful merchant elite, whose interest in preserving its privileges and preferential treatment often contradicts the goals of economic reform.