Benefitting When Possible, Resisting When Necessary: Private Sector and Economic Diversification Policies in Kuwait*

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Introduction

Due to a similar historical path, which led the Arab states of the Gulf to evolve from vague political entities under British protectorate rule into influential political players and major oil exporters in the world over a span of less than a century, the six member states of the Gulf Cooperation Council share many common features in their political, economic and social development. For the same reason, they also face similar problems and challenges, which stem from the very nature of their rentier economic systems, political rule and social composition. Oil rents have enabled the Gulf states to establish lucrative welfare systems to distribute wealth to their national population in exchange for political obedience. However, the Gulf rentier states’ economies have long been proclaimed unsustainable in the long term. Multiple recommendations from various international organisations and consultancies have been continuously issued stating the necessity for the Gulf countries to diversify their sources of income and reduce the growing budget spending, which has become a serious economic burden expected to result in budget deficit and fiscal crisis in the not so distant future even in the wealthiest of those states. In essence, all these policies are based around the idea of reducing the role of state in economy and empowering the private sector as, potentially, the main employer and economy diversifier.

With regards to such economic diversification attempts, Kuwait represents an interesting case for analysis. The country has large amount of proven oil-reserves and relatively small national population, which places it in a better position compared to other GCC states, such as Bahrain, Oman and Dubai (which have less hydrocarbon resources available) and Saudi Arabia (which has a much larger population to accommodate within its welfare system). Nevertheless, the vulnerability of oil-dependency has long been acknowledged and heatedly debated in Kuwait, and the notion of diversification and reduction of budget spending has been migrating from one development plan to another. The necessity to take concrete policy steps has been recently reiterated by the new IMF report revealing the gloomy prospect of the country facing a real budget deficit by as early as 2017, despite the continuing budget surpluses since 1995 (Dokoupil, 2014; Kuwait Times, 2013a; The Economist, 2014). However, Kuwait has been significantly lagging behind its Gulf peers in terms of its non-oil sector development. Certain policies have been introduced so far, but their implementation has been largely problematic, and success – limited. The country is
still notorious for its business environment, and attracts relatively low amount of FDI compared to the rest of the Gulf.

The responsibility for the slow pace of those restructuring policies has been largely put on the government for being too reluctant to enforce them and opting for populist policies for the sake of regime security. At the same time, although Kuwait is the only Gulf state with more or less consistent history of parliamentary politics, the parliament itself and its protective stance on public benefits is also very often cited as the major obstacle for economic restructuring and speeding up development (Herb, 2009; Hertog, 2013b).

The main critique that the present work is offering is that the discourse on economic diversification reform policies seems to pay disproportionately little attention to the analysis of the existing private sector in Kuwait and its role and capacity in promoting or opposing those government initiatives. Most of policy recommendation and analytical papers address the private sector as a mere (and often very vaguely defined) object of those state policies, disregarding the form and shape in which it currently exists, and as a result, dismissing the factors its existence is introducing to the process of policies’ implementation.

Despite the above-mentioned reputation of Kuwait as a supposedly hard environment to do business, the country is in fact home to quite a few globally successful companies: 11 out of top 100 Arab companies are of Kuwaiti origin (Forbes, 2015). It is also known for its historically prominent merchant elite. Since the time prior to the discovery of oil Kuwait has been a clearly stratified society, with a merchant elite being the major economic power and having a strong leverage in the country’s political affairs. This historically formidable position of merchants vis-à-vis the ruling powers enabled them to get a significant share of oil-generated wealth. Most important, their substantial economic benefits were secured by protectionist legislation, which effectively created immense opportunities for local business actors and protected them from foreign competition. Therefore, despite all the structural changes that the country has been going through after the discovery of oil, its business community has largely retained its pre-oil elitist oligarchic composition. The pattern of distribution of wealth and protection to private sector ensured that the business opportunities and financial support were channeled to a relatively small merchant elite group. Its core consists of those who were prominent since the pre-oil times.
Thus, does the private sector itself, i.e. Kuwait’s established business community, support those policies and measures, which the economic diversification proponents consider crucial for the country’s further development? Can the government rely on the private sector if it chooses to address the process of economic restructuring on a larger scale, and what kind of state-business interaction should we expect in this case?

The existing literature on Kuwait’s business, and GCC private sector in general, proposes two opposite answers to these questions. Some authors, for example Pete Moore (2002; 2004) and Giacomo Luciani in his earlier works (2005; 2007), suggest that business in the Gulf is capable of positive and productive cooperation with the government and can become a vanguard of economic reformation. In case of Kuwait in particular, Moore explains such capability through the analysis of the historical role that the business elite has been playing in the country’s reform movements at various points of time, suggesting that its reform potential can be mobilised especially in times of political and fiscal crises.

However, more recent works on the topic, by such authors as Steffen Hertog (2013a, 2013b) and Rivka Azoulay (2013), actually point on the passivity of the Gulf capitalist class, which stems from its complete state dependency, its general preference of the status quo and incapacity of any significant political action. Therefore, it is argued that the contribution of the private sector in the Gulf to the reforming process is no more than “modest” (Hertog, 2013b: 2). Such perception, to a large extent, follows Jill Crystal’s approach to Kuwait’s business community as a group, which was bought off by the ruling powers with oil income, and since then, its political powers have been substantially curbed (Crystal, 1995).

In the present work we suggest that although according to the conventional perception, domestic capital should be supportive of the economic reforms and liberalisation prescribed by international organisations and ultimately aimed at economic diversification and sustainability, the case of Kuwait illustrates that the attitude of the local capitalist class can be much more nuanced, and proves that there is a variation in response to those universal recommendations. We argue that the private sector in Kuwait, in its current state, i.e. in its monopolistic, elitist form with reserved preferential treatment from authorities, forms its attitudes towards various reform policies in accordance with its rent-seeking interests and its general desire to maintain privileged positions. Therefore, it is benefitting from some of those reform
policies when possible, and resisting others when necessary. This means that the established business community is supportive of the initiatives that are aimed at the expansion of the scope of the private sector’s activity. However, policies that are intending to broaden the scope of actual private sector players through encouraging new and foreign businesses to operate in Kuwait do not fall in line with the interests of the established business actors. In this case they are not only incapable and unwilling to contribute to the promotion of any of those restructuring policies, but in fact constitute an active force opposing those policies and one of the major stumbling blocks for their implementation.

In order to develop the argument, we will analyse the major streams of economic diversification policies that are pursued in Kuwait, and address the policies that are potentially beneficial for the existing private sector, for example privatisation of government entities and stocks, larger involvement of private sector in government’s project through Build-Operate-Transfer scheme, and those which do not fall in line with the interests of the established business actors – i.e. labour nationalisation, attempts to open up the economy for foreign business and FDI, and amend the private sector regulation as per international standards through the establishment of market regulation bodies. We will analyse the attitude and reaction of Kuwait’s business community towards these various initiatives and examine the ways, in which such reaction impacts the success or failure of economic diversification policies.

**Economic diversification policies in Kuwait: reducing the budget spending**

There are several major streams of reform policies that have been pursued by Kuwaiti authorities as steps towards economic restructuring and rationalisation. Namely, there are measures, which are aimed at cutting down the current budget spending, such as the reduction of subsidies on commodities and services and restructuring of employment patterns to reduce state’s spending on wages. Another set of policies are targeting the expansion of the private sector’s role in the economy, which is meant to diversify the sources of income away from state-dominated oil sector, as well as to boost national employment. The present part of the chapter will begin with addressing some of the major reform initiatives of the first type, i.e. labour nationalisation and subsidies reduction, while the next part will talk in more detail
about a range of policies, which are directly targeting the empowerment of private sector in Kuwait.

**Labour policies**

Kuwait’s Labour Law stipulates that every citizen has the right to a job in the public sector (Abdalla and Al-Homoud, 2012: 5). From the very beginning of the welfare state in Kuwait, government employment has been one of the important means of wealth distribution, as it is coming with significant financial incentives, and is in general less demanding compared to the private sector. This policy has led to the bulging of the government sector and the subsequent fast increase of budget spending on wages. According to the official statistics, as of 2013 245,666 Kuwaitis worked in the public sector, as opposed to around 56,829 in the private sector (Central Statistical Bureau, 2015)\(^4\), while public sector salaries and subsidies increased by 540% within 2001-2011 period (Al-Zumai, 2013: 9). The important factor that contributes to the aggravation of situation is the rapid rise of the population. It is estimated that 51% of the population is currently under 21 years old (Oxford Business Group, 2014), which means that the number of new labour market entrants will be ever growing in the coming years, while the oversaturated public sector already has little capacity to accommodate them.

Shifting the part of the burden of employment to private sector is generally seen as a solution recipe, which has been continuously prescribed to the GCC governments by various international organisations and consultancies. The patterns of fulfilling those prescriptions have been more or less uniform in all GCC states and have been based around labour nationalisation, supporting entrepreneurship and widening the scope of private sector operation. Labour nationalisation policies, on one hand, aim to decrease the demand and supply of immigrant workers, and on the other hand – to increase the demand of national workers. Naturally, in none of the six Gulf states these attempts have been welcomed by the private sector, which perceives it as “tax on business”, because of higher cost and lower productivity of local employees (Hertog, 2013b: 16).

Kuwait was among the first GCC states to approach this issue seriously and to introduce quotas of private sector jobs for nationals, with incentives for companies, which comply with the regulation, and penalties for those, which do not. In 1993 a bill was passed proposing a quota of 30% private sector jobs for nationals. The quota
was later reviewed and adjusted for each sector. Companies in some sectors, mainly labour-oriented, were almost exempted from labour nationalisation requirements, as with the quota, they would simply operate at significant financial loss. For example, agriculture and manufacturing sectors have only a 3% national employee quota. Other sectors, such as banking, financial services and communications, were assigned much higher quotas ranging from 15 to 66%, as they are less qualitatively affected by labour nationalisation and can afford to pay higher salaries. Penalties for not meeting the labour requirement quotas are serious and include bans on importing foreign workers, barring from government contracts and government land (Markaz, 2012: 17).

In 1997 the government also established a specialised entity, the Manpower and Government Restructuring Program (MGRP), aimed at the development of policies to encourage the transfer of national labour from public to private sector. In 2000 the MGRP was authorised to pay salary subsidies to national private sector employees (as per Law 19/2000). Kuwait is the only GCC state providing these salary subsidies on a consistent basis (Hertog, 2014). This is arguably the most important factor responsible for the relative success of labour nationalisation policies in the country.

It is clear that apart from subsidies and the prospect of penalties there is little incentive for the private sector actors in Kuwait to substitute foreign workers with national labour force. Although the owners of large family corporations and members of established business elite claim that they wholeheartedly support labour nationalisation, which they see as a social obligation, and even if their companies meet the quota or even exceed it, this does not necessarily mean developing the national workforce or integrating it in business operation (personal interview with a member of an old merchant family; Kuwait, November 2014). In reality there are multiple ways that the private companies utilise to avoid meaningful fulfillment of quota requirements, such as fake or shadow employment.

**Subsidies policies**

Separate set of measures aimed to ease the budget burden of current spending is related to the reduction of subsidies on various services, commodities and products that Kuwait’s residents have been enjoying since the onset of the welfare state. According to the IMF, Kuwait’s subsidies were worth $287bn in 2011, which constituted about 12% of the total GDP of all Arab countries, and about 32% of the
government’s revenues (Kuwait Times, 2015b). Thus, international organisations and consultancies have long been urging Kuwaiti authorities to reform the subsidies policies, especially in the light of the falling oil prices and shrinking revenues.

So far the government has been putting a lot of effort in trying to resolve the issue of subsidised commodities, particularly after the call by the Amir in October 2015 to cut the state spending in response to decreasing oil revenues (Kuwait Times, 2015c). The cabinet has recently announced that it is planning to lift fuel subsidies and introduce new water and electricity consumption prices (Kuwait Times, 2015e). However, the issue is highly contentious, and the parliament has been largely opposing indiscriminate subsidies lift. For this reason, the latest plan to remove subsidies targets only certain parts of the population – i.e. expatriates and high-income nationals – while ‘deserving’ citizens with low and medium incomes will not be affected (Kuwait Times, 2015d).

It is important to note here that, as elsewhere in the GCC, the private sector in Kuwait is also heavily dependent on state-subsidised utilities, such as water and electricity, and therefore it will be the first to be affected if the subsidies are removed. This became obvious after the government’s recent attempt to increase the price of subsidised diesel and kerosene. On 1 January 2015, the government increased the price of diesel for consumers from 0.055 KD to 0.170 KD per litre (Arabian Business, 2015). Certain sectors of business activity, such as transport, food production, catering and construction materials manufacturing, were immediately affected. As a result, the government’s measure was followed by price hikes and strikes, and the cabinet was attacked by a large number of MPs demanding the abolishment of the subsidies lift (Kuwait Times, 2015a). This development made the government halt its plans to deal with other subsidised commodities for almost a year. At the same time, exemptions from diesel price hike for various businesses were agreed upon with the government, thus the effect of the subsidy lift was ultimately minimal (Kuwait Times, 2015a). In further discussions of subsidies reduction the Minister of Commerce promised that electricity and fuel subsidies for key economic and industrial sectors would be preserved, because of the government’s “desire to encourage them for the sake of enhancing their contributions to the economy and diversifying it (Kuwait Times, 2015c).

However, not all policies targeting the removal of subsidies are harmful to merchants’ interests. There have also been proposals and reform attempts in the
sphere of other state distribution patterns and subsidies on services. One of such initiatives, namely the reform of housing allowance, illustrates the business opportunities that the subsidies lift can open for certain private sector actors.

Thus, the government has recently decided to substitute cash handouts of house-building allowance with subsidised building materials of equal value. 25% of the price will be subsidised by government, and 75% paid by customer. The government will choose the company to supply those materials, through government tenders. The priority will be given to Kuwait industrial companies, followed by the Gulf producers and then foreign companies (personal interview with a member of the parliament’s committee for financial and economic affairs; Kuwait, April 2014). Therefore, such measure will most likely benefit some of the local building materials’ suppliers.

Thus, the private sector in Kuwait is as dependent on the government for state spending, subsidised commodities and provision of cheap foreign labour as the population at large. The analysis of the government initiatives, which are aimed at reducing the budget spending, such as employment nationalisation and subsidies reduction, shows that they largely do not fall within the interest of the business community in Kuwait, and it utilises various means to avoid their meaningful implementation, negotiate exemptions or even in some cases utilise the business opportunities that emerge from those state initiatives.

**Economic diversification policies in Kuwait: expanding the private sector**

Another group of reform policies is meant to expand the role of private sector in the economy and broaden the scope of private sector actors in Kuwait. This on one hand means providing more space for private sector operation through reducing the role of state in the economy. On the other hand, it also means opening up the economy and attracting foreign direct investments through improving the business environment, loosening legislative restrictions and enhancing regulation in accordance with international standards.

**Privatisation**

Since the beginning of the steady flow of oil export revenues, Kuwait’s economy has been dominated by the government through state control of the oil industry. Furthermore, many of the large enterprises established after the
independence were created jointly by private sector and the government and were substantially supported by state capital. By the early 1990s, the government owned shares of various amounts in 61 biggest companies, which accounted for 70% of total market capitalisation (Sartawi, 2012: 98). Although the rate of state ownership has been changing throughout time, the government still retains significant amount of shares in the top companies. The government invests mainly through Kuwait Investment Authority (KIA), Public Institution for Social Security, Public Authority for Minors Affairs, as well as Kuwait Awqaf Public Foundation, Zakat House, and such investments have been one of the means to keep the stock floating, and to distribute wealth and support to the private sector (personal interview with a teaching member of staff in Economics Department, KU; Kuwait, May 2014). Enterprises with state ownership have been also granted land concessions and customs exemptions (Sartawi, 2012: 96).

The attitude of the private sector towards it is in a way ambiguous – on one hand, the state ownership is treated as a way to support and back up the business sector particularly in times of crises, on the other, the private sector also sees it as government’s means to dominate and overtake businesses. Therefore, business actors generally criticise the government for not providing more space and opportunities to private sector, and push for privatisation.

In the government’s view, the privatisation is seen as means to reduce state spending and to improve services, which the government already finds difficult to cope with. That is why the privatisation programme was first launched during the 1990s to ease the budgetary strains after the Iraqi invasion. It is worth noting that Kuwait was the first GCC state to embark on privatisation policy. Part of state shares were disposed of, so the government ownership in some of the companies was substantially reduced, while others were privatised completely. KIA’s ownership in the Kuwait Stock Exchange (KSE) declined from 61 companies in 1993 to 14 companies in 2011. Furthermore, in May 2010 a new privatisation law was adopted by the parliament.

However, despite all these seemingly active efforts to promote privatisation, there are still serious restrictions that the private sector is facing in the process. First of all, the law does not allow privatisation of entities related to downstream oil and gas industry, as well as entities in the sphere of health and education services. An investor is also not allowed to bid for a privatised entity, if they both operate in the
same field, in order to avoid the conflict of interest. The privatisation process itself is carried out through the creation of a shareholding company, in which the government retains a golden share and which is subject to regulatory scrutiny and price control. Finally, the law comprises several provisions that protect the rights and benefits of national employees working in a privatised entity – a private owner would not be able to lay them off or to reduce their salaries or benefits during a fixed number of years (DLA Piper, 2010). All these legislative restrictions make the privatisation less attractive for the private sector investors, and the business community has been continuously voicing its dissatisfaction with the law and pushing the government to open up such fields as oil industry and services for privatisation and larger private involvement. As a result, the government has recently called for an amendment of the privatisation law. There have also been attempts to pursue a broader-scale privatisation in the past several years, with such entities in line for being privatised, as postal service, Kuwait Stock Exchange, Cooperative Societies, sports clubs, certain sectors of the Ministry of Electricity and Water, and some private clinics affiliated to the Ministry of Health.

**BOT**

Build-Operate-Transfer (BOT) is another scheme that is also aimed at expanding the role of the private sector in the government development projects, thus reducing the burden on the state’s finances. BOT is one of the types of public-private partnership, according to which the private sector entity carries out the construction and operation of a certain facility for a fixed period of time, after the end of which the facility is transferred back to the government (Kuwait Times, 2013b).

In case of Kuwait, the private sector’s cooperation with the government on certain projects has been ongoing since the 1980s, however a comprehensive BOT law was lacking until 2008. Despite being highly anticipated, the 2008 BOT law was again considered too restrictive by the private sector investors, similarly to the privatisation law. The main concerns of the business community were related to the limited amount of years the private entity was allowed to operate the projects, inability to mortgage the assets within the project to ensure financial security, the absence of intellectual property protection, as well as the high probability of arbitrary project cancellations by the government (multiple personal interviews in Kuwait, 2014). For these reasons, not a single BOT project has been launched since the law
was passed, and the business community has been pushing for its amendment. The parliament ultimately voted to amend the law in June 2014 making it much more in line with the private sector’s interests.

If the first half of the section was addressing policies that could potentially benefit the dominant business players and therefore were actively promoted by them, the next section will analyse another batch of diversification policies – those which aim to improve the business legislative environment and regulation in order to increase transparency, compliance with international standards, and by doing so, ease the way for new and foreign businesses to emerge and operate in Kuwait. It will be shown that, although the ultimate aim of those policies is to strengthen and diversify the private sector, opening up the private sector for foreigners, boosting competition and enforcing stricter regulation does not comply with the interests of the major business players, whose prominence is to a large extent reliant on protectionist legislation, lack of regulation and monitoring and informality in doing business. The reaction of the business community to the regulation policies is the example of merchants’ direct and active interference in policy-making.

*Foreign business and FDI*

The government was to some extent pressured to embark on the path of opening up the economy when Kuwait joined WTO in 1995. Although Kuwait was one of the first among the GCC to join the organisation, it still falls far behind its neighbours in terms of attractiveness for foreign business and foreign investments. The Commercial Companies Law of 1960 effectively limited foreign business participation in Kuwait to partnerships with local businessmen, with the latter owning the majority of shared capital, while the ownership in shareholding companies was allowed to Kuwaiti nationals only. However, the FDI and expansion of foreign business in Kuwait were deemed necessary first and foremost as a way to import technology know-how, and boost national employment (and much less so as capital injection), therefore from the early 2000s, the government started to take certain legislative steps to ease the situation for foreign business (personal interview with an analyst in one of the largest financial and investment companies in Kuwait; Kuwait, May 2014). The Law No. 20 of 2000 permitted foreign ownership of shares in shareholding companies listed in Kuwait Stock Exchange, as well as foreign
participation in the establishment of those companies. In 2008, a resolution was passed extending the permission of foreign ownership to non-listed shareholding companies, while the recent Companies Law No. 97 of 2013 has eliminated foreign ownership restrictions in shareholding companies altogether allowing up to 100% ownership, but keeping the restrictions in other types of companies.

Furthermore, in 2008 a new law (Law No. 2/2008) regulating the taxation of foreign business in Kuwait introduced a flat 15% tax, instead of income-dependent 5-55% tax range, which was in force since 1955. Various conditions have been also stipulated, under which the tax could be reduced or exempted from altogether. Kuwait also established a Free Trade Zone in 1999, which was intended to offer foreign companies tax-free corporate income with no obligation to have local partners.

In 2013 the government introduced the Promotion of Foreign Direct Investment Law (Law No. 116 of 2013) and replaced the Foreign Investment Office with the new Kuwait Direct Investment Promotion Authority (KDIPA), which is aimed to supervise both foreign and domestic investments, ease the bureaucratic procedures of applying for FDI license and also allows the operation of 100% owned foreign companies in various sectors. It is hoped that the authority will improve the overall investment climate, develop competition, and provide further investment opportunities both for local and foreign investors.

In one of the most recent moves (September 2014) aimed to boost FDI, Kuwait’s Minister of Finance Anas Al-Saleh announced the suspension of the Offset Programme, which was established in 1992 and imposed an obligation on foreign companies, who won government contracts, to invest a 3 to 10% portion of a contract’s value in local economy. However, there were allegations that the fund did not serve its purpose anyway and was misallocated (personal interview with a Kuwaiti partner of an international auditing company; Kuwait, November 2014).

Thus, it is obvious that during the last decade and a half, certain measures have been taken by Kuwaiti government to loosen the protectionist legislation and open up the economy. This however had very little impact on the ground. According to Kuwait Economic Society report (2013: 6), during the period from 2000 to 2011 Kuwait attracted the smallest amount of FDIs in comparison with the rest of the GCC. In 2011 and 2012, Kuwait did better and actually more than doubled its FDI rate (to $3.26bn and $2.87bn respectively), however that was partly attributed to a Qatari investment that year, as Qatar Telecom increased its stake in Kuwait’s
telecommunication provider Wataniya from 52.5% to 92.1%. In 2013, the rate decreased again to $1.84bn (compared to $10.49bn in UAE and $9.3bn in Saudi Arabia).

There are currently eleven non-Kuwaiti companies listed in Kuwait Stock Exchange out of total 208. Out of those eleven, five are UAE cement companies, while the rest are Bahrain-based banks, investment and insurance companies and one Egypt-based Egypt Kuwait Holding Company. Non-Kuwaiti banks and financial services companies alike – all are either subsidiaries of Kuwaiti companies, or have representatives of the most prominent Kuwaiti business families among their board members. Thus, as of the present day, the largest investors in Kuwait are still fellow GCC states, which have never been as restricted legislatively as other foreign investors. All in all, KSE has minimal foreign capital so far (personal interview with a senior official at CMA; Kuwait, June 2014).

Furthermore, although Kuwait has allowed foreign banks to open branches in the country, the Industrial and Commercial Bank of China has been the only bank to use the opportunity so far. However, even these branches are opening not for retailing purposes, but for financing infrastructural projects, in which Chinese companies are involved (personal interview with a senior official at CMA; Kuwait, June 2014).

At the same time, the earlier-mentioned Free Trade Zone has hardly been serving its purpose too: in 2010 the Ministry of Commerce and Industry accused the private National Real Estate Company, which has been operating the FTZ, of renting it out for commercial purposes instead of developing it as a business hub, and tried to overtake it. The area has been subject to litigation and in general state of limbo ever since.

Therefore, the legislative amendments and initiatives introduced by the Kuwaiti government do not seem to have brought any serious qualitative change with regards to foreign direct investments and foreign business in Kuwait. The only meaningful way for foreign investments to be involved in Kuwait’s economy is through government contracts. Most of the respondents, government officials and businessmen alike, stated that although the laws have been passed, the results are not achievable in the short term: “The infrastructure is there, laws are there, but the problem is how we apply this law – [it is] too slow because of bureaucracy” (personal interview with an analyst in one of the largest financial and investment companies in Kuwait; Kuwait, May 2014). Indeed, Kuwait’s notorious red tape – “extra-legal
practices” and “poor regulatory frameworks” – is cited as the main reason of the failure to FDI-attracting efforts (KES, 2013: 7). The country’s reputation in the eyes of foreign business has been recently further damaged by several cases of arbitrary cancellations and postponements of business projects and deals with international companies as a result of the allegations of corruption by the Parliament.

Although the representatives of Kuwait’s private sector would formally acknowledge the necessity of foreign investments and business for the sake of “employment and capital injection” (personal interview with a member of an old politically active merchant family; Kuwait, November 2014), any meaningful progress in this direction, such as eliminating the agency law and allowing foreigners to do business freely in Kuwait, would seriously threaten their current privileged position. In more private conversations they would show scepticism towards the whole discourse about the urgency of foreign investments and the progress that has been made in this direction (personal interview with members of two merchant families; Kuwait, February and May 2014). Some already complain about the competition with foreigners over government tenders that Kuwaiti companies struggle to win, and accuse the government of having “no knowledge [of] how to make local business grow” (personal interview with a member of parliament, who is also related to one of the old Sunni merchant families; Kuwait, March 2014). Therefore, the very slow pace with which those policies are implemented on the ground and the burden of inefficient bureaucracy, which slows them down even further, are actually beneficial for local business players.

There is no doubt that big business in Kuwait also suffers from red tape, which they see as the result of “jealousy” from a parasitic public sector. However, the social position of individuals in the business elite, and the availability of sufficient funds, enables them to overcome this red tape. “They do not wait in line” for months … but “go [straight] to officials to cut through red tape” (personal interview with a businessman of medium rank; Kuwait, November 2014). This corrupt pattern of public-private relations creates an opportunity for mutual benefit and a shadow economy of its own hidden behind inefficient bureaucracy. It allows public sector officials to prey on business and make profit by creating obstacles, while also, creating a barrier for entrance and operation to the private sector, restricting it to a small circle of established business players. While it might be costly and time-consuming for them too, it pays off by scaring away foreign players, making it
impossible to navigate the system without a powerful and well-connected local partner, preserving the established monopolies (personal interview with a member of an old politically active merchant family; Kuwait, November 2014). This symbiosis steers the wheel of corruption.

Thus, as long as their interests are protected, the major business players have little incentive to change the situation. In fact, improvement in the business environment, reduction of red tape and corruption in the public sector contradict the rent-seeking interests of the existing private sector. Therefore, its very nature and mode of interaction with public sector would obstruct any policies aimed at nourishing new business players and attracting foreign companies.

The local business might be interested in foreign investments, because there is a reserved role for them, rather than out of genuine desire to open up the economy for competition. It is indicative that the idea of eliminating the agency and partnership requirement altogether is currently totally out of government’s (and Parliament’s) agenda (personal interview with a member of the parliament’s committee for financial and economic affairs; Kuwait, April 2014). The “sacred rule of agency” is kept completely untouched (personal interview with a Kuwaiti partner of an international auditing company; Kuwait, November 2014). Therefore, foreign business is still very restricted, despite that the conditions got better on paper. “Still the game is benefitting the old established players”, and the policies, as long as they do not bring any tangible impact, do not threaten their interests (Personal interview with a member of Kuwait Economic Society; Kuwait, May 2014).

**Market regulation**

However, another example of a much more contentious government initiative – the establishment of the Capital Market Authority – shows that if they do, the business community would find formal and informal means to interfere and reverse or amend the legislation.

CMA represents one of the latest and most serious efforts to improve the capital market environment in Kuwait. It is widely known that the capital markets in all GCC states generally suffer from the lack of transparency and information asymmetry (i.e. trading with the use of insider information), and poorly comply with international corporate governance standards (Al-Kuwari, 2013: 26-28), which naturally repels foreign business. Not being an exception, Kuwait stock market has
been known for slack rules in terms of information disclosure and manipulative trading by large shareholders (Goma and Smith, 2011).

The idea of creating a regulatory body to supervise the capital market has been long discussed in political circles, and the proposal has been out since 2006. However, the Parliament discussion was delayed because of multiple proposals (from Kuwait Stock Exchange and Ministry of Commerce and Industry), and it was not until February 2010 that the CMA was finally established. Despite having the oldest stock market in the region, Kuwait was remarkably the last GCC state to set up a regulatory body.

The bylaws were published in March 2011, and the problems started to occur when the new authority vigorously embarked on implementing the regulation. Many respondents, both those who were very critical towards the authority and those who supported the initiative, pointed out that the regulation was not very well thought through and generally too strict. For this reason the attempt to bring a previously very poorly regulated market environment to immediate compliance with the new regulation was doomed to fail.

The CMA further started to clear the market of debt-stricken companies, which were unable to meet their financial obligations and accumulated losses exceeding 75% of their capital. The Authority also carried out ‘seasonal’ suspensions, i.e. suspended the trading of companies, which failed to comply with corporate regulation and did not submit financial data or did not hold a general meeting by the end of financial year (Kuwait News Agency, 2014). Furthermore, it launched a heavy-handed campaign against illegal trading practices.

The risk of large fines and severe punishment, as well as the cost of implementation of CMA regulations and the desire to protest the crackdown campaign and harsh measures, have pushed some of the listed companies to withdraw their shares from trading. By February 2014, up to 20 companies were reported to have opted to delist their shares. The withdrawal caused another big slide in the stock prices, and in 2014 Kuwait was the worst performing market in the GCC (Saleem, 2014).

This increasingly conflicting situation prompted KCCI to intervene as a formal lobbying and advisory body to demand amendments and more flexibility of the corporate governance regulation, extension of the period given for its implementation and the lowering of the costs and fines (Al-Saleh, 2014). At the same
time, many parliament members expressed their readiness to help the private sector and put pressure on the government to amend the CMA legislation. Such pressure ultimately forced the CMA to back down with the legislation. In the face of looming interrogation by several MPs, the Minister of Commerce and Industry promised to prepare a comprehensive amendment to the CMA law very shortly (Kuwait Times, 2014).

Thus, the case of the CMA illustrates that the merchants’ political interference in Kuwait can be active and powerful, and there are multiple means through which their influence is channelled.

Conclusion

The present work has attempted to analyse the complex attitude of Kuwait’s business sector towards the government’s efforts of economic restructuring and rationalisation. The business is naturally supportive of the idea of such restructuring being based around the empowerment of private sector and expansion of its scope of operation. However, a closer look reveals that its stance on various economic diversification policies and initiatives is largely defined by its rent-seeking self-interests, which stem from the very nature of a rentier system-based private sector – highly state-dependent and oligarchic, and in case of Kuwait, with a long history of protecting and expanding its economic interests and privileges. Thus, the response of the private sector to such policies varies accordingly, where it tries to benefit from them if possible, or resist (actively or passively) if necessary.

It has been also shown that Kuwaiti merchant community retains significant means of influence, which can be utilised to reverse policies or negotiate exemptions in cases which compromise their vital interests. The latter, in their turn, are concentrated around the preservation of the elitist, monopolist nature of private sector with high entry barriers and special relations with ruling powers. The chapter has further illustrated how in some cases the business actors’ attitude towards certain economic diversification policies, and their subsequent political interference, can defy and deform the whole initial idea behind those policies. Such behaviour reinforces the already strong monopolist businesses, while the attempts aimed at economic diversification and benefitting the population at large in the long-term perspective are moving too slowly or face stalemate.
Reference list


Central Statistical Bureau (2015).


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1 This research was supported by the UK Economic and Social Research Council under Grant ES/J012696/1.
2 Gulf Cooperation Council (GCC) consists of Saudi Arabia, United Arab Emirates, Kuwait, Qatar, Oman and Bahrain.
3 According to the views of the respondents from of the merchant background, there are approximately 50 large business groups.
4 In 2013 total national population of Kuwait was estimated to be 1,159,787 (33.6%), while the amount of non-Kuwaitis reached 2,288,352 (66.4%). The number of non-Kuwaitis working in private sector is 1,249,033, which means that Kuwaitis (56829) constitute only 4.4% of private sector labour force. According to some more recent sources, the number of nationals in private sector has increased, however this data is unavailable at Central Statistical Bureau website.
5 The quotas have been recently slightly increased (for example, from 2 to 3% in agriculture and from 60 to 66% in banking).
6 1 Kuwaiti Dinar equals $3.3.