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Kuwait Needs Economic Reform, but Opponents Dominated National Assembly Election

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Kuwait is one of the freest nations in the Persian Gulf, as well as one of America's best friends. Yet its "liberalish" governance, as one Kuwaiti colleague described it, ironically impedes the adoption of market-oriented economic reforms necessary for the country's prosperity. The latest election for the National Assembly may exacerbate Kuwait's difficulties.

Kuwait is one of the Gulf's petro-states, sitting atop pools of black gold. Except that while the price of real gold is up, the price of oil is down. Last year Kuwait's government ran its first deficit in 17 years. Revenues dropped by 45 percent, while outlays were cut only 15 percent, creating a \$27 billion gap. An even larger deficit, \$31 billion, is expected this year. The result has been unusual austerity for people used to living the good life courtesy the world's once seemingly insatiable demand for energy.

For years government officials with whom I've talked have worried that Kuwait's expansive social benefits both drain the state treasury and discourage work. In fact, barely 30 percent of Kuwait's 4.4 million residents are citizens; most private sector work is farmed out to expatriates.

Analysts and economists as well as top officials agree that state subsidies and employment must be cut. Information Minister Sheikh Salman Sabah al-Salem al-Homoud al-Sabah explained that "some people are using the social mechanism for their own benefit." He admitted that "we cannot completely do away with the welfare state, but we have to work towards creating awareness in the population to take more responsibility." The country also needs market-friendly reforms to attract industry and services and turn Kuwait into a regional economic hub. Minister al-Sabah explained: "we need to diversify the economy and income of Kuwait."

Unfortunately, the government so far has achieved only indifferent results.

Kuwait is well-positioned to be a regional leader. It is friendly to the West, created by British border-drawing and saved by the U.S. and its allies from Saddam Hussein's Iraq. Many of the elite and their children have been educated in the West. While a monarchy, it hosts an elected National Assembly with real power and a relatively free press. Although cultural and religious conservatism are strong, there is broad religious and social freedom. Although geographically close to Iraq and Iran, Kuwait retains a significant U.S. military presence in the country.

Yet Qatar and the United Arab Emirates—especially federation member Dubai—have raced past Kuwait economically. They have become Middle Eastern bases for international enterprises and

transit points between East and West. Dubai is the common symbol of the Middle East's economic rise.

Kuwaitis desire more. One voter told the *Kuwait Times* that he wanted his country to be "a financial and commercial hub." Yet Kuwait falls shockingly short on economic policy.

According to the Freedom of the World index of economic liberty, Kuwait has been steadily moving in the wrong direction. At world number 92 in 1980, the Gulf kingdom dramatically improved to 70 in 1990 and 41 in 2000. But by 2010 Kuwait had slid back to 52. It was 63 in 2013 and 71 in 2014, the last year for which figures are available. Kuwait performs particularly poorly in size of government, sound money, free trade, and business regulations. It also falls behind in labor market regulations. In contrast, in 2014 the UAE came in tied for fifth. Qatar was 12, Jordan 14, Bahrain 26, and Oman 59.

On the World Bank's Ease of Doing Business index, Kuwait also is falling. It was only 102 in the latest ranking, down from 101 last year and 86 in 2015. Most recently the United Arab Emirates was 26, Bahrain 63, Oman 66, Morocco 68, Turkey 69, Tunisia 77, Qatar 83, and Saudi Arabia 94. Kuwait also was behind Macedonia, Kazakhstan, Belarus, Russia, Rwanda, Azerbaijan, Bhutan, Kyrgyzstan, China, Ukraine, Uzbekistan, El Salvador, Zambia, and the Philippines, among so many others.

As for the World Economic Forum's Global Competitiveness rating, Kuwait came in at 38, down from 34 the previous year. Even this, its best ranking, is dropping. The country placed well behind the UAE (16), Qatar (18), and Saudi Arabia (29). No wonder the international marketplace seems to be passing Kuwait by.

Kuwait's first challenge is financial. Most Gulf nations were ill-prepared for the collapse in oil prices. The recent OPEC agreement to cut back production is likely to have only a modest impact. With the discovery of new supplies and creation of new sources the energy market is beyond any cartel's control. And increasing political support for "green energy" is likely to push oil demand lower in coming years.

Yet the Kuwaiti government, explained the forecasting firm Stratfor, "has built an economic model completely funded by oil and natural gas revenue to support its workforce." Energy revenue accounted for 95 percent of the state budget, but dropped 60 percent over the last two years. In November the International Monetary Fund warned that Kuwait's "fiscal and external accounts have deteriorated markedly." The emirate turned to its sovereign wealth fund to meet last year's deficit and planned to borrow to underwrite current spending. However, absent fundamental reform the IMF figured that Kuwait faced about \$115 billion in red ink through 2022.

Almost everyone advocates targeting social benefits. The Fund urged significant subsidy reform, especially "to further rationalize energy subsidies." A senior official was equally blunt, telling me that "We need to reduce the welfare state."

The government has begun to limit subsidies. *The Times* (Kuwait) reported that the government cut "subsidies on water, electricity and energy. The government raised the price of kerosene and diesel last year and followed that with increasing the price of petrol at the pumps in October. It

has promised to cut all subsidies by 2020.” One official even told me that people needed to move into smaller houses, a tough sell when large luxury homes highlight Kuwait City’s landscape. No one likes to give up such generous benefits. One frustrated official told me: “More people need to get behind the government. A lot of our problems are they are not supporting its policies.”

The IMF also cited the cost of public employment, which accounts for almost half of Kuwait’s budget. Like other Gulf States, public employment has been part of the social compact. The former liberal MP Abdullah al-Nibari told the *Wall Street Journal*: “Kuwait’s people used to be very hard-working. Unfortunately, with the influx of oil wealth this trait has been gradually reduced. Now they all look for a government job where they work only three hours a day or don’t work at all.”

Like most of the Gulfdoms, in Kuwait virtually all state employees are nationals and virtually all private workers are foreigners. One younger government employee told me that public jobs were essentially seen as an entitlement. Work was easier and compensation better. In contrast, “Kuwaitis don’t want to work for private companies. They view that as insulting.” Put bluntly, the general view is, why do the job when you can hire someone to do it? The government has begun to trim benefits and promote private business development, but so far has made only modest progress. Early last year oil workers briefly struck to protest proposals to cut wages and privatize some operations.

Accelerated economic development is needed to produce more and better private jobs. The government has set as an objective of encouraging private enterprise and foreign investment by making Kuwait a friendlier host. Prime Minister Sheikh Jaber Mubarak al-Hamad al-Sabah told the National Assembly: “We now face the big challenges of putting Kuwait on par with the advanced economies on international rating indices, restructuring the state budget, diversifying the productive base, and activating the financial and economic reforms.” Yet Kuwait’s disappointing economic international standing shows how far it has to go.

Information Minister al-Sabah argued the government had “achieved a lot in these past three years” in economic and social policy. Moreover, he observed, “there has been great harmony between the cabinet and the National Assembly.” Yet a time of harmony would have been the best time to have pushed difficult reforms more rapidly.

Instead, concluded the Baker Institute’s Kristian Coates Ulrichsen, “government policy has moved forward with excessive caution, particularly compared to the raft of subsidy reforms, price increases and incipient moves toward greater taxation in other [Gulf Cooperation Council] states.” For instance, though gasoline prices were raised, every driver receives about 20 gallons a month for free. Electricity and water prices rose, but only for businesses and foreigners. The government also promised no individual taxes. Studies have gone unfinished, reports have gone unpublished, recommendations have gone unprocessed, and proposals have gone unimplemented.

Consider Kuwait Airways. Once a regional leader, it now is disdained even by Kuwaitis. Noted the *Economist*: “As its fleet aged and losses piled up, carriers from Qatar and the UAE began offering better service and more routes. Politicians have talked of privatization. But parliament, reluctant to mess with one of the country’s biggest employers, has frustrated these efforts.”

The mix of government hesitation and populist obstruction has proved economically toxic. Unlike most of the other Gulf States, which face many of the same challenges, Kuwait must manage populist currents. Unsurprisingly, even the government's modest reforms ran into what the *Times* called "fierce resistance" in the old National Assembly. The political gridlock appeared to be behind the Emir's October decision to dissolve parliament, which may have been an act of desperation. Observed the *Times*: "it is difficult to see any new parliament voicing support for a plan that hurts income of citizens."

After holding three elections within 17 months in 2012 and 2013—two of the polls were annulled by the Constitutional Court for technical reasons—and enduring sustained public protests and opposition boycotts after a controversial change in election rules, the government enjoyed a period of relative political stability and generally friendly legislative majority. But that quiet time has ended. The *Friday Times* (Kuwait) said the latest poll was "one of the most intense election campaigns seen in Kuwait," with Kuwaitis voting for a new parliament "they hope will halt austerity measures forced by falling oil revenues."

Reform was a frequent topic. Information Minister al-Sabah admitted that the government could not end welfare programs, but even its moderate measures came under fire. According to the *Kuwait Times*, candidates targeted the government's austerity measures, since "many Kuwaitis fear the government will try to raise prices further and cut many of the perks they have enjoyed for decades, including free health care, education, subsidized basic products, free housing or land plots and interest-free loans." There were other issues, such as heavy-handed government repression of critics and undue influence over the National Assembly, but economic "bread and butter" issues predominated.

However, for the most part the opposition offered criticism, not an alternative program. One young Kuwaiti complained that the MPs are good at pothole politics, like "fixing your street or park," but "never do anything big for the country." Cynicism was strong: I talked with some young people who said they didn't plan to vote, since they were skeptical the new parliament would be more effective than the old one.

Nevertheless, voter turnout was high and the verdict was decisive. Of 50 members, 42 ran for reelection but only 20 triumphed. Political analyst Salah al-Fadhli cited the "tsunami of change." The opposition captured 24 seats, though its members range from liberals to Islamists. While they differ sharply on social and religious issues, almost all of them criticized government economic policy.

For instance, Safaa Abdurrahman al-Hashem, the sole female victor, told me that she planned to emphasize economic management, including of the oil industry. She criticized the government for failing to diversify income and "work upstream for our oil products." Another newly elected MP, Youssef Saleh al-Fedhalah, similarly advocated that the government sell refined product to enhance revenues. He told me he wanted the government to support Kuwaitis who started businesses, providing them with "money and land," and address the problem of youth unemployment.

Many successful candidates criticized the government cutbacks, contending that subsidies were not "waste" and that reducing subsidies was not "reform." The *Kuwait Times* reported MP

Abdullah Fahhad al-Enezi as promising to protect people's "gains" and to "stop government attempts for economic reforms at [the people's] expense."

In taking these stands candidates were responding to Kuwaiti voters. Many complained to journalists about government cuts in benefits and hikes in prices. Pensioner Maasouma Abdullah told the *Kuwait Times* that "We want the next parliament to stop the government from hiking prices." Another voter declared: "The raising of fuel prices and electricity prices has severely hurt citizens." Those who worked for the state were no more supportive of benefit cutbacks. Political observer Dahem al-Qahtani told Agence France-Presse that voters had "rejected the austerity measures," especially gasoline price increases.

All told, the *Times* noted that "it is difficult to see how the government will continue with its economic restructuring program." No wonder Stratfor warned that Kuwait's elected National Assembly made the government's task more difficult compared to the less democratic Gulfdoms. The challenge is exacerbated by lack of political parties, which normally develop policy programs. In Kuwait populism may be the best way if not only way for candidates to get attention. (Especially after a recent rules change made it harder for tribes to create de facto slates.)

The result is shared frustration. The public senses drift. One 20-something told me that "There is so much the government could be doing," but, in his view, "nothing is being done" on the economy. Stories of expensive projects which appear to go nowhere are common. "Projects, even roads go on for years. We are way behind Dubai, Qatar" complained one frustrated Kuwaiti.

An Islamist MP, Mohammed Dallal, told the *Wall Street Journal* that economic diversification was necessary, but "the kind of management that we have in this country cannot implement these reforms." He also denounced spending by top officials on themselves. The liberal al-Hashem sounded similar when she accepted that Kuwaitis might have to start paying for some services, "but only on one condition—let me see first that the corruption level is lowered and the accomplishment level is higher."

In return, one government official charged that opponents "play on emotions" in claiming that benefits are people's rights. Another wished for greater popular understanding: "more people need to get on board with the government."

Tensions likely will rise. Absent a dramatic increase in oil prices, the government will be forced to pursue a more austere course. Indeed, The Emir opened the new legislative session last month warning that lower oil revenue required "sacrifices." As he explained: "I am confident that the Assembly and all citizens are aware that cutting public spending has become inevitable."

He also noted the need to reduce government waste and shield lower-income Kuwaitis from an increased financial burden. Information Minister al-Sabah told me that the "government will present its view and will work with the National Assembly to implement economic and social reform to diversify" Kuwait's economy, but acknowledged that "many of the economic rules and regulations will be reviewed by the new" members.

To the government's advantage, though a majority of those elected promised to oppose further austerity, the opposition remains divided. As a result, the incumbent Speaker, seen as friendly to

the government, won reelection. Moreover, the desire for stability amid regional conflict may temper criticism. Nevertheless, popular opposition to benefit cutbacks runs deep. Some MPs predict that this parliament might only last a year or two, before dissolution and new elections.

Through all this Kuwaitis expect to preserve their relationship with the U.S. Those I talked with didn't know what to think of President-elect Donald Trump, but expressed confidence that Kuwait could retain what one official called its "constructive relationship" with Washington and wished America well under its new president.

But their own nation remains their greatest concern. "We are very proud of what we have, with the long experience and practice in democracy," Information Minister al-Sabah told me. As well Kuwaitis should be. Citizens voting and holding leaders accountable are too rare in the Gulf. But to preserve its system of moderate governance and sectarian coexistence, Kuwait also needs to energize its people economically. In today's turbulent world, there is little time to waste.

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