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KUWAIT PROGRAMME


# BUILDING THE NEW KUWAIT

## VISION 2035 AND THE CHALLENGE OF DIVERSIFICATION

**Sophie Olver-Ellis**

LSE Middle East Centre Paper Series | 30 | January 2020

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# Building the New Kuwait: Vision 2035 and the Challenge of Diversification

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## About the Author

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## Abstract

Against the backdrop of global oil price volatility, increasing budget deficits and a burgeoning unemployed youth population, Kuwait has decided to redesign its national political economy. 'Vision 2035' sets out an ambitious plan to diversify Kuwait's economic base by boosting revenue beyond hydrocarbons, improving productivity of different socio-economic actors, and reducing reliance on the public sector for employment of nationals. Vision 2035 places labour market reforms, human capital advancement and a favourable business environment at the core of the country's diversification efforts.

This paper explores the key barriers to reform and the implementation of Vision 2035. It highlights how different actors have a vested interest in rent distribution, which hinders economic diversification. Disputes between the government and the National Assembly have also harmed the design of economic policies. The paper provides policy recommendations to help Kuwait meet the challenge of diversification, with particular focus on reforming the education system, introducing a universal basic income, strengthening the *daʿm al-ʿamala* (wage support) policy, introducing public sector employment caps and the introduction of meritocracy.

## Introduction

Oil-based development has been a relative success for the Gulf Cooperation Council (GCC) states, bringing rapid modernisation and exceptional wealth. Since 2014, however, global oil price volatility has resulted in a sharp slowdown in the region's economic growth, which fell on average from 3.1 percent in 2015 to 2.1 percent in 2017.[1] This economic decline, alongside increasing budget deficits and burgeoning unemployed youth populations, made it more pressing to address the unsustainability of oil-based development. In response, the region's ruling elites have launched new development 'Visions' that seek to transform their national economies into leading financial hubs. In doing so, it appears that their political economies are shifting towards a production-orientated means of development, replacing the state allocation model.

Kuwait provides an interesting context for analysis of this proposed politico-economic transformation. With a relatively small national population and large proven oil reserves, Kuwait is in a better position than its GCC counterparts.[2] High global oil price volatility still poses a major threat because oil rents account for 90 percent of the government's revenue and comprise nearly 50 percent of Gross Domestic Product (GDP).[3] The decline in oil prices ended Kuwait's 16-year fiscal surplus in 2014[4] and Kuwait has since experienced budget deficits ranging from $10.2 billion in 2014[5] to $21 billion[6] in 2018. The Emir of Kuwait has warned that without cuts to welfare subsidies, the country's budget deficit could amount to $1.46 trillion over the next two decades.[7] This development dilemma is made more severe given that public expenditure remains at an all-time high; 16 percent of the budget is reserved for subsidies and 54 percent for the salaries of Kuwaiti workers.[8] The national population is also relatively young, with 70 percent under the age of 34,[9] and these are increasingly seeking employment in an already saturated public sector.

1 'GCC: Economic Outlook 2017', *World Bank* (2017).

2 Saudi Arabia, for example, has the largest population in the GCC and as the welfare system has more people to cater for, there is greater urgency to diversify its economic base. Smaller Gulf states such as Oman, Bahrain and UAE have lower hydrocarbon resources and hence need to seek other forms of income to assist in their development.

3 'Kuwait: Oil and Gas', *Export.gov*. Available at https://www.export.gov/article?id=Kuwait-Oil-and-Gas (accessed 20 November 2018).

4 'Kuwait posts budget deficit after 16 years of surplus', *Middle East Eye*, 9 August 2016. Available at https://www.middleeasteye.net/news/kuwait-posts-budget-deficit-after-16-years-surplus-327747524 (accessed 11 January 2019).

5 'Kuwait 2013/2014 budget projects deficit of 2.9 billion dinars', *Middle East Online,* 17 July 2013. Available at https://middle-east-online.com/en/kuwait-20132014-budget-projects-deficit-29-billion-dinars (accessed 11 January 2019).

6 'Kuwait lawmakers pass budget deficit budget for fourth year', *Arab News*, 28 June 2018. Available at http://www.arabnews.com/node/1329561/middle-east (accessed 25 September 2018).

7 Martin Hvidt, 'Challenges to implementing "Knowledge based economies" in the Gulf Region', *Centre for Mellemøststudier, Syddank Universitet*, September 2016, p. 3.

8 'Kuwait Finance Min. estimates 2018–19 state budget deficit at KD 7.9 bln', *KUNA*, 27 June 2018. Available at https://www.kuna.net.kw/ArticleDetails.aspx?id=2734586&language=en (accessed 14 September 2018).

9 'Kuwait Fast Facts', *United Nations Development Programme*, March 2017. Available at http://www.kw.undp.org/content/dam/kuwait/img/PAS/PAS%20Fact%20Sheet%20.pdf (accessed 20 October 2018).

In response, Kuwait has adopted Vision 2035, which aims to transform the country into an internationally renowned and lucrative business hub. To achieve this, the new national development agenda seeks enhanced competitiveness, increased productivity of the workforce and reform of the oil-based political economy towards a knowledge economy driven by the private sector. The practical implementation of the Vision, however, will not be without challenges. This paper seeks to explore these challenges and present insights from key stakeholders who are involved in both the design and implementation of Vision 2035.

## A New Vision for the State of Kuwait

In 2010, to respond to burgeoning employment pressures, labour market distortions, increasing budget deficits and global oil price volatility, Kuwait launched its original Vision 2035. This strategy was commissioned by the government of former Prime Minister Nasser al-Sabah and developed by the consultancy firm Tony Blair Associates. However, it garnered widespread criticism for its vast public expense, gained no policymaking traction and was abandoned at the end of 2011.[10]

In 2017, following the launch of 'Visions' by other GCC states, the Kuwaiti government decided to revisit and revise Vision 2035.[11] Designed by the Supreme Council of Development and Planning, the new plan's main objective is to reduce the role of the government in the implementation of Kuwait's development projects from 90 to 30–40 percent.[12] To achieve this ambitious goal, Vision 2035 encourages the private sector to lead diversification efforts towards a knowledge economy, where economic growth is driven by technological innovation, research, development and the creation of globally competitive high value-added sectors.[13]

Vision 2035 seeks to create this enabling environment by embedding Kuwait into the global economy, attracting 300 percent more Foreign Direct Investment (FDI) and raising more than 400 million KWD (£1.3 billion) from international corporations. There is particular emphasis on encouraging new international investors to conduct business in strategically important industries,[14] such as information and communication technology, renewable energy, electricity and water, tourism, healthcare and education.[15] To encourage small and medium enterprises (SMEs), the Ministry of Commerce and Industry has sought to create

[10] 'Government Releases New Kuwait 2035 Strategic Plan', *The Economist Intelligence Unit*, 3 February 2017. Available at http://country.eiu.com/article.aspx?articleid=1675084151 (accessed 15 January 2019).
[11] Interview with Government Official, 23 September 2018.
[12] Adelle Geronimo, 'Private sector firms to fuel Kuwait Vision 2035', *Tahawul Tech*, 20 December 2017. Available at https://www.tahawultech.com/news/private-sector-kuwait-vision-2035/ (accessed 15 January 2019).
[13] Kristian Ulrichsen, 'Economic Diversification in Gulf Cooperation Council (GCC) States', *James A. Baker III Institute for Public Policy* (2017), pp. 6–7.
[14] Tsvetana Paraskova, 'Kuwait Seeks Foreign Investments To Diversify Away From Oil', *OilPrice*, 21 March 2018. Available at https://oilprice.com/Latest-Energy-News/World-News/Kuwait-Seeks-Foreign-Investments-To-Diversify-Away-From-Oil.html (accessed 15 February 2019).
[15] 'Vision 2035', *New Kuwait*. Available at http://www.newkuwait.gov.kw/ (accessed 22 May 2019).

a favourable regulatory environment by reducing the commercial licence processing time and fees[16] and setting up a national fund for SME development.[17]

By 2023, the Vision also aims to restructure the labour market by creating a competitive and productive national workforce equipped for private sector employment.[18] Longstanding policies such as 'Kuwaitisation' will continue to play a central regulatory role, as the enforcement of quotas should increase the participation of national labour in the private sector.[19] To create a strong foundation for the emerging knowledge economy, the Vision seeks to overhaul the national education system by rewriting the curriculum and aligning it to private sector requirements by 2020. A National Manpower Development Center will also offer modern training and skill development programmes to more than 30,000 Kuwaitis and train 66 percent of the national labour force for private sector employment.[20]

## Vision 2035 and the Barriers to Reform

### Attracting FDI and Ease of Doing Business in a Closed Oligopoly

In classical rentier states, political economies were introverted and isolated from external forces such as globalisation. Due to the ruling elite adopting protectionist policies, international politico-economic processes such as FDI had little influence on national development agendas.[21] In Kuwait, the Commercial Companies Law of 1960 hindered foreign businesses' participation in the local economy because international companies seeking to invest were required to have a local business partner who would own the majority of the company's capital, which pushed them to look to invest elsewhere.[22]

In 1995, this changed to some extent when Kuwait sought membership of the World Trade Organization (WTO) and was required to open up its economy. The government has since implemented legislation to attract FDI and enable business to be conducted more easily.[23] For example, the Companies Law No.97 of 2013 eliminated the stipulation that foreign companies could only own a minority share in a business. In the same year, the government set up the Kuwait Direct Investment Promotion Authority (KDIPA) in an

[16] Khaled Al-Daihani, 'Youth backbone of Kuwait's development Vision 2035 – Minister Al-Roudhan', *KUNA*, 25 February 2018. Available at https://www.kuna.net.kw/ArticleDetails.aspx?id=2697264&language=en (accessed 24 January 2019).
[17] 'Building Kuwait's Future, One Small Enterprise at a Time', *World Bank*, 1 March 2016. Available at http://www.worldbank.org/en/news/feature/2016/03/01/building-kuwait-future-one-small-enterprise-at-a-time (accessed 25 November 2018).
[18] 'Creative Human Capital', *New Kuwait* (2018). Available at http://www.newkuwait.gov.kw/r3.aspx (accessed 22 May 2019).
[19] Vision 2035 has set an additional annual objective of increasing the participation rate of national labour in the private sector by 10 percent.
[20] Ibid.
[21] Rex Brynen, Pete W. Moore, Basel F. Salloukh and Marie-Joelle Zahar, *Beyond the Arab Spring: Authoritarianism and Democratization in the Arab World* (Boulder, CO: Lynne Rienner, 2013), p.193.
[22] Interview, private sector businessmen from merchant elite, 27 September 2018.
[23] Interview, assistant general of large investment authority, 23 September 2018.

attempt to improve the country's overall investment climate, cultivate competition, and create investment opportunities for both foreign and local investors.[24] By 2018, the authority was estimated to have helped Kuwait attract more than $2.5 billion in investment[25] and create more than 1,000 jobs for nationals in sectors such as ICT, renewable energy and oil and gas services.[26]

The government has also commissioned the $86 billion 'Silk City' megaproject[27] and the Mubarak Al-Kabeer port.[28] Kuwaiti officials predict that the Silk City development will contribute $40 billion to Kuwait's economy, create more than 200,000 employment opportunities and attract large international investments.[29] However, given the country's history of 'stop-start' reform efforts, the project has been criticised as another a grandiose white elephant. Silk City has been on the official agenda since 2006, but the plan has stalled due to political paralysis in the country and many remain sceptical it will ever see the light.[30] As a result, private sector actors feel that Kuwait is building a bridge to nowhere.[31]

The project has also been criticised for being politically unfeasible because the government is seeking to regulate the development under the state-owned Silk City Project Company,[32] where it 'will be governed separately from the rest of Kuwait and will have different legislation'.[33] However, this is dependent on the government passing the bill through a hostile parliament which views these independent powers as challenging Kuwait's constitutional order and subverting the National Assembly.[34]

Another challenge is that the influx of FDI does not necessarily translate into the creation of a strong private sector and open economy. Although Kuwait was one of the first GCC states to join the WTO and undertake the required economic reforms, it still lags far behind its neighbours in attracting foreign business and investment. The flow of FDI into

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[24] Ibid.

[25] Paraskova, 'Kuwait Seeks Foreign Investments To Diversify Away From Oil'.

[26] 'Foreign investment to boost diversification in Kuwait trade', *Oxford Business Group* (2017). Available at https://oxfordbusinessgroup.com/overview/broadening-horizons-attracting-foreign-investment-becomes-key-diversification-plans (accessed 24 February 2019).

[27] 'The Silk City Project puts Kuwait on Global Investment Map', *KUNA* (2018). Available at https://www.kuna.net.kw/ArticleDetails.aspx?id=2736653&language=en (accessed 25 February 2019).

[28] Ibid.

[29] 'Kuwait to Spend $160bn on Island Development Project', *Trade Arabia*, 2017. Available at http://tradearabia.com/news/CONS_332361.html (accessed 27 February 2019); 'Kuwaiti Island Development to Spark Employment Boom, Says Minister', *KUNA* (2018). Available at https://www.kuna.net.kw/ArticleDetails.aspx?id=2704137&language=en (accessed 1 March 2019).

[30] Interview, large private sector representative, 25 September 2018.

[31] Ibid

[32] 'The Silk City Project puts Kuwait on Global Investment Map'.

[33] Interview, government official, 24 September 2018.

[34] Kristin Smith Diwan, 'Kuwait's MbS: The Reform Agenda of Nasser Sabah al-Ahmed al-Sabah', *Arab Gulf States Institute in Washington*, 16 April 2018. Available at https://agsiw.org/kuwaits-mbs-reform-agenda-nasser-sabah-al-ahmed-al-sabah/ (accessed 7 March 2019).

Kuwait significantly declined from $3.3 billion in 2011 to $275 million in 2016.[35] In 2018, Kuwait's FDI was one of the region's lowest at 0.11 percent of GDP.[36] Kuwait's consistently low FDI is linked to the fact that on the ease of doing business index, its regulatory environment, business operations and permit and registration procedures are ranked last in the GCC and 97th in the world.[37]

Kuwait's unfavourable business environment is also reflective of the fact that rentier dynamics still pervade the political economy and reinforce the closed oligopoly, where old means of rent seeking continue to be the only meaningful way to conduct business.[38] In the oligopolistic political economy, the most influential attribute a private sector actor can possess is membership of the elite merchant families who dominate the business landscape.[39] In Kuwait, a small number of these prominent families[40] account for a considerable proportion of business, which inhibits many new national SME start-ups and international businesses from investing in Kuwait.[41] This has often led companies to resort to 'corruptive practices and under the table deals just so they can conduct business in the country'.[42]

Although Kuwait has sought to reduce protectionist policies and open up to the global economy, it is evident that the 'national champions' who comprise the merchant elite continue to dominate the private sector and will block competition and policy reforms that are seen to threaten their social, political and economic activities.[43] Improving Kuwait's position on the ease of doing business index and attracting FDI is therefore contradictory to the rent-seeking interests of the private sector, and the strategies promulgated by Vision 2035 will be obstructed by these deeply embedded rentier structures.

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35 'Foreign investment to boost diversification in Kuwait trade'.

36 'Kuwait Foreign Direct Investment', *Trading Economics* (2018). Available at https://tradingeconomics.com/kuwait/foreign-direct-investment (accessed 25 January 2019); 'Bahrain Foreign Direct Investment: % of GDP', *CEIC* (2019). Available at https://www.ceicdata.com/en/indicator/bahrain/foreign-direct-investment--of-nominal-gdp (accessed 17 January 2019).

37 'Ease of Doing Business in Kuwait', *Trading Economics* (2019). Available at https://tradingeconomics.com/kuwait/ease-of-doing-business (accessed 22 February 2019); Interview, large banking group, 27 September 2018; Kuwait Economic Society, *Blueprint for Public Sector Good Governance in Kuwait: Four Policies for Administrative Reform* (Kuwait: Kuwait Economic Society, 2013), p. 7.

38 Interview, private sector businessmen from merchant elite, 29 September 2018.

39 Interview, large research institute, 26 September 2018.

40 The elite merchant families are al-Khalid, al-Ghunaim, al-Hamad, al-Rifaʿi, al-Fulaij, al-Ghanim, al-Khorafi and al-Saqr.

41 Interview, private sector businessmen from merchant elite, 23 September 2018.

42 Interview, private sector businessmen from merchant elite, 27 September 2018.

43 Giacomo Luciani, 'From Private Sector to National Bourgeoisie: Saudi Arabian Business', in Paul Aarts and Gerd Nonneman (eds), *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs* (London: Hurst & Co. Publishers, 2005), p. 146.

## Regulating the Labour Market in a Rent-Seeking Business Environment

Rent-seeking activities also undermine progress in rebalancing the labour market between the public and private sectors and the national and migrant workforces. Kuwaiti labour law stipulates that national citizens have the legal right to public sector employment. This has distorted the labour market structure, where 76 percent of Kuwaiti nationals work in the public sector.[44] Kuwait's youth bulge also translates into an increasing number of labour market entrants seeking employment, with a preference for the already-saturated public sector. Integrating nationals into the labour market, therefore, is one of the most critical socio-economic challenges facing Kuwait.

Shifting the responsibility of employment to private sector companies has long been on the policy agenda, with regionally prescribed 'localisation' policies being the dominant mechanism driving socio-economic reform. A quota system has been applied[45] and if companies fail to adhere, they face punitive measures that restrict their economic mobility and ease of conducting business.[46] Economic incentives in the form of funding for corporate expansion and access to lucrative government contracts[47] are also available to companies who meet their quota.[48]

Despite general support for the idea of moving national manpower to the private sector out of socio-economic necessity,[49] the quota system has faced opposition, with one banking executive commenting, 'businesses are being forced to employ nationals for the sake of their Kuwaiti nationality and not their skills, quotas are simply suffocating businesses. This is no way to build a strong private sector'.[50] The quota mechanism, therefore, is seen as a burdensome tax on business because of the associated higher employment cost and general lower productivity of national manpower.[51] In the politico-economic context of rentierism, this has caused businesses to continue to draw upon old rent-seeking behaviour to circumvent these regulations and protect their socio-economic interests.

One of the most widespread strategies used by businesses to sidestep the quota system is ghost employment.[52] This involves a company hiring nationals and placing them on

[44] 'Demographic and Economic Module: Kuwait', *Gulf Labour Market and Migration*. Available at https://gulfmigration.org/glmm-database/demographic-and-economic-module/?search=1&cmct=Kuwait (accessed 15 December 2018).

[45] Kuwait has a blanket quota of 40 percent and ambitious sector specific quotas. These range from 65–69 percent for the banking sector, 56–60% in communication and technology-based companies and 16–18%for insurance companies.

[46] Comprising of economic penalties, fines and bans from competing for government contracts.

[47] N. Al-Saqabi, 'Figures and Results Confirm Leading Position of Kuwait Banks', *Kuwait Banking Association* (2011).

[48] Which requires the companies to meet the 40 percent blanket quota and have their national workforce comprise 40 percent of the total wage bill.

[49] Interview, private sector businessmen from merchant elite, 27 September 2018.

[50] Interview, director of a large bank, 23 September 2018.

[51] Steffen Hertog, 'The Private Sector and Reform in the Gulf Cooperation Council', *London School of Economics Kuwait Programme Research Papers* (2013), p. 16.

[52] Interview, directors and consultants for large government authority, 26 September 2018.

the payroll, but without requiring them to contribute to the company's activities.[53] Fake salary payrolls are also created and shown to the government if requested, while office desk space is reserved in case of unplanned inspections.[54] This rent-seeing behaviour has become so pervasive that there are now tens of thousands of ghost workers in Kuwait.[55]

More alarmingly, this practice has become a national security threat, because as Kuwaitis are being employed based on their previous 'work experience', they are 'getting promoted to roles that they are not qualified for and many hold decision-making positions'.[56]

Further exacerbating the distortions created by ghost employment is the interlinked challenge of visa trading and the establishment of fake companies. This is where private sector actors create fictitious companies so they can continue to informally recruit migrant workers while meeting the Kuwaitisation quota of their officially registered corporation. This practice also acts as a means of rapid income for private sector businesses, because once the migrant worker arrives in Kuwait, 'as they are employed by a fake company, their visa is traded with other companies seeking unofficial migrant labour, who then become part of the informal labour market'.[57] Visa trading has become so prevalent that in 2016 alone, more than 270 fictitious companies were caught employing migrant workers under false documentation.[58]

The *kafala* sponsorship system has also placed the migrant workforce in precarious socio-economic positions that violate their labour and human rights. This is because the *kafeel* (sponsor or guardian) has complete authority over the migrant worker who is dependent on the goodwill of the national sponsor.[59] Private sector businesses, therefore, often overlook their responsibilities as an employer because they are more concerned with continuing their recruitment of migrant labour without any negative ramifications on their quota and wider economic productivity.[60]

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[53] Steffen Hertog, 'Arab Gulf States: An Assessment of Nationalisation Policies', *Gulf Labour Markets and Migration Research Paper* 1 (2014), p. 6.

[54] Interview, private sector businessmen from merchant elite, 25 September 2018; Interview, government official, 30 September 2018.

[55] Richard Shediac and Hatem Samman, 'Meeting the Employment Challenge in the GCC: The Need for a Holistic Strategy', *Booz and Company* (Dubai: 2010), pp. 7–15.

[56] Interview, representative of leading research institution, 26 September 2018.

[57] Interview, large private sector representative, 25 September 2018.

[58] B. Izzak, 'Govt Launches Ambitious 'New Kuwait' 2035 Strategy', *Kuwait Times* (2017). Available at http://news.kuwaittimes.net/website/govt-launches-ambitious-new-kuwait-2035-strategy/ (accessed 29 June 2017).

[59] 'Reform of the Kafala (Sponsorship) System', *ILO: Migrant Forum Asia* (2012).

[60] Interview, director of a large bank, 23 September 2018; Martin Baldwin-Edwards, 'Labour Immigration and Labour Markets in the GCC Countries: National Patterns and Trends', *LSE Kuwait Programme* 15, March 2011. Available at http://eprints.lse.ac.uk/55239/ (accessed 15 December 2018).

## The Continued Culture of Oil of the Rentier Citizen

The redistributive politics of the Gulf rapidly engendered growing expectations from citizens, who viewed the state as being solely distributive.[61] This created a situation where the national population in effect claimed the right to tax the government by demanding exceptional welfare provisions, economic subsidies and critically, guaranteed lifelong public sector employment.[62] As the rentier citizen has been cultivated around wealth distribution, this created the culture of oil amongst the national population of the Arab rentier states.[63]

The continued expectation is that 'comfortable public sector employment, where higher social status, salaries, permanent job security, reduced working hours and longer holidays are part of the package. All these incentives help maintain Kuwaitis' desire to seek public sector employment as their career choice.'[64] Today, at least 58 percent of unemployed Kuwaitis would rather remain jobless and wait for a public sector role than seek private sector employment.[65] Other Kuwaitis, especially 'young graduates who are keen to enter the workforce, are willing to temporarily work in the private sector and will continue to do so until a public sector job becomes available.'[66] The public sector, therefore, is widely considered as the 'only safe haven for Kuwaitis, especially [the] youth'.[67]

Exacerbating the deeply entrenched rentier mentality surrounding public sector employment is that 'there is still no incentive for Kuwaitis to move out of the public sector and into private sector employment'.[68] Public sector employment offers salaries up to 50 percent higher than the private sector.[69] Indeed, as this wage differential is recognised as an obstacle to restructuring the labour market,[70] the government has implemented an extensive wage subsidy policy. The welfare initiative of *daʿm al-ʿamala* (wage support),

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61 Christopher Davidson, *Dubai: The Vulnerability of Success* (London: Hurst & Co. Publishers, 2008), pp. 197–80.

62 Nazih N. M. Ayubi, *Over-Stating the Arab State: Politics and Society in the Middle East* (New York: IB Tauris, 2005), pp. 323–5.

63 This neoliberal notion refers to the character of the rentier citizen, where they have had no experience of an extractive political regime since the adoption of the oil-based development model and have since come accustomed to ruling bargain-based subsidies. For further detail and discussion see, Ayubi, *Over Stating the Arab State;* and Christopher Davidson, *Abu Dhabi: Oil and Beyond* (London: Hurst & Co. Publishers, 2011).

64 Interview, large private sector representative, 25 September 2018.

65 Ahmad Jabr, '58 percent unemployed Kuwaitis unwilling to work in private sector - Efforts to Kuwaitize private sector largely failed', *Kuwait Times*, 18 April 2016. Available at http://news.kuwaittimes.net/website/58-percent-unemployed-kuwaitis-unwilling-work-private-sector/ (accessed 28 May 2017).

66 Interview, representative of leading research institution, 26 September 2018.

67 Interview, government official at GSCPD, 24 September 2018.

68 Interview, large private sector representative, 25 September 2018.

69 Omar Ahmad Al-Ubaydli, 'Shrinking the public sector in the GCC', *Omar Economics* (2016). Available at https://www.mercatus.org/expert_commentary/shrinking-public-sector-gcc (accessed 25 November 2018).

70 Oliver Cornock, 'Towards a Post-Oil Economy', *Private Sector Development in the Gulf States, Gulf Affairs – OxGaps* (2017). Available at https://www.oxgaps.org/files/commentary_cornock.pdf (accessed 12 December 2018).

seeks to close the wage gap between both sectors through government subsidies and financial incentives, therefore attracting national labour into the private sector.[71] However, as 'public sector employment continues to offer exceptional benefits and social status', Kuwaitis still show a preference for government jobs.[72]

The government, therefore, will have to contend with the fact that the country's continued extreme dependency on oil is maintaining the rentier mentality of the national citizenry, which will be a major barrier to the country's diversification efforts. Equally, the culture of oil has been maintained by the state because 'when oil prices are low, the government starts broadcasting the new development agenda and [the] need to cut public sector employment. But when oil prices are high or on the increase, you don't hear about Vision 2035. It just gets forgotten and the government goes on a recruitment drive.'[73]

This has been a longstanding trend in Kuwait; in the oil boom era of 2008 the government increased public sector wages and welfare provisions.[74] In response, Kuwaitis in the private sector moved to the public sector and thus, the rentier citizen sought to reap the socio-economic rewards available to Kuwaiti nationals.[75] As such, Vision 2035's strategies and policies are designed with a view to correcting these rentier market distortions. However, a deeply embedded rentier system can maintain a distorted labour market and social structure, because actors still pursue oil wealth as part of their right as rentier citizens. As a result, this impedes the practical implementation of any reform agenda, because the culture of oil and redistributive modes of governance continues to inform the economic activity of the national citizenry and impact fundamental components of the development process.

## The Higher Education Mismatch

As oil wealth flowed into the Gulf states, the ruling elites overlooked the necessity of creating higher education institutions to provide training relevant to the labour market.[76] This was partly due to the oil revenue distribution-based social contract, by which the national population did not require marketable skills as they had guaranteed public sector employment.[77] The higher education system was also rapidly built so it could offer all rentier citizens an education, and prioritised quantity over quality.[78] This created a supply-orientated system that did not deliver the skills required by the private sector.

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[71] Abeer Allam, 'Kuwaitisation: Youth demands action to meet expectations', *Financial Times*, 24 April 2013. Available at https://www.ft.com/content/9fda70fc-a81d-11e2-b031-00144feabdc0 (accessed 27 April 2017).

[72] Interview, representative of large banking group, 27 September 2018.

[73] Interview, private sector representative, 24 September 2017.

[74] Gulseven, 'Challenges to Employing Kuwaitis in the Private Sector'.

[75] Ibid.

[76] Olver-Ellis, 'The Governance of the Labour Market'.

[77] Hossein Mahdavy, 'The Patterns and Problems of Economic Development in Rentier States: The Case of Iran', in Michael Cook (ed.), *Studies in the Economic History of the Middle East* (Oxford: Oxford University Press, 1970), p. 429.

[78] Hvidt, 'Challenges to implementing "Knowledge based economies" in the Gulf Region'.

In Kuwait, 'the mismatch between human capital and the labour market is still a prominent feature and caused by the inefficient higher education system.'[79] According to an education index, Kuwait ranked last in the GCC for providing an education sufficient to participate in the labour market, especially the private sector.[80] For example, the majority of nationals continue to undertake university degrees in soft social sciences, humanities and religious studies, as opposed to science and technology.[81]

Changing this enrolment trend is required if Kuwait is to build a strong knowledge-based economy.[82] This higher education mismatch also reinforces the opposition between the national labour force and private sector where it maintains the private sector's longstanding view of nationals as unproductive but, more critically, unemployable.[83]

## The Presence of Parliamentary Politics

A distinguishing feature of Kuwait's political economy that separates it from the 'late rentier states'[84] of the GCC is parliamentary politics, which has subjected the political elite to a certain amount of accountability.[85] Comprised of 66 seats,[86] the National Assembly[87] is a valued platform of public representation because the democratic political system has enabled all Kuwaitis to engage in the policymaking process.[88] Kuwait's political system is the Gulf's only model of consensus-based politics that attempts to build political legitimacy and promote national unity.[89] In practice, however, due to parliament's relative importance (compared to the all-powerful executive branches elsewhere in the region) vis-à-vis policy-making, it has often contributed to 'Kuwait's notoriously slow-moving decision-making process, because parliament is essentially just another arena where vested interests are promoted and made into policy.'[90]

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79 Interview, government official Amir Diwan, 30 September 2018.

80 *The Legatum Prosperity Index* (2018). Available at https://www.prosperity.com/rankings?pinned=KWT,ARE,QAT,BHR,SAU,OMN&filter= (accessed 11 December 2018).

81 Ibid.

82 Interview, government official, 24 September 2018.

83 Gulseven, 'Challenges to employing Kuwaitis in the Private Sector'.

84 Although the GCC rentier states were not completely autonomous from society, the political domain was dominated by elite actors and thus, society was essentially 'bought off' by the social contract. This resulted in society being largely absent from the political domain. In late rentier states, however, they have to be responsive and broaden their policy arena so society can engage in the policy decision making process and have their say on issues that directly impact their livelihoods.

85 Steffen Hertog, 'State and private sector in the GCC after the Arab uprisings', *Journal of Arabian studies* 3/2 (2014), pp. 174–95.

86 Of which 50 seats are filled by elected individuals via popular vote and 16 seats filled with cabinet ministers appointed by the prime minister.

87 The representative body was created in 1963 in response to burgeoning opposition from civil society who were calling for representation in Kuwait's political and policy domain.

88 Kristin Smith Diwan, 'Kuwait Finding Balance in a Maximalist Gulf', *The Arab Gulf States Institute in Washington Issue Paper* 4 (2018), p. 4. Available at https://agsiw.org/wp-content/uploads/2018/06/Diwan_Kuwait_ONLINE.pdf (accessed 15 March 2019).

89 Ibid.

90 Interview, private sector businessmen from merchant elite, 29 September 2018.

One of the most important functions of the National Assembly has been to represent and protect the socio-economic rights of Kuwaiti citizens. Elected members, who are described as 'service MPs', have often put pressure on the government to increase the socio-economic privileges available to their constituents.[91] In November 2016, for example, with a populist backlash against the government's reform agenda, the opposition returned to the National Assembly after a four-year absence and won 24 of the 50 seats.[92] Opposition MPs promoted themselves as guardians of their constituents, opposing the government's austerity measures which included the cutting of subsidies and public sector employment.[93]

The fractious relationship between parliament and the government means they often blame each other for the country's economic woes. As parliament has been the main political vehicle for society to demand the continuation of oil rent distribution, instead of finding solutions to the country's development dilemmas, the National Assembly has simply continued the short-term populist fiscal policies that underpin Kuwait's redistributive mode of governance.[94] The presence of parliamentary politics is thus an obstacle in transforming the socio-economic role of the Kuwaiti rentier citizen.[95]

The adverse relationship between the National Assembly and the government has also been blamed by analysts and business actors for Kuwait's poor record in implementing development projects that would help the private sector lead economic diversification efforts and attract FDI. Due to parliament not having the right or responsibility of governing, MPs primarily function as an opposition to the ruling Sabah family-controlled government. There has been particular criticism of the country's unsustainable fiscal policy, the political deadlock over privatisation and economic liberalisation policies, and the slow implementation of development projects.[96]

As there is no formal mechanism to overcome disputes, the emir often responds by dissolving the cabinet in order to protect key ministers, especially royals, and the interests of the ruling elite. Dissolution has become so frequent that since 1991, only two parliaments have served a full four-year term.[97] Due to the instability of the National Assembly, many view the frequent dissolutions as a strategy for the ruling elite to not

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[91] Jane Kinninmont, 'Kuwait's Parliament: An Experiment in Semi-democracy', *Chatham House MENAP BP*, August 2012, p. 3. Available at https://www.chathamhouse.org/sites/default/files/public/Research/Middle%20East/0812bp_kinninmont.pdf (accessed 25 February 2019).

[92] Scott Weiner, 'How Long Can the Deadlock in Kuwait's Parliament Last?', *Lawfare* (2017). Available at https://www.lawfareblog.com/how-long-can-deadlock-kuwaits-parliament-last (accessed 27 February 2019).

[93] 'Opposition wins nearly half of parliamentary seats', *The Economist Intelligence Unit* (2016). Available at http://country.eiu.com/article.aspx?articleid=874862271&Country=Kuwait&topic=Politics&subtopic=Forecast&subsubtopic=Election+watch&u=1&pid=705026854&oid=705026854&uid=1 (accessed 13 December 2018).

[94] Kinninmont, 'Kuwait's Parliament', p. 3; Interview, large private sector representative, 25 September 2018.

[95] Kinninmont, 'Kuwait's Parliament', pp. 8–9.

[96] Ibid.

[97] Diwan, 'Kuwait Finding Balance in a Maximalist Gulf', p. 1.

only discipline its members, but also exhaust civil society groups agitating for political change.[98] Private sector actors have also criticised the National Assembly for causing many of the country's economic problems,[99] because its instability has hindered the design and implementation of economic reforms that would enable the private sector to contribute to diversification efforts.[100]

These frequent clashes between parliament and the government have not only slowed political and economic reform, but have exacerbated Kuwait's reputation as an unpredictable place to conduct business.

## Vision 2035 and Meeting the Challenge of Diversification

For Kuwait to genuinely transform its political economy, the government would need to 'cut welfare subsidies, reduce public sector employment opportunities and dismantle the social contract that has enabled society and the private sector to be disengaged from the development process.'[101] Although these measures bode well for most economic indicators and will put an end to the distribution-based political economy of Kuwait, these sweeping reforms would be politically unfeasible. Therefore, to maximise the impact of Vision 2035 and make viable reforms such as restructuring the labour market, there will need to be a series of strategies that progressively alter the role and activity of the national citizenry and private sector.

As the structure of the labour market is inherently tied to a country's economic and educational development, the creation of genuine private sector employment for the national citizenry can only emerge if the education system is aligned to the economy.[102] To ensure that Kuwaitis are better qualified and meet the requirements of the private sector, the education system will need reforming to encompass both theoretical and practical knowledge with an emphasis on computer science, engineering, mathematics, technology, renewable energy sciences and social sciences.[103] The education system also needs continuously updating so that it can offer Kuwaitis the skills required for the jobs of tomorrow. To do so, skill development programmes, vocational work experience and industrial placements will be a crucial component, offering Kuwaitis on-the-job training in the skills required by private sector employers.

The government will also have to address the longstanding issue of wage disparity between private and public sectors.[104] Updating employment subsidy programmes, such as the *daʿm al-ʿamala* policy, will therefore be crucial. In previous years, the Civil Service

[98] Ibid.
[99] Interview, private sector businessmen from merchant elite, 29 September 2018.
[100] Michael Rubin, 'Has Kuwait Reached the Sectarian Tipping Point?', *American Enterprise Institute, Washington DC* (2014), p. 7.
[101] Interview, private-sector businessmen from merchant elite, 27 September 2018.
[102] Interview, directors and consultants for large government authority, 26 September 2018.
[103] Interview, official from education regulatory body, 29 September 2018.
[104] Interview, large private-sector company representative, 25 September 2018.

Commission has sought to strengthen the policy by increasing wage allowances according to the type and level of education. This measure was deemed regressive, however, because professionals such as engineers and doctors would receive the biggest raise, compared to much smaller increments for those without qualifications.[105] Although this measure would narrow the widening wage gap between the public and private sectors, it would be fiscally unsustainable and risk reducing the share of the actual wage in Kuwaitis' total private sector income to such a low level that it could incentivise further rent seeking behaviour.[106]

To successfully strengthen the *daʿm al-ʿamala*, it should be indexed against public sector wages. This would ensure that public sector wage increases were immediately transparent to the labour market with the private sector able to respond accordingly. Thus, temporary yet socio-economically destructive wage gaps could be avoided.[107] To facilitate the transition to a knowledge economy, stringent conditions could also be applied to employment subsidies, where Kuwaiti employees would have to undertake training and skill development programmes overseen by the private sector company in order to receive monthly salaries.[108]

Another socio-politically viable strategy is the introduction of less distortionary welfare mechanisms such as a universal basic income. Since the mid-twentieth century, the government has been transferring oil revenues to the national citizenry through guaranteed public sector employment, which has caused the majority of the national labour force to be engaged in low-productivity work. By introducing a universal basic income, direct cash transfers would replace Kuwait's longstanding subsidies and significantly reduce public sector employment opportunities for the national citizenry. This should enhance efficiency of the national labour force because, although they would still be recipients of oil rents, they would no longer be beneficiaries of guaranteed public sector employment and would have to look to the private sector for employment opportunities.[109] This strategy would not immediately alter the labour market structure, it contributes to transforming the way the national citizenry view the role of the government when guaranteed lifelong public sector employment is no longer viable.[110]

However, interviewees in Kuwait noted that these measures were 'impractical and [would] make the problem worse'.[111] As Kuwait seeks to redraw its political economy 'the government ought to [apply more] discipline and introduce a reward and punishment scheme in the public sector, so people consider getting a job in the private sector'.[112] To do so, the

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105 'Towards Sustainable Economic Development: Policies Towards Involving Kuwaitis In The Private Labour Market', *Markaz* (2019), p. 3. Available at https://www.e-marmore.com/MarMore/media/Policy-Reg/Involving-Kuwaitis-in-the-private-Executive-Summary.pdf (accessed 5 March 2019).
106 Ibid.
107 Ibid.
108 Antonio Carvalho, Jeff Youssef and Nicolas Dunais, 'Maximizing Employment of Nationals in the GCC: Benefits and Limits of Labour Policy Instruments', *Oliver Wyman*, October 2018, p. 9.
109 Shanta Devarajan, 'Three Reasons for Universal Basic Income', *Brookings Future Development*, 2017.
110 Interview, private-sector businessman, 25 September 2018.
111 Interview, representative of large banking group, 27 September 2018.
112 Interview, government official, 24 September 2018.

government in the first instance should consider setting a public sector employment cap on their annual intake, which should increase competition for private sector employment amongst Kuwaitis.[113]

The government should also adopt an evaluation monitoring system in the public sector in an attempt to 'introduce the notion of meritocracy'.[114] Through monitoring performance and basing the potential for promotion on attendance, productivity and success rate, this should encourage full engagement and productivity from its workforce. Introducing both employment caps and meritocratic evaluations should reduce the public sector wage bill, but also send an important signal to the rentier citizen that the social contract they have become accustomed to is starting to be rewritten.[115]

As Vision 2035 is viewed as 'just a plan on paper with no intention to initiate real change on the ground',[116] Kuwait will need an engagement strategy with a 'relevant road map'.[117] Kuwait should follow Saudi Arabia's example, where a National Transformation Plan (NTP) has been written in conjunction with their own Vision 2030.[118] The NTP has provided a comprehensive set of actionable strategies which will help meet the objectives of the Vision. For example, in order to boost the private sector, the 'Invest in Saudi' programme seeks to strengthen the country's reputation as open for business by making it easier for companies to start, run and grow a business.[119]

The NTP also highlights the importance of offering the national citizenry a relevant education.[120] Formally referred to as 'parallel training to labour market requirements', the initiative seeks to encourage the private sector to offer on-the-job training to Saudi nationals and collaborate with other specialised training agencies. To support this initiative, the 'programme of labour culture' initiative will be an important strategy, because through large-scale social campaigns and training programmes, the government will be able to promote the fact that citizens have a socio-economic obligation to be active agents of change and should pursue employment opportunities in the private sector.[121]

An engagement plan will be crucial for Kuwait because unless the Vision translates into tangible reforms on the ground, the country will fail to diversify its economy.[122] Indeed, as subsidies and welfare provisions have evolved into fixed obligations of the state and have been considered sacrosanct, this will continue to constrain the policy-making process in implementing replacement measures.[123]

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[113] Carvalho et al., 'Maximizing Employment of Nationals in the GCC', p. 12.
[114] Interview, official from education regulatory body, 29 September 2018.
[115] Carvalho et al., 'Maximizing Employment of Nationals in the GCC', p. 12.
[116] Interview, private sector businessmen from merchant elite, 24 September 2018.
[117] Interview, government official, 24 September 2018.
[118] 'Vision 2030', *Kingdom of Saudi Arabia* (2019). Available at https://vision2030.gov.sa/en/foreword (accessed 15 March 2019).
[119] 'National Transformation Plan: Delivery Plan', *Kingdom of Saudi Arabia* (2016), pp. 84–97.
[120] Ibid.
[121] Ibid.
[122] Interview, representative of large banking association, 23 September 2018.
[123] Steffen Hertog, *Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia* (Ithaca: Cornell

## Conclusion

Through exploring Vision 2035, it is evident that policymakers in Kuwait know what measures are required to transform the economy. By attempting to attract FDI, advance national human capital, and rebalance the labour market towards the private sector, the enabling environment clearly exists on paper. Kuwait therefore, recognises its development challenges and has identified the solutions. However, through exploring the barriers to reform with senior stakeholders, it remains questionable as to whether Kuwait will be able to successfully implement Vision 2035 within its ambitious timeframe. More importantly, it needs to be questioned as to whether the country has the 'buy-in' needed from the private sector and national citizenry to redraw its political economy over the 21st century.[124]

To implement the reforms promulgated by Vision 2035 would require deep-rooted structural adjustments across the political economy leading to the dismantling of the ruling bargain that has underpinned the social contract for the last five decades. Although the proposed transformation strategies are widely recognised as crucial, key actors essentially oppose the reform efforts. For example, the private sector continues to undertake rent-seeking activities and adopt dubious practices to protect its socio-economic interests, while the Kuwaiti rentier citizen still expects lifelong public sector employment as part of their social contract. The National Assembly reinforces the rent-seeking behaviour of the private sector and national citizenry, because as it seeks to maintain the status quo surrounding the distributive mode of governance, it has opposed economic reform policies that would assist Kuwait in transforming towards a post-oil dependent political economy. As rentierism is still a fundamental dynamic, the politico-economic environment of Kuwait is not conducive or favourable to the widescale strategies broadcasted by Vision 2035.

In the case of Kuwait, it is important to also question the feasibility of the most recent Vision 2035, especially given the fact that the previous transformation plan failed to gain any policy traction and was sidelined due to the subsequent oil boom. This not only exemplifies the country's reputation and history of start-stop reform efforts, but also brings into question the government's genuine intent to implement the reforms promulgated by the agenda. After all, if the country does succeed in empowering the private sector, the political-economic power shift would transform the role of the public sector and subsequently, that of the ruling elite. Such strategies, therefore, are not only contradictory to the interest of the private sector and national citizenry, but also to that of the political elite.

Moreover, if the strategies were implemented, what would the potential reaction of the private sector and national citizenry be? Through exploring this issue with participants, it was evident that despite support for the Vision, it is too much of a top-down process with little engagement from both the private sector and society. As a result, this has led some actors to oppose and disengage with the reform efforts. Others see it as grandiose project with limited tangible results on the ground, which stifles genuine private sector growth.[125]

University Press, 2010).

[124] Interview, private sector official, 27 September 2018.

[125] Interview, private sector official, 24 September 2018.

As the Vision is attempting to alter the socio-economic role of the national citizenry, it is pertinent that the ruling elite reflect upon these new dynamics between state and society. As this new development agenda is in effect attempting to rewrite the social contract, it is expected that the national citizenry will seek greater representation and engagement in the policy-making domain.[126] Although Vision 2035 advocates that the public administration will undergo reforms to ensure that they are representative of and responsive to the national citizenry, it was raised that underpinning this agenda was the attempt of the ruling elite to reduce the likelihood of opposition from society, who are increasingly discontented with how the country is run.[127]

Through exploring the challenges to diversification, it is clear that different stakeholders in Kuwait continue to compete for oil wealth and will not actively support each other in the diversification efforts envisaged by Vision 2035. Therefore, as noted by a key stakeholder, 'Vision 2035 should be viewed as a symbolic strategy that represents the aspirations of what the ruling elite want Kuwait to transform into over the coming decades instead of a strategy with a concrete deadline.'[128]

Eventually, however, the ruling elite, private sector and society will be confronted with the dilemma that Kuwait will no longer be able to sustain its current fiscal policies and distributive politics in an era of constant extreme oil price volatility. Therefore, the government will need to pursue a comprehensive strategy comprised of both short-term and long-term initiatives that lay the foundation for the deep-rooted structural changes needed to build a new Kuwait.

[126] Interview, representative of large private sector company, 25 September 2018.
[127] Interview, directors and consultants for large government authority, 26 September 2018.
[128] Interview, government official, 23 September 2018.

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