



Kuwaiti National Petroleum Company (KNPC) CEO Mohammad al-Mutairi (C) and the president of Hyundai Engineering and construction (HDEC) Jung Soo-Hyun (C) during the al-Zour refinery signing ceremony on 13 October 2015 at KNPC's headquarters.

## Business Politics and Private Sector Developments in Kuwait *by Anastasia Nosova*

**C**onventional wisdom suggests that when it comes to the business community's engagement in Kuwait's politics, there is a post-oil unwritten pact, or "gentlemen's agreement," that has carved out separate spheres of influence. According to this theory, the ruling family handles all political matters and merchants handle all business ones—non-interference is expected in each other's respective domains.<sup>1</sup> Even academic literature on the history of ruler-merchant relations in Kuwait has asserted that the country's parliamentary body was used long ago by the ruling powers to disarm the rise of a potential merchant opposition. In turn, merchants are said to have generally abandoned formal politics in exchange for state-distributed wealth and business opportunities.<sup>2</sup>

But even a cursory look at Kuwait's political history shows that this narrative is largely unfounded. While there is a great variation in the patterns of political participation among Kuwait's merchant families, some families have been continuously active in parliamentary politics since the National Assembly was first established in 1963. Furthermore, the fact that businesses are able to directly engage in the political process has a tangible effect on economic policy-making.

### A history of state-business cooperation

The most rewarding form of political engagement for Kuwait's business community includes direct participation in parliamentary elections and the appointment of ministerial and advisory positions, such as in *al-Diwan al-Amiri* (the government headquarters). This gives individual businesses direct access to the major political and economic decision-making fields. The more government-de-

The most rewarding form of political engagement for Kuwait's business community includes direct participation in parliamentary elections and the appointment of ministerial and advisory positions.

pendent the business sector is, the more is at stake for merchants to ensure that they have first-hand access to the commercial opportunities distributed by the state. Indeed, the al-Ghanim, al-Khorafi, al-Saqr and al-Roumi families have long had the most consistent political presence, and they are predominantly involved in sectors like construction, engineering and oil and gas.<sup>3</sup> The need to secure government contracts and tenders requires these families to maintain a consistent presence in the political arena.

The ability of merchants to advance their economic goals and protect their business opportunities via the legislative and policy-making levels has been particularly evident during the previous parliament's term (2013-2016). Before then, Kuwait went through a period of turbulence between 2008 and 2012, with several consecutive assemblies being dominated by populist and Islamist opposition groups that were hostile to the business community. The opposition saw the country's business elite as part of the corrupt ruling circle, receiving a disproportionately large share of oil wealth and business opportunities while depleting public funds. Some of the previous parliament's measures were therefore deliberately antagonistic toward merchant interests.

### Challenging the business elite

In 2008, the National Assembly passed the Build-Operate-Transfer (BOT) law, which was supposed to regulate the relationship between the public and private sectors and enhance the latter's participation in development and infrastructure projects. Yet in practice, the law was viewed by merchants to be deliberately designed to harm their interests.<sup>4</sup> In the end, not a single BOT project was launched until the law was amended. The 2008 parliament also attacked (via corruption allegations) two big petrochemical projects—the Zour oil refinery and the planned K-Dow joint venture with Dow Chemical. The K-Dow venture was later cancelled and the Zour oil refinery was delayed. Both were heavy blows to Kuwait's business sector and the country's image as a place open to foreign investors.<sup>5</sup>

One of the most contentious issues in Kuwait has been privatization. Opponents say that instead of reaching its genuine aim of benefiting the population at large, privatization would enrich the existing monopolist and well-established business elite. Another concern is related to the fate of national employees working in government entities that would be privatized. Due to these concerns, parliament passed the Privatization Law (No. 37/2010), which, despite being long-awaited, was deemed by the private sector to be too restrictive. Following the law, any privatization initiative has to be carried out through the creation of a shareholding company, in which the government retains a majority "golden share" and the business is subject to regulatory scrutiny and price control. The law also prioritizes the rights and benefits of national employees—a private investor is prohibited from laying off people or reducing wages and benefits during a

## II. Analysis

---

fixed number of years after privatization.<sup>6</sup> The legislative restrictions have made privatization less attractive for the private sector, and the business community has been continuously voicing its dissatisfaction with the law for years.

### **Businesses mobilize in response**

The growing encroachments on business activities in Kuwait were one of the main reasons that merchants mobilized politically. The July 2013 election was a turning point, with the opposition fractured and the merchant-backed groups and individuals returning to the formal political scene as strong government backers. Such a shift toward business activism was immediately reflected in reversing the trajectory of Kuwait's 2008-2012 economic policies.

Facilitated by the National Assembly, which was now dominated by merchant interests and headed by a representative of an old merchant family (Marzouq al-Ghanim), the government was able to drastically expand its capital spending. Kuwait launched a record number of infrastructural and development projects compared to prior years. While the previous 2010-2014 Development Plan saw only 57 percent implementation, most of this occurred in 2014 alone.<sup>7</sup> In addition, parliament approved in February 2015 a new 2015-2020 Development Plan for KD 34.15 billion. This plan calls for ramping up infrastructural projects, enhancing public-private partnerships and increasing the private sector's share in the economy from 26.4 to 41.9 percent by 2020.<sup>8</sup>

Even projects that had been stalled by the previous assemblies were now revived and re-awarded—including the contentious Zour refinery. By the end of August 2014, the government had awarded more than KD six billion worth of contracts, which was twice as much as during the whole of the previous year.<sup>9</sup> This increased capital spending inevitably found its way to the established business community in the form of state contracts and business opportunities.

The 2013 assembly also managed to reverse and amend certain legislative provisions in order to benefit business interests. The contentious 2008 BOT law was amended in June 2014, and its current iteration is much more business friendly. As well, in 2013 parliament approved an amendment to the housing law permitting the private sector to participate in developing housing projects on state-owned lands. The government has subsequently announced that it would launch several housing projects (al-Mutla', al-Subiya and Sabah al-Ahmad residential cities), which would be carried out by private sector firms.

### **The opposition strikes back**

The merchant-dominated parliament also strove to amend the 2008 privatization law and pursue broad-scale privatization across various sectors, including the postal services, Kuwait Stock Exchange, Cooperative Societies, sports clubs, the downstream oil sector and the Ministry of Electricity and Water. While the new law was supposed to be laid out before the end of the 2013 parliament's term, the premature dissolution of the National Assembly in October 2016 and the return of opposition MPs to the House after the elections in November 2016 stalled these efforts.<sup>10</sup> The latest parliament has yet again created obstacles for merchants trying to ensure the passage of business-friendly legislation.

The changing trajectories of economic policies over the past four years in Kuwait illustrates the impact

that the merchants' political involvement can have on policy-making. Under the pretext of developing, diversifying and empowering the private sector, the merchant-aligned MPs' political stance was to encourage the government to reverse the "damage" done by previous assemblies and ensure that the business elite's interests were protected. This further reveals the clash of economic and political interests in Kuwait. Over time, opposition groups gradually returning to parliament will magnify the schism between the old merchant elites and the "want to be rich" new entrants who are socially disconnected from the traditional establishment.

*Dr. Anastasia Nosova completed her PhD in LSE on Kuwait's business elite and parliamentary politics and is currently working at FTI Consulting, London.*

---

<sup>1</sup> Based on an interview in Kuwait during April 2015.

<sup>2</sup> Crystal, Jill. *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*. Cambridge: Cambridge University Press, 1995.

<sup>3</sup> Based on Michael Herb's and Georgia State University's Kuwait Politics Database. See: <http://www.kuwaitpolitics.org/>.

<sup>4</sup> Interview with a member of an old merchant family in Kuwait in October 2014.

<sup>5</sup> Kinninmont, Jane. "Kuwait's parliament: an experiment in semi-democracy." Chatham House briefing paper, London, August 2012. [https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Middle%20East/0812bp\\_kinninmont.pdf](https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Middle%20East/0812bp_kinninmont.pdf).

<sup>6</sup> "New Kuwaiti privatisation law under the microscope." DLA Piper, Kuwait City, 2010. [http://information.dla.com/information/published/Kuwait\\_Privatization\\_Law\\_English.PDF](http://information.dla.com/information/published/Kuwait_Privatization_Law_English.PDF).

<sup>7</sup> "Kuwait Lays Out Project Agenda With State Development Plan." Oxfordbusinessgroup.com. Accessed in 2015. <https://www.oxfordbusinessgroup.com/analysis/setting-wheel-motion-new-development-plan-lays-out-ambitious-project-agenda>.

<sup>8</sup> "MPs pass five-year development plan." Kuwaittimes.net. Last modified February 11, 2015. <http://news.kuwaittimes.net/mps-pass-five-year-development-plan/>.

<sup>9</sup> "Kuwait Year in Review 2014." Oxfordbusinessgroup.com. Last modified January 19, 2015. <http://www.oxfordbusinessgroup.com/news/kuwait-year-review-2014>.

<sup>10</sup> "Privatization bill ready in two weeks." Kuwaittimes.net. Last modified March 27, 2016. <http://news.kuwaittimes.net/website/privatization-bill-ready-two-weeks/>.