

Why Kuwait?

Summary

Area: 17,818 km²

Population: 4.4 million

Urban population: 98.4%

Population density: 227.4 people per km²

Population growth rate: 2.8% change

Capital city: Kuwait City

Official language: Arabic

Currency: Kuwaiti Dinar (KD)

Nominal GDP: US \$120.4 billion

Real annual GDP growth: -2.5%

GDP per capita: US \$27,318.5

Annual inflation rate: 1.5%

Unemployment rate: 1.1%

General government gross debt: 20.6% of GDP

Fiscal balance: 4.0% of GDP

Current account balance: 2.0% of GDP/US \$2.4 billion

Exports of goods to UK: £669 million

Imports of goods from UK: £528 million

[Source – mostly FCO Economics Unit, May 2018]

General overview

Kuwait, one of the world's smallest countries by land area, but one of the richest by GDP per capita, has a wealth of opportunities for UK companies to explore. Historically a major trading centre with the ports of India, East Africa and the Red Sea, Kuwait developed rapidly after the discovery of oil in 1937. A British Protectorate from 1899 until it gained independence in 1961, Kuwait enjoys a special and enduring relationship with the UK. It has plans to develop under the National Development Plan and the oil wealth to implement major infrastructure projects.

Strategically situated at the northwest corner of the Arabian (Persian) Gulf, the State of Kuwait is a small, stable and prosperous country in what is sometimes a difficult neighbourhood. With about 10% of the world's oil reserves, Kuwait was part of the OPEC deal in November 2017 which cut oil production by 1.8 million barrels per day (bpd) following a sharp drop in oil prices. Kuwait's economy is built almost entirely on oil production and the revenue from the investment of its oil profits overseas. This makes Kuwait a very wealthy country and allows the government to offer many benefits to its citizens, including generous provision for housing, education and healthcare. However, recent policies are now moving towards lifting subsidies off fuel, water and electricity.

Companies who invest in Kuwait benefit from 100% foreign ownership, ten-year tax breaks, and exemption from tax and custom duties on imports required for the purposes of direct investment.

The most recent sources put the population of Kuwait at 4.4 million, of which only around 1.5 million are Kuwaiti nationals, with large minorities of migrant workers from all over the globe; there is a current debate between parliament and cabinet on what they are calling a 'demographic imbalance'.

The British expatriate community numbers about 8,000. Kuwait is an important partner and longstanding friend to the UK. The Kuwaitis genuinely value the bilateral relationship – many consider the UK their second home.

[Source – FCO Overseas Business Risk/gov.uk/FCO Economics Unit, May 2018]

Geography

Strategically situated at the northwest corner of the Arabian (Persian) Gulf, the small State of Kuwait lies between latitudes 28° and 31° N, and longitudes 46° and 49° E and shares borders with Iraq and Saudi Arabia.

Virtually all of the country is low-lying, sandy desert – part of the Arabian Desert – with only 0.6% considered arable. There are nine islands, only one of which is inhabited, and the capital city of Kuwait City is located on Kuwait Bay, a natural deep-water harbour.

Kuwait can experience dramatic sandstorms in early summer, and some of the hottest temperatures on Earth, reaching over 50°C.



Government overview

Political situation

Kuwait's political system is a hybrid of hereditary monarchy and democracy. The Head of State is His Highness (HH) the Amir, Sheikh Sabah Al Ahmed Al Jaber Al Sabah. HH Sheikh Sabah Al Ahmed has been in power since 2006. The Amir appoints a Prime Minister, currently Sheikh Jaber Al Mubarak Al Sabah, who in turn appoints a cabinet.

Kuwait's fifty-member unicameral legislature, the National Assembly, is elected by universal suffrage (women gained the franchise in 2006 by Amiri Decree). The National Assembly has the power to propose laws, to interpolate ministers and even to remove them from office. However, Kuwait's parliament has been dissolved nine times in 40 years, five of them taking place between 2006-2016. The Amir reserves the right to dissolve the National Assembly and call for new elections, as long as he does not cite the same reason for doing so twice.

Tensions between the executive and the legislature have long been a feature of Kuwaiti politics; neither can effectively govern without reference to the other, but relations between the two have not always been smooth. However, 2013-16 was a period of relative co-operation and stability. Political parties have not been legalised in Kuwait, although informal political 'blocs' (liberal, Islamist, populist/tribal and Salafist) do exist.

Much of Kuwait's fast-moving and chaotic political scene has little impact on doing business in Kuwait. However, the frequent quarrelling (until 2013) between governments and/or parliaments acted to slow decisions and the passing of budgets. Political disputes can affect big-ticket contracts and commercial agreements. Political bickering also slowed the implementation of Kuwait's previous multi-billion Dollar National Development Plan, and although signs suggest cautious optimism – it is too early to tell how easily the National Development Plan, which commenced in April 2015, will progress.

The most recent parliamentary elections took place on 26th November 2016, with a high voter turnout of 70% following the return of previously boycotting groups and the hike of fuel prices in September. The previous two parliaments (elected in February 2012 and December 2012) were dissolved by Kuwait's constitutional court, with the third dissolved by Amiri decree. The Amir decreed a change in the electoral law, decreasing citizen votes from four votes to one, a move which was deemed by many to be aimed at undermining gains made by opposition (in particular Islamist and tribal) politicians during the previous elections and resulted in mass protests between 2012-2013. As a result opposition figures boycotted both subsequent elections, and returned in the November 2016 elections.

Islamists in particular remain under-represented. The current parliament is therefore both broadly based, with representation from most of the main groups, and currently with several opposition blocs. Opposition exists in Kuwait both within and outside of parliament, and some parliamentarians are looking to challenge the government at every opportunity. The history of political infighting, stagnation and multiple elections mean that many Kuwaitis are still cautious of hoping for parliament and government to co-operate.

[Source – FCO Overseas Business Risk/gov.uk]

Business and human rights

Kuwait has a long history of democratic institutions, a proud tradition of freedom of speech, an independent judiciary and a free press, although concerns have been raised by human rights NGOs (non-governmental organisations) in the past about Kuwait's record on labour rights (e.g. domestic workers), human trafficking, and its treatment of the Bidoon (stateless) minority. However, a recent Human Rights Watch report places Kuwait top for labour rights across the Gulf Cooperation Council (GCC).

Whilst Kuwaitis benefit from generous public subsidy (which in recent months has seen threats of dwindling because of falling oil prices), are unionised and have the right to strike, this right is not extended to expatriate workers – who comprise the majority of the labour force in Kuwait, but can only become non-voting union members after working for five years. The International Labour Organization (ILO) have publicly criticised Kuwait for this stance.

Kuwait's latest labour law, passed in 2010, limits the work week to 48 hours, provides for a minimum of 15 days of leave per year (21 days after five years of service), and establishes a compensation scheme for industrial accidents. This is not always enforced however, particularly for unskilled workers (primarily from the Indian Subcontinent).

Domestic workers (who are primarily from the Philippines and South Asia) are formally excluded from this law, and can face real problems. Trafficking of domestic workers is an issue (the US State Department lists Kuwait as a Tier 3 country of concern), and the oversight and regulation of the controversial sponsorship (Kefala) system is weak.

The government recently enacted a new law that is yet to be implemented but will bring sponsorship under public sector institutions rather than private individuals. The new law involves new benefits for the workers, including an annual holiday of at least 30 days, nine months after the start of the job contract and a free air ticket at the end of the contract. It is intended to regulate the relationship between the employer and the employee and guarantee all rights of both parties.

The law permits the worker to postpone annual holidays for two years to increase allotted days off, and forces the employers to pay end-of-service benefits without any delay. However, even with the new laws, embassies of these labour-exporting countries operate shelters for maids running away from abusive employers – thousands do so each year. Kuwait has now opened the first government-operated shelter for these vulnerable women, and is the largest in the Gulf.

Kuwait has a large minority of stateless Bidoon (c112,000). These individuals are broken into two categories: one who has evidence of being in Kuwait since 1965, but did not apply for citizenship at the time due to coming from tribal or illiterate backgrounds, and others who claim Kuwaiti citizenship but have no documentation to prove this; both have not been granted it by the authorities. They are banned from protesting, and struggle to access employment, healthcare and education. Concerns about their situation are frequently raised by a number of human rights NGOs.

NGOs have also raised concerns about Kuwait's record on freedom of expression. Whilst Kuwait has a strong culture of freedom and democracy, lèse majesté and blasphemy laws remain on the statute book. Recent years have seen prosecutions against both, in particular for comments made on social media, which can and has carried onerous jail terms.

On 14th January 2016, the Kuwaiti Government passed the electronic media law, a law that covers all forms of electronic media; including web-based news services, newspaper and television portals as well as commercial services. On the face of it, this seems like a relatively normal law which regulates the media landscape online in Kuwait. However, the law in itself is vague, leaving much room for misinterpretation.

Since the 26th June 2015 bombing of the Al-Sadiq Mosque, Kuwait has adopted several security measures. New laws requiring all Kuwaiti citizens and residents to provide DNA samples to the authorities have also been introduced, and Human Rights Watch has claimed that the laws violate the right to personal privacy and should be promptly amended. Kuwait's National Assembly introduced the requirement as part of a new counter-terrorism law on 1st July 2015, just days after the Al-Sadiq Mosque bombing. Kuwait is the only country to require nationwide compulsory DNA testing. In November 2016, the Amir gave instructions for this law to be revised, and it is currently under review.

The UK Government are aware of concerns of human rights groups regarding the implementation and implications of the new cyber-crimes and media laws but it is our early understanding that this legislation is focused on tackling those who seek to use the cyber environment for radicalisation and organised crime purposes. It remains to be seen whether the apparent ambiguity in the drafting of this legislation, which effectively puts in place a licensing regime for official/commercial websites, will also be used to erode freedom of speech.

Whilst Kuwaitis are no strangers to censorship of books and film on moral and religious grounds, Kuwait currently enjoys the most-free press in the Arab World (as recognised by Freedom House). The UK Government continue to monitor the implementation of media laws designed to regulate official websites and to tackle the extremist narrative.

[Source – FCO Overseas Business Risk/gov.uk]

Economic overview

In relative terms, Kuwait remained well protected from the global economic crisis. The conservative investment policies it has pursued since the 1990 invasion have protected it from major losses, as has the Sovereign Wealth Fund's diverse investment portfolio. In the short-term Kuwait's economic outlook is a little less rosy, with its first budget deficit in 15 years due to a significant and sustained fall in the price of oil. Kuwait's economic development since liberation in 1991 has lagged behind others in the region

making it harder for it to regain its position as a regional financial, business and transport centre within the GCC.

Despite its strong macroeconomic indicators, Kuwait still faces challenges to improve its infrastructure, implement social welfare reform and diversify its economic base. Over 90% of Kuwait's revenue is generated by the state-owned oil sector, and the private sector is largely dependent on government spending and expatriate labour. The state's dominant economic role has led to a large public sector (which employs about 90% of the Kuwaiti labour force), and contributed to a relatively weak business environment, numerous subsidies and a dependence on oil revenues and government expenditure. Oil export revenue will continue to account for the bulk of export earnings (around 91%) in 2015-19. The secondary income account will continue to show a large deficit, as outward remittances from Kuwait's many foreign workers remain high at KD5.4 billion.

The drop in oil prices has been a helpful impetus for change in Kuwait as government entities start focusing on economic reform. Officials have long been trying to address subsidy reform and high energy consumption, but faced parliamentary objection. Kuwait's large sovereign wealth fund, significant financial reserves, scope to borrow and negative net debt leaves Kuwait in a better position than its regional partners. There is a risk that cutting down spending now will have a detrimental impact on economic growth, but for the time being Kuwait is able to weather the storm. In September 2016, the cabinet implemented a decision to lift fuel subsidies and bring up the prices; this decision was made when parliament was not in session, leading to tensions and promises to question the cabinet until this ended with the dissolution of parliament, followed by the resignation of the cabinet.

In February 2015 the Kuwaiti Government approved a budget for the new five-year National Development Plan (NDP), with an estimated KD34.5 billion (US \$118 billion) of spending focusing on both oil and non-oil sectors. The plan will depend on both pillars of the Kuwaiti economy; i.e. government capital expenditure hand-in-hand with increased private sector participation. Furthermore, oil sector spending is expected to expand in the coming years.

Such development projects have the potential to spur and stimulate the country's national economy to include wider aspects like housing, education, health, airports and ports, in addition to oil and infrastructure projects. The targeted development projects are part of the state's drive to diversify national income sources, by means of promoting the private sector's investments and boosting the competitive edge of other sectors. It is hoped that the new plan will make more progress than its predecessors as pressure to complete much-needed infrastructure projects and ensure non-oil sector growth and diversification intensifies. The government has reaffirmed its commitment to deliver on development projects in spite of the oil price decline.

In addition to the five-year Kuwait Development Plan, Kuwait also developed what was dubbed the "New Kuwait 2035 Vision", which builds on the aforementioned plan. It aims to develop the country in five strategic goals: making it a financial hub, a leading

hydrocarbon exporter and petro-chemical manufacturer, a lucrative venue for foreign investments, a pivot for knowledge transfer in renewable energy and information technology, and an enticing cultural centre in the region by the year 2035.

164 development projects have been identified, and its associated objectives are centred around seven pillars: economy, infrastructure, public administration, living environment, healthcare, human capital, and Kuwait's global position. In respect to Kuwait's global position, they have successfully secured a seat on the UN Security Council for 2018-19, and took the GCC Presidency in January 2018.

UK consultants are involved in several areas of the development plans, and British companies are well placed to benefit. To support the NDP several key pieces of economic legislation have also now been passed, which require Kuwait's public enterprises to meet international governance standards, enable the privatisation process to start, and provide new support to SME development. The momentum is being maintained thanks to a series of reforms that have improved the operating environment for foreign private sector companies and streamlined bureaucratic procedures. These changes have included the suspension of an offset programme, changes to the investment promotion authority and an overhaul of public-private partnership processes.

As part of its efforts to boost the country's competitiveness and increase the private sector's participation in the economy, the Kuwaiti Government has initiated an ambitious Public-Private Partnership (PPP) programme, which promotes collaboration between the public and private sectors to develop quality infrastructure and services for Kuwaiti citizens. The comprehensive programme contains well-defined legislative, governance and executive frameworks to help ensure the success of Kuwait's PPP initiatives.

This has reinvigorated the rebranded Kuwait Authority for Private Partnerships (KAPP), as evidenced in the number of projects it is now actively tendering. KAPP is currently in the process of initiating several high-impact projects in the power, water/wastewater, education, health, transportation, communications, real estate and solid waste management sectors, which were identified as key sectors for increasing economic diversification and private sector participation in Kuwait.

KAPP selects projects that advance Kuwait's key development goals. These include expanding private sector employment, improving the investment climate and competitiveness, diversifying the economy and improving government service provision. KAPP is committed to supporting the delivery of quality infrastructure and public services through partnerships between the Kuwaiti Government and private investors.

In March 2015 the Kuwaiti Government issued new executive by-laws for public-private partnerships, essentially kick-starting the long-awaited PPP scheme. Under the new

by-laws KAPP will have more autonomy and authority. KAPP will be implementing public-private projects worth KD8 billion (US \$27 billion) in line with the country's NDP.

[Source – FCO Overseas Business Risk/gov.uk]

The Gulf Region

The Gulf Region has enjoyed continued growth. This has been driven by rising public sector spending, especially on physical and social infrastructure, as well as buoyant private sector activity.

Kuwait's proximity to other Gulf markets acts as an entry route to other Gulf Cooperation Council (GCC) countries. See: <http://www.gcc-sg.org/en-us/Pages/default.aspx> for more information on the GCC.

Free trade agreements (FTAs)

Kuwait is a member of the World Trade Organization (WTO). A European Union (EU)-GCC Cooperation Agreement was signed in 1988 – see: http://trade.ec.europa.eu/doclib/docs/2008/september/tradoc_140300.pdf. However, negotiations for a full free trade agreement between the EU and the six countries of the GCC were suspended by the GCC in 2008.

The GCC currently only has a few free trade agreements in place, including those with the Greater Arab Free Trade Area (GAFTA), the European Free Trade Area (EFTA) and Singapore. Discussions are continuing with several other countries such as India and the European Union (EU) once again.

You can find details of Kuwait's agreements on the Kuwait Chamber of Commerce & Industry website at: http://www.kuwaitchamber.org.kw/echamber/website/index.jsp?pageID=ws_cmsmenu.jsp&fromPublic=yes&language=en&rootMenu=152&menuID=152.

A UK-Kuwait Memorandum of Understanding (MoU) on co-operation in healthcare was signed in 2014: (<https://www.gov.uk/government/news/uk-and-kuwait-agree-closer-cooperation-on-health>). An MoU was also signed in 2010 to enhance co-operation and co-ordination in the field of security: (<https://www.gov.uk/government/news/uk-and-kuwait-sign-security-deal>).

[Source – DIT/gov.uk]

UK and Kuwait trade

The British expatriate community numbers about 8,000. Kuwait is an important partner and longstanding friend to the UK. The Kuwaitis genuinely value the bilateral relationship – many consider the UK their second home.

Over 100 UK companies, franchises and companies with agents are already operating in Kuwait. Examples include Shell, BP, PwC, Harvey Nichols, Boots, Amec, Atkins, Coffee Republic, Mulberry, Grant Thornton, Dundee University, Pitman Training, and Waitrose.

Main UK goods exports to Kuwait include:

- vehicles
- boilers, machinery and mechanical appliances
- electrical machinery
- pharmaceutical products
- optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus
- clothing
- natural or cultured pearls, precious or semi-precious stones, precious metals
- books, newspapers, pictures
- plastics and plastic products
- cereals, flour, starch or milk; pastry cooks' products

The export of services is a growing area, particularly in consultancy and financial services transactions.

Kuwait is one of the single largest investors in the UK with around £100 billion of official funds invested through the City of London.

Incentives for UK businesses

Incentives for UK businesses exporting to Kuwait include:

- no taxation on personal income
- growing diversification within the Kuwaiti economy

- earmarked government investment of £71 billion on infrastructure projects
- Public-Private Partnership (PPP) approach for infrastructure projects
- English widely spoken

Strengths of the market

Strengths of the Kuwaiti market include:

- free trade zone
- stable regime
- strategic location in close proximity to other Gulf markets
- Kuwaiti Dinar is the highest-valued currency unit in the world
- friendly living environment for foreigners
- more than half of Kuwait nationals are under 25
- moderate business costs

[Source – DIT/FCO Overseas Business Risk/gov.uk]

Kuwait's competitiveness and transparency

- Kuwait ranks 96th (out of 190 countries) in the World Bank's 2018 Ease of Doing Business Index. See: <http://www.doingbusiness.org/data/exploreeconomies/kuwait>
- Kuwait ranks 52nd out of 137 in the World Economic Forum's 2017-18 Global Competitiveness Index. See: <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=KWT>
- Kuwait was ranked 85th out of 180 countries in Transparency International's latest Corruption Perceptions Index (the UK ranked 8th): http://www.transparency.org/news/feature/corruption_perceptions_index_2017

Contact a DIT export adviser at: <https://www.gov.uk/world/organisations/department-for-international-trade-kuwait#contact-us> for a free consultation if you are interested in exporting to Kuwait.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. You can also check the current UKEF cover position for Kuwait. See: <https://www.gov.uk/guidance/country-cover-policy-and-indicators#kuwait>.

[Source – DIT/UKEF/gov.uk]

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