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Investing in Kuwait

Emirate is spending its way to a new direction

Bridge to the future: Sheikh Jaber Causeway set to be delivered on time and on budget

Infrastructure

Big projects are central to diversification, but must overcome delays and red tape, reports *Simeon Kerr*

Rising above the waters of the Bay of Kuwait, a towering yellow arch forms a new national landmark on the 36km Sheikh Jaber Causeway, before the bridge veers off to connect the capital to the north.

But the fourth-longest causeway in the world promises much more than cutting down the commute from Kuwait City to the sparsely populated regions bordering Iraq. The grand infrastructure project epitomises the wealthy Gulf state's commitment to forging a new future for itself.

For decades, Kuwait's 1.4m locals, whose country sits on the world's fourth-largest crude reserves, have benefited from generous state care.

Excess resources have been channelled into a nearly $600bn sovereign wealth fund, providing financial ballast for future generations.

The government hopes to push ahead with reforms to diversify an oil-dominated economy exposed to the vagaries of commodity markets as nationals call for better public services, creaking after years of under-investment.

Kuwait has pledged to partner with the business community, earmarking $100bn for infrastructure investment. It is opening up to foreign investors committed to creating jobs for Kuwaiti nationals, who make up only 21 per cent of workers in the private sector. "The coming generations understand that their future cannot be built in the same old way, and you will see more movement into the private sector," says Khalid Mahdi, Secretary-General of Kuwait's Supreme Council for Planning and Development.

Transforming Kuwait's labour force from government bureaucrats into entrepreneurs will not be easy.

Recent attempts to reduce subsidies and limit benefits of public sector employment have met with resistance from the local population, fanned by parliamentary opposition.

Red tape hampers business decision-making and project overruns are so common that local wags joke Kuwait is the only country in the world where it takes 18 months for a baby to be born.

The causeway, which is due for completion later this year on time and on budget, hopes to counter such caricatures.

"This is one of our biggest projects and provides solid proof that, although we have institutions with laws and a bureaucracy chasing routine approvals, we managed to finish at cost," says Ahmad al-Hassan, managing director of the Public Authority for Roads and Transportation, who has been overseeing the causeway's execution.

Rindala Beydoun, managing partner at Tribonian Law Advisors, says optimism surrounds the latest project plans and successful efforts to attract foreign investment, including from companies such as Huawei, the Chinese technology company, and GE, the global conglomerate.

But the Gulf state's history of stop-start reform and tardy project development sustains concerns about the its ability to push through legal changes to ease business procedures and open up the economy.

The International Monetary Fund identifies reform and project delays as major risks to the country's outlook, alongside lower oil prices and regional security challenges.

"Kuwait's quasi-democracy with a very active national assembly has many times paralysed the advancement of projects, which can be put on hold for years," says Ms Beydoun.

Planners are seeking to start afresh with a grandiose new development. "Kuwait is tied in a Gordian knot," said a Kuwaiti lawyer involved in drafting new legislation. "The people and parliamentarians are preventing any real chance for real change — so it makes sense to start over in the north, which will allow us to show the country what can be done if we take radical steps."

The coastal areas of northern Kuwait, including Boubiyan Island, mark the country's border with Iraq. There, the government has outlined a vision for a multibillion phased development of the 250 sq km Silk City & Islands Zone, including a major port, an airport, a nature reserve and tourism facilities.

Some scepticism surrounds the plan, one of several across the Gulf where ambitious leaders' mega-project proposals can come unstuck over financial or political hurdles.

Driven by the emir's son and defence minister, Sheikh Nasser Sabah Al-Sabah, the idea is rooted in the idea that it could potentially become a maritime terminus on China's Belt and Road Initiative, intended as a global transport network.

China and Kuwait signed bilateral agreements proposing investments in the Gulf state during Emir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah's visit to China in July.

One of Silk City's selling points is its proximity to Shia-led Iraq and Iran, with which the rest of the Sunni-dominated region has difficult relations.

> 'The people and parliamentarians are preventing any real chance of real change'

Kuwait, which is a close ally of the US and has mediated the Saudi-led embargo of neighbouring Qatar, sees an opportunity to parlay its neutral stance into that of a trusted trade partner.

"Kuwait during its history has always been a hub for geopolitical, economic and security reasons," said Mr Mahdi.

"We are a link between the maritime and the land, and this explains the interest in One Belt, One Road."

Long since eclipsed by the entrepot of Dubai, Kuwait is mulling a new legal structure for the economic zones near the Iraqi border, freeing the area from restrictive onshore laws.

"Geopolitically, there are some interesting opportunities that could be developed if the government liberalises the business and trade environment," said Tarek Sultan, chief executive of Kuwait-based logistics company Agility.

"There will be lots of openings if it [the government] comes up with an encouraging law for the new zone, and then thinks about getting the private sector to do more of what the government does."

Options include 100 per cent foreign ownership rules, relaxing labour laws and even breaking long-held taboos such as serving alcohol.

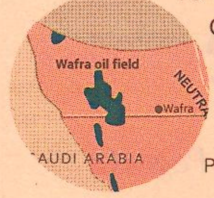
Such liberalisation would no doubt be controversial in Kuwait's conservative Islamic society.

A former government official now in the private sector fears the costs related to the project threaten the social contract through which the state provides a comfortable life for its citizens.

He also fears it will cede control to China, which is limbering up to fund the project. "This is going to cost a lot of money," he said. "The people have their doubts and see it is a money making scheme for the big families, which will corrupt the country."

Abu Abdullah, a retired engineer, shares widespread concerns about opening up the country. But he says attracting global partnerships trumps parochial prerogatives. "For the future security of Kuwait, we must set aside such concerns," he says.

Inside



Best bet for security as US loses interest is to bring in the oil majors

OPINION

Nick Butler

Kuwait is a rare success story — a haven of stability and prosperity in a turbulent region. Twenty eight years after the Iraqi invasion and the American-led response which restored independence, the country's living standards are among the highest in the world. Kuwait's oil industry, like its government, is professional and meritocratic. The rule of law applies and the sectarian conflicts which are threatening the region are muted or absent. But what comes next?

The global energy market is changing. The countries of Asia now depend on oil and gas from the Middle East not the US. Energy supplies are plentiful — prices may rise due to a confrontation between Washington and Tehran or the threat of a war between Saudi Arabia and Iran — but the value of oil is not driven by any shortage. The costs of solar and wind power are falling and will fall more as the production of solar panels and turbines is standardised.

We have yet to see the full potential of battery technologies which could transform the economics of energy supply and consumption. Nor have we seen the implications if climate change accelerates — in 2016, the mercury hit a high of 54C in Kuwait — and begins to threaten the interests of key communities.

> There is no such thing as total independence and security in an area as volatile as the Middle East

Where does Kuwait sit in all this? Too worldly and intelligent to deny any of these risks, Kuwait continues to take advantage of its strategic advantages of low-cost oil and good governance.

For many years the Kuwait Investment Authority, the state's sovereign wealth fund, has built up a strong portfolio of global investments. Avoiding the glamour projects pursued by the Qataris and some of the Emirates has been a good strategy. Why, after all, would Kuwait want to invest in Premiership football clubs or to host the World Cup?

Kuwait oil will be competitive as long as oil is used on the planet and even in the unlikely event of peak oil occurring soon — Kuwait's oil supplies are still much easier to access than many of its rival exporters. Some limited economic diversification has occurred but the latest announcements of an increase in production capacity suggest that Kuwait understands that the country's true competitive advantage lies in its oil resources.

On the latest plan, Kuwait will raise it production capacity from around 3 million barrels a day now to 4.75m b/d by 2040. If actual production rises in line with capacity from its current level of around 2.8m b/d Kuwait will be one of the largest producers and exporters in the world.

If all this sounds too good to be true, it is. The inescapable problem is that Kuwait is situated in the middle of a dangerous neighbourhood. The country's natural resources — over 100bn barrels of oil with lots more still be identified and developed — offer an open temptation.

Kuwait's longstanding association with the west and the fact it hosts a number of US bases has provoked terrorist attacks from al-Qaeda and other groups.

For the moment many of the potential aggressors are busy fighting each other elsewhere, but as Kuwait discovered in 1990, it cannot defend itself against a powerful and ruthless adversary. Even more concerning must be Washington's loss of interest in the region. The lesson to be drawn from US policy on Libya, Syria, Iraq and Yemen under the last two US administrations is that the US government and even more important the US public, are not ready to fight any more wars in the Middle East.

Europe is marginally more engaged diplomatically but it is hard to imagine current US and UK governments having the will to create a coalition to intervene in defence of Kuwait as they did after its invasion by Iraq in 1990.

China may buy oil from Kuwait but would be reluctant to follow the Russians and the US into the quagmire of the Middle East.

The only currency in which Kuwait can negotiate its own protection is oil.

That is why as the country expands its output, the strategic value of drawing in international companies increases.

If Exxon Mobil, Rosneft and PetroChina were to invest in Kuwait oil supplies, protection would not be guaranteed, but some of the would be attackers might think twice before taking on powerful international interests.

The idea of any sort of sell-off of Kuwaiti interests would be painful given Kuwait's history of nationalising its entire industry in the 1970s. Anything which smacked of "privatisation" would certainly face opposition in the Kuwaiti parliament.

Abandoned tank from first Gulf war is a reminder that Kuwait exists in a dangerous neighbourhood
Pascal Guyot/AFP/Getty Image

The events of 1990 were a sharp reminder that there is no such thing as total national independence and security in an area as volatile as the Middle East. The possession of wealth and huge resources is no guarantee of lasting security.

Kuwait can survive a rapidly changing energy market and even a sharp fall in oil prices. The country's real strategic problem remains the same as ever — location, location, location.

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