SPECIAL REPORT

Investin in Kuwait

Image © Foreign Affairs Magazine

Reforms face domestic opposition

Economic planning
Opinions differ on how to prepare for era of falling oil receipts, says *Simeon Kerr*

When Kuwait's ruling emir opened the parliamentary session last year, he urged lawmakers not to allow higher oil prices to hold back economic reforms needed "to protect future generations".

But changing the culture of entitlement is difficult for such a wealthy country.

Kuwait has the most open political system in the Gulf. The emir retains strong control, appointing a cabinet led by the ruling family. But the lively parliament frequently questions ministers and block legislation. In August, the government said that the Emir Sheikh Sabah Al Ahmad Al Sabah, 90, had suffered a minor health setback, reviving longer-term succession questions given that the crown prince is in his 80s.

In the wake of the 2014 oil price collapse, the government had introduced austerity proposals that sought to raise taxes, cut benefits and curb state spending. A recent improvement in state finances prompted by a recovery in the price of oil has made the argument for reform even harder.

Parliament, elected in 2016, has rejected and watered down many such proposals including cuts in subsidies for energy use. Its budgetary committee has also blocked the introduction of a sales tax, which all Gulf Cooperation Council states were supposed to introduce in 2018.

Parliamentarians have vigorously defended the demands of 1.4m Kuwaiti citizens, who are heavily outnumbered by more than 3m foreign workers and accustomed to generous state benefits and plentiful jobs.

Kuwait can balance its budget with an oil price of $48 a barrel, the lowest so-called break-even price among Middle Eastern oil exporters. "But now is exactly the time for reforms," says one diplomat in Kuwait. The IMF has also called on the government to speed up reforms "from a position of strength".

A big priority for the IMF is trimming the public sector wage bill by encouraging nationals into jobs not supported by the state. The IMF says the private sector will have to absorb the 99,000 Kuwaitis — equivalent to a fifth of the current Kuwaiti labour force — expected to enter the job market in the next five years.

> Parliament has watered down many proposals to raise taxes, cut benefits and curb state spending

Attracting foreign investment has been identified as a key means of reducing dependence on oil exports. "The government and parliament are increasingly collaborating to diversify the economy for future sustainability," says Sheikh Meshaal Jaber Al-Sabah, director-general of the Kuwait Direct Investment Promotion Authority (KDIPA). "Capital is not the main issue, but we are aiming to attract new technology and innovation that create job opportunities and add value to the economy."

To do so, KDIPA offers incentives such as tax holidays and the ability to exert full ownership and control of businesses by foreign investors. Restrictions on ownership remain in a few sectors, including natural resources and security.

Most foreign investment is in the technology sector, says Sheikh Meshaal. Other areas of interest include oil and gas, renewable energy, training and construction. Since taking applications for business incorporations in 2015, the authority says it has attracted more than $3bn of investment.

The overall foreign direct investment (FDI) inward flows into Kuwait are even higher, when taking account of investors who opt for taking a minority stake with a local partner, he adds.

UN statistics on FDI into Kuwait paint a different picture, putting the value at $1.4bn between 2015 and 2018. But Sheikh Meshaal argues that these figures do not accurately reflect true levels of inward investment. KDIPA is working with the country's central bank to provide broader coverage of data reporting in the national accounts, he says.

Diplomats representing inward investors laud KDIPA's efforts as an interlocutor with foreign investors by helping to ease regulations and boosting legislative protection in areas such as intellectual property rights. But they also urge more work to deliver open, more understandable

Local bourse set for boost from index upgrade and oil sell-offs

Market movers: traders at Boursa Kuwait — Yasser Al-Zayyat/AFP/Getty

Financial markets

Boursa Kuwait takes inspiration from planned Aramco IPO, says *Chloe Cornish*

Kuwait's stock exchange is encouraging state-owned oil companies to offer shares on the public market, a move aimed to open the country's main economic sector — the oil and gas industry — to private investment.

The composition of the domestic stock market, Boursa Kuwait, does not currently reflect the central role of oil and gas in the state's economy, which makes it less attractive for investors.

Of Boursa Kuwait's 176 listed companies, nearly three-quarters of their weight as measured by market capitalisation are accounted for by banks, which contributed just 7.3 per cent of GDP last year, says Raghu Mandagolathur, research head at Markaz, a Kuwait-based asset manager. While nearly half of Kuwait's GDP came from oil and gas companies, they account for less than 1 per cent of the local stock exchange's market cap.

"We see a large disconnect between the true composition of the economy and the stock market dominance," says Mr Mandagolathur.

Developing a strong stock market that better reflects the value of the underlying economy could help deepen Kuwait's pool of investors, including foreign fund flows.

There is a "very low to non-existent correlation between oil price performance and market performance," according to Boursa Kuwait. But, as part of a state-backed five-year plan, the exchange says it is working on "increasing exposure to Kuwait's main economic driver in the public market, by listing government-owned oil companies in the market".

When oil prices were high, offering state oil assets to private investors might have seemed bad business.

But strains on public finances caused by oil price turbulence and the lead taken by Saudi Arabia in slating a partial sell-off of its state oil company Saudi Aramco has changed attitudes, says Mr Mandagolathur.

Any successful flotation of Saudi Aramco would establish it as the world's most valuable company by market capitalisation.

Now, other GCC countries are consider offering stakes in their owned state-owned enterprises to relieve pressure on state cash flows. Kuwait Petroleum Corporation, a holding group for a range of national oil businesses, has a stated aim of enhancing "private sector contribution" in its activities and investments as part of its overall strategy.

Ambitions to expand the role of private investment in country's oil sector coincide with Kuwait's upgrade from frontier to coveted emerging market status by indices provider MSCI. Officials hope the planned promotion will attract greater institutional investment to its stock exchange. This reclassification of Kuwait as an emerging market could see the country's stock market lure an additional $2.8bn in passive investment flows, according to one estimate.

> 'If requirements are met, passive fund inflows of about $3bn would enter the stock market'

Boursa Kuwait has recently been the GCC's best performer among its local peers, according to PwC. Total returns so far this year are 20 per cent, according to the consultancy. The market's biggest names include National Bank of Kuwait and logistics business Agility.

The bourse says an increase in foreign investment was already noticeable before MSCI announced the reclassification plan in June.

Fellow indices provider FTSE Russell had already promoted Kuwait to a secondary emerging market classification, while a loosening of Kuwait's rules covering foreign ownership of national banks also helped encourage flows. If technical requirements are met, Kuwait will take up 0.3 per cent of the MSCI's emerging market index in June 2020, joining Gulf neighbours Saudi Arabia, Qatar and the United Arab Emirates on the list. MSCI's emerging markets index is tracked by about $1.9tn in investment funds globally.

Both investors and companies are set to benefit, argues Mr Mandagolathur. "In the short-term, passive fund inflows to the tune of approximately $3bn would enter the Kuwait bourse which could push the markets higher," he says. "In the long-term, equity risk premium for Kuwait market would reduce and it shall help companies raise capital at lower rates."

Increased scrutiny from international investors is also expected to help improve the corporate governance of local companies, he adds.

The boost to markets created by passive investing could prompt other investors to consider other Kuwaiti assets including private equity, says Ali Al-Salim, a Kuwaiti investor and co-founder of Arkan Partners consulting firm.

Boursa Kuwait t is one of the region's oldest exchanges, opening in 1977, although it has been through several name changes. In recent years it has made significant upgrades to its infrastructure and workings, including the introduction of short selling, security lending and borrowing.

"A lot of what they've been doing is catching up to where they should have been 10 years ago," says Mr Al-Salim.

Up for debate: Kuwait's national assembly in session
Yasser Al-Zayyat/AFP/Getty Images

tendering processes for foreign companies.

"Maximum transparency is needed," said one diplomat. "Big investment in infrastructure needs maximum transparency in the tendering process — some of them start and then are not completed, perhaps for a good reason, but the idea is to get a more expeditious tendering process."

Confusing documentation and arcane processes can act as a difficult hurdle for foreign-owned businesses, leaving large local merchant groups at an advantage. Many inward investors therefore continue to choose partnerships with Kuwaiti firms as the avenue for entry into the market.

The government's grandiose infrastructural spending plans, alongside wide-ranging investment in energy, healthcare and education, feed into the country's long-term development vision, New Kuwait 2035.

The finance ministry says $60bn has already been ploughed into the economy as part of the reform plan, with another $100bn set to be deployed through 2035.

Overall, there are $429bn in planned projects in Kuwait, out of which $239bn in contracts are under construction, according to ProTenders, a Middle East construction market research company.

Mubarak al-Kabeer port is the centrepiece of the country's development plans. Located on Bubiyan Island near Kuwait's northern border with Iraq, the Northern Gulf Gateway project — also known as Silk City — is planned as a free-trade zone.

Backed by China, it is designed to attract a range of high-tech industries and tourism and create between 200,000 and 400,000 new jobs.

The government has positioned the project as a means to prepare Kuwait for an era of declining oil revenues. For a country still scarred by the experience of the Iraqi invasion and occupation of 1990-1991, securing foreign support for expanded trade facilities is also seen as a way to ensure Kuwait's long-term security.

The government intends to share a draft law with parliament shortly, setting out a framework for these northern projects.

A separate administrative and legal status for the free zone would allow modern arbitration and foreign ownership of companies, according to one person involved in promoting the law.

Parliament, however, has already raised objections to early drafts, with lawmakers complaining that the proposals would remove its oversight. Some are also concerned that the tourism plans could allow for alcohol sales in a conservative society, which — like Saudi Arabia — bans it.

Opposition to the northern project is symptomatic of the troublesome relationship between parliament and government. Critics have long said parliament has held Kuwaiti development back by preventing reforms. But its defenders say lawmakers can act as an important brake on the government and ruling family promoting change at a faster pace than Kuwaiti society can handle.

Some in the private sector fear the influx of foreign investors will eat into their business. Others believe the project to be a white elephant that will waste resources that could be better channelled elsewhere.

"I am for it, but it must be clear for everyone to see — what is our benefit — $450bn to be invested in the desert for what?" says one senior Kuwaiti businessman.

"They could put 10 per cent of that into our economy and we would become like Singapore."

Balancing act: Kuwait's foreign minister Sheikh Sabah Al Khaled Al Sabah (left) and Saudi Arabia's crown prince Mohammed bin Salman (right) - Getty Images and Reuters

Feuds test Kuwaiti diplomatic skills

Foreign relations

Strains between state's neighbours require 'balancing act', reports *Simeon Kerr*

When Saudi Arabia's crown prince cut his visit to Kuwait last September to just a few hours, observers in the small oil-rich state were aghast at the break in diplomatic protocol.

Prince Mohammed bin Salman's perceived snub came after difficult talks over plans to reopen oilfields shared between the countries which have been closed since 2015, and differences over how best to approach geopolitical tensions in the region.

At the time Kuwait's foreign ministry, led by Sheikh Sabah Al Khaled Al Sabah, denied any snub had occurred and pointed to the close ties between Saudi Arabia and a country still scarred by the invasion and occupation by Saddam Hussein's Iraq almost three decades ago.

But the incident highlighted tensions between the two neighbours, both key allies of the US in a region grappling with the exacerbated risk of war and internal fissures over Islamism within the six members of the Gulf Cooperation Council (GCC).

The rise of new, young leaders in Saudi Arabia and the United Arab Emirates has led to this axis playing an outsized, muscular role in regional geopolitics. Seeking to minimise the role of different strains of political Islam in the region, they have launched a war against Iran-allied Shia Houthi rebels in Yemen and boycotted Qatar for alleged support for extremism and the pan-Arab Sunni Muslim Brotherhood.

"Kuwait lives in a tough neighbourhood — three more powerful and larger neighbours surround us [Iran, Iraq and Saudi Arabia]", says Abdullah al-Shayji, a professor of politics at Kuwait University. "It is a balancing act we have mastered and lived with."

Kuwait and Saudi Arabia had been in discussions over reopening the neutral zone shared between the two Gulf states, where both offshore and onshore operations ground to a halt in 2014 and 2015.

Executives and diplomats say progress is once again being made, arguing that it will ultimately be to the benefit of both Kuwait and Riyadh — while pleasing the US — to resolve problems surrounding the shared operations, which have cut around 500,000 barrels a day from global supplies.

Yet the deepest sore within the GCC, the Saudi-led embargo against Qatar, has caused further tensions with the kingdom.

One Kuwaiti minister has told colleagues that he was personally harangued on the phone by senior Saudi royals demanding that Kuwait join the boycott when it was launched by Saudi Arabia, the United Arab Emirates, Bahrain and Egypt against Qatar in June 2017.

The minister's response — that Saudi Arabia would need Kuwait to act as a mediator — came to pass: his country maintained its neutrality in the dispute and acted as a go-between for the feuding parties.

"Kuwait finds itself in a difficult position, as it has for the past two years been in a position of attempting to mediate the GCC rift among parties that do not seem ready to negotiate about ending the division," says Courtney Freer, a research fellow at the London School of Economics' Middle East Centre.

Ostensibly aimed at tackling Qatari support for Islamist extremism, a charge denied by Doha, the embargo has redrawn the regional political map. It has forced Qatar, in its isolation, to bind itself closer to allies such as Turkey and reopen trade routes to Iran, Saudi Arabia's main regional rival.

> 'Kuwait lives in a tough neighbourhood — three more powerful and larger neighbours surround us'

Many Kuwaitis, taking a view similar to many in Oman, have wondered whether the embargo is in fact an effort to bend the sovereign independence of other Gulf states under a new form of Saudi suzerainty.

In late 2018, Kuwait signed a defence co-operation pact with Turkey, broadening its military insurance beyond its longstanding ties to the US.

Kuwait's ruler Emir Sheikh Sabah Al Ahmad Al Sabah, a respected diplomat with decades of experience, has been viewed as well placed to manage the GCC spat. He successfully mediated a dispute over an alleged spy ring operated by the United Arab Emirates that was discovered in Oman in 2011. Later, he was the interlocutor between Qatar and its neighbours when the dispute with Doha first erupted in 2014 with the withdrawal of Arab ambassadors from the country.

However, a quick resolution to this dispute "seems unlikely", says Ms Freer, though Kuwait has managed to maintain its relations with both Riyadh and Doha through the crisis.

Internecine strife between Arab neighbours in the Gulf comes amid deepening tensions with Iran. This mirrors the growing US pressure on the Islamic republic after President Donald Trump's decision to withdraw from the 2015 deal restraining Iran's nuclear development signed by the former US administration.

Kuwait, like other Gulf states, has also become increasingly concerned about growing Iranian interference in the Arab world, especially conflicts in Yemen and Syria, as well as Tehran's nuclear ambitions.

"The fear in our region is real and there is a sinking reality that it is not a matter of if, but a matter of when, Iran becomes nuclear," says Prof Shayji. "Iran's behaviour is concerning, acting as a hegemonic power and spreading sectarianism which undermines the security of the region."

Yet around a third of Kuwaitis are also Shia, hailing from the same branch of Islam as most Iranians, and the leadership is more wary of the domestic consequences of any confrontation with Iran than some of its more hawkish neighbours, such as the Saudi Arabia, Bahrain and the UAE.

"Kuwait hopes to avoid any further escalation of the conflict with Iran," says Ms Freer, noting the country is keen to ease fears of interruptions to oil supplies shipped through the Gulf.

الوطني
NBK
The Bank You Know And Trust

بنك الكويت الوطني ش.م.ك
National Bank of Kuwait SAKP

Emirate plans for future after oil with mega-projects

Trade and wealth Diversification is slowed by politics and bureaucracy, reports *Chloe Cornish*

When rising tensions in the Gulf threatened the passage of tankers through the Strait of Hormuz, one state had particular reason to worry — Kuwait, whose entire 2m barrels of daily oil exports pass through the strategic waterway.

The return of such tensions again highlighted the need for Kuwait to wean itself off oil, which currently contributes 90 per cent of state revenues and about half its GDP.

Kuwait is trying to diversify its economy and cut back on its enormous welfare state. GDP has fallen from its peak of $174bn in 2013, standing down at $141bn last year, according to the World Bank.

Some progress has been made — its recent upgrade from frontier to emerging market by MSCI was an acknowledgment of Kuwait's reforms so far and its direction of travel. The IMF expects Kuwait's economic growth excluding the oil and gas sector to be about 3.5 per cent in 2020, while Opec cuts will have growth from oil output at a more modest 2.5 per cent.

But the nation's fractious political system, company monopolies and bureaucracy are slowing the process of diversifying Kuwait's economy away from oil, say entrepreneurs and investors.

"Today there is a growing sentiment that Kuwait has fallen behind in economic diversity and overall development," says Kristin Smith Diwan, senior resident scholar at the Arab Gulf States Institute in Washington. Kuwaiti oil is also becoming more difficult to access, according to John Cumming, a senior natural resources consultant at Accenture. "Historically they've had relatively easy production," he says. But there is a growing imperative to introduce enhanced oil recovery techniques to maximise output from fields that means "they [oil operators] need to upskill and change their game quite dramatically", he adds.

If oil prices fall again, Kuwait can draw on a big pot of savings, estimated at some $592bn.

But with about a quarter of its growing population aged under 17, it needs to create 400,000-600,000 new jobs for fresh labour market entrants over the coming 15 years, according to Dr Fahad al-Rashed, member of the Supreme Council for Planning and Development, quoted by the state news agency.

There are about twice as many expatriates as nationals in Kuwait. But efforts to reduce the number of foreigners could put a drag on companies that need skilled employees from overseas to help grow their business, research suggests. Fahad Al-Falah,

Contributors

Simeon Kerr
Gulf correspondent

Ahmed Al Omran
Saudi Arabia correspondent

Chloe Cornish
Middle East correspondent

Nick Butler
Energy commentator

Michael Kavanagh
Commissioning editor

Steven Bird
Designer

Esan Swan, Hannah Bishop
Picture editors

All editorial content in this report is produced by the FT. Our advertisers have no influence over or prior sight of the articles.

All FT Reports are available at: ft.com/reports

Follow us on Twitter @ftreports

Plentiful sun and wind but action on green energy fails to match best intentions

OPINION

Nick Butler

Across the Middle East the potential of renewable energy remains largely undeveloped. Yet the region has unlimited sunshine and in many areas great potential for the development of wind farms.

Kuwait has a formal target of producing 15 per cent of its electricity from renewable sources by 2030. But little has happened so far — only 0.13 per cent of electricity comes from renewables at present.

Across the six economies of Kuwait, Bahrain, Oman, Saudi Arabia, Qatar and the UAE that make up the Gulf Cooperation Council, less than one gigawatt of green power was produced last year according to data produced by the International Renewable Energy Association.

Many of these states have set out ambitious targets for renewable energy use despite the abundance of oil and gas supplies in the region.

The UAE and Abu Dhabi in particular are outpacing their neighbours with a series of projects in train, under the energetic leadership of the Mubadala investment fund. In Abu Dhabi, renewables are becoming an established element in the country's economic plans.

Saudi Arabia has repeatedly talked of a major move into renewables, but few of the promises and targets have so far been delivered.

Back in Kuwait, 1.5GW of solar power has been commissioned by the state-owned Kuwait National Petroleum Company to support its own operations, although the next major phase of solar development is not set to begin until 2026 and the national target set for 2030 seems unlikely to be met.

For now, then, Kuwait remains almost totally reliant on burning heavy fuel oil and a limited amount of natural gas for the bulk of its electricity supplies. The potential that undoubtedly exists is not matched by any economic imperative. The country's plans for renewable energy, such as they are, are centred on the work of the Kuwait Institute for Scientific Research and the prospective development of solar plants at the Shagaya Renewable Energy Park — an entity established in 2012.

Kuwait has exceptional sun potential and also good scope for exploiting wind power. There is a large gap, however, between what is possible and what is actually happening.

Around the world, the costs of producing solar power from large scale plants have fallen by 88 per cent over the past decade and continue to decline. Over the same period electricity demand in Kuwait has continued to grow. Consumption has increased by almost half in the past 10 years and, with a rising population, further steady growth can be expected over the next decade.

> The potential that undoubtedly exists is not matched by any economic imperative

The intermittent nature of renewable energy sources remains a problem. Local demand for electricity in the Gulf varies sharply on a seasonal basis and, until electrical power storage becomes commercially viable, a mix of supply sources will be necessary to deal with intermittency of supplies from planned renewable sources.

Even taking that into account, it is clear that solar power could supply the bulk of Kuwait's electricity at a very low cost and also help supply neighbouring countries.

But the normal economic calculations that apply to the power sector in most countries do not apply here. Kuwait holds the world's sixth largest volume of proven oil reserves of more than 100bn barrels with substantial undeveloped resources beyond that. With oil exports of about 2m barrels per day, and Kuwait ranked as one of the world's lowest cost producers, there is no pressing need to switch away from burning oil and imported gas.

A significant shift, therefore, remains no more than a tantalising possibility for now.

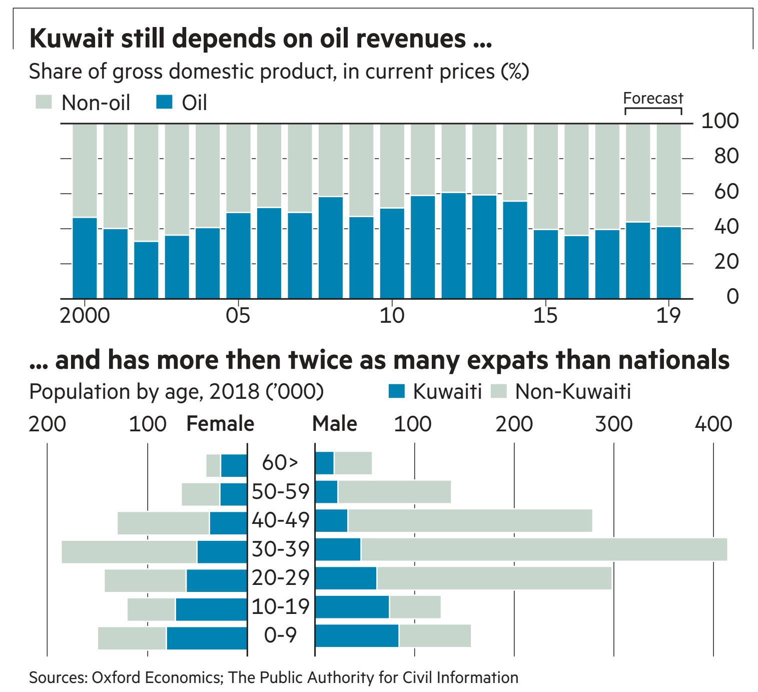
The GCC has long supported a scheme that would link its member states in building a common power grid. Such a grid could encourage the growth of renewable supplies across the region, by avoiding duplication and reducing the problem of intermittency by using pooled supplies.

Although some links have been established, the project remains embryonic and the power markets of the region remain predominantly limited by national boundaries and by the use of oil and gas as the main inputs.

Inertia is a powerful force and what is happening — or rather not happening — in Kuwait and other Gulf states is a reminder that, when it comes to delivery, the transition towards renewable energy will be much slower than is implied by public statements.

The writer is an energy commentator for the FT and chair of The Policy Institute at King's College London

Straitened times: oil tankers passing through the Gulf
Reuters/Hamad I Mohammed/File Photo



founder and managing partner of file storage firm MENAfile, said it was "pretty much impossible" to hire Kuwaitis to fill his business' frontline roles, such as warehouse staff and drivers.

Businesspeople also complain of costly bureaucratic hurdles, reflected in Kuwait's 97th place on the World Bank's 2019 Ease of Doing Business ranking, compared to the United Arab Emirates which ranks 11th.

To boost economic growth outside the oil sector, Kuwait is investing heavily in its Northern Gulf Gateway (NGG) project which is intended to attract up to $450bn in foreign investment. After nearly six years of construction costing nearly $3bn, Kuwait's Sheikh Jaber bridge, one of the world's longest, was opened this year *(see overleaf)*.

The causeway reaches from Kuwait City to the Subiya district close to the Iraq border, which is now largely empty but is planned alongside neighbouring Bubiyan Island as the site of this mega-project.

But previous development plans have often been held up by parliamentary wrangling. And, unlike its regional neighbours, Kuwait's parliament wields considerable powers. While this fosters greater civic participation and representation, it also means decision-making is slower.

"You don't have a 'one man, one rule' way of governing the country," says Ali Al-Salim, a Kuwaiti investor and partner at Arkan consulting firm. "So it faces this perpetual paralysis".

Meanwhile, a lower oil price environment has given Kuwait impetus to restrain its generous subsidies and welfare state, which experts say has dulled local entrepreneurialism and hindered economic diversification.

The perception of corruption within officialdom damages public trust and makes it more difficult to make the case for fiscal tightening, says Alanoud Alsharekh, a Kuwaiti activist and researcher.

But MENAfile's Mr Falah also says Kuwait's changing economic reality was pushing its youth to aim higher. "We're already done with the party time. Fossil fuels are on the decline, it's a dying industry," he says. "Some of the younger generation . . . are becoming more competitive".

Investors call for land and labour

Industrial growth

Constraints are compounded by competition from top-down neighbours, says *Ahmed Al Omran*

Bridge to the future: the causeway linking Kuwait's capital to Silk City, which is planned for development over 25 years — Yasser Al-Zayyat/AFP/Getty Images

As the temperature outside soars above 45C, more than 60,000 bottles of water an hour roll down a fully automated line in Aqua Gulf's dimly lit plant in the industrial area of Sabhan, near Kuwait City. From there, the bottles are wrapped in protective plastic and loaded on trucks as they make their way to replenish the thirst of clients, including a US army base.

The Gulf state of Kuwait has set ambitious targets for diversifying its oil-dependent economy as part of a reform plan called New Kuwait 2035. They include building an expanded manufacturing base with sectors such as food and logistics identified as potential areas of growth.

But a central weakness of the government's development programme is a lack of land for industrial projects.

"They haven't opened up the capacity or the availability of land in recent years to an extent that would be meaningful," says Mohammed Khajah, head of corporate development and investor relations at Mezzan Holding, owner of the water bottling factory. "They have been talking about opening up areas which are quite far from where the industrial hub is currently."

This constraint has been a big problem for Mezzan, a family-owned conglomerate that operates factories and warehouses for food and other consumer products across Kuwait. The company has been in business since the 1940s, but has struggled to acquire the land it needs despite its long history and extensive contacts.

"What you ask for you don't get, [the government's] response is very delayed, so you can't really budget or plan for the future due to that lack of visibility. You just hope for the best and see where you land," Mr Khajah says.

The government announced last October that it had allocated 700 more plots of land in two industrial zones in Shadadiya and Salmi with the aim of creating 2,000 jobs and attracting $2.7bn in investment. Describing them as "the largest in Kuwait's history", minister of commerce and industry Khalid al-Rodhan said the allocations, compared with the release of just 270 plots over the past 15 years, would help increase competition in the country and encourage new investors in the manufacturing sector. Some experts argue that the supply of industrial land is not the overwhelming problem facing manufacturing investors. Rather, it is rising costs due to subsidy cuts across the Gulf and restrictions on foreign labour.

Robert Mogielnicki, resident scholar at the Arab Gulf States Institute in Washington, says the problem of constrained demand due to restrictions on labour may prove to be "one of the biggest issues" as private sector firms setting up in the industrial sector try to remain competitive.

Members of Kuwait's parliament earlier this year called on the government to deport half the country's 3.3m foreign workers over the next five years.

"A large part of that has to do with cheap expatriate labour. That is the overwhelming competitive advantage for private sector firms, specifically those operating in low-skill manual sectors like manufacturing," says Mr Mogielnicki. "They are looking to maintain this unfettered access to this segment of the population."

Compounding the challenge for Kuwait is that its drive for industrial diversification coincides with similar efforts by neighbours including Saudi Arabia, which can attract more interest from investors thanks to the kingdom's larger area and population. Saudi Arabia and other oil-rich Gulf Cooperation Council countries can also allocate funds to projects more quickly because of their top-down political systems in contrast with Kuwait, where the elected parliament enjoys more power to hold the government accountable.

"Political wrangling between the government and the parliament is affecting the growth of the industrial sector," says Iman al-Salamah, manager of projects at the Industrial Bank of Kuwait (IBK).

Investors, though, have plenty of offers of subsidy and other encouragements for new projects.

The IBK, founded in 1973 as a partnership between the government and private sector, focuses on financing Kuwait's industrial sector with subsidised interest rates and friendly terms and conditions, including grace periods for payment. On average, IBK lends between $150m and $200m in loans per year to about 30 to 40 different clients.

Ms Salamah says Kuwait has the right ingredients to attract industrial investment even if questions remain over whether development targets set out in the New Kuwait 2035 scheme are realistic. "When will [Kuwait planners] reach their targets? I don't know," she says. "But I think they have the awareness that the industrial sector should be developed."

A central plank of Kuwait's diversification plan is the planned development of Silk City, a free economic zone and adjacent deep seaport that would be built in phases over 25 years. The project covers five islands and land near the northern border with Iraq.

A causeway costing nearly $3bn opened earlier this year to link the capital with the new zone. Kuwait announced in April that it had signed a memorandum of understanding with state-backed China Development Bank on the "development, construction and consultative co-operation" of the project as part of China's Belt and Road Initiative. However, concerns remain over Chinese commitment to the project, which Kuwait hopes could help create between 200,000 and 400,000 jobs, as well as over whether the government can pass the required legislation through parliament.

"Kuwait has one of the best recipes for market liberalisation and broad increase in economic freedom," says Marshall Stocker, director of country research at Eaton Vance, the asset manager.

Some businesspeople hope the Silk City project will see the government limit its direct role and allow the private sector to lead the way.

"You don't have to be making these large investments [but rather] we have to be enabling these opportunities through the legislative environment and through the laws we put in place," says Tarek Sultan, chief executive of Kuwaiti logistics company Agility. "No government can go as fast as a private sector that's clicking on all cylinders."

Cultural ambitions State seeks to restore its previous reputation as pioneer in the Gulf, says *Ahmed Al Omran*

Royals court an arts renaissance

A small room at Kuwaiti Writers Association was filling up slowly as one of the members fiddled with a laptop connected to a large screen on the wall. Taking their seats, a dozen people whispered in anticipation for the event that was not publicised: an intimate screening of a local short film from 1974.

The black-and-white film, entitled *Crosswords*, depicts the tension in the lives of a newlywed couple as the wife struggles to abide by the terms of an agreement she accepted before marriage to stay at home and not pursue a career.

Veteran actress Souad Abdullah, who played the wife's role, was in attendance and could not help but feel nostalgic. "There was no ceiling," she said afterwards. "Any social issue was debated freely."

Some young people rolled their eyes as they left the room at what they saw as an indulgent celebration of the past, but the sense of nostalgia is understandable.

Kuwait was a pioneering country in the fields of arts and culture in the Gulf, with a long tradition of patronage and education that goes back to the middle of the 20th century and which allowed the small country to enjoy an outsized influence.

But as governments in the United Arab Emirates and Qatar have invested heavily in building museums and promoting the arts in recent years, Kuwait feared it was being overshadowed by its neighbours and vowed to restore its position as a cultural hub for the region.

At the heart of this effort is the Kuwait National Cultural District, a multibillion-dollar project that includes the Middle East's largest opera house, museums, theatres and galleries located along the Gulf coast.

Built with the direct supervision of the country's royal court, the Amiri Diwan, the initiative has sparked hope among Kuwait's creative class but also raised some uneasy questions about its budget and execution. Faisal Khajah, operations director at KNCD's Sheikh Jaber Al-Ahmad Cultural Centre, acknowledges the strong pull of nostalgia but adds that "the past is the past, you can't bring it back."

That is why his next production is looking far into an imagined future and he has picked Ms Abdullah to play a role at the centre's upcoming major show, a play about the life of Kuwaitis on Mars in the year 2100.

The 68-year-old actress was sceptical but Mr Khajah tried to reassure her by promising to make changes to the script. "Give me one or two weeks and you will see we improved it much," he told her as they sat across the room from each other at the film screening.

Last season's highlights included *Memoirs of Sailor*, a musical that depicted the life of pearl divers from Kuwait past. The show, based on a radio series from 1962, sold out the main hall that has a capacity of 1,700 in four of its eight nights in theatre. Other successful shows from previous seasons were taken on the road and had performances in Saudi Arabia and Qatar.

One of the challenges facing him and other officials at the centre in Kuwait City is how to convince the younger generation that local productions can meet the taste of an audience that has access to the latest films and television series from Hollywood and streaming services like Netflix.

Staged events: a scene from the recent production of *Black & White* at the Sheikh Jaber Al-Ahmad Cultural Centre

'It's better to be on the safe side and ban this book, instead of putting yourself at risk'

"I want people to fall in love with our music and heritage. But I must offer it in a modern way to appeal to the new generation," Mr Khajah says. "We are building a new movement . . . Kuwait has what it takes: musicians, tolerance, legacy, creatives. But things need to grow organically and take its time to reach our ambition."

Achieving such cultural revival would also require creative risks at a time when censorship is increasingly becoming an obstacle, with conservative elements in Kuwait's powerful parliament pushing against what they view as the erosion of traditional values presented in arts and culture.

"Think of censorship is a pre-emptive action," says Abrar al-Shammari, a cultural consultant who recently graduated with a masters degree from Georgetown University in the US.

Her thesis focused on citizen-state contestation in Kuwait's creative cultural sphere.

"[Ministers] do these things to avoid repercussions from MPs. It's better to be on the safe side and ban this book anyway, instead of putting yourself at risk of being questioned by MPs because this book was too controversial," she says.

The KNCD project's direct link to the royal court meant that the project was built quickly and has allowed its staff some protection from parliamentary scrutiny over their work.

Those involved say this shows how Kuwait's ruler Sheikh Sabah is personally keen on restoring Kuwait's position of prestige on the cultural map.

But others wish there was as much attention paid to developing enough local talent to help run events across the project as there was to build the beautiful physical structure that gleams like jewels under the bright sun of summer.

"What is happening in the Gulf is that we bring expertise from outside which is a really good thing as we have the financial resources to do so. Other countries can't do that," says Manal al-Majed, co-founding director of Curating Cultures and a former official at Sheikh Abdullah Al Salem Cultural Centre, another part of KNCD.

Yet she goes on to rue the fact that "when this team leaves it leaves a big gap behind. You see a drop in programming and performance and we need to import another team of foreign experts."