Expanding role for private sector

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Kuwait's fiftieth anniversary celebrations have coincided with unrest in much of the Arab world. But Kuwait has been spared strife, thanks largely to its democracy and generous sharing out of its significant oil revenue. And while many in this tiny state of just three million, two thirds of whom are foreigners, are happy with a model that has worked for the last half century, there are voices calling for further change, and particularly for a speedier approach to diversification from oil, which makes up more than 90 per cent of Government revenue and contributes more than half of GDP.

The Amir is committed to reform, and is pushing to implement infrastructure projects and giving the private sector a greater role in driving the economy. External factors have largely shaped recent events in the country over the last decade. The overthrow of Saddam Hussein in neighboring Iraq sent oil prices soaring, boosted the stock market, and set off a property development boom that has attracted huge investments.

The global financial crisis pushed oil prices down sharply, but rising prices that have led to $120 a barrel for oil have swelled the Government's coffers again. The economy is set to grow by around 4 per cent this year, and will likely post 4.5 per cent in 2012.

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Kuwait has a 50-member Parliament, and there is a level of debate that is the envy of many countries in the Arab world. But with the approval by Kuwait's fractious Parliament of a five-year $140 billion plan, first mooted in late 2008, the country is now set on a new path to growth.

The plan explicitly seeks to diversify the economy away from oil and to increase the role of the private sector. It also aims to make Kuwait a regional trade and finance centre by 2014. These are not new goals, but there are signs that the government is taking a more proactive approach. In November of 2010, the Deputy Prime minister for economic affairs, Sheikh Ahmed Fahad al-Sabah, said that contracts for eight of the proposed 14 megaprojects had been signed. In mid-May of this year, a privatisation law was (narrowly) passed after only a couple of months of deliberation.

The healthcare, education and energy sectors have been excluded from privatisation, and the government is to retain a "golden share" in divested companies, safeguarding its ultimate right to veto corporate decisions. The country's first independent water and power project is progressing, and the government has pledged to privatise Kuwait Airways Corporation.

The five-year-plan is significant in that it is the first since 1986, and will depend on both pillars of the Kuwaiti economy, involving government capital expenditure hand in hand with increased private sector participation. The focus is on road and bridge projects, airport expansion, healthcare and port construction, and includes new projects such as the Kuwait City metro and railway, along with long-awaited schemes such as the Silk City Mega Project, Boubyan Port, and the Subiya causeway.

The private sector's participation will come through public private partnerships (PPPs), particularly in the areas of low-cost housing, expansion of existing hospitals, and the development of three new medical centers, as well as the development of Kuwait City University and Al-Salem University. The five-year plan also envisages several new towns on the outskirts of Kuwait City and the setting up of public-private healthcare partnerships to take over provision of healthcare to the expatriate population is a near-term target.

The ambitious nature of the plan reflects the Government's determination to kick-start further economic growth. The plan's success will in large part determine whether the country comes to be seen as a pioneer of reform. F