State Owned Enterprises: Kuwait

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State owned enterprises are a major importance throughout the world. State owned enterprises make up 10% of the world's largest enterprises in terms of market capitalization. For decades prior to the 1980s, governments around the world increased the scope and magnitude of their activities, taking on a variety of tasks that the private sector previously had performed. In the United States, the federal government built highways and dams, conducted research, increased its regulatory authority across an expanding horizon of activities, and gave money to state and local governments to support functions ranging from education to road building. In Western Europe and Latin America, governments nationalized companies, whole industries, banks, and health care systems, and in Eastern Europe, communist regimes strove to eliminate the private sector altogether.

The aim of this paper is to shed new light on key challenges in governance arrangements for state owned enterprises in Kuwait. The role of state owned enterprises has long divided economist, politicians, and development agencies. This paper will begin by revisiting the origin of state owned enterprises and then its development in Kuwait. To gain a better understanding on the importance, success, and disappointments of state owned enterprises, this paper will then look at three countries' state owned enterprises and how they interplay with the private sector and government. Finally this paper will conclude by discussing the key role Kuwait Airways and state owned enterprises play into the future development and stability of the Kuwaiti economy outside of the oil sector.

I. State Owned Enterprises

A state owned enterprise is created by the government for the purpose of participating in commercial activities on behalf of the government. While a state owned enterprise is a separate legal entity, it can be wholly or partially owned by a government allowing it to spread its interests in different areas and take advantage of market opportunities. As economies continue to expand and countries become more integrated into a progressively borderless world, state owned enterprises will have an influential role on globalization both domestically and abroad. According to PricewaterhouseCoopers, state owned enterprises are likely to remain an important instrument in any government's toolbox for societal and public value creation given the right context (PWC, 1). A State owned enterprise is a concept that encompasses government corporations, government-linked companies, and public sector enterprises. The level of governmental ownership also varies from full majority ownership to minority ownership. Not all state owned enterprises are nationally owned, they can be owned locally or regionally.

State owned enterprises surfaced in the nineteenth century as a governmental response to market failures. The government took on the lead role in supplying public goods such as, drinking water, sewerage, electricity, telephone communications, and railway transportation (Cuervo-Cazurra et al.). The government's role was either directly or via public–private partnership arrangements, which were essentially concessions. These public enterprises and agencies were financed to a large extent from the tariffs they collected in exchange for providing services. Public banks financed the enormous expansion of the railway companies of that period. Financing from abroad also helped them, without which the development at that time could not have occurred. These waves of state enterprises were linked to the early phase of overseas borrowing which, given the weakness of local capital markets, helped to drive large-scale and extremely costly projects in railways, port infrastructure, and other public works. The traditional view of state owned enterprises is framed around times of efficiency, productivity, and administration bureaucracy (Cuervo-Cazurra et al., 4).

Alvaro Cuervo- Cazurra and associates contend that there are two traditional explanations for the existence of state owned enterprises. The first explanation is an economic response to market imperfections.

> "In economics, state ownership of firms tends to be justified as one solution to market failures. When markets are unable to efficiently allocate products or resources to the most welfare-enhancing use, government officials are compelled to intervene to address these inefficiencies using an array of instruments such as taxation, regulation, or direct ownership; the latter instrument results in the creation of [state owned enterprises]. . . . A government can address market failures via several mechanisms. It can tax behavior, either with direct subsidies to promote the behavior or with additional taxes to discourage it. It can regulate behavior by limiting the actions of companies or mandating that companies take certain actions. It can also choose to be the provider of the goods to society. This third mechanism may result in the creation of [state owned enterprises], as the government may choose to supply the good directly instead of via a [state owned enterprise]" (Cuervo-Cazurra et al., 4).

The second explanation is a political response to the system and strategy of government officials regarding the private ownership of a particular good or service.

> "An alternative to the market failure explanation takes a political point of view and explains the existence of [state owned enterprises] as a result of the ideology and the political strategy of government officials regarding private ownership of particular productive asset. We can distinguish four types of economic ideologies or political strategies that, despite their differences, all result in the creation of

[state owned enterprises]: communism, nationalism, social, and strategic" (Cuervo-Cazurra et al., 5).

Regardless of the historical approach taken, state owned enterprises have grown to claim a substantial share of market capitalization around the world. Today, state owned enterprises exist in sections which influence energy, communications, finance, and utilities. Which leads to our main discussion, state owned enterprises have been an important part of the Kuwait economy since its establishment.

A. Kuwait State Owned Enterprises

Unlike most other countries of the Middle East and North Africa, Kuwait was never colonized. Yet like most governments, the priorities of the government was geared towards providing basic services to its people: food, water, electricity, healthcare, and education. From 1946 until Kuwait's formal independence in 1961, the government's priority was institution building and the development of welfare-oriented programs (Sartawi, 94). During the fifteen years prior to Kuwait's independence, a welfare state arose. Regardless of income level, the government provided basic services to every Kuwaiti. During this time the private sector's role was more or less to support government activities and objectives. At that time the Constitution of Kuwait mandated certain social rights, which guaranteed employment, health care, public health services, and public education (Casey). It is important to consider the social orientation of the government at the time, to better understand the development of Kuwait's state owned enterprises.

In the 1970s, the government took full control over the crude oil production, which also meant the government set oil prices. The Kuwait Oil Company was established as a joint venture between British Petroleum and the Gulf Oil Company. Initially the Kuwait government acquired

60% ownership in Kuwait Oil Company, but that led to a complete transfer of ownership of Kuwait Oil Company to the state. (Sartawi, 97). This was only the beginning of the government's interest in the oil sector. By the end of the 1970, the entire hydrocarbons section was nationalized. Oil revenue contributed to 90% of the government's revenue, which will be discussed in further detail below. The rise in oil prices in the late 1970s generated an unprecedented amount of wealth in Kuwait. The government continued its interest in state ownership. The government bought into banking, insurance, and real estate. By the 1980s the public sector contributed over 65% to Kuwait's gross domestic product.

In 1980, the Kuwait Petroleum Corporation, the state-run oil company, was founded as an umbrella company that integrated Kuwait Oil Company, Kuwait National Petroleum Company, Kuwait Oil Tanker Company, and Petrochemicals Industries Company and effectively placing them under Kuwait government control. Kuwait National Petroleum Company was structured as a statutory corporation not subject to commercial litigation. By the 1990s, the Kuwait government had shares in over 60 companies across multiple sectors. See chart below for examples:

Company Name	**Government Ownership**
Flower Mill Company	100%
Kuwait Public Transport Company	100%
Public Utilities Management Company	99.9%
Foreign Investment Company	99.6%
Real Estate Investment Consortium	98.9%
Car Driving Teaching Company	98.1%

Company Name	**Government Ownership**
Kuwait Touristic Enterprise	98%
Agriculture Palm Company	87.4%
Kuwait Investment Company	70.0%
Bank of Kuwait and Middle East	58.8
National Industries Company	58.0%
United Fisheries Company	55.8%
Live Stock Transport and Trading Co.	54.5%
Marine Works and Contracting Company	50.5
Mobile Telecommunications Company	50.4%
United Real Estate	40.0
Kuwait Hotel Company	37.9%
Kuwait Cement	35.6
Kuwait Finance House	32.6
Paper Trading and Manufacturing Company	30.0%
Cold Storage Industries	28.8
Ahlia Insurance Company	20.3
Kuwait Investment Projects Company	15.8
Steel Pipe Manufacturing Company	17.8%
United Agriculture Products Co.	16.6%
National Bank of Kuwait	1.7%

Source: World Bank, Energizing the Private Sector in Kuwait, 1994.

Today, Kuwait's economic policy remains oil based and state dominated. There are only a few state owned enterprises outside of the oil spectrum- the exception is Kuwait Airways which will be discussed in further detail later. However, Kuwait does own shares in various Kuwait holding companies across the spectrum of sectors- mostly through Kuwait Investment Authority or Kuwait's Public Institution for Social Security. The Kuwait Investment Authority, along with Kuwait's Sovereign Wealth Fund, manages the Kuwait General Reserve Fund. The Kuwait Investment Fund is the oldest sovereign wealth fund in the world and has over $500 billion in assets, making it the sixth largest sovereign wealth fund in the world. A complete list of its holdings is unavailable- the Kuwait Investment Fund is prohibited by law from publicly disclosing the size of its holdings and leaves most discussion to general asset allocation (U.S. Dept. of State).

Kuwait's government may have invested in state owned enterprises to combat its imperfect market and fill critical roles of the time, but this has not come without criticism. Once state owned enterprises have fulfilled their initial purpose, the question becomes: What now?

B. Lean to Privatization

In a matured markets, private companies generally perform better than government owned entities. Private companies are able to perform better because there is a substantial supply of resources and finances in the market. Private companies do not require government assistance as much, in comparison to under developed markets. Privatizations, which alternated with phases of nationalizations, are at the other end of the pendulum swing. State owned enterprises inherently have a different business logic than private companies. State owned enterprises cannot be totally consumed with profits or shareholders, its focus has to be on the long-term stability of a nation. This dilemma has long been debated. Supporters of privatization argue despite the many attempts in the past to reform state owned enterprises, that problems that have historically afflicted state owned enterprises are still present. The biggest issue is management. It often tough to disapprove and effectively incite change when management wears both a public and a political hat.

Kuwait issued a privatization law in 2010. The Law proposed to privatize all state owned and state managed public institutions, facilities, and activities. However, it made clear that key national sections, oil, health, and education were not to undergo privatization. Privatization would help, theoretically, improve the private sector, support economic diversification, and promote better corporate governance. The Law also requires that the share capital of each privatized company be allocated as follows: no less than 35% to be auctioned among interested investors, no more than 20% to be retained by the state, no more than 5% to be sold to the employees, no less than 40% to be sold to nationals through an IPO, and the state will retain a golden share in each of the privatized companies (Sartawi 112).

Supporters argue Warba Bank is a good example of a successful privatization. The government divested 29% of the bank to the private market and the remaining percentage to the Kuwait Investment Authority (Upadhyay, 2016). Warba Bank is position to achieve, once again, successful results in 2017. Warba Bank has partnered with McKinsey & Company to improve its strategy for the next five years. Warba Bank plans to strengthen its corporate and investment banking positions and offer modern banking services (Kuwait Times). Supporters argue that Warba Bank's strong growth and performance is greatly affected by the fact the "non-government" management and leadership is more in tune with the business and industry.

According to The Economist, the government is good at providing the resources for innovation, but not at actual innovation. Supporters argue that state owned enterprises are not only less innovative but also less productive than private companies. Privatization in Kuwait involves both the reduction of the government's stake in some existing public sector companies, and the creation of new opportunities for the private sector to invest in strategic industries previously supported by government funding. Supporters say privatization is not meant to remove the government completely from its role in economic activity but to coordinate with the private sector which is more capable to run the project, which in the end makes the market more active and generates more job opportunities.

Another argument for privatization is that private companies have a profit incentive to cut cost and be more efficient, especially if they share in the profits of the company. Whereas, for government entities managers have no personal economic incentive. Supporters instead argue, government managers are motivated by political pressures and influences. Furthermore, their role would be better served as an overseer. Privatization would allow officials to focus on the overall efficiency of a sector versus the day to day managing of a business, even if it is a monopoly. Privatization arguably would encourage innovation because private companies must keep cost down in order to remain competitive, thus they will focus on resourceful approaches for providing goods and services in order to keep costs down. These incentives, for the most part, do not exist in the public sector.

C. Advantages of State Owned Enterprises

So why do governments get involved in state owned businesses? A sector that has traditionally been characterized by a bias towards domestic markets and often lagging business performance. Today, state owned enterprises are among the largest and fastest expanding companies, which will be discussed in further detail later. State owned enterprises have the capability to compete with private companies for resources, ideas, and consumers. Yet there is little research and information on the benefits, compared to the downsides, of state owned enterprises.

State owned enterprises do have shareholders to which they are accountable – the government. The private sector uses business activities, such as services, as a means of creating profit. Whereas the government relies on sources such as taxes and fees as a means of generating income. Therefore the government does have an interest in recruiting new talent, innovation, and being cost effective, especially if they are to compete globally and maintain an economy that can produce a strong source of taxes and fees. Privatization is not an automatic solution to improving the quality of goods and services available to businesses or the performance of state-owned enterprises.

State owned enterprises can result in the growth and in a development strategy that seeks to diversity the economy. State owned enterprises do provide quality services, they are the foundation of many economies. State owned enterprises and their infrastructures support private sector development. While state owned enterprises are perceived to benefit from favorable market positions, relaxed regulation, and often little competition, these inadequacies can be improved. State owned enterprises have to balance economic, social, and other objectives while creating value for an entire region. Because of this greater responsibility, state owned enterprises should be evaluated on pure financial results, but instead looked at from a more holistic approach. In which case, the true value and role of state owned enterprises can be appreciated. In spite of the limited date, state owned enterprises have had continued success in the modern era.

II. State Owned Enterprises Outside of Kuwait

The top eight countries with the highest state owned enterprises are China, United Arab Emirates, Russia, Indonesia, Malaysia, Saudi Arabia, India and Brazil (Kowalski, 147). These eight countries collectively account for 20% of world trade, with China alone accounting for more than 10% of the world's merchandise exports in 2010 (Kowalski, 147). State owned enterprises appear to be most seen in emerging economies, but it is definitely not restricted to this.

The role of the government as a regulator, regulation enforcer, and owner of assets opens state owned enterprises to much skepticism. For comparison purposes, this paper will review the state owned enterprises in China, the Middle East, and Brazil.

A. China

China is expected to be the largest economy 2030 (PWC, 12). China's State Council announced in 2015, its "Made in China 2025" manufacturing national initiative (CBBC). The initiative's goal is to "transform China into a leading manufacturing power" (CBBC). The plan is to help Chinese state owned enterprises compete more effectively in global markets, as well as improve their high-end export capabilities (PWC). The Made in China 2025 report focuses on ten major sectors, which include, railroads, aviation, agriculture technology, new energy vehicles, biopharmaceuticals, and new generation information technology. Essentially, China is leveraging its state owned enterprises to compete in most of the world's major sectors.

China's State Council approved the establishment of a state venture capital fund to support innovation in and reform of state-owned enterprises (Hsu). China has made reform of its state owned enterprises a priority by investing $52.5 billion in its restructuring fund. The top twelve Chinese companies are state-owned, which include banks and oil companies that the central government controls through the State-Owned Assets Supervision and Administration Commission. China's state owned enterprises receives considerable support from the government. However, of the top Chinese companies they struggle with being global brands. The struggle is how to expand outside of the Chinese borders- which is an issue of many state owned enterprises. The top companies in China are state owned and China's rulers are aware that the downfall of one of these companies could significantly impact its economy. While there has been economic reforms, state enterprises have continued to lag behind China's broader economic reforms.

B. Middle East

The Middle Eastern context can help to contextualize the debate between privatization and state owned enterprises. For example, Egypt has encountered mixed success in transitioning from an economy driven by natural resources to one with a healthy balance of industries and services. The state owned textile industry was privatized in the 1990s, while privatization cut the cost of food and fuel subsidies, its workforce was also cut in half. Over a quarter of a million jobs were lost. Egypt's state owned textile factories was plagued with inefficiencies and consumer goods subsidies were expensive. However, the dramatic sense of urgency to privatize the textile industry caused more disruption than development. Privatization and the proceeding reforms were eventually reversed or watered down. The goals of long-term stability, whether through privatization or state owned enterprises, have to be thorough. There is no quick solution.

The success of state owned enterprises in the Middle East has shown with proper focus, state owned enterprises can lead to greater productivity and profits. For example, Saudi Arabia is the world's largest exporter of petroleum liquids. Saudi Arabia also maintains the world's largest crude oil production capacity. Both of which are exclusively controlled by the state owned Saudi

Aramco, the world's largest energy company. The country holds 16% of the world's proven oil reserves. While Saudi Arabia holds the fifth largest natural gas reserves in the world, natural gas production is limited and only used domestically. Saudi Aramco owns 72% of Saudi Arabia's oil refineries. Essentially controlling the country's oil and gas production and distribution networks.

Prior to the fall of oil prices, Saudi Aramco generated over $1 billion dollars a day. Saudi Aramco has subsidiaries and affiliates in China, Egypt, Japan, India, the Netherlands, the Republic of Korea, Singapore, the United Arab Emirates, the United Kingdom, and the United States. In 2014 Saudi Aramco planned to spend $100 billion on expanding its refining activities both domestically and internationally, with the target of becoming the largest oil refiner in the world. Saudi Aramco has significant investments in oil and gas transportation networks and has completed projects which include the upgrade of the export terminals at the Ras Tanura Sea Island Terminal. Since 1990, Saudi Aramco's pipeline network has nearly doubled and the company aims to increase this by a further 31% by 2020.

Each of these example demonstrate that both privatization and state owned enterprises are a nuanced issue. The success of state owned enterprises depends on transparency, accountability, and a commitment to cooperate governance. Privatization does not guarantee profits nor prevent corruption. But the history of state ownership in the Middle East and North Africa is rich with its own nuances. For example, al-Saud kings in Saudi Arabia represent longstanding dynasties in power since long before the first oil wells became operational. Arguably, their primary interest is in maintaining the stability of existing social structures, not overturning them. With relatively small populations and large oil endowments, regions such as Saudi Arabia could rely solely on the profits of their efficiently-run extractive industries to keep these traditional structures in place. State owned enterprises in non-diplomatic systems can monopolize economic resources and political power.

C. Brazil

"The political foundation of contemporary Brazil state began with the Federal Constitution of 1988, with which a new social and economic order was to be built with the support of a democratic government and decentralized administration" (Tautz). Since the 1930s, Brazil had sustained "import substitution," an aggressive state government-induced industrialization and development process under which authoritarian governments made large investments in basic industry, resource extraction (especially petroleum, gas, and iron), telecommunications, and energy production (Tautz). Democracy came at the end of the 1980s, followed by a massive privatization campaign promoted by the government.

Amidst privatization, state owned enterprises remained significant to the country's "economy prosperity and development, although it is difficult to determine to what extent because of a lack of information on the sector's expenditures, revenues, financial sources, and profit distributions" (Tautz). Brazil's state owned enterprises are described as transparent and maintain accountability (Tautz). Which as lead Brazil's state owned enterprises to perform important functions, such as, building an open budget and allowing for social control over the use of public resources. In Brazil state owned enterprises are both institutionally and economically tied to the state.

The Brazilian Constitution governs state owned enterprises. The constitution supports clear efforts for maintaining equitable competition between the private sector enterprises and state owned enterprises. State owned enterprises are not exempt from general laws and regulations related to their activities and must face the competition for access to financial aid and support. However, the reality of the situation is more complex as between the relationships among state owned enterprises and Federal Financial Institutions, which are mostly banks. State owned enterprises are prohibited from receiving any fiscal incentives or privileges that could not be extended to the rest of the private sector. There is, though, a strong debate under way about the apparent exclusion of all state owned enterprises from the procedures for financial recuperation and bankruptcy in the private sector by the new regulating law of 2005 (Tautz). According to the IBP, since the Constitution is clear in its intent to keep the market competitive and equitable, most scholars and most jurisprudence on similar themes have indicated that the exclusion only applies to state owned enterprises that perform essential public services. Similar to Middle Eastern countries, free competition is not the reality in sectors such as oil and gas exploration and production.

Key state owned enterprises in Brazil are the National Bank for Economic and Social Development and Petrobrás, a petroleum and oil company. In general, an assessment of the state owned enterprises in Brazil will point to the existence of a coherent and institutionalized legal structure that allows considerable levels of organization and transparency regarding activities and budgets, although the available documents and demonstrations require levels of education that are not widespread in the country (Tautz). The Brazilian Constitution ensures liberal and competitive basis for the state owned enterprises and laws regarding budget, fiscal responsibility, and transparency institute positive practices and procedures for their monitoring. A lack of centralization of all state owned enterprises, however, does obstructs a holistic appreciation of the complex connections between state owned enterprises, the government, and the private sector.

III. Oil Dependency in Kuwait

State owned enterprises have been plagued by poor management and bad governance. However, in Kuwait, state owned enterprises are intertwine in its very fabric, past, present and very likely foreseeable future. To better position itself globally and also to sustain its country's wealth, Kuwait should not overlook the very resource tool that propelled it to its position today: the use of state owned enterprises.

Kuwait built vast success around the oil sector. While in the past this has led to a robust source of income, and often times seemingly a bottomless supply of cash, oil prices are dropping. The basic issue here is simple, oil is Kuwait's largest source of revenue, if prices continue to drop, the financial reserves will decrease as well. To prepare itself for the future and also for future generations, Kuwait must diversify. The more nuanced question, is how big of an issue is decreasing oil prices for Kuwait.

Oil revenue accounts for more than 90% of Kuwait's budget. Kuwait relies on oil for more than half of its gross domestic product and almost all of its export revenue. Kuwait's recent efforts to stimulate growth in other sectors have not succeeded. The gross domestic product for the oil sector decreased by 1.7% in 2016, while it increased 1.3% for non-oil sectors. However, the value added from the non-oil sector was not sufficient enough to promote and stimulate economic activity. Therefore, Kuwait has yet figured out how to diversify.

Diversification reduces risk through the involvement with international financial institutions and collaboration with multinational businesses. "Diversification strengthens institutions by lowering organizational risk factors, spreading interests in different areas, taking advantage of market opportunities, and acquiring companies both horizontal and vertical in nature" (Pologeorgis).

One of the biggest arguments against state owned enterprises, is its interaction with the government. Oppositionist feel that the government's interest is often misaligned with business interest such as profit, management, and leadership. However, the Kuwait government has a self-interest to actively own and manage state owned enterprises. The government has planned to spend up to $100 billion dollars over the next few years to boost the economy, but many of the planned projects failed or never materialized because of the current political situation in Kuwait. Tensions have persisted between the parliament and the cabinet. In the November 2016 election, voters replaced over half the incumbents in favor of candidates who promised to confront the government over recent "austerity measures" (Economist). In comparison to the other states of the Gulf, Kuwait is the closest system to a democracy.

The 50-member National Assembly is elected by the people. However, this makes decisions harder to approve than in other Gulf States, where ruling families need not gain approval for their plans. The Kuwaiti assembly often blocks big projects, but restructuring its own state owned enterprises could potentially be more appeasing to the assembly. Having a 50-member assembly puts Kuwait in a better situation to manage and steer its state owned enterprises. Presumably members of the assembly have a range of experience that could be leveraged towards developing the state owned enterprises. If not, the assembly is an elected position and more experience members or members with more relevant experience can be voted in.

Doing business in Kuwait for foreign investors does not come without complications and restrictions. While Kuwait is ran as democracy and is a free trade state, there are many barriers to entry for foreign investors. As a result, the Kuwait government has to become more proactive with diversification. The Kuwait government needs a fresh perspective not just more or new investors. That alone is not the solution. Because Kuwait has state owned enterprises, with certain sectors looking to always be dominated by state owned enterprises, the government must change its "mindset". Because state owned enterprises dominate the Kuwaiti economy, the government must think like a business, in the sense of an "entrepreneur".

A. Non-Oil Sectors

Low levels of Foreign Direct Investment limits efforts to diversify away for the oil sector. There are still major barriers to foreign investment in Kuwait. Regulations prohibit the direct involvement of foreign entities in the petroleum and real estate sectors. There is a long bureaucratic delay in starting new businesses and local business culture is tight knit. Local businesses are heavily based on clan and family relationship, which often preclude foreign participation. Under the Direct Foreign Capital Investment Law, foreign investors are allowed ownership in infrastructure projects such as water, power, communications, insurance, hospitals, hotels, and tourism. The Law is designed to promote foreign investment in Kuwait, however numerous foreign companies still report delays in getting approval to operate in Kuwait. Thus the law has not changed the investment climate in any significant way.

Under the 1964 Public Tenders Law, with the exception of military and security programs, all bids for government funded projects must be submitted to the Central Tenders Committee. Here lies another limitation. Foreign companies may not bid on contracts unless they partner with a Kuwait agent. The Kuwait agent then is in charge of submitting the tender documentation to the Central Tenders Committee. Furthermore foreign entities are excluded from investing in upstream petroleum sectors, the Kuwait constitution mandates that all natural resources are the property of the state of Kuwait. According to the Bureau of Public Affairs, Dow Chemical Company of Michigan and Petrochemical Industries Company, a subsidiary of

Kuwait Petroleum Corporation, each own 42.5% of the Equate Petrochemical Company joint venture, established in 1995. They agreed in November 2008 to establish a 50-50, USD 17.4 billion plastics joint venture, called K-Dow Petrochemicals. On December 28, 2008, however, Kuwait's Supreme Petroleum Council canceled the joint venture in light of the 2008 economic downturn. The deal had attracted sharp criticism by some members of Parliament and Dow filed a USD 2.5 billion lawsuit against Petrochemical Industries Company, which is pending in UK courts. The deal has since served as a negative example for foreign companies seeking to do business in Kuwait (Bureau of Public Affairs).

The banking sector was opened to foreign investment under the Direct Foreign Capital Investment Law. The Central Bank has granted licenses to ten foreign banks. Foreign banks are restricted to opening only one branch, offering only investment banking services, and are prohibited from competing in the retail banking sector. "Foreign banks are also subject to a maximum credit concentration equivalent to less than half the limit of the largest local bank, and are expressly prohibited from directing clients to borrow from external branches of their banks or taking any other measures to facilitate such borrowing" (Bureau of Public Affairs). Three private mobile telephone companies operate in Kuwait, with the government maintaining significant minority interests in all, while foreign companies own major stakes in two. None of the other communication services are privatized, though privatizing landlines has been discussed for several years (Bureau of Public Affairs).

On the brighter side, according to the Bureau of Public Affairs, foreign owned firms and the foreign owned portions of joint ventures are the only businesses subject to corporate income tax, which applies to both domestic and offshore income. In February 2008, a new tax law to reduce the tax rate on foreign companies from 55 percent to 15 percent went into effect. This amendment created a flat tax on the annual profit of foreign companies. Capital gains on stock market investments are exempt from tax, as are the profits of Kuwaiti distributors of foreign goods. Under the new Direct Foreign Capital Investment Law, new foreign investors may be exempted from all taxes for up to 10 years ((Bureau of Public Affairs).

B. Globalization

State owned enterprises are in part, a response to a need a country has. As previously discussed one of the reasons state owned enterprises developed was the need for government support of private companies. This rationale is similar to how an entrepreneur must think. A business owner generally starts a business due to there being a need, he has a solution to some problem: whether it be a good or a service. He is in business because someone needs what he has to offer. Overtime, to maintain, develop, and grow the business the entrepreneur must strategize, raise capital, and eliminate certain areas of weaknesses or risk. For the government and state owned enterprises, increased global competition for finance, resources, technology, and human capital means that countries have to constantly think about, and re-strategize, their current approaches.

In addition this entrepreneurial approach will help align the government and entities' purpose and objectives through establishing a clear understanding of each other's role. The Kuwait government has the resources and time to invest into state owned enterprises, which can be a challenge in other countries. Despite Kuwait's dependence on oil, the government has cushioned itself against the short-term impact of lower oil prices, by saving annually at least 10% of government revenue (Forbes, 2016). Thus, the government has the capacity to play to a more effective and influential role in its state owned enterprises.

A common denominator amongst the world's most flourishing economies is globalization. The basic idea of globalization is not a new phenomenon. Though the issue of globalization is arguably complex, globalization in its simplest terms refers to the process of interaction and integration between people, organizations, and governments of different countries. Trade, investments, and technology empower globalization. For thousands of years, people from across the world have collaborated in various forms and methods. The development of globalization is debatably as old as civilization, though historically more limited in geographical location than most people would define today.

"Primitive divisions of labor, between 'hunters' and 'shepherds', grew as villages and trading networks expanded to include wider specializations. Eventually armorers to craft bows and arrows, carpenters to build houses, and seamstress to make clothing all appeared as specialist artisans, trading their wares for food produced by the hunters and shepherds. As villages, towns, countries and continents started trading goods that they were efficient at making for ones they were not, markets became more integrated, as specialization and trade increased" (C.R.).

Globalization's effect goes beyond economic development; it influences the environment, political systems, culture, and individual human prosperity. The pace of globalization has increased, and with the expansion of technology, has made the world more interconnected than ever before. Subsequently, "laws, economies, and social movements are forming at the international level" (Global Policy Forum). Globalization compels businesses to adapt to different strategies to compete worldwide, but also governments must reflect on their own polices and strategies to sustain thriving economies.

For Kuwait, state owned enterprises can be a major part of the country's future. Developing and investing more into its state owned enterprises, Kuwait can better position themselves for the future in the global economy. Rather than looking to outside investors to come in and lead diversification, the Kuwait government should take on the role themselves, in full force. As mentioned previously, supporters of privatization criticize the government by stating that they are good at supporting innovation, but the government themselves are not innovators. The Kuwait government should take advantage of its relationship with state owned enterprises to grow and expand for the future. While the Kuwait government is not currently in financial distress, there is no need to wait until the moment of panic.

State owned enterprises are a global force. As previously shown, state owned enterprises are operating internationally and engaging in profitable trading strategies. State control does not necessarily mean inefficiency. Partly or wholly government owned entities, can be highly competitive. What matters is corporate governance: Efficient state owned enterprises are usually set up like private companies, while inefficient ones are run like government bureaucracies.

Privatization versus state ownership goes beyond creating profitable entities, the oil sector is still profitable, it address the issues of institutional transparency and innovation. The Kuwait government owns Kuwait Airways. Kuwait Airways, like most state owned enterprises, has struggled with corporate governance and murky management. However, Kuwait Airways is not just another failing state owned enterprise. Kuwait Airways could change the future of the country. Whether it be a country, an organization, or an individual diversification is important. Depending on any single source increases risk drastically. For this reason, we cannot overlook the fact Kuwait depending so heavily on the oil section is not a rise for concern. The real question is how do you continue to be active in the oil industry without neglecting other sectors. The Kuwait government knows oil and how to interact and flourish in that sector very well. But in other sectors, you do not see this same expertise or commitment.

IV. Kuwait Airways

From 1946 to 1982, Kuwait enjoyed an era of prosperity. Driven by oil and its "liberal atmosphere", Kuwait National Airways was formed in 1954 by a group of Kuwaiti businessmen. The development of the airline, along with other major public-work initiatives, allowed Kuwaitis to enjoy a modern standard of living. By 1952, Kuwait became the largest oil exporter in the Arabian Gulf region and attracted many foreign workers. Eventually, the government of Kuwait took 100% share in the Kuwaiti airline.

Kuwait Airways philosophy is be "an airline with a global reach and a local touch," recognizing its customers appreciate services that enhance both innovation and tradition. Kuwait Airways positions itself to be an international airline set to serve the entire community of Kuwait, with the added goal of linking business and leisure travel between the Eastern and Western regions. Simply put, Kuwait Airways partners with the Kuwaiti government in connecting the economy and society with the rest of the world.

The air transportation industry directly affects the economy by enabling its citizens to travel within and out of the country, expanding the amount of tourism inside the country, and linking business relationships across the globe. Aviation is one strong factor that brings people across the world together. Currently Kuwait Airways is the only airline owned by the government and is the national carrier of Kuwait. Due to its significant impact on the people of Kuwait and the development of the country, Kuwait Airways arguably has a responsibility to its stakeholders to live up to its mission statement: setting the standard for customer orientation and becoming an admired airline to fly, to invest in, and to work for.

Over the past two decades, Kuwait Airways has struggled financially and internally with management and operations. Kuwait Airways has suffered one of the most perpetual losses in all of Gulf aviation. After the Iraqi invasion in 1990, Kuwait Airways suffered the loss of most of its aircraft and engines. Since 1990, Kuwait Airways has achieved just a single year of profit and fuel prices continue to be a substantial expense for the airline. In addition, the ageing aircraft equipment imposes a heavy maintenance burden on the carrier. Today Kuwait Airways provides just 23 percent of seating capacity at Kuwait International Airport - half its market share in 1998.

However, Kuwait Airways' problems do not end there. The Kuwaiti parliament has repeatedly denied Kuwait Airways attempts to acquire modern aircraft. As a result, passenger satisfaction has plummeted, leaving Kuwait Airways with one of the oldest fleets in the region. Kuwait Airways not only lacks in quality, but also quantity. After nearly two decades, the airline purchased in 2014 a new aircraft. Today, there is a mix of new and old aircrafts, with the anticipation of transitioning in all new aircraft by 2017.

A. The Future of Kuwait Airways

Given the history of Kuwait Airways, the question may be how this airline can possibly be the future of Kuwait. So far this paper has expounded upon state enterprises, it has looked at how state enterprises have flourished in other countries, and examined its challenges. In most cases, state owned enterprises were oil companies, hospitals, banks, and etc. It is very rare that a country owns an airline. An airline, especially one that travels beyond its regions, is powerful resource. The airline industry is an important contributor towards economic development.

As mentioned before, the Kuwait government has to think like an entrepreneur. For many entrepreneurs, as mentioned previously, the launching of a business or new idea begins with a spontaneous "aahhaa moment". Forbes magazine describes an entrepreneur leader as one that "seek[s] out the one lagging [behind], find[s] what makes them tick, then challenges them to keep up and to keep time" (Krogue). Following this entrepreneur methodology, the Kuwait government should recognize Kuwait Airways is lagging behind the other state owned enterprises, and arguably has the most growth potential. In particular, the Middle East is set to be the fastest growing region in the world for the airline industry in 2017 (in terms of airline capacity and per passenger revenue) (Dudley). The aviation industry supports %2.7 trillion of the world's gross domestic product, which is approximately 3.5% of the world's GDP. Not only is there growth potential, there is lots of money to be made in this industry.

On its surface, the airline industry serves to transport people from one destination to another. Airlines carry over 3 billion passengers a year from one destination to another. The air transportation industry is larger than the automotive industry, which accounts for 1.2% of the world's gross domestic product. In essence, this means the airline industry has direct access to billions of people from all over the world. The value of this access is immeasurable. If the Kuwait government thinks like an entrepreneur they will see this access as a rare opportunity. An opportunity not to simply be a provider of transportation, but to use its position as a provider of transportation to gather information about people's tendencies or habits, be a source of information distribution such as advertisement, and a distributor of goods.

Companies spend millions of dollars collecting information about people habits. Companies are able to track every time you visit a website. It is not secret that companies will pay large sums of money to learn more about people. One of the reasons they want to know more information is because it gives them greater access to you. It allows companies to predict where you will go, what time of the day you are more likely to spend money, and all sorts of variations. In the end, it is all about gaining more and more access to people. If you gain access, if you have their attention, you can sale them something. You are able to tell them about your product or service. The bottom line is that there is real money in taking date and combining that with outside third parties to come up with new ways to convince you to spend money.

How does this relate to Kuwait Airways? Kuwait Airways has access to millions of passengers every year. The Kuwait government has to recognize the potential in this state owned enterprise. If the Kuwait government leverages Kuwait Airways properly, not only can they improve management and efficiency of the airline, but it can become a major source of revenue through advertising.

Emirates Airline is based in Dubai, United Arab Emirates, is the largest airline in the Middle East, and the fourth largest airline in the world. The airline is a subsidiary of The Emirates Group, which is wholly owned by the government of Dubai but is receives no financial support or protection. However, the Kuwait government should look to Emirates Airline's success as an example of what they could become. Emirates Airline flies to more than 150 destinations in over 80 countries and has been fundamental in establishing Dubai as the Middle East's commercial center and aviation hub. Emirates Airline began in 1985 with just two leased aircrafts. An example, showing how you start is not indicative to what you will become.

The Kuwait government, thinking as an entrepreneur, has to realize the setbacks, obstacles and challenges Kuwait Airways faces are common in the industry. The government, however, as to view these challenges as opportunities to improve the current weakness and take advantage of its access to people. The Kuwait government, should not be deterred by the success of Emirates Airline, but rather view them as an opportunity to learn more about the industry and how to target the market.

Emirates Airline is independent, commercially ran, and self-sufficient. They describe themselves as being very transparent about their business model and operations. Emirates Airline is opposed to receiving state aid, however, the Kuwait government has to understand why they have taken this position. Receiving state aid gives the "appearance of unfair" competition. Given the current financial position of Kuwait Airways, they are not in the position to deny state aid. Part of being an entrepreneurs is knowing and recognizing your strengths and weaknesses. Right now, Kuwait Airways needs the support of the government -there is no dishonor in that. The government however, has to be transparent in its aid, particularly in its fuel and airport charges. Emirates Airline has even stated that in the aviation industry to reach self-sustaining, profitable position, airlines and government subsidies have often gone "hand in hand" (Emirates). Due to a number of compounding factors, such as rising fuel prices and the global financial downturn, airline carriers have lost $50 billion dollars in the last decade. Therefore, it is understandable that the Kuwait government support Kuwait Airways.

With the support of the government Kuwait Airways could become self-sufficient. The airlines in the Gulf currently do not have their own market, so they depend on passengers from other markets. The Kuwaiti government's vision for Kuwait Airways should be to use the airline as a means to increase employment, enhance trade and exportation, boost tourism, and create an alternative source of revenue from the oil industry.

In 2017 Kuwait Airways has become one of the youngest fleet among Gulf airlines, which basically means its aircrafts have recently either been replaced or upgraded. The airline underwent a fleet renewal process in that began in 2014 and according to its website, is continuously renewing and improving its customer service. This translates into more jobs. Kuwait Airways has already taken a step into improving its recruitment by partnering with a company that recruits cabin crew personnel. With the additional air craft, they can carry and attract more passengers. More passengers opens up the possibility of more destinations. With increased destinations and passengers, the size of the airport will grow. The larger the airport, the more services can be rendered. Larger airports are able to offer lounges and expanded dining options. Larger airports also offer higher end specialized services, such as spa, designer stores, and healthier food options. These options only make economic sense, if the number of passengers through the airport increases. Therefore the investment in customer service, air craft quality, and customer flight experience is well worth it.

The value of international trade shipped by air has increased to over $6.5 trillion dollars. The economic effects of improved air transportation has a direct effect on how goods are traded. If Kuwait Airways improves the quality of its services, greater reliability and speed, it would offer lower alternative transportation cost to suppliers. Specifically manufactured goods are the largest and most rapidly growing portion of world trade, which are best shipped by air. According to research done by the Boeing Company, air cargo moving into, within, and out of the Middle East is estimated to have accounted for 5.2% of the world's tonnage in 2016. Currently Emirates Airline is the largest air cargo center in the region. However, Middle East nations could benefit from combining their strength as trading hubs and from the individual growth of their own markets.

The effect of technology on the global economic structure is undeniable. Technology has changed the way in which companies and markets across the world trade goods, invest capital, and develop products. With the need for instantaneous communication on the rise, a mandate for greater interdependence among economies is now, more than ever, critical. Shared production agreements could allow for countries with complementary strengths and interests, to collaborate and maximize returns. The Kuwaiti government's need to diversify economically, a process that will not be without impediments, necessitates a commitment to building new sectors and partnerships.

According to the Boeing Company, the overall Middle East economy continues to grow and with the ease of trade sanctions improved economic growth is expected. In order to be considered amongst the top cargo hubs, Kuwait Airways will need to improve its position. The investment is worthwhile. For example, the Middle-East Europe traffic is growing, which represents 37.8% of the Middle East's international air cargo. There Middle East is diversifying beyond the oil industry. Whether Kuwait, joins or not, it is happening. Entrepreneurship is constantly demands product development, sales and marketing, and significant effort to achieve success. Again, this has to be the mindset of the Kuwait government, especially when it comes to Kuwait Airways and its state owned enterprises.

The value of tourism is expected to increase over 5%. In 2016, the Middle East received around 54 million international tourist. Kuwait Airways could leverage its aircraft in two ways. First, its aircraft serve as a bill board. Its name is written across the side of the aircraft. Unlike some airlines, their name represents their country: Kuwait. Every time an aircraft is flown to a different location, they are advertising their country and increasing their name recognition. For example, Delta Air Lines operates in over 319 destinations in 54 countries on six continents. Basically, no matter where you go, you will see a Delta aircraft. If Kuwait Airways had a similar presence, it would indirectly attract tourist. As mentioned about, the key to advertising is access. Having planes in locations all over the world, not only puts Kuwait's name in the mind of its passengers, but also other passengers traveling through the airport. The exposure can be exponential.

The second way Kuwait Airways could use its aircraft, is by advertising during the in-flight experience. For example, when traveling on Emirates Airline the airline always advertises Dubai no matter where you are traveling to or from. Emirates Airline broadcast all of the best restaurants, hotels, and travel destinations in Dubai. If you had never thought about vacationing or visiting Dubai before, for at least 10 seconds during one of their flights it came across your mind. Before any flight departs there is an instructional video or message played on the intercom. In flight advertising creates an opportunity to communicate and engage with customers. Kuwait Airways could devote 15 seconds of the initial instruction time to advertising its country or it could just creatively incorporate it into its video. There are a number of ways to achieve this objective. It could be as simple as the characters in the video wearing shirts that have Kuwait written on them. According to U.S. Airways, on-board advertising brings in about $20 million dollars a year. In flight advertising is a rare opportunity because passengers cannot leave, they are confined to their seat or cabin area for duration of the flight. With millions of people flying around the world, it allows for a global reach and higher frequency of exposure. The government has a unique opportunity to diversify itself with Kuwait Airways.

V. Conclusion

"Perfection is the enemy of progress." State owned enterprises have been plagued with negative connotations. Economist, politicians, and voters are losing confidence in their viability and position in the future. However, the Kuwait government must have a broader vision. Because they have state owned enterprises with tremendous potential, they cannot operate as a traditional government would. Economically Kuwait has many strong points, such as maintaining a free trade zone, a stable regime, and their strategic location in close proximity to other Gulf markets. With the continuous change in technology and the oil industry, the government is challenged with the need to be entrepreneurial. The government cannot be stalled by the original vision of state owned enterprises, a vision to build an underdeveloped economy. The Kuwait government, has to see itself as an entrepreneur and one in control of a major resource: its own airline. Instead of harping on the past and what has not worked, the government should focus on working out the details of how to create an airline that can compete globally with the best airlines – big things are made from small components. There is no magic to state owned enterprises, they require patience, skill, resources, commitment, and transparency. Being that government influence and corruption will always be at question, discipline is required in all aspects. Most importantly, the Kuwait government has to realize taking on an entrepreneurship strategy goes beyond just improving an airline, it's a way to help the economy. It is a way to build its brand beyond the Middle East. Kuwait has a long history of being prosperous and proud. These same traits can be either a downfall because of pride or can thwart it into continued success in the future. The government has used oil for many years, and this is not to say that oil has become obsolete, but rather it must prepare for the challenges ahead.

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