

The Silk City megaproject in Kuwait took a major step forward last May with the opening of a key transport link connecting its future site to the capital. Silk City is one of the largest and most ambitious developments in the region and has drawn interest from Chinese Belt and Road planners. However, it still faces major challenges including domestic political disputes and neighbourhood security turmoil – both of which underscore long-standing obstacles for the country when it comes to attracting local and international investors.

Gulf Monitor | Jonathan Gorvett | Infrastructure

Last May Kuwait's emir, Sheikh Sabah Al Ahmad Al Jaber Al Sabah, opened the \$3bn, 48.5-km Sheikh Jaber Al Ahmad Al Sabah causeway over Kuwait Bay, linking the country's capital and main economic and population centre to its largely empty northern districts.

An hour and a half's drive north from the French-designed and South-Korean-built megabridge lies the Iraqi border and the highway to Basra and Baghdad. A similar distance north-west, and Kuwait's new port of Mubarak Al Kabeer, on Bubiyan Island, overlooks the narrow delta at the top end of the Gulf – Iraq's only exit to the waterway and a place where Kuwait, Iraq and Iran all meet.

Logistics and trading ambitions

The clear strategic value of this location is something the Kuwaiti authorities have long been keen to leverage, and their latest plan for doing so – by building a \$100bn urban centre called Silk City or Madinat al-Harir in Arabic – is currently one of the most ambitious construction projects in the Middle East.

The government hopes the project will transform the northern territories into a [global logistics and trading hub](#), furthering Kuwait's plans to diversify away from hydrocarbon dependency – a key goal of Vision 2035, the country's long-term development plan.

Phase one is closely tied to the development of Mubarak Al Kabeer port, under construction since 2011. An international airport, rail network and trade zone for the port are all planned as part of the

rollout.

In July tenders were awarded for main linking roads and bridges, tying Bubiyan island, where the port is located, to the Kuwaiti mainland – and then on to the new causeway. This cuts travel times between Kuwait City and the proposed site of Silk City from 90 minutes to half an hour.^[1]

In addition to any economic benefits, part of the rationale is that this settlement – which aims to house some 700,000 people when complete – would establish clear sovereignty over the largely empty north. The region was the first to be invaded in 1990 by Iraqi forces, and the trauma of that event still resonates with many Kuwaitis.

Finding the Money

All well and good, but Silk City is an enormous project, requiring colossal amounts of investment. Kuwait is oil rich – the sector accounted for 53.7% of GDP in 2Q19 – but has been negatively impacted by global hydrocarbon price softening. GDP growth slowed to 1.2% in 2018 and will likely see a contraction of 0.5% this year. The country also has a wealth of other construction projects underway – some \$62bn of these in oil and gas, \$48.1bn in urban buildings and \$30bn in infrastructure as of last June, according to *Construction Week Online*.^[2]

Further foreign and domestic investment will be key to the megaproject's success – yet there are some major obstacles to mobilising this.

First, since the 1990 Iraqi invasion even Kuwaiti investors have traditionally been shy of investing in the country. In 2013-18 foreign direct investment in greenfield projects in Kuwait totalled less than \$5bn – the lowest among the GCC countries.^[3] By comparison, the UAE received \$49bn and Saudi Arabia approximately \$45bn. Much of Kuwait City's downtown is in need of maintenance or repair as a result, with the bulk of the construction activity mentioned above dedicated to playing catch-up after years of underinvestment.

Second, the rationale for Mubarak Al Kebeer relies heavily on Iraqi trade. Kuwait itself is far too small a market for such a major facility, particularly as it has other ports around Kuwait City. To be successful, the new port needs to have both a relatively frictionless, cross-border trade agreement in place with Iraq and stability with its neighbour.

Kuwait has been making major efforts to improve its relations with Baghdad, sponsoring the first Iraq Reconstruction Conference in 2018 and making progress with long-standing disputes over Gulf War compensation and the return of remains. Yet, recent violent protests in Basra and Um Qasr have demonstrated the difficulties with stability, and some in those cities also see Mubarak Al Kebeer as a direct rival, particularly given long-delayed plans for a new Iraqi port at Fawr.^[4]

The third issue is Kuwait's fractious domestic politics. Last month the government, along with Silk City's principal driver Sheikh Nasser Sabah Al Ahmad Al Sabah, the former deputy prime minister and defence minister, and son of the Emir, were forced to resign amid allegations of corruption.

While Silk City was not connected to the government's collapse, the removal of its primary advocate may slow it down.

The project already faces opposition from within Parliament. Last May Sheikh Nasser proposed a new charter for Silk City, which included a liberalised foreign ownership and investment regime and more liberal social codes, including allowing the sale of alcohol. The charter was strongly opposed by the Islamist and conservative lobby in Parliament, many of whom also advocate a more protectionist economic policy.^[5]

Look East?

One way Silk City's advocates have been trying to meet their project's investment challenges has been to look beyond the normal range of investors and attract a growing new trading power into the northern Gulf: China.

[Gulf-China ties have strengthened considerably in recent years.](#) In 2015 China became the world's biggest importer of crude oil. Around half of shipments come from the Middle East, including Kuwait, its seventh largest supplier. The two countries recently agreed construction of a joint \$5.7bn Kuwaiti-Chinese refinery and petrochemicals complex in China taking only Kuwaiti crude. This will boost Kuwaiti exports to the People's Republic to 600,000 barrels per day.^[6]

Chinese investment in the Gulf is increasingly visible, from Saudi Arabia's Jeddah-Mecca-Medina light railway and Yanbu refinery to Qatar's Lusail stadium. Under its \$1trn Belt and Road Initiative (BRI), a chain of port and free zone investments known as the "Industrial Park-Port Interconnection, Two-

Wheel and Two-Wing Approach,” is also seeing further Chinese investment in industrial parks and ports around the region.

Kuwait, keen to bring some of this investment – and the BRI – into Silk City, has been working hard to drum up interest for the project among Chinese officials. A major incentive, Silk City’s advocates argue, is the access the project will give China to the wider region, providing a gateway for [investment in Iraq](#) and, further down the line, Syria. Reconstruction in Iraq alone is estimated to require \$88bn, just to meet immediate needs. The BRI’s overland Silk Road, which connects through Central Asia to Iran, could also join up here, too.^[7]

In 2018 the Kuwaiti and Chinese governments signed a memorandum of understanding aimed at moving the Silk City project forward, while a high-level Chinese delegation visited the site in February 2019.^[8]

To Be or Not to Be?

For the Chinese, taking a major step on the ground in the northern Gulf has never been a question just of dollars and cents. Its potential involvement in Silk City raises a key question – one that Beijing will increasingly face as its global ambitions grow. Just how far is it prepared to become involved not just in regional economic development, but also in issues of regional security?

Kuwaiti advocates of Silk City are hoping that the People’s Republic will be willing to take on the risks in order to gain the potential rewards. Yet the jury remains out on whether Beijing will reach the same conclusion. In the meantime, Kuwait’s construction megaproject will continue to face a major fight to stay alive amid continuing regional – and local – turmoil.

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