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Building a knowledge-based economy and nationalising jobs in Kuwait: assessing compatibility of these national objectives

Philippe Fargues*

philippe.fargues@eui.eu
Philippe Fargues,
European University
Institute, Florence

RÉSUMÉ

Le gouvernement du Koweït souhaite libérer le pays d'une double dépendance, en matière d'exportations d'hydrocarbures et d'importations de main-d'œuvre. Comment transformer une démographie faible en capital humain fort afin de construire une économie du savoir, tel est le défi. Qui seront les détenteurs du savoir : les nationaux ou les résidents étrangers ? Après des débuts spectaculaires il y a cinquante ans, les universités du pays ont commencé à ralentir vers la fin du siècle dernier, et la proportion de diplômés à décliner parmi les jeunes générations. Le temps est venu d'établir un lien plus fort entre universités et marché du travail, et de revaloriser l'embauche de diplômés par le secteur privé.

ABSTRACT

The Government of Kuwait is keen to free the country from a double dependency, on oil exports and labour imports. The challenge is to transform a weak demography into strong human capital and build a knowledge-based economy. But will nationals or foreign nationals be the main holders of the needed knowledge? Universities that had an impressive start fifty years ago began to retreat towards the end of the last century, and the proportion of graduates to decline in recent generations. Time has come on the one hand to establish greater links between universities and the labour market, and on the other to ensure more and better paid job opportunities for graduates in the private sector.

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From an oil-based to a knowledge-based economy

Rule of oil over the world's economy will eventually pass. For states of the Gulf Cooperation Council (GCC) in which hydrocarbons exports still account for more than three quarters of total government revenue, great changes loom on the horizon. Moreover, while oil has propelled the Gulf's economy for the greater part of the last half century, overall demography of the GCC states remains a setback: enormous surpluses of natural resources are met by critical deficits of manpower and skills in the scarcely populated Gulf.

Since the very beginning of oil extraction, immigration has responded to imbalances between capital and labour. But immigrants were never naturalised and integrated into national populations. As a result, foreign-nationals represent today 66.6 per cent of the total resident population in Kuwait and proportions ranging from 37.9% (Saudi Arabia) to 87.0% (United Arab Emirates) in other GCC states.

GCC governments all consider that they must free their countries from a double dependency, on oil exports and labour imports. Part of their strategy has focused on developing local human capital and building knowledge-based economies (in parallel with securing leading positions in the global financial industry) in order to prepare for the post-oil era. This particular economic and societal transformation in the GCC and Kuwait presents two key questions: 1) is local knowledge up to the challenge? and 2) Will nationals or foreign-nationals be the main holders of the needed knowledge? These two key questions are discussed below with a focus on the case of Kuwait.

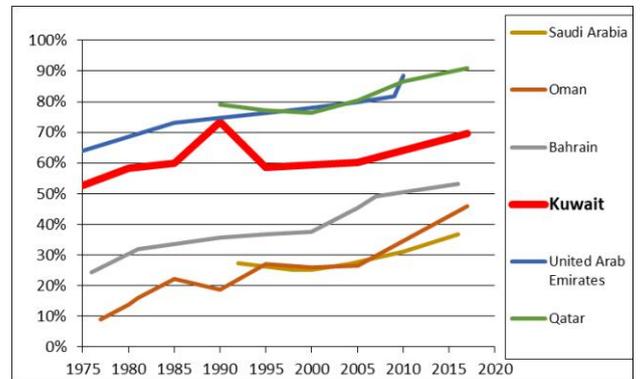
Oil blessing and demographic curse

The sheer magnitude of oil proceeds and their continuous growth (despite vicissitudes in Brent prices since their first major surge following the October 1973 War) has made it possible for GCC states to embark on unprecedented economic modernisation. Development projects run by states and private companies have been heavily reliant on foreign workers, out of proportion to local human resources, generating large-scale immigration of labour and skills from outside the GCC. As shown in Figure 1, the proportion of foreign-nationals residing in GCC states has continuously increased over the last fifty years (except in Kuwait where its rise was temporarily interrupted by the Iraqi invasion).

Two remarks must be made. First, Kuwait distinguishes itself from the general trend. Its spectacular rise as a magnet for migrant workers in the early years of oil production in the Gulf was suddenly interrupted in 1990 by the Iraqi invasion of the country. Not only did the war trigger the departure of hundreds of thousand foreigners

employed in the country. In addition, this war changed the way in which Kuwaiti government envisions foreign labour dependency, and the way migrants regard Kuwait as a desirable destination to work abroad. Hence, the presence of mutual distrust reduced overall migration. Yet, a decade later, the proportion of foreigners in the total GCC population began to rise again.

Figure 1: Percentage of foreign-nationals in the resident population of GCC States 1975-2017



Source: GCC States' statistical offices

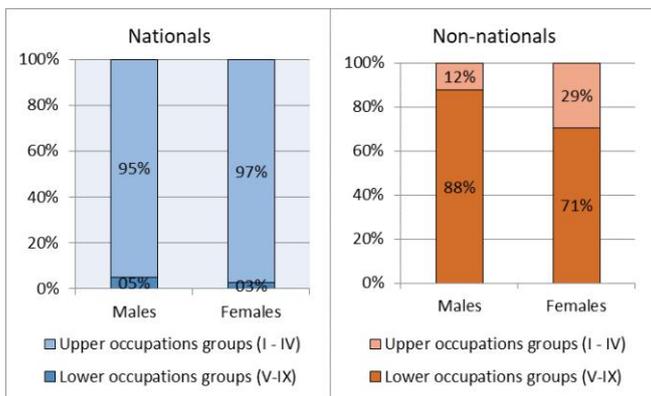
Second, nationalisation policies adopted by Kuwait and other GCC states' since the 1990s to replace foreign workers with local nationals have failed to significantly curb immigration. Several measures were taken to discourage the hiring of foreign workers, such as tightening entry and exit conditions for these employees, and creating tax penalties for employers who hired foreigners. Despite these measures, and in a context where the private sector leads in job creation, private employers continue to hire foreign workers as they are ultimately cheaper and less demanding than hiring a local national. Local nationals, and young local national professionals in particular, continue to turn towards public sector jobs as they are better paid than the private sector. These factors have resulted in a continuous proportional increase of foreign-nationals in the labour force in Kuwait as well as in all other GCC states.

Beyond figures, dependency of Gulf economies on foreign labour should also be understood in qualitative terms, looking at the division of labour between nationals and foreign-nationals. Figure 2 shows the clear-cut nationality divide of the Kuwaiti labour markets (which does not significantly differ from other GCC states in this matter). Nationals who are active in the local labour market are almost always employed in the upper range of occupations. More specifically, 95% of Kuwaiti male workers and 97% of female Kuwaiti workers fall into one of the following groups: legislators, senior officials & managers; professionals; technicians & associates; and clerks. In contrast, the majority of foreign-nationals (88% of men and 72% of women) work in five groups at the bottom of the ladder: service, shop & market workers; skilled agricultural & fishery workers; craft

and related trade workers; plant & machine operators & assemblers; and primary occupations.

Nevertheless, foreigners at the top of the ladder, despite being a minority among foreign workers (12% of men and 29% of women), are a majority among workers at the top of the occupational ladder in the private sector, Kuwaitis and non-Kuwaitis included. Encouraging nationals to take up unskilled, low-paid jobs that are vital to the local labour market is simply unrealistic. Replacing high-skilled expats by nationals in the private sector might also create serious challenges.

Figure 2: Percentage Distribution of Employed Persons by Occupation, Nationality, and Sex in Kuwait in 2015



Source: Central Statistical Bureau of Kuwait, Labour Force Survey 2015.

Note : Nationals and Non-Nationals are on two different panels; on each panel and for each of males and females, two levels of occupations are distinguished to which percentages refer.

Retreating higher education in Kuwait

The oil economy served GCC populations beyond the mere increase in households' monetary income. Rulers were keen to provide broad wellbeing to their citizens, in particular through the development of education. The rapid development of schools at all levels ranging from pre-primary to tertiary education has been remarkable across the Gulf. It only took a few decades for Gulf nationals to evolve from a largely illiterate population to one with a large proportion of citizens (particularly women) with tertiary education.

From the population register held by the Public Authority for Civil Information – which records all residents by age, sex, level of education and nationality – one can draw a detailed picture of the spread of university education in Kuwait over the last half century. Administrative records make it possible to capture the development of formal education from one generation to the next through various indicators. Fig. 3 provides the proportion of people who completed tertiary education from generations born in the early 1940s onwards.

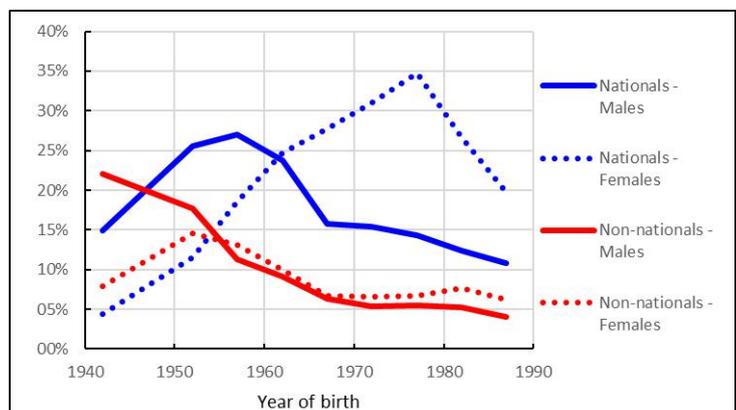
The pattern shown by Kuwaiti nationals is noteworthy, taking into consideration that the first

Kuwaiti university did not open before 1966. There is also a remarkable proportion of university graduates among Kuwaiti males as high as 15% for those born in the early 1940s (reaching university age in the late 1960s / early 1970s) and 25.2% 10 years later. Considering the patriarchal context of Kuwait, it is even more noteworthy that, starting from the generations born in the 1960s, more women had attended university than men. The proportion of university-educated women in contrast to men, culminating at 34.7% for those born in the late 1970s, is remarkable.

Following this uptick, a sudden change happened. University enrolment of Kuwaiti men started steadily declining from generations born in the 1960s and onwards (this became the case later on for women). These generations had reached university age during difficult times: the oil crisis of the late 1980s, followed by the 1990 Iraqi invasion of Kuwait, and its strenuous consequences the following decade. Conceivably, the progress of tertiary education would pay the price for a challenging post-war recovery. However, this presents an important question: why has the decrease in university enrolment continued until more recent generations (individuals born in the 1990s who reached university age around the 2010s)?

Is it a consequence of smaller government allocation for education in Kuwait compared to the rest of the GCC (less than 10% of Kuwait's budget in contrast to the 15% average in other GCC countries)? Or, is it that young people are not sufficiently attracted by lengthy tertiary studies? A quarter of Kuwaiti youth are unemployed, and the prospects of university may not be encouraging for ensuring a future stable career. Lastly, should one consider the role of indirect demographic processes that are of influence? For example, Kuwaiti nationals who have a lower than average level of education, yet some of the country's highest birth rates.

Figure 3: Proportion of individuals with a university degree or more (ISCED5+) by generation, nationality and sex in Kuwait (End of 2014)



Source: Public Authority for Civil Information (PACI)

<http://stat.paci.gov.kw/englishreports/#DataTabPlace:ColumnChartWorkAge>

Regarding foreign-nationals, the pattern displayed in Figure 3 is puzzling at first glance. The proportion of university graduates culminates among older migrants (born in the 1940s), then begins to regularly decline from one generation to the next. This counterintuitive trend (in migrants' origin countries, young people are more educated than older generations, and an increase in educational level from one generation to the next would be expected) reflects in reality two particularities of labour migration to Kuwait (as well as in the rest of the GCC).

First, low-skilled migrants (the greatest demand present in Gulf labour markets) are typically young individuals holding short-term contracts. Once their contract expires, new migrants replace departing ones at the same (low) level of skills and education. The flat trend in the proportion of university graduates observed from generations born in the 1960s onwards reflects an unchanged demand for low-skilled workers (typically in the construction sector for men and domestic services for women). Second, according to Kuwaiti law, a certain level of income is required for migrants to have a right to family reunion. Schematically, because living far away from family is increasingly painful with the passing of time, migrants without the right to bring their family tend to depart earlier than those who are able to have their family present. Older foreign-nationals (e.g., individuals born in the 1940s and 1950s) have on average lived in Kuwait long-term, and have the mid to high level income (often linked with university-level education) necessary to remain in-country.

Establishing strategies to ensure a smoother economic transition in the post-oil era

The challenge at hand for Kuwait (and other smaller states of the GCC) is to transform a weak demography into strong human capital. While overall population in Kuwait is unlikely to reach an extraordinary size, a higher level of education combined with a powerful financial position could provide a necessary basis for developing a successful economy in the post-oil era. Oil may have brought financial success to the region, but it also simultaneously created several long-term counter-effective outcomes.

With regard to higher education, oil revenues made it possible to develop universities. It also permitted Gulf nationals, through various redistributive mechanisms (not covered in the content of this paper), to stay out of the labour market. Universities that had an impressive start in Kuwait became stuck later on towards the end of the last century, as displayed by a dramatic decline in the proportion of graduates in subsequent generations. This demonstrates the need for a thorough diagnosis of how the higher-education system in Kuwait has evolved since the beginnings

of its oil-based economy.

In order to build and expand human capital amongst Kuwaiti nationals, two complementing strategies seem suitable. First, establishing greater links between universities and the labour market, focusing on the quality of curricula and the diploma's value. In turn, these changes will create greater efficiency in ensuring more and better paid job opportunities for graduates, and making the overall university experience more attractive for younger generations. Second, providing foreign-nationals with naturalisation opportunities, thus allowing full integration of selected migrants whose skills are greatly needed in the national population. ■



U^SPC
Université Sorbonne
Paris Cité

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Directeur de publication :
Bruno Palier

Edition et maquette :
Andreana Khristova
Samira Jebli

Sciences Po - LIEPP
27 rue Saint Guillaume
75007 Paris - France
+33(0)1.45.49.83.61

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