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Kuwaiti Government Initiatives And Efforts Towards Nationalizing Labor Market

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ABSTRACT

The immigration rate in the Gulf Cooperation Council states (GCC) has reached such levels that locals have become a minority in the private labor force in every Gulf Cooperation Council state except Saudi Arabia. Even after the initiation of nationalization policies, this remains the case, and Kuwait is no exception. According to the latest statistics from the Kuwait Public Authority for Civil Information, the population of Kuwait hosts about 2.8 million expatriates compared to a local population of about 1.3 million citizens. Kuwait's dependence on expatriates has created both opportunities and challenges for the employment of Kuwaitis in the private sector. The expatriates are visible at almost every economic activity ranging from high-tech engineering projects to simple daily transactions. However, the unexpectedly high growth in population has resulted in demographic imbalances particularly when it comes to the gender ratio. Limited research has been conducted on the Gulf Cooperation Council states in general and on Kuwait in particular in term of efforts at preparing nationals or local citizens for entry into the skilled workforce. Therefore, this paper focuses on government initiatives and efforts in supporting local labor to replace the foreigner's works at different sector. In term of organization, this paper aims to explore the new Economic and Political initiatives of Kuwait government for replacement policy. The paper will also explain the forms of Kuwaitis reluctance of working in both public and private sectors. Moreover, it discusses the current practice of replacement policy in Kuwait. The final section of the paper presents the summary. The research reveals some facts, among which are: 1- Kuwait's dependence on public sector jobs is more intense than other GCC countries, with 75.8% of Kuwaiti employees working for the government. 2- The approach that Kuwait took to nationalize its private labor market coincides with the one followed by other GCC countries, but with the difference that the Kuwaiti law takes into account the nature of different sectors. 3- The



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

Kuwaiti workforce is still concentrated in the public sector whilst migrant manpower dominates the private sector, thus, become the dominant demographic group in society.

1. INTRODUCTION

The peculiar trajectory of economic growth and development in the GCC states has unwittingly contributed to the underdevelopment of national educational systems, rising unemployment, and low level of citizen participation, particularly in the private sectors. Current nationalization efforts seek to redress structural labor shortcomings going back to the number of decades. With the widespread discovery of oil in the 1940s and the spread of affluence across Arabian Peninsula societies, jobs requiring various levels of skill were taken up by foreign migrant workers. Across the GCC, rapid economic growth facilitated infrastructure development and the widespread provisions of public goods. In order to support and sustain this growth in the wake of a shortage of supply of native labor, foreign workers were invited to fulfill these roles. (Fred Halliday, 1977) Currently, the need to diversify the economy beyond income generation through oil-based revenue has led to a further influx of expatriate workers in the service and construction industries in particular. Debra Johnson states that “the strategy of oil-exporting developing countries, “is to develop their hydrocarbon industries and utilize the revenues from them to diversify into new economic activities, thereby reducing their over-reliance on this one sector.” (Johnson, 2005)

Over time, a number of GCC countries became dependent on cheaper migrant labor as well as on more qualified Western expatriate labor. In comparison to the relatively



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

wealthy nationals, expatriates have been willing to work longer hours, accept lower wages, and tolerate poorer working conditions as well as more physically demanding jobs (McMurray, 1999). Consequently, in most GCC countries, over 60% of the labor force is foreign (Maloney, 1998)

The extent of the demographic imbalance is evident in Table 1.



Table 1: Citizen and Expatriate Statistics of GCC

Country	Total Population	Citizen population	Citizen as percentage of total	Expat population	Expat as percentage of total
Kuwait	3,566,437	1,859,437	52	1,707,000	48
Bahrain	791,000	522,049	66	268,951	34
Oman	2,845,000	2,267,707	80	577,293	20
Qatar	27,136,977	20,992,741	77	6,144,236	23
UAE	4,106,427	828,427	20	3,278,000	80
Total (GCC)	4,106,427	27,646,104	69	12,496,300	31

All six nations of the GCC share an over-reliance on migrant labor; high rates of citizens' unemployment; education systems that are still undergoing fundamental development; an inadequate gender balance in the workforce; and poor levels of private sector employment of citizens. Consequently, as part of a long-term, strategy for efficiency and harmony in human resource management in the region, the examination and implementation of nationalization policies are necessary considerations for governments to redress these socio-demographic imbalances within the labor markets. As the aspiring knowledge-based economies of the GCC experienced phenomenal growth over the past few decades, GCC governments have recognized that the country's long-term development needs cannot be seconded indefinitely to foreign experts, and



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

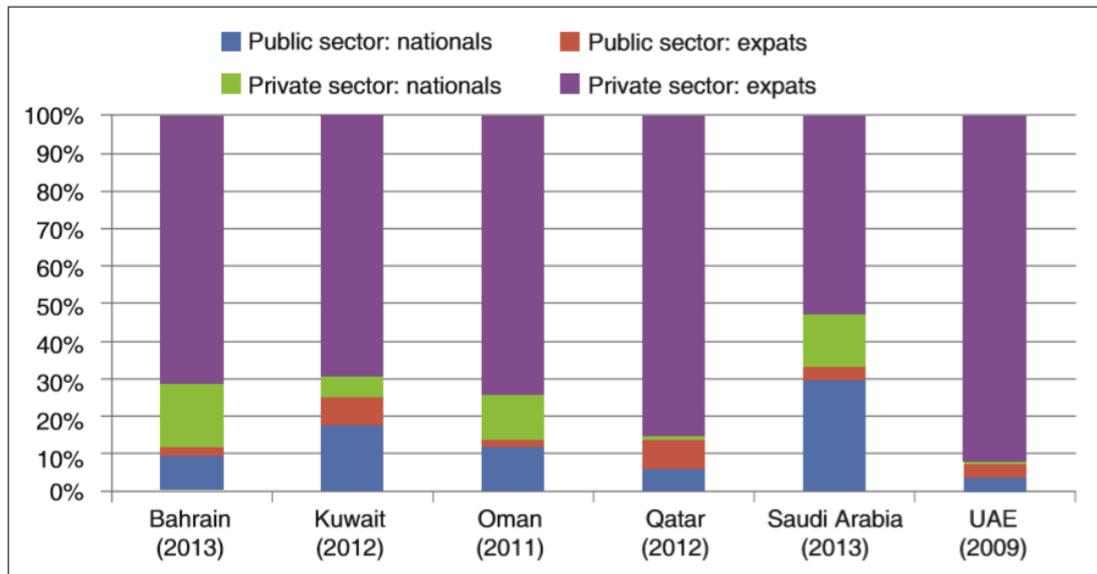
must be placed in the hands of a growing national workforce (Randeree and Gaad, 2008)

2. GCC GOVERNMENT INITIATIVES TOWARD NATIONALIZING LABOR MARKET

Labor markets in the state of Kuwait as well as other GCC share two fundamental outcomes which are 1- private labor markets largely dominated by foreigners and 2- The outsized role of government in the employment of nationals.

Figure 1 gives an overview of the resulting segmentation structures across the GCC. There are significant differences among GCC in the extent of these biases.

Figure 1: Distribution of employment by sector and nationality in the GCC



Source: labor Market Regulatory Authority (Bahrain), Public Authority for Civil Information (Kuwait), Central Bank (Oman), Qatar Statistics Authority, Central Department of Statistics (Saudi Arabia), author's estimates combined with 2005 census data (for UAE).

The historical roots of GCC's skewed employment patterns lie in the oil-fueled state expansion and labor migration that started after WWII and accelerated in the wake of the post-1973 oil boom. As national populations were too small and insufficiently skilled to serve the rapidly growing demand to expand infrastructure, public and private services, GCC economies relied on labor imports from the wider Arab world and, increasingly, South Asia.



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

2 Delegating some of the control over migrant workers to the local private sector, GCC governments from 1960s on curtailed foreigners' internal labor market mobility through "sponsorship" rules tying them to their local employers. (Forstenlechner and Rutledge, 2010)

Table 2: illustrates some of the reforms undertaken by the GCC states over the last decade as part of the drive to employ more nationals in the workforce.

Labor Market Reform

Bahrain	Recently developed a new National Employment Strategy that includes providing fiscal subsidies for training nationals in the private sector and financial aid for the unemployed. Introduced measures to improve general education standards, and vocational and technical training programs, and increased employment quota of Bahrainis in small and medium-sized companies while abolishing the "free visa" system to expatriate labor force.
Kuwait	Established Manpower and Government Restructuring Program (MGRP) in July 2001 to implement the labor law, provide unemployment benefits to unemployed Kuwaiti nationals, and provide training and facilitate employment of Kuwaiti nationals in the private sector. Approved, in September 2002, quotas for the proportion of Kuwaitis those private companies must employ; companies that fail to meet this target would be subject to a fine and sanctions such as exclusion from bidding for government contracts.
Oman	Introduced measures to improve vocational and technical training programs, and set a uniform minimum wage for Omanis at RO 100 (plus RO 20 as transportation allowance) instead of the previous two-tiered



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

	(skilled/unskilled) minimum wage. The authorities are also modernizing the educational system at all levels. A new ministry of manpower was created in 2002 and a new labor law adopted in May 2003.
Qatar	Formally ended the policy of automatic employment for Qatari graduates. Now assists job seekers by maintaining information on job openings and by counseling and training. Established a department in the ministry of civil service with responsibility for this function.
Saudi Arabia	Created the Human Resources Development Fund (HRDF)—with financial participation of the private sector—to provide training of Saudi labor force in skills required by the private sector, and development of a database for matching and placement of Saudi workers in the private sector.
United Arab Emirates	Established the National Human Resource Development and Employment Authority to help improve skills of U.A.E nationals looking for jobs; and established a national labor market database to facilitate nationals' job searches.

Source: Adapted from Ugo Fasano and Zubair Iqbal (2003)

Kuwait as well as other GCC have long recognized that dependence on an expatriate workforce has serious and long-term political, economic, and social implications (Looney, 2004). As a result, all countries in the region have developed policies that influence employment practices in public and private sectors, and have initiated steps toward nationalizing their workforces. While nationalization strategies differ from one country to another, they all commonly involve mainstream strategic human resources activities, such as recruitment and selection, education and training, career management, and the design of reward systems. (Al-Lamki, 1998) The characteristic challenges faced by HRM in countries interested in encouraging nationalization are to motivate nationals to participate actively in the national economy; to raise skill levels



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

among nationals; and to provide a favorable work environment that enables nationals to recognize and apply their potential.

All across the GCC, segments of the leadership have been aware that governments cannot absorb new groups of national labor market entrants forever. This is why policies to increase the share of nationals in private employment have been a topic since at least the 1980s, though the discussion has become wider, more pressing and more visible since the 2000s. These programs have continued to seek the proactive involvement of nationals in mainstream economic activities and more recently, the creation of employment opportunities for women in order to integrate them into the formal economy. (Rees & Mamman, 2007)

3. THE NEW ECONOMIC AND POLITICAL INITIATIVES OF KUWAIT GOVERNMENT FOR REPLACEMENT POLICY

At the time of Kuwait's first census in 1957, Kuwaitis constituted 55% of the country's total population. This figure decreased to 42% by 1980, and to about 40% by 1985. In 1980, Kuwaitis made up less than a quarter of the total labor force due to accelerated levels of immigration. The country had thus developed an extreme level of dependency on foreign workers. Kuwait had fewer than one million people in 1975, which increased to 1.35 million in 1980 and to 1.7 million in 1985. These increases were due, for the most part, to the influx of migrant workers (Nasra, 1986). Currently in Kuwait, foreign nationals comprise 52% of the population (as seen in Table 1) and 78% of the labor



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

force. As for Kuwaiti citizens, 62% of Kuwaiti males are employed in public sector administrative and social occupations, whereas their percentage in private sector sales and production work has been on the decline since the 1970s.

The Kuwaitization policy can be traced back to the late 1970s, when the demographic profile of the country had a burgeoning youth population, whereby half of the national citizens were under the age of 15 and thus, led to Kuwait's economic productivity being the lowest throughout the Arabian Gulf (Hertog 2014; Gulseven 2015; Hosni and Sirageldin, 1985). In response to these dynamics, the Kuwaitization policy was adopted to regulate the labor market and its workforce composition, by restricting the presence of migrant manpower and replacing them with workers from the national labor pool (Shah 2008)

The Kuwaitization process aimed to balance the national and foreign workforce ratio not only by providing educational/training programs as is the norm across the GCC, but also by changing Kuwaitis' attitudes towards manual work. Kuwait experiences difficulties in private sector employment; good public sector representation; a focus on stipulating national work force percentages; limitations on the issuance of work permits for new foreign laborers; positive action on female citizen participation in the workforce; a national work force restructuring program; and training programs to equip citizens to take up positions in the private sector. (Mostafa, et al., 1996)



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

Contemporary workforce nationalization policies gained force in the mid-1990's as oil rents began decreasing due to protractedly low oil prices and the entry of large numbers of new job-seekers in the market (who had been born during the oil boom period of the 1970's). Nationalization covered three broad policy responses, namely, enhancing educational attainment, diversifying the economy and intervening directly in the labor market (through quotas and designating certain occupations to be staffed solely by nationals). With varying degrees of commitment, most GCC states had already begun experimenting with these policies from the 1980's onward. (Mostafa, et al., 1996)

This may be neatly summarized as follows – Kuwait sees heavy preference amongst its nationals towards working in the public sector leading to difficulties in meeting quota targets in the private sector; there are limitations on the issuance of work permits for new foreign laborers; positive plans to increase female citizen participation in the workforce; a national workforce restructuring program; and training programs to skill citizens for the private sector. Initially, the Kuwaiti government had commenced with strict guidelines that only allowed the single-entry of foreign workers and not with their families, and planned that more capital intensive technology would be imported in order to reduce dependence on foreign employees (Tzannatos, Zafiris, 2009)

The latter has ironically resulted in the creation of specialized profession filled by skilled expatriates. It was finally in 1997 with the establishment of the Manpower and Government Restructuring Program (MGRP) that the aim of redistributing Kuwaiti employees matured to meet a more balanced target across public and private sectors. The Kuwaitization policy now included quotas based on the sector of activity in non-



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

governmental industries. By 2008, 60 % nationalization was required for banks, 15 % for the real estate sector, and 2 % for manufacturing industries, as outlined in the Ministerial Decree 1104. This policy was subsequently followed by the National Assembly's law (19/2000), which stipulated that additional allowances would be paid to Kuwaiti professionals in private sector organizations and outlined that employers be incentivized as well. As per the latest MGRP statistics, unemployment among Kuwaiti nationals has been steadily declining; falling from 8.5 per cent in 2000 to 4.9 per cent in 2010, and the public-private sector imbalance is being gradually redressed. (Hertog, 2012)

Several alternatives to this system have been under consideration. The government has also considered a special state organization to be in charge of labour imports and acting as their sponsor, and it has announced plans to directly import workers for its own contracting and construction projects to prevent free visa deals. The idea of "self-sponsorship" for higher-income expatriates in Kuwait has also been mooted. It has already prohibited employers from keeping the passports of their employees. For the most part however, the above plans have not been acted on, although this might change with the planned creation of a new, independent labour market regulator announced in 2013. It remains to be seen whether this regulator would also act as workers' sponsor, thereby guaranteeing their mobility on the internal labour market. An alternative plan recently announced would be to put all workers under MoL sponsorship after a year.

Kuwait's wage subsidy system for nationals in the private sector is perhaps of the greatest comparative interest in the GCC context. It goes back to Law 19 of 2000, which



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

extended social and child allowances to privately employed Kuwaiti nationals. The system, also known as da'm al-'amala ("wage support"), was implemented in 2001 and has since been extended to an ever-growing number of private sector employees. The levels of the basic allowance differ by family status and education level, and are broadly in line with allowances in the public sector, which are also differentiated by family status.¹⁹

After a raft of drastic public sector salary increases, the da'm al-'amala allowances were also almost doubled in early 2013, reaching 790 KD (\$2,800) per month for an unmarried holder of a bachelor's degree and 1248 KD (\$4,400) for a married man with a degree. A high school graduate now receives 557 KD (\$2,000). It should be noted that although higher levels of education lead to higher core allowances, the proportional differences in private sector salary levels according to education are considerably larger. This means that, at least in proportional terms, the subsidy scheme is of greater benefit to less educated nationals. It therefore is equivalent to a progressive tax and gives particularly strong incentives to less educated Kuwaitis to join the private sector (Steffen Hertog, 2014). (Steffen Hertog, 2014)

The effect of the scheme on Kuwaiti employment is hard to isolate from other factors, such as the impact of "Kuwaitization" quotas. It should be noted, however, that private sector employment of nationals in Kuwait is considerably higher than in the other two high-rent GCC countries, the UAE and Qatar.

As for political initiatives, securing employment opportunities for all Kuwaiti citizens has long been regarded by the government as a national commitment and as a



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

leadership's duty towards its subjects. This is explicitly stated in the country's constitution, article (i) (Al-Enezi, 2002).

Several initiatives to implement "Kuwaitization" of the work force and thus reduce dependence on foreign workers have consisted of (Looney, 1991):

1. Preference for contractors who bring their own workers with them, without encouraging workers to settle in the country.
2. Stricter control of illegal immigrants.
3. Amendments regarding the valid period of residence and limiting non-national work permits to two years.
4. A massive increase in expenditure on education and vocational training aimed at accelerating the replacement of expatriate workers with nationals.

The main area of implementation was that in 16 occupations, which were across the secretarial and IT sector, employment opportunities were to be restricted and reserved for the national workforce (Dito, 2008). This continually evolved and over time, by 2008, banks were required to nationalize 60 per cent of their work force, the manufacturing industry had to nationalize 2 per cent, whilst within the real estate sector, they had to nationalize 15 per cent of its workforce (Shah 2008; Hertog 2014) Whilst across the whole private sector, companies who were not set a sector specific quota, they were required to nationalize a minimum of 25 per cent of their workforce (Shah 2008; Hertog 2014). In applying these quotas, it was considered an effective governance mechanism in rebalancing the labor market, because as highlighted in



Figure 1, there are numerous implementation mechanisms that have been adopted to ensure that private sector companies are meeting their set quota.





Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

Figure.1. Kuwaitization Implementation Mechanisms) (Information Source: Shah; Hertog 2014; Gulseven 2015)

Indeed, Kuwait differs from the rest of the GCC, because they have addressed the issue of private sector wages as being an obstacle to the participation of the national workforce and thus, have implemented an extensive wage subsidy policy as their central Kuwaitization mechanism (Gulseven 2015). (Gulseven 2015). Therefore, this strategy seeks to entice the national labor force to similar roles in the private sector by receiving a similar pay, whilst the financial burden on the private sector companies is reduced, because the government pay half the national worker's salary for a minimum of three years (Allam, 2013)

To develop the national human capital who are better qualified and meet the requirements of the private sector, the government also offer skill development programs, vocational work experience and industrial placements to young Kuwaitis. The companies in the private sector are also required to facilitate this process, by investing and assisting in the education and training opportunities available to their national workforce and in return, receive economic benefits through government subsidies (Allam, 2013).

Measures to Reduce Dependence on Foreign Labor The immigrant labor force is a majority in all sectors of the economy, both private and governmental. In such a situation, Kuwaitis feel compelled to compete with foreigners in all jobs within all sectors. This is so despite a commitment from the government to gradually increase the proportion of Kuwaitis in posts that are presently occupied by immigrant workers.



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

The Government Sector Employment Law No. 16/1960 was designed to ensure that every suitably qualified Kuwaiti citizen has the right to a job in the public service and to encourage “Kuwaitization;” i.e., the replacement of expatriates with nationals. The government created a special budget called “*Complementary Fund Budget*” (CFB) to provide funds for government departments, encouraging them to accept new Kuwaiti applicants. University graduates and secondary and intermediate school leavers (after attending training courses) are allocated posts in different government departments (Al-Enezi, 1990). (Al-Enezi, 1990)

4. THE CURRENT PRACTICE OF REPLACEMENT POLICY IN KUWAIT

Since 1964, the government has formulated labor laws to regulate the private sector. A summary of the laws prior to the 2010 laws may be found on the website of the Ministry of Social Affairs and Labor in English (www.kuwaitiah.net). In February 2010, the labor laws for the private sector were revised and published in the local newspapers. In the revised laws, several new clauses were added and many of the rules for employment were elaborated further. Like the previous laws, however, the revised labor laws continue to exclude domestic workers. The 2010 labor laws state that a resolution to regulate the relationship between employers and domestic workers shall be issued by the competent Minister. Such a resolution had not been enacted until October 2011. Six of the laws specified in the 2010 labor laws for the structure



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

of Kuwait's labor force are: Revamping the Kafala System, Weaknesses and benefits of the kafala system, Rules for Forming Syndicates or Trade Unions, transfer from One Employer to Another, Women's Employment, Working Hours, Holidays and Overtime Remuneration and Wages and Payments.

5. CONCLUSIONS

Kuwait's dependence on public sector jobs is more intense than GCC countries, with 75.8% of Kuwaiti employees working for the government. The approach that Kuwait took to nationalize its private labour market coincides with the one followed by GCC countries: establishing minimum levels of Kuwaiti employees in each company, but with the difference that the law takes into account the nature of different sectors. Additionally, restrictions in the outstanding amount of visas have been under consideration, although authorities seem to be holding measures back for now.

Around 82% of national workers in the public sector have also evolved positively, since 2008. Systems of quotas set the incentives of the companies in the direction to



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

increase the presence of national workers in the private labour market, but they are only a partial solution and they could backfire in several manners. Productivity of companies could be under threat, since companies could be deprived from necessary skills, national workforce could be less affordable and legal overprotection of national employees could remove their incentives to become more efficient. Moreover, the private sector could be unable to match the generous retribution and conditions in government jobs, leading to substantially worse labour conditions in the private sector, a potential source of social discontent. Policies to reduce the dependence on public sector jobs must be integral, acting not only on firms but on national employee incentives to perform and trying to prevent the public-private duality in the labour market.

Through the concurrent application of Kafala system, which strictly regulates the socio-economic mobility of the transient migrant workforce, alongside the Kuwaitization strategy which has applied a blanket quota of nationalising 25 per cent of a private sector company's workforce, this should assist the state in meeting their overriding objective of ridding the labour market formation. Because by transferring Kuwaiti manpower into private sector employment, this should end the public sector being the primary employer of the national citizenry. Through restructuring the labour market, this should also contribute to another longstanding goal of reducing the presence of the migrant labour force, especially in the private sector (Brinkely et al 2012).



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

The revised labour laws for the private sector, discussed in this paper, could have significant impacts on the future size and characteristics of the Kuwaiti and non-Kuwaiti labour force. It should be stressed, however, that these laws are applicable to only about 20 percent of the national labour force but more than 90 percent of the non-national labour force, because of the differential private sector concentration of the two populations. A few implications of the revised laws may be highlighted as follows.

The establishment of a special body, PAM, might streamline the process of hiring foreign workers and might help to eliminate the practice of visa trading. Foreign workers who buy visas from Kuwaiti sponsors would benefit greatly if they did not have to pay for the visa. The practice of visa trading is, however, very deeply rooted and provides many nationals an easy supplemental income. At the same time, it facilitates the foreign worker's move to Kuwait. Serious efforts at halting visa trading would be unpopular with nationals who benefit from such activity, and may also hinder labour migration. Thus, the implementation of such rules would take a lot of courage, clear policies, and continuous follow-up to ensure successful outcomes. As of December 2011, PAM has not yet been established perhaps as a result of the above difficulties.

The Kuwaiti workforce is still concentrated in the public sector whilst migrant manpower dominates the private sector and have thus, become the dominant demographic group in society. For example, in 2012, migrants accounted for 68.3 per



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

cent of Kuwait's resident population and comprised 83 per cent of the total population. This has been facilitated by the government themselves, because within the last decade, migrants who have been granted residency permits doubled from 624,192 in 2001, to more than 1,306,634 in the last couple of years (De Bel-Air 2013; World Bank 2017). Due to their increased presence in society, The Ministry of Social Affairs and Labour promulgated that starting from 2013, migrants are to have a reduced presence in the overall population by 100,000 a year over the next decade and therefore, contribute to the government's objective of reforming and re-organising the labor market whilst correcting the severe demographic imbalance (Allam, 2013). It is evident therefore, that the late renter Kuwaiti state acknowledges that for their long term socio-economic prosperity, they need to address the labour market distortions and wider demographic imbalance which is a socio-political threat. (Gray, 2011)

Moreover, the establishment of a minimum wage is a welcome step that is likely to help a large number of foreign workers, especially Asians, who are concentrated in low-paying production and related occupations. The concerned Ministry would, however, need to ensure that companies, in fact, comply with the new rules.

Furthermore, with regard to working hours and overtime remuneration, observation and discussion with various private sector employees suggest that many private companies are not following these rules. Foreign workers often accept this situation and do not have any forum to get organized in order to demand their rights from the employer. They cannot form labour unions or syndicates since this right is given only



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
Development Inc. Sydney, Australia*

to nationals, as mentioned earlier. Thus, the revised laws do not enhance the capacity of foreign workers to seek redress for grievances or settle labour disputes. Once established, PAM may facilitate such capacity.

The additional focus on women's employment clarifies the rights and restrictions for women's work in the private sector. Such clarifications may encourage the participation of Kuwaiti women in the private sector, as desired by the government. While the revised laws do not differentiate between foreign and national women, the two groups do not enjoy the same privileges in the workplace. In the case of maternity leave, for example, nationals are far more advantaged than foreigners. Also, a very large group of women, the domestic workers, are excluded from the private sector law altogether. Hence, the labour laws do not provide any protection to domestic workers, male or female alike. No resolution has been issued to regulate the employer-employee relations in this sector, as promised in the revised labour laws.



Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
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Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
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Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

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Australian Journal of Islamic Studies
Vol.9, December 2018, pp. 5-35

*The Islamic Centre for Research and
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