

ANALYSIS OF POTENTIAL EMPLOYMENT CONSEQUENCES ASSOCIATED WITH THE NOVEL CORONAVIRUS: CASE OF KUWAIT

Dušana Alshatti Schmidt¹ 

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Abstract: *The novel coronavirus (COVID-19) outbreak has already left a mark on the economic activities and labor markets in both advanced and developing countries. While the impacts on the economy vary considerably, the oil dependent economies have been hit harder. Along with the impact of the pandemic disease, they have been contending with a major collapse in oil prices. Kuwait is the world's seventh largest exporter of oil. Falling oil demand might affect the future growth of Kuwait's economy in the long run, and if the crisis continues, possibility to provide employment opportunities will be challenged. The aim of this paper is to analyze potential pandemic's impact on employment in Kuwait in comparison with the financial crisis from 2008-2009, what is of crucial importance for the businesses in the region to understand. The paper is based on a systematic review of the secondary data gathered by international institutions.*

Keywords: *COVID-19, Oil, GDP, Labor market, Policy.*

1. INTRODUCTION

On 31 December 2019, the World Health Organization (2020) was notified about pneumonia of an unknown etiology spreading in Wuhan City in China. The number of people infected by an infection, identified as a *novel coronavirus*, has been escalating worldwide. On 11 February 2020, the World Health Organization (2020) announced *COVID-19* as the term for the new infectious disease. One month later, the COVID-19 outbreak was declared a *pandemic*.

Enforced quarantine, curfew, full lockdown, and other restrictions for disease containment implemented by authorities have had significant impact on the business activities, job securities, and global market as a whole (Sharif et al., 2020). Although, the impact may vary by country and industry as each country is in a different stage of dealing with the pandemic outbreak (Nicola et al., 2020), Kristina Georgieva (2020) emphasized that the global economic outlook for this year is at least as bad as the financial crisis of 2008-2009 and the recovery is expected to begin next year, depending on the virus containment.

According to the International Monetary Fund (2020a), the pandemic is more challenging for the countries in the Middle East that are considered wealthy, mainly due to their large oil resources. Despite their wealth, the pandemic is causing disruption to their economies and labor markets through reduced demand for oil, historic plunge in oil prices along with the suspension of services.

Kuwait is an oil-based economy where an increasing number of COVID-19 cases quickly led to the implementation of the strict containment measures. Further disruption of activities and services, and the drop in oil prices led to the announcement of a series of fiscal and monetary measures to ensure sustainability of the Kuwait's economy and support the survival of small and medium enterprises (SMEs).

¹ Comenius University in Bratislava, Faculty of Management, Odbojárov 10, 820 05 Bratislava 25, Slovakia

1.1 Methodology

The pandemic outbreak, containment measures and lower oil prices raise the following questions: *What are the pandemics' consequences for employment in Kuwait?*

The paper is based on a systematic review of the external secondary data. The data are obtained from online databases, government statistics, and reports published by international organizations. The paper describes the evolution of the novel coronavirus in Kuwait, the containment and economic measures taken by Kuwait's policymakers, discusses the implications of the coronavirus spread on oil prices and the growth of GDP, and investigates the potential impact of the pandemic on the labor market in Kuwait compared to the global financial crisis from 2008-2009.

2. EVOLUTION OF THE NOVEL CORONAVIRUS IN KUWAIT

The first confirmed case of the COVID-19 reported in the Middle East was in Iran (Sharifi et al., 2020). Kuwait announced the first three cases of the COVID-19 on 24 February 2020, when the passengers returning from the Iranian city of Mashad were tested positive (Kuwait News Agency, 2020a). As of 31 May 2020, there were total of 27 043 confirmed cases of COVID-19 and 212 deaths (Ministry of Health, 2020).

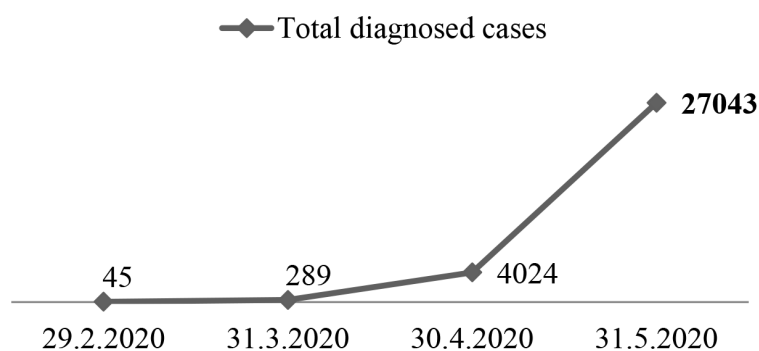


Figure 1. Diagnosed cases of COVID-19 in Kuwait
Source: Ministry of Health, 2020

2.1. Containment measures

Kuwait took an uncompromising stand against the novel coronavirus and implemented strict precautionary measures to ensure internal and external security and stability of the state. (See Table 1)

Table 1. Government containment measures

Date	Measures taken
1 March 2020	Suspension of schools and universities was implemented.
12 March 2020	Kuwait's government suspended work in all ministries, government agencies, public bodies and institutions excluding vital sectors and emergency services for 2 weeks.
14 March 2020	All inbound commercial flights to Kuwait International Airport were banned except for arriving Kuwaiti citizens and their immediate relatives, and travel across the border was restricted.
22 March 2020	The first partial curfew was implemented between 5pm to 4am, until further notice. Central markets and shops, except for grocery stores were closed. Kuwait's government extended the disruption of work in all ministries, government agencies, public bodies and institutions until 9 April 2020.

7 April 2020	The curfew hours were extended from 5pm to 6am until the holy month of Ramadan. Kuwait's government extended the closure of all ministries, government agencies, public bodies and institutions until 26 April 2020.
24 April 2020	The partial curfew was further amended from 4pm until 8am with the suspension of work in the public sector including at government ministries until 31 May 2020.
10 May 2020	Kuwait goes into complete lockdown for 20 days. Workers employed in sectors such as electricity, oil and workers employed in private sector assisting them were allowed to continue operations. Private supermarkets and grocery stores remained open.
31 May 2020	The first phase of easing lockdown restrictions. Kuwait's government started gradually lifting a lockdown imposed since 10 May 2020. Partial curfew was extended from 6pm until 6am. Cooperative societies, food retail shops, home delivery services, drive thru services at restaurants and cafes, public services including maintenance and laundry, industrial activities, company transport vehicles, patrol stations, private hospitals, private clinics and mosques reopened.

Source: Kuwait News Agency (2020b, 2020e), PwC (2020), Oxford Business Group (2020), Gulf News (2020), Reuters (2020), Gulf Business (2020)

2.2. Economic measures

The Kuwait's government established a committee to help Small and Medium-sized Enterprises (SMEs) and implemented the fiscal measures (see Table 2) to ease the negative effect of the pandemic on their economic activities.

Table 2. Government fiscal measures

Fiscal measures	<ul style="list-style-type: none"> • Budget for ministries and government departments was increased by KD 500 million; • Social security contributions for organizations in private sector were postponed for 6 months; • Full unemployment benefits were provided to Kuwaiti nationals; • Long-term loans from the SME fund and banks were provided to SMEs.
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Source: International Monetary Fund (2020b), KPMG (2020)

Monetary measures (see Table 3) were implemented by the Central Bank of Kuwait to ensure continuous access to the financial services and stability.

Table 3. Government monetary measures

Monetary measures	<ul style="list-style-type: none"> • The credit card payments were delayed for 6 months for all citizens; illegal residents and children of Kuwaiti women; • The payment of loans was postponed for 6 months for all citizens; SMEs and other companies affected, without interest or fines; • The interest rate for SMEs financing was set at maximum 2,5%; • The capital adequacy requirements were reduced by 2.5%, to 10.5%; • The liquidity requirements were decreased; • The risk weight of SMEs was reduced from 75% to 25%; • The maximum funding available was increased from 90% to 100%; • Net Stable Funding Ratio and Liquidity Core Ratio was reduced from 100% to 85%, and the Liquidity Ratio from 18% to 15%; • Loan-to-Value limits for home constructions were increased from 70% to 80%, for land purchase for residential projects from 50% to 60%, and for existing homes from 60% to 70%.
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Source: International Monetary Fund (2020), PwC (2020)

3. THE OIL PRICE COLLAPSE AND DROP IN ECONOMIC ACTIVITY

The economic forecast for Kuwait has changed. A combination of the pandemic and policy responses has caused decline in supply of materials, capital and labor, and decline in demand

for goods and services (Baldwin & Weder di Mauro, 2020). Furthermore, the disagreement between members of the Organization of the Petroleum Exporting Countries (OPEC) in early March 2020 led to the fall in the price of oil (Arezki, Yuting Fan & Nguyen, 2020) by more than 50% since the beginning of the pandemic crisis (Azour, 2020).

In April 2020, OPEC and high oil exporting non-OPEC countries reached a consensus to cut production of oil by 9.7 mb/d effective from 1 May 2020 until 30 June 2020 (Blas, Smith & Ansary, 2020), and from 1 July 2020, the production to be cut to 7.7 mb/d for another 6 months (Kuwait News Agency, 2020c). According to the National Bank of Kuwait (2020a), country's oil production is estimated to drop on average to 2,46mb/d in 2020, and to 2,42mb/d next year, what might have a negative impact on the real GDP. Yet, the real GDP is projected to contract by 1.1% in 2020 and rise again to 3.4% in 2021 (International Monetary Fund, 2020d).

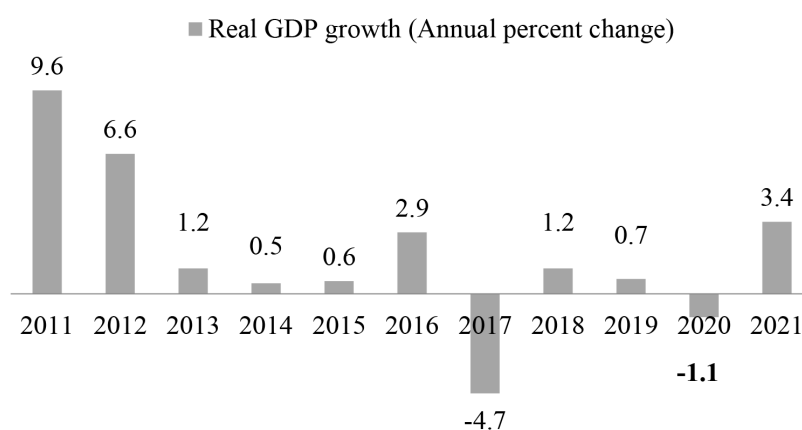


Figure 2. Kuwait's real GDP growth projection

Source: International Monetary Fund (2020c)

Estimated impact of the pandemic on the non-oil GDP growth is uncertain. National Bank of Kuwait (2020a) forecasts the fall by 4%. In addition, Kuwait has estimated budget deficit of about KD 9.2 billion for the current fiscal year 2020/2021 that is larger than deficit estimated last year. A continued decline in oil prices and high government expenditures could widen the actual budget deficit what might affect the future growth of Kuwait's economy, development plan and job creation (World Bank Middle East and North Africa, 2020).

4. THE PANDEMIC AND LABOR CRISIS IN KUWAIT

Kuwait has a different labor market than other countries due to its dependence on foreign workers. As of June 2019, the labor force participation rate of *non-Kuwaiti* was 82.2%, compared to 17.8% *Kuwaiti nationals*. The majority of employees working in the public sector are *Kuwaiti nationals* accounting for 73.75% while only 26.25% are *non-Kuwaiti*. *Kuwaiti nationals* account for only 3.86% of the total employed workforce in the private sector and 96.14% are *non-Kuwaiti* (National Bank of Kuwait, 2020b). Demographic imbalance in the labor market is one of the most contentious issues. Government has been trying to increase the participation of Kuwaiti nationals in the labor market and adopted the Kuwaitization program that has created more job opportunities for the national workforce in the private sector. Despite better compensation packages, Kuwaiti nationals are discouraged from joining due to job requirements and long working hours (Al-Mutairi, Naser & Fayez, 2020).

Coronavirus pandemic and fall in oil prices have further accelerated the situation. The government officials requested to give all government sector jobs to Kuwaiti nationals. Foreign workers holding non-technical jobs will be laid off and employment contracts of foreign workers in the government agencies will not be renewed (Gulf News, 2020). About 135 foreign workers employed in the Public Authority for Housing Welfare were already notified of their termination by 1 July 2020 (Kuwait Times, 2020). In addition, Kuwait Airways, state owned airline provider announced a termination of about 1,500 foreign employees as a result of significant difficulties caused by the coronavirus pandemic (Arab News, 2020b).

In addition, the COVID-19 Kuwait Business Survey conducted by Bensirri Public Relations (2020) in April 2020, prior to the full lockdown, analyzed operational changes caused by the COVID-19 of 498 Kuwaiti SMEs. The survey revealed that 45% of employers *shutdown or suspended their operations* and 26% experienced *decline in revenue* by 80% what led to *inability of covering fixed cost* by 56% of the employers. Despite the violation of Kuwait's Labor Law, *working hours and salaries were reduced* by 32% of employers and 15% started *lying off* their employees. The survey also revealed that the sectors most affected by the pandemic are *retail, construction, contracting, architecture and professional services*.

In 2019, the agricultural sector that includes *fishing, forestry, and farming* employed only 2,23% of the total workforce. The industry sector that includes *mining, energy production, manufacturing, and construction* employed about 25,37% of the workforce and 72,4% of the employed population worked in the service sector that *covers finance, transportation, government, and other private business activities* (Statista, 2020). This means that sectors with the highest number of employees are now at the major risk of job reduction.

The Kuwait's government has temporarily amended the Labor Law for the private sector. The temporary Labor Law allows employers to reduce wages by maximum 50% during the pandemic crisis (Arab Times, 2020a). To protect the Kuwaiti employees working in the private sector and ensure their job stability in these circumstances, Kuwait's Cabinet approved the disbursement of financial aid to employers in the private sector for 6 months. Furthermore, termination of Kuwaiti employees working in the private sector or reduction of their wages became illegal until the end of June 2021 (Kuwait News Agency, 2020d.).

The pandemic will have an adverse impact mainly on *low-skilled and low-income* foreign workers, as their jobs are the most vulnerable. Foreign workers who lose their jobs in Kuwait have no access to social protection and inability to find employment leads to loss of Residence Permit making them subject to detention, arrest or deportation. Inequitable access to health insurance and health care increases their risk of becoming infected with the coronavirus. Imposed travel restrictions prevent foreign workers from returning back to their countries what in combination with no income and social security results in poverty (International Labor Organization, 2020). The implication of the pandemic on *highly skilled foreign workers* occupying different management positions working for reputable organizations is yet unclear (Al-Hashem & Martin, 2020). Jobs of Kuwaiti employees are the least to be affected (National Bank of Kuwait, 2020a).

4.1. What past evidence suggests?

In 2008, the financial crisis spread to the financial markets and real economy in the rest of the world (Tatliyer, 2017). Kuwait is more linked to the financial market; consequently, banking and

financial services sector were the most affected. The impact on the labor market was limited (Debnath, 2010). The COVID-19 pandemic shock will have a more devastating employment and social impact than the financial crisis. The labor market has changed since then and an expanding informal sector, new forms of employment, such as gig work, and increasing number of foreign workers created and additional problems (International Labor Organization, 2020). Apart from the government's effort to localize workforce, when economy recovers, foreign workers will need to be rehired. Kuwait's labor market has been heavily structurally dependent on the foreign workforce who is its integral part of the labor market and will remain an essential component of the post-crisis economy. This will raise the cost of doing business (National Bank of Kuwait, 2020a).

Considering the experience from the financial crisis, the International Labor Organization (2020) suggested measures that governments should take for economic reactivation:

1. Stimulate the economy and employment by active fiscal and monetary policy, and by providing financial support to sectors most affected.
2. Support enterprises jobs and incomes by providing social protection to all, implementing employment retention measures, and by providing loans or wage support to SMEs.
3. Protect workers in the workplace by enhancing safety measures, providing access to health services, adopting telework, and increasing access to paid leave without discriminating anyone.
4. Rely on an effective social dialogue for formulating and evaluating solutions by collaborating and negotiating at national, sector and enterprise level.

5. CONCLUSION

Every worker in the country has been directly affected by the pandemic situation. Those working in the health or public security sector have experienced increase in working hours, on the other side some others have experienced decrease in their working hours, have worked from home or have lost their jobs and income. The real impact of the COVID-19 pandemic on Kuwait's labor market is difficult to predict. Hence, it is important for Kuwait's government to respond to the current challenges by finding new solutions to new problems and protecting the most vulnerable, because for many no income means no security and no future. Finally, the main limitation of this paper is the insufficient data in the published literature about the impact of the pandemic on the highly skilled foreign workers in Kuwait. It should therefore be considered for the future studies.

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