



The Cambridge Security Initiative

REPORT ON QATAR

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POLITICAL STABILITY

If there is an up side to the recent escalation in tensions between Saudi Arabia, the United Arab Emirates (UAE), and Iran, it's that it may pave the way to repairing Gulf Cooperation Council (GCC) relations with Qatar. In June 2017, a coalition led by Saudi Arabia and the UAE formally severed diplomatic relations with Qatar and implemented an embargo designed to degrade Qatar's economy.¹ Economically, the embargo has been far less successful than Riyadh or Abu Dhabi could have hoped. Rather than fomenting popular discontent with the Qatari elite, the embargo served to rally Qataris around the Emir, creating a surge of popularity for Sheikh Tamim bin Hamad al-Thani that borders on a cult of personality. Now that Iran has become the focal point of Riyadh's ire, there are initial indications of a thawing in the attempted Saudi/Emirati freeze-out of Qatar. Following the events of 2017, Doha will carefully negotiate renewed relations with its fickle neighbours. Though it has added its voice to the both the GCC and the Arab League condemnations of Iran, Qatar's economic relationship with Iran (with which it shares access to the world's largest gas field) and its strategic value to the United States as host to the U.S. Al-Udeid air base, means that it must expertly navigate a political minefield if it wants to avoid incurring either Washington's or Tehran's displeasure.

The U.S. is keen to display the Gulf as a united front against Iran. Washington is likely to continue to pressure Doha, Riyadh, and Abu Dhabi to work together to ensure that Doha is less susceptible to working against U.S. and Gulf interests. Washington was instrumental in convincing Riyadh and Doha to have Qatar's Prime Minister Abdullah al-Thani attend two major summits in Mecca in May. This instance marks the first time that a senior Qatari official travelled to Saudi Arabia since the embargo began in 2017. Saudi Arabia's King Salman received al-Thani and they shook hands, suggesting the potential for future communications between the two countries.

¹ As justification for the embargo, Saudi Arabia and the UAE issued a list of 13 demands that it required from Doha to reinstate normal relations. These demands, which called for Doha to end ties with the Muslim Brotherhood, Hezbollah, and other armed groups, to close Al-Jazeera and other media outlets, to close all diplomatic representation in Iran, to close a recently-established Turkish base, to pay "reparations" for damages, and so on, will not be met by Qatar, as they were likely intended never to be.

Despite Washington's nudges, the chief threat to Qatar's political stability in the near to medium-term remains its Arab Gulf neighbours. With Saudi Arabia driving the GCC, Qatar is likely to remain an outsider. The UAE continues to accuse Doha of supporting Islamist movements seeking to topple its government, primarily the Muslim Brotherhood-linked Islah party. In a hall of mirrors conspiracy game, Saudi press lays blame on Qatar for the killing of journalist Jamal Khashoggi, in order to cast Saudi Arabia in a negative light. And last year, the Bahraini government sentenced its opposition leader, Sheikh Ali Salman, to life imprisonment on charges that he colluded with Qatar during the 2011 protests.

ECONOMIC STABILITY

The embargo had an immediate impact on Qatar's economic stability, as the boycott led to higher import costs and lower growth projects. In 2017, Qatar's real GDP growth dropped from 3.4 to 1.6 per cent, the weakest in over two decades. Notably, imports dropped by 40 per cent in the aftermath of the crisis. Tourism dropped 23 per cent in 2017.

However, despite the immediate shocks, Qatar's economy has proven resilient. Its \$300 billion sovereign wealth fund helps investor confidence, though it had to direct \$50 billion to prop up its exchange rate. To make up for a shortage in hard currency, Doha repatriated an estimated \$340 billion from its foreign investments. Doha also began issuing bonds, bringing in \$12 billion in 2018, demonstrating that major credit rating agencies continue to rate Qatar's bonds as investment grade assets despite the economic challenges brought about by the embargo.

To make up for the loss in Arab trading partners, Doha focused on alternative supply routes via Iran and Turkey. Qatar's deep-water Hamad Port, officially opened in September 2017 and anticipated to be fully operational by 2020, offered a timely new direct shipping route to Qatar, which helped it withstand the embargo.

In line with Qatar National Vision 2030 and plans to diversify the economy, Doha continues to focus on non-oil related growth, which in 2018 was around 4 per cent. Although this is nowhere near the 12 per cent growth rather Qatar enjoyed prior to the embargo, it nonetheless reveals a resilient economy. Qatar is investing over \$200 billion in infrastructure projects, particularly roads and railways, ahead of the 2022 World Cup. As part of its Second National Development Strategy, Doha now allows full foreign ownership of companies in all sectors and for investors to hold considerable shares (49 per cent or more) in listed companies. Linked to this point, the government has recently introduced permanent residency for highly skilled workers identified to help with the transformation towards a knowledge economy.

Despite this progress toward diversification, the hydrocarbon sector remains the country's bread and butter. Qatar's breakeven price for oil in 2017 was estimated to be \$52, making it one of the few profitable producers in the aftermath of the 2015 price crash. As of 2019, Qatar's breakeven price had fallen to \$49 per barrel, further helping Qatar's economic recovery following the embargo. In April 2017, Qatar lifted a self-imposed moratorium enacted in 2005 against the development of North Field — Qatar's half of the gas field shared with Iran. This development increased Qatar's exports of LNG by 17.8 per cent. The Barzan natural gas facility is expected online in 2020 and an expansion to the North Field by 2024 will further increase Qatar's

hydrocarbon production. As a result of the combination of increased production and higher oil prices, Qatar's fiscal deficit actually turned into a 2.2 per cent surplus by the end of 2018.

Challenges remain ahead. Doha stalled on its pledge to introduce the GCC-wide Value-Added Tax (VAT) in January 2018, at least in part because recovering oil prices meant Qatar can rely on extra revenue from the hydrocarbon sector. Moreover, the massive investment spending needed for the 2020 FIFA World Cup has not lived up to expectations, as construction shrank 1.2 per cent this year and overall investor confidence has taken a hit as a result of increased tensions in the Gulf.

Recent exchanges between Iran and the U.S. threaten Qatar's economic stability. Although Qatar supported Arab League communiqués against Iran in May, Doha still has extensive economic relations with Tehran, driven by their shared access to extensive hydrocarbon resources and made more vital by the embargo. This puts Qatar in a difficult position, squeezed between U.S./Saudi political desires and the practical reality of needing to keep a working relationship with Iran to keep its sequestered economy humming.

SECURITY

The potential for a military escalation of the U.S.-Iran dispute presents a potential security challenge for Doha, primarily due to proximity. In addition to the tankers of various flags that have been attacked in nearby waters, Iranian proxies (the Huthis) have claimed attacks against both air and oil infrastructure in the UAE and Saudi Arabia. Moreover, the presence of the American Al-Udeid air base on Qatari soil could make Qatar a target in the context of a military escalation, particularly if Qatar is perceived by Tehran as an opponent and not just a staging ground. Doha continues to focus on its sophisticated air defence and anti-ballistic missile capabilities and recently secured a contract with OpenWorks to introduce an integrated security system that could disable drones from flying in its airspace.

Despite the regional tensions between Qatar and its neighbours, Doha continues to represent a secure working environment for Western professionals. The small state is heavily policed and protected, with only one land border (Saudi Arabia). Barring military conflict between Iran and the United States, security threats in Qatar will remain low in the foreseeable future.

Qatar's regional politics continue to provide motive for retaliatory attacks from a variety of actors, including the Islamic State, but also from disgruntled actors in conflicts in which Qatar is supporting a side, including Iraq, Syria, Palestine, and Libya. The 2022 World Cup events provide an opportunity appealing to terrorists or others seeking recognition for their cause. In preparation, Doha is already working with over 200 defence and intelligence companies in the lead-up to the event.

Cyber security remains a risk for Qatar. Doha blames a cyber-attack for precipitating the conflict that led to the 2017 embargo. Qatar was prey to another cyber attack in early 2016 against its national bank, resulting in the leaking of names of passwords of customers, including members of the ruling family. Doha relies on the Qatar National Centre for Information Security (Q-CERT), which since 2005 has been addressing national cyber concerns, and the Centre for Combating Electronic Crime, which since 2016 has offered monitoring capabilities of data and

security intelligence for police to fight crime. In 2016, Qatar's National Security Shield Project, a command and control system for its land and sea borders, also became operational. This system relies on a network of electronic surveillance and reconnaissance stations to defend Qatar from physical and cyber attacks.

MID-TERM OUTLOOK

Qatar will continue to be a safe and favourable business environment, despite the embargo and barring tensions with Iran escalating into violence. Should a direct U.S.-Iran conflict erupt, Qatar is likely to stay on the sidelines politically, uninterested in supporting any foreign policy initiative sponsored by MBS. Even in the extremely unlikely event that Iran were to strike Al-Udeid air base, Tehran would likely avoid hitting Qatari targets. Economic ties beneficial to both nations, including shared access to the North Field gas reserves, will ensure both Tehran and Doha are careful to avoid nettling each other.

Doha's near-term focus is more likely to be on how to bring an end to the embargo without having to sign on to any action against Iran, or its proxies (notably the Huthi in Yemen), or make more than token efforts to address Riyadh's original 13 demands. According to U.S. State Department sources, the Washington is likely to continue to push Qatar and its neighbours back together to present a united front against Iran. While there are no reports of further efforts made to normalise relations since the May summits, Qatar must be strategizing how to exploit the Trump Administration's desire for GCC unity to rebalance the playing field with Saudi Arabia.

Qatar's economy is expected to continue to improve, based on higher oil prices and the infrastructure projects in preparation for the 2022 World Cup. Growth is predicted to reach 2.6 per cent in 2019 and 2.8 per cent in 2020, so long as the situation brewing in the Gulf remains contained.