



Editors: Paul Rivlin and Brandon Friedman

Vol. 7, No. 5 June 22, 2017

The Qatar Crisis



Source: World Atlas

The blockade imposed on Qatar by Saudi Arabia and other Gulf Cooperation Council (GCC) and Arab states has once again thrown this tiny emirate into the limelight. The reasons are complex and some are obscure, as is so much that happens in the Middle East. One explanation is that Saudi Arabia and its allies want to end Qatar's support for Islamists fighting in Syria and for Hamas in Gaza. Another is that they object to Qatar's close relations with Iran. They are apparently furious over reports that Qatar paid \$1 billion ransom for the release of members of the ruling family who had been kidnapped in Iraq. The reports suggest that the funds were paid both to Sunni Islamic terrorists and to Iran. There is the continued anger

regarding *Al Jazeera*, the Qatari television channel that criticizes everyone except the Qatari regime. Most dramatically *Foreign Policy* reported that a May 23, 2017 news report in which the Emir of Qatar, Tamim bin Hamid Al Thani purportedly criticized the Saudis while praising Iran and Israel was fake news, planted by state-backed Russian hackers. CNN then reported that U.S. intelligence officials also believe Russian hackers planted the fake story. Even without these rumors, Qatar's policies have long been controversial; its support for the Muslim Brotherhood, Hamas, Iran and its relations with Israel are all contradictory and it has managed to get away with it up to now. The UAE is reported to be campaigning for the US base in Qatar to be moved to its territory. What appears to be new is the development of Saudi policy following the visit to Riyadh by President Trump in late May 2017. President Trump has expressed support for Saudi Arabia and since the crisis erupted has announced a large arms deal with Qatar.

Saudi Arabia and Qatar have supported opposite sides in the conflicts that have developed in the Arab world since the Arab Spring began. Most dramatic was Qatar's support for the Islamist President Morsi in Egypt. In line with its support for the Muslim Brotherhood, Qatar offered financial support to Egypt when Morsi was in office. Once he was ousted, Saudi Arabia offered financial support to President Sisi. The dispute between the two countries also reflected their positions in Tunisia, Libya, and Syria. This compounds what Saudi Arabia sees as Qatar's worst sin: its continued friendly relations with Iran. Saudi Arabia has strong support from the UAE and Bahrain and somewhat weaker support from Kuwait. It is also supported by Egypt and the United States, despite the fact that the latter has a large military base in Qatar.

Qatar borders Saudi Arabia in the Persian Gulf and has an area of 11,571 square kilometers (4,468 square miles). The border has one crossing point and the vast majority of Qatar's food is imported through it. As a result of the land, sea, and air blockades imposed by Saudi Arabia and its allies, fears of shortages of food and other goods have developed. Some suppliers from outside the region have also stopped sending goods to Qatar, although Turkey and Iran have maintained their links.

Of the country's 2.7 million people, only about 235,000 are citizens; the rest are foreign residents and temporary laborers. The 2015 Census revealed that 1.44 million foreign workers lived in labor camps, 93 percent of whom were male. During 2015, the population increased by 2.9 percent. In March 2017, the International Labour Organization (ILO) deferred a decision on whether to investigate Qatar for forced labor violations, giving it until November to implement labor reforms to improve migrant workers' rights. Many foreign workers are employed in low-paid construction jobs to build stadiums and infrastructure for

the 2022 FIFA World Cup. Qatar has come under much criticism in recent years, with activists and trade unions reporting abuses, including squalid living conditions, poor health and safety standards, and migrants having their pay withheld and passports confiscated.

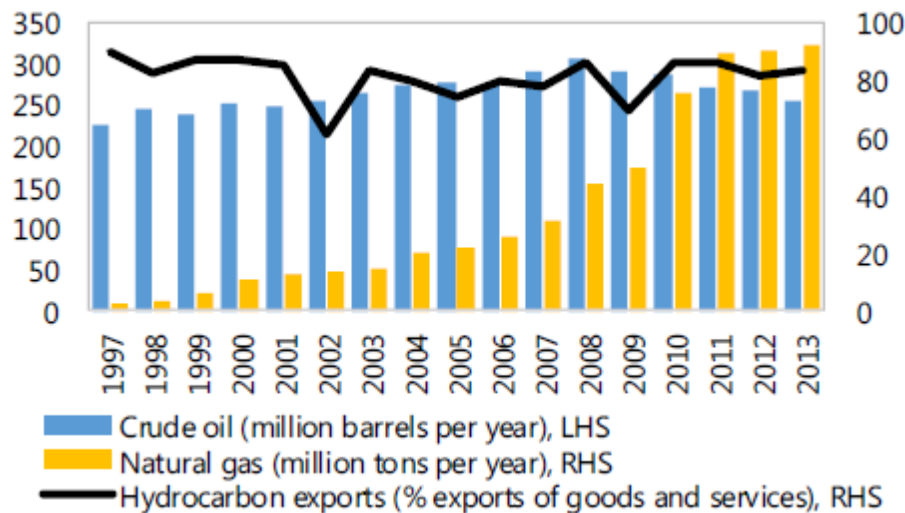
In 2015, Qatar had a national income (GDP) of \$165 billion, or about \$68,000 per capita. GDP per Qatari was \$733,000! Hydrocarbons (oil, gas and refined products) account for just over 60 percent of GDP. The largest export is liquefied natural gas (see below).

In 1971, Qatar gained full independence from the United Kingdom and since then has been a constitutional monarchy ruled by the Al Thani family. The emir, or ruler, 37 year-old Tamim bin Hamad Al Thani has continued his father's work since taking power following his father's abdication in 2013. Hamad bin Khalifa (1995-2013) greatly increased Qatar's global profile and influence after seizing power from his father in a 1995 coup. Qatar's political influence is closely related to the rapid growth of its economy and its accumulation of huge financial reserves. It has deliberately generated "noise" in the international system so that it would be noticed and accumulate prestige. It is a member of OPEC and the GCC. Its success in winning the right to host the 2022 World Cup has been controversial since it was awarded in 2010. The project, with estimated costs of at least \$200 billion, may be threatened by the current political and economic crisis.

The hydrocarbon sector is central to Qatar's economy, although its share in GDP has declined. Qatar accounts for one third of global LNG trade. Over the past two decades, oil and gas accounted for around 80 percent of exports of goods and services, and revenues from the hydrocarbon sector represented almost 90 percent of total government revenue (See Figure 1).

Figure 1

Qatar: Hydrocarbon production and exports, 1997-2013



Source: IMF

According to British Petroleum, (Statistical Review of World Energy 2017), at the end of 2016 Qatar had 25.2 billion barrels of oil reserves, 0.3 percent of the world total. Its production in that year averaged 1.9 million barrels a day, 2.1 percent of world output. Oil revenues have fallen sharply in recent years as a result of the reduction in international prices. In 2012, Qatar's oil exports were worth \$65 billion and in 2016 they came to \$24 billion.

At the end of 2015, Qatar had 24.3 trillion cubic meters (858.1 million cubic feet) of natural gas reserves, 13 percent of world reserves with a reserve/production ratio of 135 years. (By way of comparison, Israel had 0.2 trillion cubic meters (5.5 trillion cubic feet) of reserves.) Qatari national gas production came to 181.4 million cubic meters, 5.1 percent of world production. It was the fourth largest producer in the world after the US, Russia, and Iran. Table 1 shows that liquefied natural gas (LNG) has been Qatar's largest export. It also shows both the dominance of hydrocarbons in total exports and the extent of their decline in value between 2012 and 2015.

Table 1

Qatar's exports, 2012-2015

(\$ billions)

	2012	2015
Total exports	133.0	77.5
of which: hydrocarbons	117	65.5
Crude oil	26.1	10.2
LNG	52.3	36.1
Propane, butane	9.4	4.2
Condensates	31.4	13.9
Refined petroleum products	10.7	8.4
Other	15.9	11.0
of which: petrochemicals	4.9	3.6
Other	11.1	7.0

Source: IMF

LNG is natural gas (predominantly methane, and some ethane) that has been converted to liquid form for ease of storage or transport. It takes up about 1/600th the volume of natural gas in the gaseous state. It is odorless, colorless, non-toxic, and non-corrosive. The liquefaction process requires large investments and it is therefore necessary to sign long-term contracts to make the investment feasible. This makes it a very different product from oil.

The majority of Qatar's natural gas is located in the massive offshore North Field, which spans an area similar to that of Qatar. Part of the world's largest non-associated, natural-gas field, the North Field, is a geological extension of Iran's South Pars / North Dome Gas-Condensate field, which holds an additional 450 trillion cubic feet (13 trillion cubic meters) of recoverable natural-gas reserves. Qatargas, established

in 1984 as a state-owned company, pioneered the development of LNG in Qatar. Qatargas is the largest LNG producing company in the world, with an annual LNG production capacity of 38 million tons a year.

As a result of its strong balance of payments, Qatar has accumulated large foreign currency reserves. In 2005, it created a sovereign investment fund and has invested large sums abroad, recently estimated at \$335 billion. These investments - the most prominent of which is an \$11 billion stake in Volkswagen - have provided it with an income, thus diversifying its revenues away from hydrocarbons. Its international exposure helps to explain the reluctance of European countries to take sides in the dispute.

According to the International Monetary Fund (IMF), the fall in hydrocarbon revenues has hit the government budget and the balance of payments. The 2016 fiscal deficit was financed mainly through domestic and foreign borrowing, although the sovereign wealth fund was not drawn down. In 2016, Qatar raised \$ 14.5 billion of external debt and issued US\$ 2.6 billion of domestic bonds and *Sukuk* (Islamic bonds). Public debt estimated at about 48 percent of GDP at end 2016, was manageable, given the size of Qatar's sovereign wealth fund.

The current account balance sharply deteriorated and the current account balance, fell from a surplus of 8.4 percent of GDP in 2015 to a deficit estimated at 2.2 percent in 2016. Imports were stable in dollar terms (at about US\$ 30 billion), given high public investment expenditure and non-hydrocarbon growth. Reserves-in-months of imports remained adequate. The deterioration of the current account balance has also been accompanied by reduced financial outflows, particularly public sector's accumulation of foreign assets.

The Qatari economy has sufficient financial reserves to keep it afloat, but shortages of food and other vital goods may disrupt life and even generate social instability. Qatar is not a military threat to Saudi Arabia and it is unlikely that Saudi Arabia will invade given its entanglement in Yemen and the fact that the US uses Qatar's Al Udeid military base as the forward headquarters for the U.S. Central Command (CENTCOM). The US policy towards Qatar is ambiguous: it has accused Doha of supporting terrorism while at the same time announcing a \$12 billion arms agreement that includes the sale of up to 36 F-15 fighter jets.

For previous issues of *Iqtisadi*, go to [our website](http://dayan.org/journal/iqtisadi-middle-east-economy), <http://dayan.org/journal/iqtisadi-middle-east-economy>.

To republish an article in its entirety or as a derivative work, you must attribute it to the author and the Moshe Dayan Center at Tel Aviv University, and include a reference and hyperlink to the original article on the Moshe Dayan Center's website, <http://www.dayan.org/>

