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Qatar

An Economic and Political Profile

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An Economic and Political Profile

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KSC Research Series

ABSTRACT: This paper provides a brief economic and political profile of Qatar. In researching the political and economic dynamics of Qatar, the following sources were consulted: Economic Intelligence Unit, International Monetary Fund, The Economist, Heritage Foundation's Index of Economic Freedom and Freedom House.

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Political Profile

Qatar is not an electoral democracy. The head of state is the emir, currently Hamad bin Khalifa al-Thani, whose family has a monopoly on political power. Hamad bin Khalifa al-Thani replaced his facter after the 1995 coup. The emir appoints the prime minister and the cabinet, and the prime minister heads the cabinet. In April 2007 the first deputy prime minister and foreign affairs minister, Hammad ben Jassen bin Jabr al-Thani, replaced Abdullah bin Khalifa al-Thani as prime minister.

The Qatari constitution mandates an independent judiciary, where judges can be dismissed only "in cases to be defined by law."[1] As a rule, political parties are not permitted in Qatar, however Qatari citizens, which constitute only a small percentage of the population (200,000 out of the total 1,409,000 residents) can elect local government representatives with limited powers over municipal services; these representatives report to the appointed minister of municipal affairs and agriculture. The 2005 constitutions provides for greater citizen participation in the legislative process. The legislature is comprised of an Advisory Council, which is wholy appointed, and a new Consultative Council. The Consultative Council consists of forty-five seats, of which the emir appoints fifeteen and thirty seats are made available for elected representatives. [2]

Qataris can directly vote for the Central Municipal Council (CMC) members, which is composed of 29 members from seven municipalities across the country. Council members sit for four-year terms, however the Council does not have any legislative or excecutive authority. The CMC is charged with presenting non-binding recommendations on civic issues to the municipal affairs minister, who may or may not adopt the recommendations.

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[1] Economist Intelligence Unit (2011). Monthly Country Report, April—Qatar
[2] Ibid, Freedom House (2010). Freedom in the World Country Report—Qatar
http://freedomhouse.org/template.cfm?page=22&year=2010&country=7902

The 2011 Economist Intelligence Unit report argues that "the emir's aim in setting up the CMC was to "educate" Qatari nationals in the practices of democracy at the grass-roots level."[3] The report further mentions that with a backdrop of pro-democracy demonstrations across the middle east, "sources at the emir's court say that the emir has been working hard to convince older, more political conservative members of the ruling al-Thani family who oppose democratic reforms on the grounds that they will dilute the family's traditional authority, of the 'inevitability' of change."[4]

Key Figures[5]

Government	
Prime Minister and Foreign Affairs	Hamad bin Jassem bin Jabr al-Thani
Deputy Prime Minister	Abdullah bin Hamad al-Attiyah
Key Ministers	
Business and Trade	Jassem bin Abdulaziz al-Thani
Defence	Hamad bin Khalifa al-Thani
Education	Saad bin Ibrahim al-Mahmoud
Energy and Industry	Mohammed bin Saleh al-Sada
Endowments and Islamic Affairs	Ghaith bin Mubarak al-Kuwari
Environment	Abdullah bin Mubarak al-Midhadhi
Finance and Economy	Youssef Hussein Kamal
Interior	Abdullah bin Khaled al-Thani
Justice	Hassan Abdullah al-Ghanem
Labour	Sultan bin Hassan al-Dhabit al-Dawsari
Municipal affairs and urban planning	Abdel-Rahman bin Khalifa al-Thani
Social Affairs	Nasser Bin Abdullah al-Hmaidi
Public Health	Abdullah bin Khalid al-Qahtani
Key Ministers of State	
Cabinet Affairs	Nasser bin Mohammed al-Thani
Emiri diwan (the Emir's Court)	Abdel-Rahman bin Saud al-Thani
Foreign Affaris	Ahmed bin Abdullah al-Mahmoud
Interior	Abdullah bin Nasser al-Thani
Central Bank Governor	Abdullah bin Saud bin Abdel-Aziz al-Thani

Note that the ruling Al-Thani family members hold most of the important positions in the Qatari government.

There have been signs that the ruler of Qatar, Hamad bin Khalifa al-Thani is inclined towards greater political freedoms. The 2010 Freedom House Report on Qatar

[3] Economist Intelligence Unit (2011). Monthly Country Report, April—Qatar
[4] Economist Intelligence Unit (2011). Monthly Country Report, April—Qatar
[5] Economist Intelligence Unit (2011). Monthly Country Report, April—Qatar

mentions that since taking over the leadership of Qatar from his father, Emir Ahmad bin Ali al-Thani, Hamad bin Khalifa al-Thani "began a program of gradual political, social and economic reforms. Hamad dissolved the Ministry of Information shortly after taking power, an action designed to demonstrate his commitment to expanding press freedom.[6] In 1996, Emir Hamad allowed for the creation of Al-Jazeera news network, which has become a recognized news source. In deference to the leadership, Al-Jazeera refrains from covering Qatari policies and instead focuses on regional issues. The 2010 Freedom House report lists that although freedom of expression is guaranteed by the constitution, "rint and broadcast media are influenced by the leading families, journalists actively practice self-censorhip, for they face prison sentences for what is considered slander. Although, five of the top daily newspapers are privately owned, their owners and boards include members fo the ruling family."[7]

Freedom of assembly is limited in practice. Formation of NGOs are limited and need government permission to operate, and the government closely monitors the activities of these groups. Protests are discouraged and there are tight restrictions on the public's ability to organize demonstrations. Also, in practice the judiciary is not independent. Freedom House (2010) mentions that "the majority of Qatar's judges are foreign nationals who are appointed and removed by the emir."[8] The judicial system has two main branches, the first branch consist of Islamic law (Sharia) courts and "have jurisdication over a narrow range of issues including family law." The second branch are the civil law courts, which have preside over criminal, commercial and civil suits. The judiciary is regulated by the Supreme Judiciary Council. Although the constitution provides for protection against arbitrary arrests, detention and torture, a 2002 law "allows for the suspension of these guarantees for the protection of society."[9]

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[6] Information taken from: 2010 Freedom House Country Report for Qatar http://freedomhouse.org/template.cfm?page=22&year=2010&country=7902
[7] Freedom House (2010). Freedom in the World Country Report—Qatar http://freedomhouse.org/template.cfm?page=22&year=2010&country=7902
[8] Ibid
[9] Ibid

The life of a non-citizen worker in Qatar is not easy. Non-citizens face discriminiation in the realms of education, housing, health care and other services provided free of charge to Qatari citizens. Non-citizens, in contrast to citizens, are not allowed to form labor unions, although they make up the majority of the workforce. Economic abuses, such as withholding of salaries, contract manipulation, poor living conditions and excessive work hours are common for non-citizen laborers. Non-citizen worker complaints range from torture, imprisonment, forced labor to forced prostitution for female domestic workers. Freedom House (2010) points out that "in March 2008, the government announced plans to build a "worker's city" for 50,000 laborers near Doha in an effort to improve the living and health conditions of foreign workers. Although some infrastructure construction was completed by July 2009, the project was put on hold in December."[10]

Women have been faring better in recent years. The Qatari constitution stats that women are full and equal persons and discriminiation based on sex, country of origin, language or religion is banned. Freedom House (2010) mentions that in 2006 "Qatar implemented a codified family law, which regulates issues important for women, including inheritance, child custody, marriage, and divorce."[11] However, issues such as societal discrimination and the lack of enforcement mechanisms against bias remain. [12]

In the international arena, Qatar has been described as the regional mediator and has been involved in mediation efforts over the past few years, including conflicts in Lebanon, Yemen and Sudan. To assist the UN-mandated campaign to enforce the no-fly zone over Libya, Qatar sent six fighter planes to participate. Qatar was the only Arab nation to participate in the UN- mandated campaign, lending legitimacy to the no-fly zone enforcement. On the flipside, Qatar did not provide any troops to the Saudi-led mission in Bahrain. Finally, Qatar has provided US$20bn aid packages to Bahrain and Oman for employment and economic growth.[13]

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[10] Ibid
[11] Ibid
[12] Ibid
[13] Economist Intelligence Unit (2011). Monthly Country Report, April—Qatar

Economic Profile

According to the Heritage Foundation's 2011 Index of Economic Freedom, Qatar's economy ranks 27th freest economy in the world and is ranked 2nd out of 17 among countries in the Middle East and North Africa region, and its overall score is above the world and regional averages. Corruption is kept in check, with Qatar ranking 19 out of 180 in Transparency International's 2010 Corruption Perception Index and is the best performer in the Middle East region.[14]

Qatar's growth engines have been powered by public expenditure supported immigrant labor. The economy started growing at a strong pace in the mid-nineties when the LNG sector started its spectacular expansion, unfettering large resources for the government. The hydrocarbon GDP grew at an average rate of about 11 percent between 1990 and 2009, as public spending grew at an average rate of about 9 percent while non-hydrocarbon grew at an average rate of 9.5 percent. Qatar's population increased to 1.6 million at end-August 2010, recording an average 7.5 percent growth rate during this period.[15]

The Qatari leaderhip has been promoting the non-hydrocarbon sector by adopting a flexible regulatory process for business ventures, among other measures. [16] The IMF 2010 Article IV Consultation points out that "Qatar's open trade regime and growing status as a regional financial hub have also contributed to private sector growth outside the oil and gas industries."[17] However, as a small nation flush with oil and natural gas, Qatar depends heavily on this sector. The oil and gas sector comprise more than 50 percent of GDP and 85 percent of export revenues.[18] Additionally, the Qatari leadership has allowed for extensive foreign investment in its natural gas industry and in 2007

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[14] Transparency International (2010). Corruption Perception Index http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

[15] IMF (2011). Qatar: 2010 Article IV Consultation—Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Qatar, IMF Report No. 11/64. http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

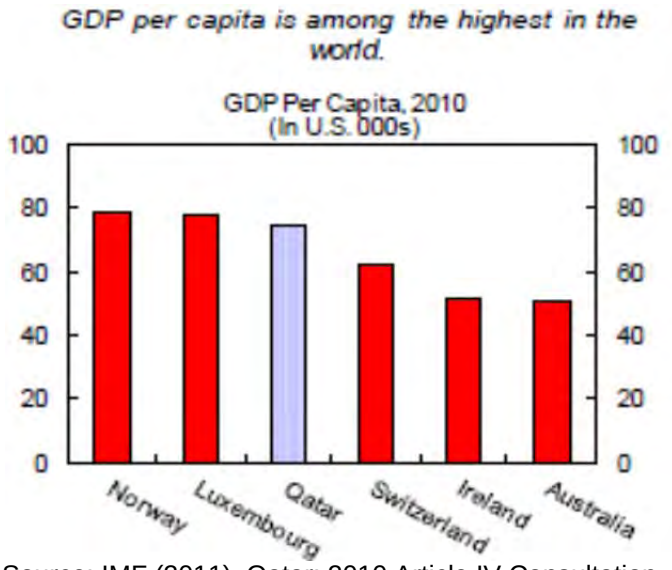
[16] Ibid

[17] Ibid

[18] Ibid

became the world's largest exported of liquefied natural gas (LNG). Thus Qatar, a small nation with a small population and vast energy reserve, has become one of the world's fastest growing economies with the second highest per capita income.[19]

Chart 1: Qatar's GDP in a Comparative Context



Source: IMF (2011). Qatar: 2010 Article IV Consultation, see p. 6
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

Overview of the Qatari Economic System

Strengths	**Weaknesses**
Starting a business and completeing licensing requirements are more streamlined.	Overall pace of regulatory reform has slowed
Low weighted average tarrif of 3 percent in 2009.	Efficient bankruptcy procedures are not fully developed
Member of the GCC customs union	Some prohibitive tariffs, import restrictions, restrictive sanitary and phytosanitary regulations, non-tariff barriers, services market access barriers, import licensing requirements and domestic preference in government procurement all which add to the cost of trade.
No income taxes for individuals and wholly owned Qatari businesses.	Volatile inflation, averaging 8.2 percent between 2007 and 2009. A record high of 15 percent annual inflation in 2008 was followed

[19] Ibid

	by a sharp deflation in the consumer price index of -4.9 percent in 2009.
New corporate law, effective January 1, 2010, replaces the top progressive corporate tax rate of 35 percent with a flat 10 percent tax rate. The new corporate tax rate applies to domestic and foreign corporations. Companies engaged in natural resource exploitation are still subject to a minimum 35 percent rate, or whatever specific rate they negotiate with the government. Aside from customs duties, there are no other major taxes. In 2009, the overall tax revenue as a percentage of GDP was 4.9 percent.	The government influences prices through regulation, subsidies and numerous state-owned enterprises and utilities.
The Qatar Financial Center has attracted major financial firms and is intended to rival other financial hubs.	Although Qatar has made significant progress in laying the institutional groundwork for sustained and diversified economic growth, the volatility of prices continues to undermine macroeconomic stability and entrepreneurial activity. Restrictions on foreign investment and considerable state involvement in the economy are serious drags on the economic dynamism.
The 2010 Corruption Perception Index gives Qatar a high positive score of 7.7. For benchmarking purposes, the CPI ranked Denmark the highest giving it a score of 9.3. Corruption is present in Qatar, but corruption is not a major problem.	The Doha Securities Market has been opened to foreign investors, but foreign holding are restricted to 25 percent of the issued capital of nearly all listed companies.
The authorities are strongly committed to the dollar peg, and provides for an effective nominal anchor.	Expropriation is unlikely, but the judiciary is subject to executive influence and can be inefficient. The court system is slow, bureaucratic and biased in favor of the Qataris and the governments. Foreigners may own residential property in selected projects. Successful prosecutions of violators of intellectual property rights have increases substantially.

Sources: *IMF (2011). Qatar: 2010 Article IV Consultation—Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Qatar, IMF Report No. 11/64.* http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

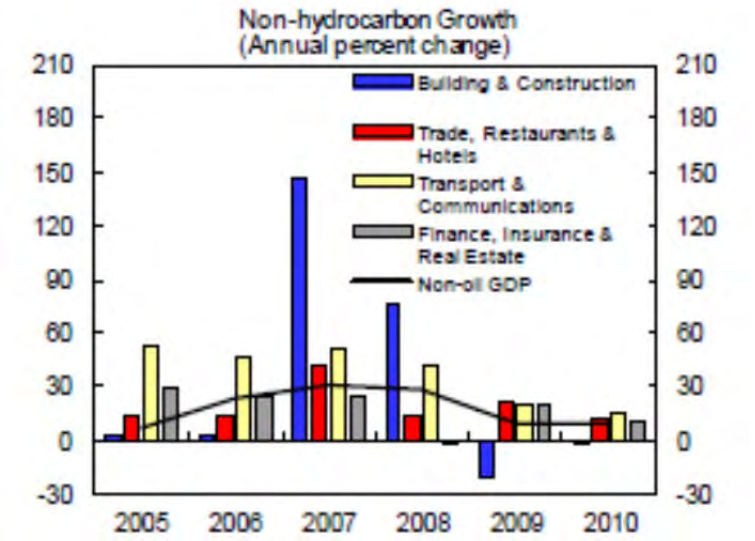
Transparency International (2010). Corruption Perception Index http://transparency.org/policy_research/surveys_indices/cpi/2010/results

Heritage Foundation's 2011 Index of Economic Freedom http://www.heritage.org/index/

Non-Hydrocarbon Sector[20]

The non-hydrocarbon sector is growing in Qatar and will play a greater role in the economy in the coming years. According to the Insead and World Economic Forum's *2010/2011 Annual Global Information Technology Report,* Qatar ranks 25th overall in the context of the IT "sector's increasing prioritization in national agendas as a crucial instrument for economic diversification, enhanced efficiency and modernization."[21]

Chart 2: Non-Hydrocarbon Sector Growth

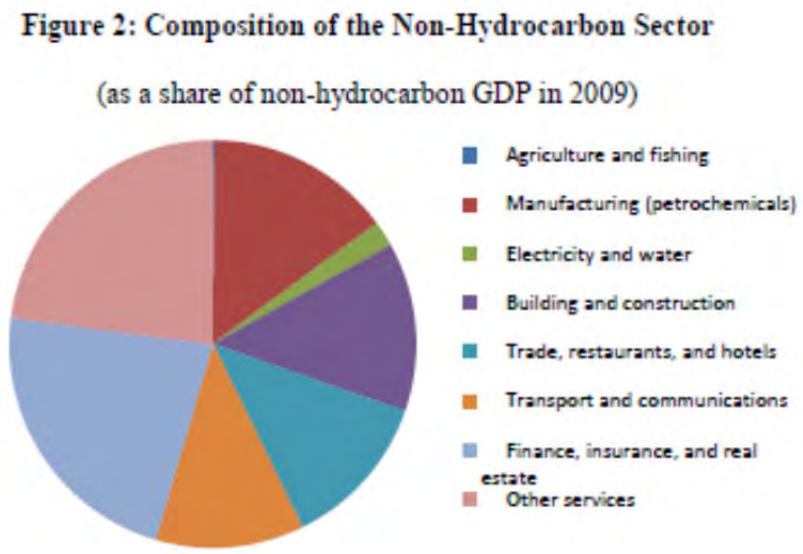


Source: *IMF (2011). Qatar: 2010 Article IV Consultation, see p. 6*
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

[20] IMF (2011). Qatar: 2010 Article IV Consultation—Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Qatar, IMF Report No. 11/64.
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

[21] Insead and World Economic Forum (2011). Annual Global Information Technology Report 2010-2011,p.29.
http://www3.weforum.org/docs/WEF_GITR_Report_2011.pdf

Chart 2: Composition of the Non-Hydrocarbon Sector



Source: IMF (2011). Qatar: 2010 Article IV Consultation, see p. 43
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

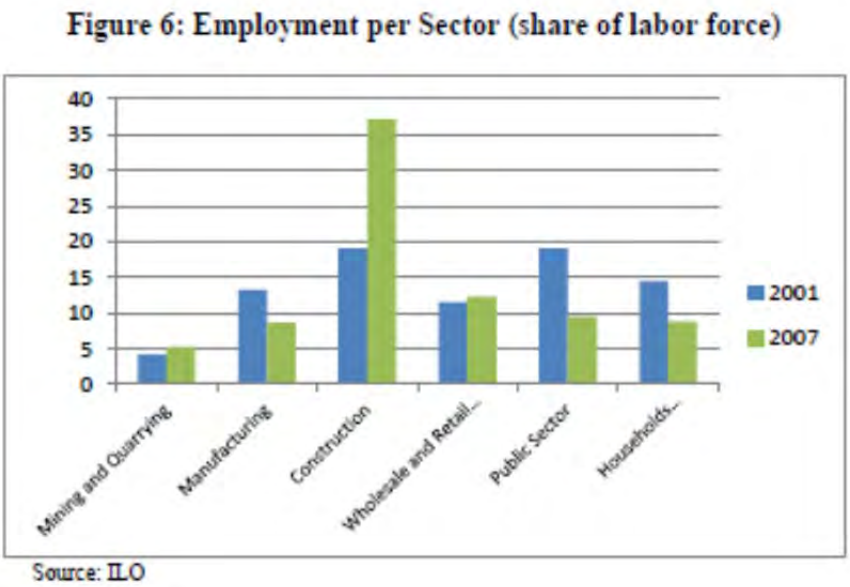
As charts 1 and 2 show, the services sector dominates the non-hydrocarbon economy. The building and construction sector is the largest employer in the economy while comprising 13 percent of the non-hydrocarbon sector. The IMF 2010 Article IV Consultation states that "beyond 2012, the non-hydrocarbon sector will drive real GDP growth. As a result of a self-imposed moratorium on exploration in the North field, hydrocarbon production will reach a plateau in 2012, as will the fiscal space for spending."[22] Thus, productivity gains as well as diversification of the non-hydrocarbon sectors will be crucial for sustainable economic growth in the future. Qatar needs to hedge against drops in oil prices by expanding and strengthening its non-hydrocarbon economy. In order to minimize the effects of Dutch Disease, productivity in the tradable sector should be increased to compete with the non-tradable sector for resources.

The non-hydrocarbon economy in Qatar suffers from low productivity and human capital. Low productivity gains are concentrated in the construction and building sector. According to the IMF report, "the Qatari authorities and the IMF agree that improving

[22] IMF (2011). Qatar: 2010 Article IV Consultation p. 43.
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

productivity would be key to self-sustaining long-term growth in the non-hydrocarbon sectors."[23] In regards to human capital, Qatar and Kuwait are unique with high GDP per capita and low average years of schooling.[24] The major areas of employment, construction and household employment, are labor intensive requiring unskilled laborers.

Chart 3: Employment per Sector



Source: IMF (2011). Qatar: 2010 Article IV Consultation, see p. 49
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

The IMF 2010 Article IV Consultation reports on perspective of Qatari authorities in this regard:

> The authorities in Qatar feel that that a share of the low productivity might be the natural outcome of the current phase of the development strategy of Qatar, which focuses on the building of physical infrastructure by using unskilled labor. They argued that as Qatar moves to higher value added sectors with skilled labor replacing unskilled labor, improvement in productivity would occur.[25]

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[23]IMF (2011). Qatar: 2010 Article IV Consultation
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf
[24] Ibid
[25] IMF (2011). Qatar: 2010 Article IV Consultation, see p. 49
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

Qatar faces a few challenges in moving from low-skilled to high-skilled labor in the long run and providing the institutional framework necessary to encourage investment in innovation. The 2010 IMF Report concludes that "the authorities are focusing on private participation in the delivery of economic and social infrastructure to induce substantial efficiency gains to remain globally competitive. As part of this strategy, a recently issued Government decree established a Public Private Partnership (PPP) Department within the Ministry of Business and Trade."[26]

Economic Outlook[27]

Qatar has a positive economic outlook.

- There has been a doubling of gas production
- Timely intervention in the banking system
- Large public investment in infrastructure have kept growth rates high and resulted in the accumulation of large surpluses in the fiscal and external accounts
- Headline inflation is negative, reflects a sharp decline in rents.
- Real GDP projected to rebound to 16 percent in 2010
- Real growth of 22.7 in the hydrocarbon sectyor
- Real growth of 10 percent in the non-hydrocarbon sector.
- Investments in hydrocarbon-related manufacturing industry (petrochemicals and fertilizers)
- Investments in large-scale infrastructure projects (airport, port, water systems, roads, housing and tourism) social infrastructure (health and education), and financial services (banks and the Qatar Financial Center)
- Further expansion in LNG capacity, and activity in the non-hydrocarbon sectors will boost real GDP growth to 20 percent and further increase fiscal and external

[26] Ibid
[27] Sources: IMF (2011). Qatar: 2010 Article IV Consultation. http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf, Heritage Foundation's 2011 Index of Economic Freedom http://www.heritage.org/index/

surpluses. The fiscal and external surpluses projected to $13 billion and $39 billion, respectively.

- Continued growth in the manufacturing sector, a pickup in the construction sector, and sustained activity in financial and government services, transportation and communication will drive the non-hydrocarbon sector growth of 9.5 percent.
- Headline inflation will remain subdued at 3.0 percent, as rents are expected to remain low.
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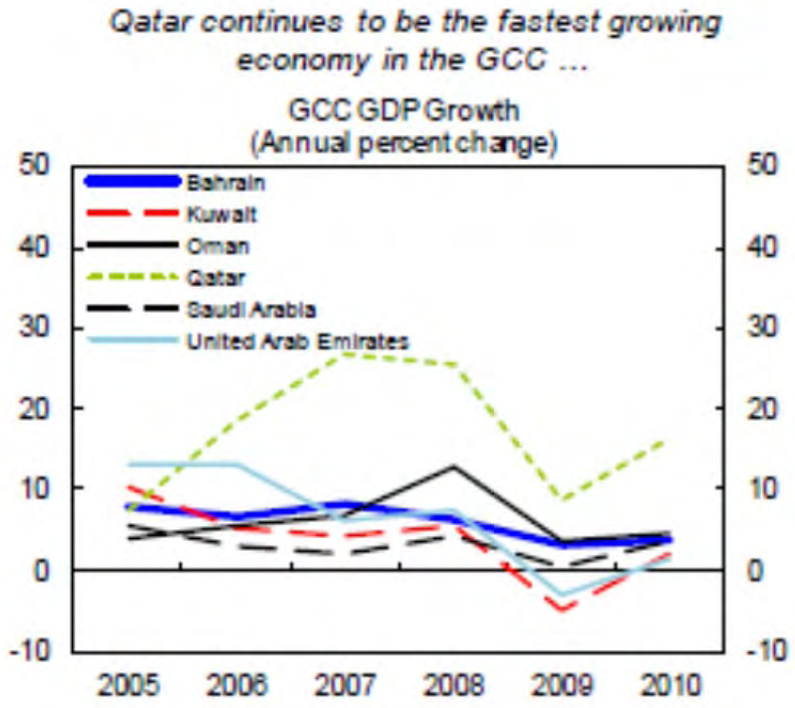
Chart 4: Economic Growth in the GCC



Source: IMF (2011). Qatar: 2010 Article IV Consultation, see p. 6
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

The self-imposed moratorium on increasing gas production beyond 2012 will lead to a sharp decline in the growth of the hydrocarbon sector. Government investments support an average of 9 percent growth in the non-hydrocarbon economy during 2012-15. Risks to the Qatari economy come from possible drops in oil and gas prices, with possible drops in natural gas prices posing the major risk. Drops in prices in the

hydrocarbon sectors lowers government revenues and will lead to lower government investment in the non-hydrocarbon sector, lowering its rate of growth.[28]

Suggested Reading

Heritage Foundation's 2011 Index of Economic Freedom.
http://www.heritage.org/index/

IMF (2011). Qatar: 2010 Article IV Consultation.
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

Insead and World Economic Forum (2011). Annual Global Information Technology Report 2010-2011.
http://www3.weforum.org/docs/WEF_GITR_Report_2011.pdf

Qatar Vision 2030: Qatar's National Development Strategy.
http://www.gsdp.gov.qa/portal/page/portal/GSDP_Vision_Root/GSDP_EN/GSDP_News/GSDP%20News%20Files/QNV2030_English_v2.pdf

Freedom House (2010). Freedom in the World Country Report—Qatar
http://freedomhouse.org/template.cfm?page=22&year=2010&country=7902

Transparency International (2010). Corruption Perception Index.
http://transparency.org/policy_research/surveys_indices/cpi/2010/results

[28] IMF (2011). Qatar: 2010 Article IV Consultation.
http://www.imf.org/external/pubs/ft/scr/2011/cr1164.pdf

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