QATAR-AMERICA
INSTITUTE

# Qatar's Economic Competitiveness

## Key Takeaways

- Qatar is promoting the growth of **indigenous industries in designated economic zones**, with a focus on logistics, warehousing and distribution to leverage Qatar's newest sea and air ports.
- Qatar is **expanding incentives and simplifying regulation** for the local and international private sector to increase its investments in local supply chains.
- Qatar's post-World Cup growth will be sustained by the creation of new industrial clusters – **free zones** – strategically located near the country's sea port and airport.
- Qatar's Ministry of Finance manages a large government investment program – focused on **funding infrastructure, health, education and transportation projects** – that drives GDP growth (2.6% in 2018) and creates opportunities for the private sector, while delivering on the priorities of the Qatar National Vision 2030.


## Introduction


Central to Qatar's attractiveness as a business environment is a $200 billion government investment program focused on the four main pillars of the Qatar National Vision 2030 of economic, social, human and environmental development.

The government's capital expenditure (**Capex**) program spans the period 2015-2024 and has spurred growth and business opportunities in a number of nonhydrocarbon sectors. In 2017, **financial services grew by 16.2%, construction by 12.5% and manufacturing by 9.3%**. Overall, nonhydrocarbon economic activity accounted for 67.2% of nominal GDP in 2017, according to the IMF.

As a key driver of growth, the Capex program has allowed Qatar to economically outperform regional and global peers in terms of real GDP growth. In 2017, despite the blockade, Qatar's economy grew at the **fastest pace in the region**.

The government's Capex program has been at the core of Qatar's efforts to:

- Reduce the economy's reliance on the oil and gas sector;
- Develop incentive frameworks and policies to increase the private sector's contribution to the economy;
- Deliver the educational, cultural and infrastructural building blocks of a modern competitive economy.

Next are some of the key initiatives and reforms introduced by the government to attract the local and international private sector as an equal partner in implementing the country's development strategy.

## 1. Qatar Financial Centre (QFC):

- Established in 2005 as an onshore business and financial center that aims to attract businesses in a variety of industries ranging from investment management, insurance, consultancy and investment advisory, as well as holding companies, special purpose companies, and professional services firms.
- QFC saw a 31% growth in the number of firms registered on its platform in 2018. The new firms originated from a diverse number of countries, including Qatar, the U.S., Switzerland, Italy, Jordan, and others.
- QFC-licensed businesses benefit from:
    - 100% foreign ownership;
    - A first-class legal system based on English common law;
    - A competitive location to grow revenue with one of the most compelling tax environments in the world (10% corporate tax on locally sourced profits and no withholding tax);
    - 100% repatriation of profits;
    - Access to Qatar's Double Taxation Agreements with more than 60 countries;
    - A quick and easy business licensing process;
    - No restrictions on the currency used for trading.


## 2. Qatar Development Bank (QDB):

- QDB's mandate is to invest in and develop local industries by supporting Small and Medium Enterprises (SMEs) in Qatar.
- Following the blockade, QBD expanded many of its financial support products and services to enable growth in a number of industries that will help reduce the country's import dependence.
- In 2018, QDB funding to the SME sector reached **$2.2 billion**. Nearly 80 percent of the funding was to support industries directly, and the remaining 20 percent went to projects in areas such as education, health, tourism and food security (fisheries and livestock).
- Among the financial products offered by QDB are a credit guarantee program, seed funding, export finance, direct lending and feasibility study support.
- QBD owns the **Qatar Business Incubation Center** (QBIC), the region's largest mixed-use business incubation center. QBIC helps promising local entrepreneurs from the ideation phase through to the creation of a tangible product, by offering rent-free office space and seed funding.

QDB
بنك قطر للتنمية
QATAR DEVELOPMENT BANK

## 3. The Economic Zones Company (Manateq):

- Manateq focuses on promoting the growth of industries that will sustain Qatar's economic dynamism beyond the milestone of the 2022 FIFA World Cup.
- Manateq administers land allocation to prospective investors in a number of strategically located special economic zones. Manateq aims to develop industries ranging from food processing to petrochemicals.
- Through the launch of "**logistics parks**," Manateq seeks to reduce the cost of doing business in Qatar by increasing the efficiency of the distribution of land-based goods and materials.
- In conjunction, "**warehousing parks**" are being established to offer a range of storage solutions that will create significant cost savings for a range of industries.

manateq
شركة المناطق الاقتصادية، قطر
ECONOMIC ZONES COMPANY, QATAR

## 4. Qatar Free Zones Authority (QFZA):


Um Alhoul free zone

- The QFZA was established in 2018 as an independent body charged with overseeing the regulatory framework of free zones in Qatar.
- Through its focus on attracting high-value foreign direct investment (FDI), the QFZA has two main objectives:
- Strengthen the security of supply: Supply chain disruption was among the key risks to Qatar's economic stability brought to the fore by the blockade;
    - Support economic diversification, through the creation of knowledge-intensive jobs and industries.
- In October 2018, the chairman of QFZA, a former chief executive officer of Qatar's sovereign wealth fund, announced a **$3 billion** package to attract foreign companies to two new free zones: **Um Alhoul** and **Ras Bufontas**. Other incentives include extended tax holidays and customs exemptions.
- The Um Alhoul free zone is situated next to Hamad Port, Qatar's main seaport. It will play host to a broad array of businesses, including maritime industries, construction and building materials, metal processing and machinery, along with downstream petrochemicals and logistics.
- The Ras Bufontas free zone, located next to Doha's Hamad International Airport, is set to host advanced technologies, health care and medical services, in addition to automotive and aerospace industries, along with business services operations.
- On the sidelines of the second U.S.-Qatar Strategic Dialogue this month, the QFZA signed a Memorandum of Understanding (MoU) with a leading asset management firm in the U.S. As part of the agreement, a producer of energy-efficiency and thermal storage solutions, and a vertically-integrated medical nutrition company, will work closely with QFZA to identify set up opportunities in the free zones.

## 5. In-Country Value (ICV) programs:

- As a heavily import-dependent country, Qatar has been re-aligning its industrial development plans to foster the conditions for retaining greater economic value in-country. Following the blockade, ICV has gained renewed attention as trade and travel restrictions underscored the need for bolstering supply chain security.
- The combined efforts of the QFZA, Manateq, QFC and QDB are ultimately intended to boost ICV through regulatory incentives and, potentially, local content policies.
- ICV-targeted policies reward companies that anchor their fundamental operations in-country, thus adding value and jobs to the local economy.
- Qatar Petroleum's recently announced 'Localization Program for Services and Industries in the Energy Sector,' known as the **Tawteen** initiative, is a prime example of promoting ICV.
- Highlighting the synergies between government entities mandated with enhancing Qatar's business climate, the QFZA has announced its support for Tawteen, by offering to provide land solutions, tailor regulations, and review business plans for companies pursuing entry into the energy services industry.

## Conclusion

A range of economic and risk indicators have evidenced the resilience of Qatar's economy to the Quartet-imposed blockade. Perhaps the decisions by Fitch, S&P and Moody's to revise the outlook on Qatar's sovereign bond rating to stable from negative provide a conclusive and data-based validation of Qatar's success in weathering the crisis. Underpinning the strength in credit ratings is a recovery in foreign exchange reserves, a steady decline in the government's debt burden, and a prudent fiscal policy (see *Analysis: Moody's Issues Government of Qatar Credit Opinion*).

The government has now forged ahead in implementing its private sector development agenda with the assumption of the blockade as status quo. In fact, the blockade has only increased the urgency of these plans.

The fiscal stimulus of the government's Capex program has provided cascading opportunities for the private sector, while regulatory improvements are easing access to the Qatari market.