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Persian Gulf based SWFs & Financial Hubs in Bahrain, Dubai and Qatar: A Case of Competitive Branding

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Abstract: Competitive branding between Bahrain, Qatar, and UAE has been made apparent on different levels; from oil, finance, real estate, and automotive to entertainment. Vision 2030 for the three neighbors gives a sense of duplicating strategies. As they aim to diversify their economies and create jobs, they have also duplicated efforts and reinvented the wheel. Does the gulf area really need three or four financial hubs? If it does then theoretically – *ceteris paribus* – for all of them to function and thrive, there should be a high level of specialization to avoid cannibalization. Gulf State Sovereign Wealth Funds (SWFs) are pouring capital into ideas made true to save future generations of their citizens. For all to succeed, there is a pressing need to coordinate efforts.

Introduction

As the Persian Gulf states diversify their economies from oil and gas, through employing their respective Sovereign Wealth Funds (SWFs) as vehicles to achieve inter-related economic and political objectives, they envisage to transform their economies into world class industrial, commercial and, in some cases (Bahrain, Dubai, Qatar, among some others) financial hubs to engage with other financial actors outside the region. Yet, the confluence of political and economic factors has stymied the development of a well-established financial center in the Middle East region. For instance, in 1975, with the

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eruption of the Lebanese civil war, *Beirut* lost its status as the financial center for offshore banking; whereupon, in the 1980s Bahrain became the mainstay for offshore banking in the Middle East. However, as with Beirut, conflict and uncertainty in this case associated with Iran-Iraq and Persian Gulf Wars and recent domestic political unrest, have contributed in dislodging *Bahrain* as the financial gateway for affluent regional and international clients.[2] Thereafter, in mid-2000, *Dubai*, with the launch of the Dubai International Financial Centre (DIFC), became the site of financial activity. Currently, however, Dubai is beset with massive debt that could knock it off as being the premier financial hub.[3]

Dubai's financial woes have provided *Qatar* –with the launch of the Qatar Financial Center (QFC) – an opportunity to eclipse other regional aspirants[4] to become a leading financial hub in the MENA region.[5] Yet, given the political and economic vagaries of the MENA countries, what economic and political functions might these financial hubs fulfill in the Persian Gulf? And, relatedly, why should Persian Gulf States compete to become regional financial centers? Lastly, would Qatar be able to differentiate itself from regional peers to become a viable financial hub?

This paper will examine – through a case study of two Persian Gulf-based SWFs with financial hubs, Bahrain (Bahrain Financial Harbor), Qatar (Qatar Financial Centre) and, where appropriate, a contrast with Dubai (Dubai International Financial Centre) – whether there is a faddishness and competitive branding behind the rationale for the establishment 'financial hubs' in the Gulf states and whether the success of such initiatives is constrained by political, economic and institutional peculiarities of individual states.

In order to answer the first question, we have to understand that as the Gulf economies and their capital flows and SWFs have grown, so have ambitions for their

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[2] Wilson, Rodney. *Economic Development in the Middle East* (Routledge Press, 1995), chapter 3.
[3] Kerr, Simeon. "Dubai fights for its finance sector," *The Financial Times*, 9 June 2010.
[4] Besides Bahrain and Dubai and Qatar, Abu Dhabi wants to be seen as a more cultured, quiet and less congested alternative to Dubai; Saudi Arabia, the leading economy in the Gulf, is another contender and has recently created its own financial center – King Abdullah Financial District. See "A bouquet of desert flowers," *The Economist*, 13 September 2007.
[5] "Gulf Financial Centres: Hub Thumping," *The Economist*, 3 December 2009.

financial sectors. In this context, the Gulf States have deployed their SWFs in the international markets to secure risk-adjusted return, to gain access to technology, ideas and skills, and to foster a more diversified, industrially innovative economy

Even with many Gulf-based SWFs hurt during the 2008 financial downturn[6], they remain significant players on the international investment stage and thus wield considerable power. And like the rest of world, Gulf States have employed their SWFs as a cushion against high unemployment, low financial liquidity, and overall economic slump. They also contributed financially, through creation of the Gulf Cooperation Council (GCC)- Development Fund, to lessen the impact of economic crisis in the neighboring states out of fear of spillover of political instability in their own countries.[7]

As well, the Persian Gulf based SWFs are an important dimension of the domestic political imperatives and economic policy considerations (i.e., economic diversification, economic development, macroeconomic stability) of the sponsoring state.[8] Current emphasis on domestic investments in areas such as infrastructure, education and banking and services indicate that the Persian Gulf states are using their SWFs to promote tangible economic diversification. One important component of this strategy – as can be inferred through examining publicly available data on SWF investments in the banking and financial sectors – is to channel their petrodollars through SWFs to strengthen their access to financial infrastructure and eventually solidify their status as attractive regional financial hubs.[9] For instance, Dubai and Qatar have deployed their respective SWFs to invest in leading financial institutions so as to acquire the financial engineering expertise to support their long-term national development objectives. Dubai has purchased stakes in the London Stock Exchange (LSE), NASDAQ and the Swedish stock exchange

[6] Legrenzi, Matteo and Bessma Momani (editors). *Shifting Geo-Economic Power of the Gulf: Oil, Finance and Institutions* (Ashgate Publishing, 2011).
[7] Murphy, Caryle. "GCC to set up $20bn bailout fund for Bahrain and Oman," *The National*, 11 March 2011. Interestingly, Saudi Arabia, the largest GCC economy, pledged a domestic stimulus program worth US$30 billion dollars to preempt any political uprising.
[8] Monk, Ashby. "Sovereignty in the Era of Global Capitalism: The Rise of Sovereign Wealth Funds and the Power of Finance," *Environment and Planning*, 43(2011): 1831-32.
[9] Source: John Nugee and Paola Subacchi (editors), *The Gulf Region: A New Hub of Global Financial Power* (Royal Institute of International Affairs, 2008).

OMX.[10] Qatar has taken a sizeable stake (15.1%) in the LSE for similar reasons.[11] As well, Kuwait, along with Qatar, have used their respective SWFs to jointly make forays into the Chinese financial sector; they purchased equities in the IPO of the Industrial and Commercial Bank of China (ICBC)[12] and the Agricultural Bank of China.[13] Similarly, QFC, following DIFC, revamped its legal and supervisory framework, based on international best practices and with English as their legal language. Likewise, each financial hub offers foreign institutions entry in local markets with 100% ownership and no tax liability. Yet, despite these seemingly plausible strategies and policies, success has been elusive. What then are the mitigating institutional practices and policy considerations that have kept any Persian Gulf state from becoming an internationally recognized financial center?

Explaining an International Financial Center

Global financial centers are defined as having achieved sufficient critical mass to become a conduit for international, national and regional financial participations. "World –class financial centers [such as New York, London, Hong Kong and Singapore] offer physical, legal, regulatory, communications and technological environments where the financial skills and innovation that serve clients' needs through market driven forces can thrive."[14] It is, however, improbable that any Persian Gulf based entity will reach this designation due to both structural constraints and institutional factors, as explained below.

The financial centers are said to compete, *inter alia*, on the following factors: 1.) Human capital (currently a big challenge across the region); 2.) Business environment (currently ad hoc policies across region); 3.) Market access (currently Dubai and Qatar have dealing with LSE, OMX NASDAQ); 4.) Infrastructure (currently a challenge in the region); and 5.) General competitiveness (currently varies from place to place in the Middle East and North Africa (MENA) region). Yet the recent global financial crisis and

[10] Magnusson, Niklas and McSheehy Will. "Dubai to Buy Stakes in Nasdaq, LSE; Strikes OMX Deal," *Bloomberg News*, 20 September 2007
[11] "Dubai, Qatar hold key to LSE's future," *Emirates 24/7*, 1 July 2011.
[12] Dyer, Geoff. "Kuwait and Qatar to take ICBC stake," *The Financial Times*, 24 September 2006.
[13] "Agricultural Bank to receive Qatar and Kuwait Investments," *Asian Banking & Finance*, 22 June 2010.
[14] "The Key Building Blocks of World Class Financial Centers," Securities Industries Association. p. 1; accessible at http://www.ita.doc.gov/td/finance/publications/World_Class_Financial_Center.pdf.

political turmoil has dampened the attractiveness of MENA as a region for foreign investors. This is further confirmed through Global Financial Centers Index (GFCI), which bases its index on five over-arching areas of competitiveness: people; business environment; infrastructure; and market access. According to the Z/Yen Group in the 10th edition of the Global Financial Centers Index (GFCI), Bahrain fell to 55th place, while Dubai slid 8 places to become the world's 36th leading financial hub. Qatar, meanwhile, was ranked 30th most popular financial hub –dethroning Dubai as being the dominant financial hub in the region.[15]

Rationale for Financial Centers in the Persian Gulf States

In the case of Persian Gulf states, and in reference to the second question posed, the purpose of respective financial hubs in the MENA region is: 1.) to attract international financial services institutions and major multi-national corporations and firms that support the financial sector and, consequently, national economic development; 2.) to facilitate participation in the growing market for financial services in respective states and elsewhere in the region; 3.) to deepen the financial sector; 4.) to use the financial hub as part of the broader investment and development strategy; 5.) to insulate the regime from societal pressures (i.e. political autonomy).[16]

Of course, there is a chance that inter-regional competition in the MENA zone could yield to 'niche' or specialty financial boutiques – with, say, Bahrain, for example, focused on Islamic Finance; Dubai's competitiveness in investment and private banking; and Qatar becoming a crucial player for insurance and asset management. In other words, comparative advantages of an aspiring center could lead to specialization; thus, the financial center competitiveness could be conceptualized as a 'positive sum' game with mutual benefits. For instance, DIFC and QFC instead of engaging in competitive branding and competing for the same business, as the economy of Qatar is markedly

[15] "Dubai loses financial center crown to Doha," 27 September 2011. Accessible at: http://www.zawya.com/story.cfm/sidZAWYA20110927051429; also see, Clarke, Paul. "Battle heating up between Dubai and Qatar financial centres, 13 December 2010. Accessible at: http://news.efinancialcareers.com/9849/battle-heating-up-between-dubai-and-qatar-financial-centres/

[16] "The Key Building Blocks of World Class Financial Centers," Securities Industries Association. p. 1; accessible at http://www.ita.doc.gov/td/finance/publications/World_Class_Financial_Center.pdf.

different from that of Dubai, they could expand their business attractiveness (as a potential financial hub) through cooperation. Qatar is a major oil exporter with the largest gas reserves and tiny population. Dubai in contrast has little oil and has become a diversified service-based economy, based upon its commerce, residential construction, and its sizable tourist industry. Likewise Bahrain remains a competitive player in the area of Islamic Finance, in spite of an equity market capitalization around US $20 billion (World Bank figures).

Case A: **Bahrain Financial Centre and Political Unrest of 2011**

As noted earlier, Beirut's demise as a financial hub left a gap in the region that Bahrain was to fill from the late 1970s onwards. Bahrain, in 1975, enacted legislation for offshore banking. Like Lebanon, Bahrain welcomed foreign banks, provided they confined their financial dealings to non-residents. Bahrain authorities sought to make their country the unrivaled financial center in the Gulf, primarily by using oil revenues to diversify the economic base of the island nation in the fields of banking and finance and subsequently creating an advanced, knowledge-based economy with technically sophisticated workforce. This policy was highly successful and by the early 1980s over a hundred leading international banks maintained offshore banking units in Bahrain, largely aimed at attracting deposits in US dollars but also in Saudi riyals with higher interest yields than was paid onshore because of Islamic constraints on interest (riba).[17]

Bahrain – A financial gateway between East and West?

The oil boom of 1970s extended the coffers of the state with oil proceeds. Against the backdrop of massive oil revenues, Bahrain implemented a policy of no income or sales taxes. To make the island nation attractive for foreigners vis-à-vis fellow Persian Gulf states, Bahrain provided a business friendly regulatory framework, which did not require conforming to sharia-based provisions governing business transactions. Overtime, the two tier institutional and legal framework – conventional for foreign financial entities

[17] Hersh, Emily S. "Islamic Finance and International Financial Regulation," Journal of International Service, Spring 2011 issue, accessible at: http://journalofinternationalservice.org/wp-content/uploads/2011/01/4Hersh.pdf. See also Wilson, Rodney. *Economic Development in the Middle East* (Routledge Press, 1995), chapter 3.

and sharia-based for locals – made Dubai (DFIC) more attractive, as a financial hub, with its exclusive 'English' based legal and institutional regime. Yet there were problems. According to business media sources, the inconsistency in implementation of commercial rules and legal codes led some leading foreign financial concerns such as ABN Amro, Credit Suisse, HSBC and Standard Chartered Bank to shift their operations to Dubai.

One key differentiator, however, has been the composition of the labor market: unlike DFIC and QFC, Bahrain insists upon local labor; currently 70% of employees in its banking and financial services industry are Bahrainis. Bahrain's reluctance to hire non-resident talent has made Dubai as an alternative for those investors looking for a center with more flexible labor practices such as DIFC provides.

Another key differentiator between DIFC and Bahrain is the Islamic Banking sector, in which Bahrain has developed a niche with US$66 billion in Islamic finance. Besides Malaysia, the leader in Islamic finance, Bahrain is the dominant player in the Middle East. It has built up the largest institutional concentration of Islamic financial institutions in the Middle East, with 27 Islamic banks.

According to Central Bank of Bahrain statistics, Bahrain is home to around 409 financial institutions. As a contrast, Dubai (DFIC) hosts about 800 institutions while Qatar (QFC) trailing at 121 institutions.[18] The financial sector accounts for 25% of the country's GDP, while oil contributes less than 15% to the GDP, hence the importance the government attaches to maintaining Bahrain as a financial hub. Heritage Foundation Report 2012 ranks Bahrain in the top 20 in its Economic Freedom Index, the highest in the MENA region.[19]

[18] Hancock, Melissa. "International Financial Centres – Middle East Crown still up for grabs," *The Banker*, 1 October 2011.

[19] The 2012 Index of Economic Freedom goes on to say: "Bahrain has been undergoing a challenging transition to greater openness and transparency, more visibly since early 2011. Compared to many other countries, Bahrain performs quite well in many of the four pillars of economic freedom and represents the MENA region among the world's 20 freest economies. However, enhancing the foundations of economic freedom through improvements in property rights and corruption will be critical to ensuring success in the country's ongoing evolution."

Bahrain : Key Macro-Economic Indicators	2011	2012	2013	2014	2015	2016
Real GDP (% change)	2.8	4.1	4.8	3.9	3.4	3.4
Nominal GDP (US$ bil.)	24.5	25.5	28.1	30.1	32.2	34.3
Nominal GDP Per Capita (US$)	19,512	19,918	21,546	22,696	23,841	25,034
Consumer Price Index (% change)	-0.4	2.5	2.5	2.7	3.1	3.1
Fiscal Balance (% of GDP)	-2.3	-1.7	-1.1	-0.9	-0.8	-0.7
Population (mil.)	1.26	1.28	1.3	1.33	1.35	1.37
Current Account Balance (% of GDP)	18.9	15.6	11.8	8.9	5.9	5.5
BOP Exports of Goods US$bn	18.7	19.7	21.1	22.3	23.3	24.2
Exchange Rate (LCU/US$, end of period)	0.38	0.38	0.38	0.38	0.38	0.38

Source: Macro Economic Tables Source cited in HIS Global Sights. Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF)

Bahrain wants to use its "Islamic Banking" credentials in the Middle East to thwart Dubai (DFIC) and Qatar (QFC) from becoming competitive alternatives for foreign businesses. In 2007 Bahrain launched the Bahrain Financial Harbor (BFH), which it sees as the "financial gateway to the city" thereby fulfilling Bahrain's access role, "positioned strategically" to enable business between "Europe, Asia, and the rest of globe."[20] BFH is also part of the broader national development initiative. It wants to distinguish itself from DFIC and QFC by focusing on niche areas, Islamic finance and insurance (which Dubai is also pursuing as one of its specialties). In this context, Bahrain has outlined a roadmap, Vision 2030, with inter-related economic objectives for national development, primarily with a focus on creating 'higher valued added industries' (petro-chemicals, specialized financial services, agribusiness services, etc.) and enhancing infrastructural development objectives.[21] It has also deployed its SWF, Mumtalakat Holdings Co., as an integral part of the 'Economic Vision 2030' plan, to realize Bahrain's aspiration to completely shift away from an oil-based economy to a multi-sector and industrial economy.

Bahrain's investments fund – Mumtalakt (an Arabic word which means "assets") – unlike the prodigious SWFs from Qatar and UAE – has a modest investment portfolio, valued around US $10 billion dollars, under management. Currently, the Bahrain SWF is an active shareholder and investor in more than 35 commercial enterprises, across industries and sector, both nationally and internationally.[22] The principal objective of the

[20] http://www.bfharbour.com/index.php
[21] Bahrain Ministry of Industry: Economic & Industrial Development of Bahrain, 10 June 2011. Accessible at http://www.marcopolis.net/bahrain-ministry-of-industry-economic-industrial-development-of-bahrain.htm
[22] *Ibid*. http://www.bahrainedb.com/sovereign-wealth-funds.aspx.

fund is to provide "funding to develop Bahrain's economy."[23] For example, as part of a broader strategy to promote itself as an R&D hub and develop a niche in the transportation area and in competition with neighboring Persian Gulf states, Bahrain partnered with a German automotive supplier to establish a manufacturing facility in the country. As well, Bahrain leveraged its SWF to buy 50% stake in the McLaren Group, which includes the Formula 1 team. FI has arrangements to hold its racing events in Bahrain, as part of Bahrain Grand Prix.[24]

Although it is not as invested in the western financial markets as has the Qatar Investment Authority (QIA), Bahrain maintains its position as an international financial hub for Islamic finance in the Middle East. Mumtalakat Holding has not been substantially engaged in building financial services capacity, thought it has accessed global debt markets for capital for its private sector initiatives. For example in the recent past, Mumtalakat issued bonds for US$750 million, arranged by JP Morgan, Deutsche Bank, HSBC, and Standard Chartered. Additionally, it raised US$500 million in Islamic bonds.[25]

Bahrain as a (dwindling) financial hub: Issue of Political Stability

During the 2011 a tsunami of popular angst and vociferous opposition to authoritarian governance began to envelope the Middle East. Bahrain was no exception. Its ruling Al-Khalifa family unleashed a ferocious extra-judicial crackdown against the opposition. It appeared the standard axiom of Gulf ruling families – securing legitimacy and counter-acting political opposition through redistribution of oil wealth – was sorely insufficient to address citizens' grievances. These led not only to international opprobrium of the Bahrain government but also made foreign businesses reconsider

[23] For detailed background information on Bahrain SWF, see: http://www.bahrainedb.com/sovereign-wealth-funds.aspx

[24] Hutton, Ray. "How (and Why) the Middle East is Buying into Europe's Car Companies," *Car and Driver*, July 2011. Accessible at: http://www.caranddriver.com/features/how-and-why-the-middle-east-is-buying-into-europes-car-companies-feature

[25] "Timing is everything for Bahrain's Mumtalakat," *Euroweek*, 25 January 2010; see also, Kerr, Simeon. "Mumtalakat seeks to diversify its assets," *The Financial Times*, 25 October 2010.

Bahrain as a financial center – with many foreign business shifting workers and operations to Dubai.[26]

There were also reports of capital flight out of Bahrain to neighboring states. A few powerful investment banks such as the French bank BNP Paribas and Japanese bank Nomura still maintain their Middle Eastern operation in Bahrain.[27] Though exact figures are not available, media reports noted that Bahrain's richest residents had withdrawn 15-20% of their deposits and investment at the height of political turmoil. In response both Fitch and S&P rating agencies downgraded the country's credit worthiness.[28] Indeed, confidence in Bahrain as a financial hub took a major blow along with its image as a stable, tolerant and liberal state.

Given its role as a regional financial center for the past 30 years, Bahrain established a position in Islamic Finance but lagged in building the foundations of a true international financial hub. The constraints – a lack of formalized institutional and regulatory structure, along with an ad hoc business environment, underdeveloped infrastructure, and under-supplied skilled workforce – have negatively affected its growth and potential to become the financial gateway in the Middle East. As well, its non-democratic political structure adds a financial risk premium both to the country's competitiveness and its international reputation as a financial center. Furthermore, it remains to be seen what impact last year's pro-democracy uprising will have on the state of Bahrain and its ambition as a regional financial gateway– especially at a time when Dubai (DFIC) and Qatar (QFC) remain serious contenders to become dominant financial centers in the Middle East.

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[26] A case in point Formula One (F1), an international brand name, registered its protest over political unrest and government response by pulling out of Bahrain Grand Prix, which is part of Bahrain International Circuit. Bahrain had made significant investment to promote the event and to develop local infrastructure to make the country a "tourist destination". By one account, Bahrain had paid US$39.2 million in hosting fees. "Ex-F1 champ Damon Hill backs Bahrain Grand Prix," *Arabian Business*, 19 January 2011. See also, Ulrichsen, Kristian Coates. "Repositioning Saudi Arabia and the Gulf Cooperation Council States in the Changing Global Order, *G20 – Perceptions and Perspectives for Global Governance*, 19 October 2011. Pp 117-128. Accessible at http://www.kas.de/upload/dokumente/2011/10/G20_E-Book/chapter_12.pdf.

[27] Hancock, Melissa. "International Financial Centres – Middle East Crown still up for grabs," *The Banker*, 1 October 2011.

[28] "Bahrain Financial Center Pays Price of Political Turmoil," VOA News, 17 March 2011.

With Bahrain as a backdrop and given the political, institutional, and regulatory concerns posed by Bahrain's current challenges, what political and institutional pitfalls could Qatar -- an aspiring candidate as a financial hub in the Middle East – overcome to become the pre-eminent financial center in the Gulf region?

Case B: Qatar Financial Centre (QFC) - Is Qatar "Ready" to be the new financial Pearl of Arabia?

From Beirut to Manama, Dubai to Doha: what can Qatar do differently to establish a long lasting financial hub status. Is Qatar ready to liberalize its own market and emerge as the new player in international capital markets?

To have a better understanding of Qatar's position against its declared ambition we shall evaluate it against the four main building blocks for world class financial centers[29]: 1) a stable and open political and economic regime; 2) fair, transparent, efficient and reasonable legal, regulatory and tax regimes; 3) a skilled labor force and flexible labor regime; and 4) high quality physical infrastructure.

A Stable and Open Political and Economic Regime

When analyzing the history of Qatar we find that the decision to become a financial hub does not come as a surprise. Since its 1995 coup, Qatar, the small peninsula in the Persian Gulf, has been advancing on the road to development on different fronts; politically, financially, strategically, human rights, and freedom of speech.

Qatar arrived on the Middle East political scene as a mediator during conflict in 2005-06 amid the Lebanese crisis. Since then we have seen Qatar taking tentative steps in expanding its political clout especially in dealing with Yemen and Sudan's domestic turmoil. However, Qatar's backing of the Libyan rebel overthrow of former Libyan leader Colonel Muammar al-Qadhafi has propelled the Gulf state onto the international political scene, strengthening its role in international missions and its position vis-à-vis Western countries. Such efforts turned the country into a strategic ally one which foreign states are likely to want to deal with. Yet, political weight does not come without a price. Since its rise, Qatar has faced tremendous discontent from neighboring states like Saudi Arabia,

[29] "The Key Building Blocks of World Class Financial Centers," Securities Industries Association. p. 1; accessible at http://www.ita.doc.gov/td/finance/publications/World_Class_Financial_Center.pdf.

Egypt and UAE, who previously were considered the powers to be of the Middle East. Also, free media portrayed by the resident Al-Jazeera Broadcasting Channel has created many political conflicts.

The recent unrest in the region has rattled the regime and led the government to renew its focus on sustaining high public spending. The government has no serious reason to be concerned about the possibility of widespread unrest at home thanks to the comprehensive support system and wealth that the regime bestows upon its citizens. However, the regional atmosphere has forced the government to increase spending, raise state salaries (up to 120%), social benefits and pensions.[30] Internally, Qatar's constitution keeps power in the hands of the emir and his descendants. The constitution also paves the way for a two-thirds-elected consultative council with legislative powers and responsibility to oversee and monitor the government, While significant in terms of reform, the changes do not limit the power of the emir, who is still expected to approve all legislation before it is passed by the council and can also dissolve the body. Political parties are also set to remain banned.

Economically, Qatar has been evaluated against advanced economies like the US and Germany. Qatar's exceptionally high GDP per capita and its prodigious hydrocarbon reserves are the main factors in comparing it against economies rated as "Aaa" by Fitch and Moody's. However, such comparison should take into consideration the volatility of its economic position due to its core dependencies. Qatar has recently tried to overcome the volatility factor by utilizing its SWF to gain substantial stock in foreign assets. Yet, unlike neighboring GCC countries, its investments have been calculated against its long-term strategic development.

Moody's rates Qatar at Aa2 on par with Italy, noting that Qatar's current account has been in surplus since 1998 and is expected to remain so over the medium term. However, the economy remains very dependent on hydrocarbons and its performance is therefore volatile. Moody's also comments that although the fiscal account is in comfortable surplus, budgeted increases in government expenditure (including those related to the 2022 World Cup) could erode fiscal flexibility over the medium term. Build-up of debt within the public sector in recent years, both at the government and

[30] "Qatar Raises State Salaries, Pension," *Reuters*, 7 September 2011.

government-owned company levels can negatively affect Qatar's balance sheet and weakens its financial position.

Qatar : Key Macro-Economic Indicators	2011	2012	2013	2014	2015	2016
Real GDP (% change)	16.4	7	6.2	6.9	4.8	4.5
Nominal GDP (US$ bil.)	172.8	186.5	203.2	223.8	239.9	253.9
Nominal GDP Per Capita (US$)	100,893	102,993	105,358	108,147	111,867	116,385
Consumer Price Index (% change)	1.9	2.8	5.1	4.9	4.4	3.1
Policy Interest Rate (%)	4.5	4.5	5.5	5.75	6	5.93
Population (mil.)	1.71	1.81	1.93	2.07	2.14	2.18
Current Account Balance (% of GDP)	30	21.6	19.4	17.6	15.9	14.6
BOP Exports of Goods US$bn	107.3	102.4	109.4	117.3	122.8	128.4
Exchange Rate (LCU/US$, end of period)	3.64	3.64	3.64	3.64	3.64	3.64

Source: Macro Economic Tables Source cited in HIS Global Sights. Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF)

Qatar National Vision 2030

Before delving into Qatar's investment choices, one should focus on Qatar National Vision 2030. In QNV2030 one would find that the recent investment of $2.8 billion in the Agricultural Bank of China is part of Qatar National Food Security Program.[31] Also, Qatar Investment Authority's aim is to spend $2.0 billion in asset management firms to lure them into Doha[32]. A vital point in gaining sustainable, long-term economic diversification is for Qatar to reduce its dependency on the hydrocarbons sector. Although the export of liquefied natural gas (LNG) continues to drive the growth of the economy, Qatar has made significant strides in terms of diversification. In 2009, the aggregate sum of economic activity in Qatar's non-oil and gas sectors exceeded the amount of GDP produced through the oil and gas sector for the first time.[33]

Qatar: Top-10 Sectors Ranked by Value Added		
	2010 Level (Bil. US$)	2011%Change (Real terms)
1. Oil and Gas Mining	59.7	16.5
2. Public Admin. and Defense	16.9	19.8
3. Construction	8.4	10.3
4. Banking and Related Financial	4.9	17.7
5. Telecommunications	3.9	20.5
6. Retail Trade - Total	3.8	16.1
7. Real Estate	3.7	19.7
8. Wholesale Trade	3.2	17.1
9. Business Services	3	19.6
10. Refined Petroleum and Coke Prod.	2.4	17.3
Top-10 Total	110	

Source: World Industry Service, IHS Global Insight, Inc.

[31] Pertinent to note here is the fact that, by 2023, Qatar is aiming to be self-sufficient in growing wheat, fruit and vegetables to serve its population. "Qatar Aims for Food Goal in Radical Desert Farming Plan," *Financial Times*, 29 June 2010

[32] Qatar Investment Authority, Sovereign Wealth Fund Institute. Accessible at http://www.swfinstitute.org/tag/qatar-investment-authority/

[33] Qatar, International Country Risk Guide ICRG, PRS Group, August 2011. Pp 64-65

Qatar Financial Center ("QFC"), part of the QNV2030, struggled since its inception to bridge itself from an intellectual and legal concept to an actual financial hub. We find that QIA had recently come to its rescue, lining up investments in G-SIFI financial institutions and getting involved in international financial deals that most probably will draw a spot light to the young market. Since the beginning of the financial crisis, QIA has eyed strategic stakes of many of the troubled institutions. QIA took a stab at the Greek crisis by investing in Alpha Bank and subsequently have bigger shares in Alpha Bank's merger with EuroBank[34]. Barclays was another deal that drew a lot of interest as the Qataris invested in the mega bank and then sold their share for $1 billion of profit[35]. The most recent interjections with the financial crisis were QIA's Bid for Dexia SA. The Luxemburg's retail arm for Belgium's renowned bank and its bid to buy Credit Suisse's UK headquarters, QIA is already a shareholder, which would deepen its relationship with both its Swiss banking ties and its UK real estate portfolio.

Fair, Transparent, Efficient and Reasonable Legal, Regulatory and Tax Regimes

Standard & Poor's notes that structural weaknesses and challenges remain apparent at Qatar's current stage due to many factors[36]: 1.) the country's public institutions are in the early stages of development compared with most 'AA' rated sovereigns; 2.) the fixed exchange rate with the U.S. dollar offers limited monetary policy flexibility; 3.) data quality lacks transparency by international standards; in particular, the government neither discloses all fiscal assets nor reports their returns. Qatar's legal system[5] compares to Saudi Arabia where it is reasonably mature, with *emiri* (ruling) decrees forming the basis of a relatively coherent body of modern statute law that remains in line with Sharia principles. However, the legal process is slow and most disputes are solved through arbitration. The regulatory system places considerable obstacles before foreign investors, discriminating in favor of Qatari- and GCC owned

[34] "Greece's Alpha Bank and Euro-bank EFG are to Merge," accessible at http://www.bbc.co.uk/news/business-14706094

[35] "Qatar pockets $1 billion from Barclays bail out," accessible at http://www.arabianbusiness.com/qatar-pockets-1-billion-from-barclays-bail-out-11598.html

[36] Qatar, Country Analysis, Standard & Poors, 20 October 2011.

firms. On a more progressive track than the Saudi case, 100% foreign ownership is allowed in certain sectors of the economy; but in general this is restricted to 49%.

The tax system is reasonably clear and rates are not prohibitively high.[37] In a bid to boost foreign investment the government made the significant step at the end of 2009 of scrapping its 10–30% tax structure and replacing it with a new 10% flat-rate corporate tax. The move reflected the government's aim of competing with other business-friendly centers like Dubai and Bahrain Companies and shareholders from Qatar and the other GCC countries are not liable to pay tax. Foreign investments in key sectors can be eligible for a tax holiday of up to 10 years. Qatar is recognized for the ease of paying taxes in the country. Citizens from other GCC countries are treated as Qatari citizens for the purpose of tax law.

Skilled Labor Force and Flexible Labor Regime and High quality physical infrastructure

Qatar's current unemployment rate is 0.5% (August 2011), which is the second lowest rate in the world. By law, employers must give preference to Qataris and may only hire foreigners if no Qatari is qualified or willing to take the position. With Qatar's increasing GDP per Capita and their concentration of labor laws, it has been easy to attract professional and experienced workers in all sectors.

In an effort to attract specialized regional professionals, Qatar loosened visa restrictions in January 2011 for those with residency in any GCC country and whose profession matches a list of 188 specialized skills. In terms of regional recruitment, the United Arab Emirates remains the most sought-after destination for professionals in the region, but Qatar has grown in prominence due to rising salaries (6.8% average annual increase—highest in the GCC), an expanding economy, as well as large-scale government-sponsored infrastructure projects that require specialists.[38]

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[37] Riani, Gala & Phillips, Brad. "Qatar," IHS Credit Insight, 17 January, 2012

[38] The projects include $11 billion towards the completion of Doha's new international airport, $5.5 billion on a deep-water seaport, $1 billion on a transportation corridor through the capital, $20 billion on new roads and $25 billion on a rail network. In addition, the oft-delayed construction of the Qatar-Bahrain Friendship Bridge is scheduled to start at the end of 2011. Most notably, Qatar won the right to host the soccer's World Cup in 2022 and the government announced plans to spend $65 billion on tournament-

Infrastructure projects should continue to accelerate Qatar's path of economic diversification. The expenditures are part of a broad infrastructure initiative that will consume 40% of Qatar's federal budget between 2011 and 2016. Despite the large amount of debt incurred by these projects, Qatar's substantial foreign asset holdings and revenue from hydrocarbon exports will be sufficient to service its debt obligations. As the Qatari labor market indicates, these large-scale infrastructure projects will continue to require foreign expertise in virtually all phases of development, including the design, construction and management of the various initiatives.

Evaluating Qatar's ambition against its current aim, we find that with diligent and steady guidance, the country can achieve its QNV2030. However, by focusing on being a financial hub, Qatar should note that an accelerated version of the plan might render some shortfalls at the medium to long term. The main focus should be managing the legal structure. Any global financial hub cannot function smoothly without a legal framework that is coherent, transparent, and ethnically blind. Likewise, a fast and efficient legal framework will make it easier for justice to prevail through law and not through arbitration. The other obstacle that Qatar will face is its public labor compensation. An increase of 120% in public sector salaries will only deter foreign investors from opening their shops in Qatar; salary competition might deem business in Qatar to be very expensive and unprofitable. Qatar should also learn from the shortcomings of neighboring Dubai and Saudi Arabia, where cost effectiveness should be highlighted over national ambition. The main aspect that can lead Qatar through a successful plan is to continue to thrive as a political entity of neutral stance; a partner that neighboring countries will seek out for guidance and support in a variety of domains. International institutions will then be able to choose Qatar as the destination enroute to the east.[39]

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related infrastructure such as stadiums, hotels and transportation. Qatar, "International Country Risk Guide ICRG," *PRS Group,* August 2011. Pp 64-65

[39] Doherty, Regan."Tiny Qatar wielding powerful political punch," Reuters, 18 January 2012. See also, Momani, Bessma and Andrew Cooper. "Qatar and Expanded Contours of Small State Diplomacy," *International Spectator*, June 2011.

Conclusion

Competitive branding between Bahrain, Qatar, and UAE has become apparent on many different levels from oil, finance, real estate, to entertainment. Vision 2030 for the three neighbors gives a sense of duplicating strategies. As they aim to diversify their economies and create jobs, they have also duplicated efforts and reinvented the wheel. Does the gulf area really need three or four financial hubs?[40] If it does then theoretically – *ceteris paribus* – for all of them to function and thrive, there should be a high level of specialization among regional financial centers to avoid cannibalization. Gulf States' Sovereign Wealth funds are pouring capital into plans designed to support the future generations of their citizens. When those plans are in conflict, reason suggests taking the time to cooperate with neighbors in building strong and coherent financial centers that can support the interests of each while mitigating the risk posed by domestic socio-political instability.

Bahrain had shown perseverance and strength in building its financial center, but democracy efforts and human right violations were able to threaten the hard work of more than 30 years. Dubai's ambitious spirit was crushed by financial woes due to lack of long- term financial planning and risk management. Qatar, the new entrant, must realize that it will take more than "Three Cups of Tea"[41] to convince capital markets that they have arrived to a place they can call home. Qatar, being ambitious in this realm, is going to have to move steadily on enhancing its policies, institutions, and regulations before international financial players can see it as a viable and vital financial center.

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[40] England, Andrew. "Gulf States Run the Risk of Duplicating Strategies," *The Financial Times*, 19 April 2010. See also, Bessma Momani & Andrew Cooper. "Challenge of Re-branding Progressive Countries in the Gulf and Middle East," *Place Branding and Public Diplomacy*, May 2009.

[41] Mortenson, Greg & Oliver Relin, David. *Three Cups of Tea: One Man's Mission to Promote Peace… One School at a time* (Penguin, 2006)… The book's title comes from a proverb: "The first time you share tea with a Balti, you are a stranger. The second time you take tea, you are an honored guest. The third time you share a cup of tea, you become family..."