Qatar’s Economy in Light of the 2017 Blockade

Qatar assures its citizens that their economy is resilient and stable despite the blockade.

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Qatar continues to implement strong economic policies to counter effects of the blockade.

On June 5 2017, Saudi Arabia, the UAE, Yemen, Egypt, and Bahrain officially cut diplomatic ties with Qatar.
However, Qatar’s economy has shown an incredible amount of resilience after the blockade was imposed on them. Macroeconomic indicators have grown substantially, adding on to GDP growth, increased trade, lower inflation and unemployment rates.

**Qatar’s Economic State**

Ever since the Qatari diplomatic crisis there has been many negative effects on it’s economy. Consumer confidence dropped because of this economic downturn. Discouraging statistics on qatar's national economy reduced citizens’ confidence and encouraged people to start saving rather than spending. After the blockade predictions were made on Qatar’s economic growth. According to the International Monetary Fund, the predicted economic growth for 2017 was 2.5% and 3.1% in 2018. However, GDP only grew by 1.9% in 2017 compared to the 2.5% growth that was predicated. As of now, real GDP is growing at 2.5% due to the infrastructure development and facilities for the 2022 FIFA World Cup. Yet, the current 2.5% value is still lower than the initially predicted of 3.1% growth expected in 2018.

The current unemployment rate is 0.10% and is reported to have one of the lowest rates in the world. From 2001-2017 the average unemployment rate was 1.22%, thus the current unemployment rate is significantly lower than this average. At the moment this is the lowest unemployment rate Qatar has seen in history which is a strong indicator for the strength of its economy. Therefore many people who were actively seeking work in the labor force have no been able to find employment due to the increase in economic growth.

Recently Qatar’s inflation rate dramatically dropped to 0.1% as of April 2018, from 0.9% in January. This is Qatar’s lowest inflation rate since September
Despite these strong economic indicators, Qatar’s economy is predicted to be negatively affected by the blockade in the future. Looking at the table on the right, real GDP growth rate is predicted to decrease to 1.2%, unemployment is predicted to increase to 1.2%, and inflation rate is predicted to increase to 3.6%. All of these predictions relate to a slower growing economy with higher inflation and more unemployment. It is now up to Qatar to find ways to counter the effects of the blockade and not allow these predicted indicators to represent the economy.

The last GINI index that was recorded for Qatar was in 2007, the GINI index was reported to be 41.1. This GINI index is relatively high indicating a high level of income disparity and inequity in the country. Although Qatar has the highest GDP per capita out of any country in the world, there is high income disparity and inequality in the country. The wealthiest Qataris receive almost 13 times more income than the poorest Qataris.

The government of Qatar has not recently publicly published any data regarding its income disparity. However, there is information about the female and male percent labor force participation. The average percent of female participation in the workforce was 46.6% in the last decade whereas the average male labor force participation rate was 93.8%.

**Current Government Policies Countering Effects of Blockade**

The Qatari government is increasing economic growth by increasing Aggregate Demand by influencing net exports, consumption, and tourism. The government has cut back on imports and is now leaning towards manufactured goods within the country. The government is increasing its projects targeted towards manufacturing goods such as food products, pharmaceutical products, and environmental industries. In support of these government programs, The Emir of Qatar,
HH Sheikh Tamim Bin Hamad Al Thani said in a speech “We are called upon to open our economy to investments and initiatives so that we produce our own food and medicine, diversify our sources of income, achieve our economic independence through bilateral relations of cooperation with other countries, in our geographical environment and worldwide, and on the basis of mutual interests and mutual respect.”

After the blockade qatari citizens lost confidence in the future of qatar's economy. Many qataris felt pessimistic. In order to increase consumer confidence the government increased public relation efforts by issuing public statements about its economic policies and status to assure its people of the future stability of Qatar's economy. In specific, the Minister of Economy and Commerce stated that the economic indicators of Qatar “reflected positively on the position of the State of Qatar in many global reports” (The Peninsula, 2018). He assured the Qatari people that the blockade did not affect their economy and instead has increased the government’s determination to work toward economic growth and stability.

The Board of the National Tourism council has launched specific projects and strategies to increase tourism which will increase consumption in the country. Ideally, Qatar wants to attract and captivate more than 7 million tourists by 2030. A new project named “The Next Chapter” will focus on advancing tourism experiences and will promote Qatar as a tourist destination internationally and develop new tourism products as well. In addition, Qatar has enforced a new policy allowing citizens from more than 80 countries to enter Qatar without a visa.

All of these projects and everything that the Qatari government is currently implementing will shift aggregate demand outwards from AD to AD₁, as seen on the graph above. This will in effect increase real GDP from Y to Y₁ in the short run and increase price level from P to P₁.
The Qatari government is also currently working on improving long run aggregate supply (LRAS) which will increase economic growth. It is specifically targeting its population and capital and infrastructure as determinants of LRAS. Qatar highly supports young entrepreneurs and their innovations as this will broaden and develop partnerships with many other international countries.

Furthermore, the government works very hard to diversify its economy, attempting to invest in a more knowledge based economy and moving away from hydrocarbon industries, thus enhancing the role of the private sector of the economy. One of the ways in which it does so is its investment in education city, where it has established some of the top international universities. The government has increased spending on education by 18% from 2017 in order to focus more on the projects in the education sector.

There are major infrastructure projects that the Qatari government has carried out such as “Hamad Port, one of the Middle East’s largest hubs, Hamad International Port, Doha Metro, Qatar Rail, a dynamic road network, high-quality logistical areas, and a financial centres that provide support for investors” (Government Communication Office, 2018). In addition, Qatar has recently finished building Hamad International Airport which has brought millions of visitors to Qatar and has been ranked 5th best airport in the world by SKYTRAX world airport awards.

When implementing this projects, LRAS shifts outwards from LRAS to LRAS, which simultaneously shifts AS and AD. This will increase real GDP from Yf to Yf1 and keeps the price level relatively constant helping stabilize inflation rates.

The government has stimulated many foreign investments and significant sectors of the economy that helped increase aggregate supply in the short run. Issuing a new set of commercial laws that will make it easier for firms to obtain license and establish business centers in Qatar, as well giving specific benefits for
international investors who decide to invest in Qatar. This has effectively decreased business regulation for firms making it easier for them to increase supply in Qatar. Also, the Qatari government makes it easier for startups and small medium enterprises to be granted subsidies. The government also exempts any businesses that are Qatari or GCC owned from any corporate income tax which supports the increase of AS. Granting subsidies and lowering taxes will lower the cost of production for firms and allow them to supply more at every price level. In the short run, these new policies will effectively shift the AS curve from $AS_1$ to $AS_2$ causing for an increase in real GDP from $Y_1$ to $Y_2$ and a decrease in overall price level, termed deflation. This is shown in the graph above.

Our Proposal

Overall to increase economic growth in Qatar, stabilize inflation and decrease unemployment, it is recommended that Qatar focuses specifically on increasing long run aggregate supply (LRAS). Doing so will increase potential GDP, while keeping inflation minimal and also diversifying the economy to keep unemployment stable. The four determinants of LRAS including population, capital, resources and technology should all be targeted in Qatar’s new economic policy.

The Qatari government should increasing overall education level of Qatariis and the skill set of the labor force by: implementing training programs for youth who are unable to attend university due to low scores/acceptance rates. It is also recommended that train them in skill based subjects and assist them in reapplying to university and encourage their educational endeavors.

Furthermore, the country could increase the capacity of the top universities in Education City. By investing in new facilities, more faculty and curriculum options—such as increasing programs offered at Northwestern, Georgetown, Texas A&M, Cornell, and Carnegie Mellon university—more students will have the
opportunity to enroll and benefit from the strength of these educational programs.

Economists would also recommend that the government increase capital and infrastructure within Qatar. The government can do this by building bridges from West bay to Pearl. This will increase efficiency as it will decrease traffic and average transport time allowing people to spend more time being efficient in work. Qatar could also invest in building greenhouses to stimulate the agriculture economy of Qatar. These greenhouses could support locally owned agriculture businesses and allow them to grow a greater variety of produce and sell year round.

One of the last determinants of LRAS is technology and in order for the government to target this sector Qatar should consider advancing technology in its economy. Qatar should invest in artificial intelligence innovation in order to increase the efficiency of many of its technological sectors and health sectors. The government can implement a research fund dedicated to finding AI solutions for technology and health problems within Qatar. Incentivizing top tech companies like Apple, Google, and Amazon to have local offices in Qatar and work towards increasing technological solutions for firms in Qatar.

These policies that influence the determinants of LRAS capital, education, technology and resources will shift LRAS outwards as well the AD and SRAS curves. The AD curve will shift outwards from AD to AD1, and at the same time SRAS will shift outwards from SRAS to SRAS1. Potential GDP increases from Y1 to Y3 and price level remains relatively constant if all the curves shift at the same rate. Therefore, the Qatari government should target these determinants to try and shift the curves by the same amount in order to achieve optimum non-inflationary growth. The increase in potential GDP will cause economic growth which directly decreases unemployment rates and the targeting of LRAS will achieve this by keeping the impact on inflation minimal.
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