

MIB CAPSTONE

**WINNERS AND LOSERS: AN ANALYSIS OF QATAR'S ECONOMY
TEN MONTHS INTO THE GCC RIFT OF 2017**

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Executive Summary

The GCC Rift of 2017 was one of the worst regional crises in the history of the Gulf Cooperation Council. The three main instigators, Bahrain, Saudi Arabia and the United Arab Emirates, economically pressured Qatar to agree to thirteen demands, which were mostly centered around terrorist financing and its relationship with Iran. The three GCC countries used isolation via blockades and embargoes to hurt five main areas of the Qatari economy. Examining each of those five areas illuminates which side was more successful in accomplishing their goals during the first ten months of the rift.

The first sector under attack was Qatar's finance and banking industry. Qatar did suffer some initial losses but responded resiliently to mitigate any major subsequent or lasting effects. It was able to do so by relying on a huge foreign exchange reserves amassed by the Qatar Investment Authority and Qatar Central Bank and international financial support. The second area of attack was Qatar's energy markets. While the world initially wondered whether Qatar could execute on its promises under immense pressure, the nation came through with limited interruptions. Its position in the global liquefied natural gas market ensured that outside entities were ready to help Qatar should supply be disrupted. The third area of attack was trade – air, land and sea. While trade routes and supply lines were initially disrupted, regional and international partners helped Qatar during its hours of need. The restricted trade with Bahrain, Saudi Arabia and the United Arab Emirates, although once very substantial, became unnecessary. Additionally, the three GCC countries looked worse economically as a result, needing to explain why they let go of billions of dollars' worth of contracts. The fourth sector under attack was aviation. Qatar's aviation industry and tourism industries were truly hurt and there will be lasting effects from the rift. An already loss-making Qatar Airways was struggled and expected losses of around US\$500 mn. This does not even include the major hit to its reputation. The final category was infrastructure, specifically investments for the 2022 World Cup preparations. While initial construction was halted for a short period, Qatari and non-Middle East based companies picked up the slack. No major delays were expected for the ambitious plans of Qatar to host the 2022 World Cup.

When scoring the level of disruption to Qatar's economic plans across the five areas, four categories (finance/banking, energy, trade and infrastructure) went to Qatar while one (aviation) belonged to Bahrain, Saudi Arabia and the United Arab Emirates. As a result, Qatar clearly survived and found that the rift was a "blessing in disguise". With new trade partners in Iran and Turkey and an increased confidence in internal solutions, Qatar looks better positioned ten

months into the rift, ready to impose its own economic desires domestically and internationally. The Gulf Cooperation Council also looks fragmented, and its existence as a unified economic body seems doubtful moving into the next few fiscal years.

Introduction

The Gulf Cooperation Council (GCC) countries have disputed over various agenda items throughout the history of the economic union. There were land disputes such as the 1992 border clash between Saudi Arabia and Qatar.¹ Other disagreements stemmed from external trade relationships. The Saudi Arabian boycott of the Organization of Islamic Conference summer in 2000 due to Qatar's trade relationship with Israel caused nations to lash out at other regional partners. Even third parties have stoked trouble among the Gulf-based sovereign powers, e.g. the hacks of Qatari news services. Most of the previous disagreements have been handled internally and resolved quickly. However, the GCC rift of 2017 was different. It has been far more threatening to the GCC's economic agenda, security and political objectives than any of the previous skirmishes. The severity of the events and rhetoric has left many analysts, insiders and outsiders alike wondering whether the GCC would be able to survive such a scathing set of events and circumstances. In the past, the six members of the GCC acknowledged that there were great mutual gains with cooperation and harmony. They also acknowledged that strife within the economic union can have long lasting results. Such a loss of confidence in the GCC and entire Middle East could hurt prospects for the region as a suitable place in which to conduct business. It is intriguing, then, that the Middle Eastern diplomatic crisis in 2017 among Qatar, Saudi Arabia, the United Arab Emirates (UAE), Egypt and Bahrain lasted at least ten months and much of the drama played out ostentatiously on the international stage.

The GCC rift of 2017 began when three Arab nations, Bahrain, Saudi Arabia, and the UAE, spearheaded efforts to convince Qatar to acquiesce to certain demands. They required that Qatar meet a set of proposed requirements before restoring normal diplomatic and economic relations. On the face of it, the purpose of the pressure resided in an anti-terrorism campaign, with the three GCC members calling out Qatar as a supporter of specific terrorist groups. Accordingly, the thirteen demands imposed upon the tiny island country called for Qatar to stop financing terrorism or assisting states that supported terrorism, namely Iran. The list included other intriguing requests such as the closing of Al Jazeera, the Qatari state-funded media organization. These latter provisions have delayed the likelihood of a resolution to the conflict, because the nature of the requirements seem politically motivated and practically illogical. To "encourage" Qatar to acquiesce to demands, the primary method of applying pressure was to isolate Qatar economically. In doing so, the three GCC nations believed that Qatar, struck by economic devastation, would crater to their requests.

From its beginnings, the GCC's economic partnership existed to facilitate trade and the financial prospects of its member states. The six nations that comprise the GCC have integrated their markets, trade and economic policies to accomplish collective goals. Some members, e.g. Saudi Arabia, consistently pushed for tighter economic, political and military coordination among the GCC members. Their argument for stronger integration emphasized the advancement of all members of the GCC. Qatar had long been interested in seeing the advancement of the coalition's success, trusting that the advancement of the overall GCC agenda would facilitate economic benefits at home. In theory, integration would lead to deep interdependence. This interdependence would cultivate reliance on other member states in order to survive. Isolation would be devastating to any individual member, especially a country like Qatar which relied heavily on imports of many goods. Hence, the tactic of isolation was expected to encourage wayward states to fall in line. In the case of the GCC rift of 2017, this theory did not accurately explain the results. The efforts to isolate Qatar did not produce the outcomes desired by Bahrain, Saudi Arabia, and the UAE.

After ten months of the rift, Qatar remains defiant and has not accepted the demands. What little fears Doha had about the consequences of isolation have subsided. The economic and political isolation did not truly cripple Qatar, and the likelihood that the state will accept the thirteen demands of its fellow GCC members as originally written seems slim. Additionally, there seems to be no end in sight to the rift. While Qatar has been defiant, some important questions remain. What has been the impact to Qatar's markets, economy and business prospects? How has the Qatari nation remained staunchly defiant these past ten months? Has the pressure exerted upon Qatar made the tiny island country more likely to come to the bargaining table or remain defiant? While the final outcome of the rift remains opaque, an adage remains clear. There are always winners and losers to every conflict.

Scope Clarification

This paper focuses on the timeline of June 5, 2017 through the end of the 2017 Qatari Government's fiscal year on March 31, 2018. Examining five drivers of Qatar's economy will provide insight into how well the country is doing while isolated from the GCC neighbors and economic partners. Those five sectors/areas of interest are finance/banking (including the stock markets and Qatari riyal), energy, trade, aviation and infrastructure (specifically investments for the 2022 World Cup). These five were chosen due to their importance and prevalence to Qatar's economic plans and integration in the broader global economy. While there may be validity in examining other sectors, these five areas provide the best insights into broader economic and political integration of Qatar within the GCC and the world.

There are many names and reference for the events and political fallout of the diplomatic crisis among the GCC countries. In order to ensure clarity, the disagreements, embargo and blockade are referred to as the GCC rift of 2017. Even though the events continued into 2018, it is simplest to refer to the events with the 2017 year-marker because the events originated in mid-2017. Because the situation is still unfolding by the time of the writing of this treatise, it is necessary to provide an end date for analysis. This means that the recommendations and analysis may need to shift accordingly to incorporate further considerations past the end date of analysis. That end date is March 31, 2018, including almost ten full months of events. Using this date allows for the analysis timeline to coincide with the end of the Qatar central government's fiscal year end, which is beneficial for reporting efforts. Since the economic indicators and reports for the third and fourth quarters of 2017 may not be publicly available in time for submission, this paper has incorporated as much information recorded published by March 31, 2018. The work notes where analyst estimates are used as proxies for missing official data.

There are three definite timelines to consider in order to classify the timeline of effects. "Immediate" effects in this work will refer to events within roughly the first month, i.e. June 5-30, 2017. At the onset, most parties expected that the issues would be resolved quickly. When it became clear that the rift would be prolonged, companies, governments and other actors shifted from focusing solely on decisions to address short term, immediate concerns. These entities looked at the conflict with a sense that there would be no set end date soon. Additionally, June 30, 2017 corresponds with the end of the first quarter of the fiscal year for the Qatari government. Most major firms within Qatar's five major industries are public and reporting of results are usually issued by quarter. Hence, the immediate timeline is practical for the purposes of research and reporting. "Subsequent" effects refer to outcomes and results occurring in the

ensuing quarters of the 2017 Qatari central government's fiscal year, i.e. July 1, 2017 to March 31, 2018. The expectation is that the effects of the rift would be felt post-March 31, 2018 and that these could be considered subsequent effects as well until a peaceful ending occurs. Since the paper only covers until March 31, 2018, most subsequent effects refer to the final three quarters of the fiscal year. "Lasting" effects are the ramifications and outcomes that are felt years after the ending of the rift. Since there seems to be no end in sight to the rift by the submission of this paper, the time when incidents no longer have subsequent but lasting effects is unclear.

With regards to the record of dates and timing of events, this work relies on the reporting of Qatari-backed *Al-Jazeera's* daily updates from June 5, 2017 through March 31, 2018. Specifically, Al-Jazeera included a running daily feed and early in the conflict included a timestamp for certain events. The same news source provided a weekly update on the rift. Events, statements and other notable figures included in this treatise is taken from this source as well. Unless noted specifically, any quoted dates and times are taken from this media outlet. When there are disagreements among non-Qatari official statements or wherever necessary, this work will note those sources explicitly.

While there are inevitable impacts on companies, business, trade and the economies of the other GCC countries, the size requirements and time to prepare this analysis necessitated a narrowing of the scope. There were certainly ramifications for Bahrain, Saudi Arabia and the United Arab Emirates, and it could have been possible to address the ways in which the rift hurt their respective economies. Since Qatar's economic plans are the main target of the angered GCC countries, the focus of this work is on the impact to Qatar. Any mention of impact on the other GCC countries will be made only in relation to what impact they have had on Qatar's economic interests. For example, a large reduction in tourism to Qatar may merit an examination of the reduction in tourism to other GCC states. If there is corresponding reduction in tourism in Qatar and, likewise, in other GCC countries and it is linked specifically to presence of the rift, this may indicate a larger regional downward trend and not something directly the result of pressure put on Qatar only. In the aforementioned example, the incentive to end the rift would be GCC wide and a distinct link between pressure and Qatar's capitulation could not be ascertained.

It is also important to clarify the countries involved because not every GCC country has boycotted Qatar. The three main opponents within the GCC are Bahrain, Saudi Arabia and the United Arab Emirates. Other Arab nations such as Egypt and Libya have joined in the boycott of Qatar. Some Arab states, e.g. Kuwait, have acted as a mediator to try and resolve the rift. While

there may be references to other Middle-Eastern countries besides Bahrain, Qatar, Saudi Arabia, and the United Arab Emirates, the main actors of focus are those four countries. To clarify, the Bahrain, Saudi Arabia and the United Arab Emirates may be referred to as “the big three GCC countries”, which is not a reference to economic or population size but role in the GCC rift of 2017.

Framework

The framework for evaluating which side is considered the winner focuses on three guiding themes - Effects, Results and Mitigation - with an important consideration given to timing. For each area/sector within Qatar's economy, the first major concern was whether the rift had a widespread effect to the pre-rift practices of Qatar. In essence, were the effects of the pressure from the big three GCC countries merely an inconvenience or a true disruption to the normal operations for major players? Second, the research surrounded the extent to how bad the results were for each area/sector from Qatar's point of view. Were the results of the events and ensuing effects not just disruptive but actually damaging to the reputation and future business prospects for Qatar in each sector? The final steps were to examine whether the effects of the rift and the could be mitigated with actions by Qatar internally or through external partnerships outside the GCC. Ensuring continuity of operations in each of the five sectors, even if through new routes/avenues, would mean that Qatar successfully tempered any blow to the economic plans.

A single point was awarded to the winner of each area/sector. A running total is recorded at the beginning of each sectors' analysis. All three themes - Effects, Results and Mitigation - were examined before issuing a point. If results favored the three GCC countries, then the category was given to Bahrain, Saudi Arabia and the United Arab Emirates. Accordingly, if the data and analysis favored Qatar, then the category was given to Qatar. For each theme, the higher the possibility of lasting effects, the more likelihood of giving the category to the three GCC countries.

Important Events Before and June 5, 2017 - The Beginning

Events leading up to the official beginning of the rift are important to understand why the rift began. On May 20, 2017, the President of the United States Donald Trump visited Saudi Arabia for his first official visit to a foreign power as president. This was a historic and symbolic trip as President Trump emphasized a renewed tie between the United States and Saudi Arabia. Accompanied by an arms deal between Saudi Arabia and the United States, the American leader ratcheted up anti-Iranian rhetoric and encouraged the Saudi Arabian leadership to push harder for anti-terrorism measures in the Middle East. It was likely during this visit that President Trump and the King of Saudi Arabia discussed how to address countering the financing of terrorism and routing out corruption. Given Qatar's ties to various group labeled as terrorists by the American Department of State, the Kingdom of Saudi Arabia may have felt emboldened with American backing to pursue a stronger, more public stance on the terrorism, corruption and Iran. Interestingly, three days later, i.e. May 23, the Emir of Qatar's accounts were hacked, and false statements were issued. These statements included language about respecting Iran "as an Islamic power"² and criticizing the American president. Saudi Arabian and Emirati news outlets ran the stories often and widely, following the initial stories with series of anti-Qatar media. Soon after, Saudi Arabia and Emirati authorities blocked *Al-Jazeera's* website in their respective countries.³ These and other minor yet related events played a part in building tension among the GCC countries prior to the beginning of the rift.

The GCC rift of 2017 began on a busy June 5, 2017 when four Arab countries, Bahrain, Egypt, Saudi Arabia and the United Arab Emirates, cut diplomatic ties with the state of Qatar. According to the Qatari-funded *Al Jazeera*, Bahrain was the first to move, issuing a statement via the Ministry of Foreign Affairs at 5:50am Arabia Standard Time (AST) on Monday June 5. That statement indicated that the Bahraini diplomatic mission would withdraw from the Qatari capital within forty-eight hours and requested all Qatari diplomats to leave Bahrain within the same time frame. Soon after Saudi Arabia followed suit, having previously pulled all Qatari troops from the war in Yemen with the Houthi rebels. Within ten minutes of Saudi Arabia's declaration, the United Arab Emirates and Egypt used their respective state-run new agencies to announce the severing of ties with Qatar. At 9:55am AST, the first official response came out from Qatar. The state of Qatar said that there was "no legitimate justification" for the severing of ties and that the decision was a "violation of its sovereignty". The final Arab country to sever ties with Qatar on June 5 was Yemen via its' internationally recognized government, who supported also Qatar's removal from the Saudi-led coalition in the war against the Houthis in Yemen.

The ensuing events on June 5 demonstrate how the rift initiated a domino effect concerning other Arab countries, businesses and actors. Five Middle Eastern airlines cancelled or suspended all flights into and out of Doha, one of which acted before Qatar could officially respond back to the allegations. By 1:30pm AST, there were reports of trucks lining up at the border between Saudi Arabia and Qatar, and the vehicles were not allowed to pass into Qatar. An official notice by the Saudi Transport Authority confirmed immediate border closure with Qatar, both the land and sea borders. This put pressure on the industries in which Qatar was heavily import dependent, especially food. Three other countries followed Saudi Arabia's move to cut diplomatic ties with Qatar, i.e. Libya, Egypt and Maldives, all within two hours of the closures of the Saudi-Qatar border. Around 3:30pm AST, the UAE began turning away ships bearing the Qatari flags at the Port of Fujairah. Saudi Arabia, despite officially closing its borders three and a half hours earlier, followed the UAE's approach and began rejecting all Qatari vessels at its ports, including ships owned by individuals of Qatari descent or companies in Qatar. Egypt also closed off all sea and air links to Qatar shortly after 5:00pm AST. Saudi state media announced the closure of Al Jazeera Media Network's local office in Riyadh at 6:25pm AST. Egypt increased its blockade of Qatar by closing its airspace as well to Qatari flights within the next twelve hours, i.e. the final closure started at Tuesday June 6 at 4:00am GMT. By 8:30pm AST, Saudi Arabia's banks were ordered to sell off its holdings of Qatari riyals and to avoid purchasing any more. Finally, Kuwait got involved in the crisis by issuing its' first attempt to de-escalate the conflict. The Emir of Kuwait Sheikh Sabah Al Ahmad Al Sabah called the Emir of Qatar Sheikh Tamim bin Hamad Al Thani to "urge him towards restraint and not take any measure that could escalate the situation in the Gulf." After 18 hours, June 5, 2017 ended with lots of uncertainty about the future of the GCC, but lots of surety that the stakes were raised.

Non-Arab states with presence and interests in the Middle East played an important role in the first day as well. As the consummate mediator, the United States asked for GCC countries to remain an unified front, via comments by Secretary of State Rex Tillerson around 10am AST on June 5. However, the Americans made no immediate drastic changes and waited to see how events played out. In a statement, the US military's central command said it had "no plans to change our [United States] posture in Qatar" where the largest American military base in the Middle East resides. The United States has its largest military base in the Middle East in Qatar but holds its strongest diplomatic ties in the Middle East with Saudi Arabia. The Americans had an interest in seeing that any tensions among the GCC members diffuse quickly but did not act rashly in the first hours. Even one of the central sources of contention, Iran

diplomatically engaged from early in the rift. At 3:30pm AST on June 5, Iran called for “clear and explicit dialogue” among the Arab Gulf nations, citing the feud as bad for the regional interests of everyone. It is ironic that this regional player, with a history of subverting the GCC hegemonic rule in the Middle East, would justify diplomacy to preserve the best interests of the region. Soon after, Iran revealed their true allegiances and picked the side of Qatar. Within a half hour of the comments, the Chairman of the Iranian Union of Exporters of Agricultural Products ensured Qatar that food shipments could reach Qatar within 12 hours.⁴ This support would prove crucial in Qatar’s efforts to fend off diplomatic and economic starvation. Turkey also got involved in the affair by offering its help to resolve the dispute. At 4:40pm AST on June 5, the foreign minister of Turkey said that “stability in the Gulf region is as our [Turkey] own unity and solidarity.” By 8:30pm AST, Turkey’s Deputy Prime Minister Numan Kurtulmus said that the President of Turkey has actively been involved in trying to resolve the diplomatic rift. While on the surface this may demonstrate Turkey’s goodwill in seeing a quick resolution to the rift, the Turkish nation were now handed a substantial opportunity for trade with Qatar and benefitted from the disrupted status quo. As Iran and Turkey engaged, Israel did not stay silent. Within ten minutes of Saudi Arabia’s closure of *Al Jazeera* offices in the Kingdom, the Defense Minister of Israel praised the measures being taken against Qatar, reportedly saying that this “opens very many possibilities of cooperation in the struggle against terror.” Overall, the actions and statements from non-Arab states demonstrated the immense political jockeying that ensued in the early days of the rift.

Additionally, the Federation International de Football Association (FIFA) was also concerned about the implications that the rift may cause for Qatar’s progress toward hosting the World Cup in 2022. Even though the event was multiple years away, FIFA received multiple inquiries about disruption to trade and construction. Any major disruptions to hosting an international event with such a presence and magnitude of the World Cup would not be welcomed. This was especially pertinent considering that there already was plenty of concern over Qatar’s selection to host the 2022 World Cup. The international football organization became active early in the rift releasing updates on the situation throughout the day to assuage any fears. By the end of June 5th, multiple actors, Arab and non-Arab, were involved in the crisis, each with their own interests at stake.

Reasons for the Rift and The Thirteen Original Demands

Such a significant course of events does not happen without probable cause. Accordingly, there are multiple reasons why Bahrain, Saudi Arabia and the United Arab Emirates initiated the rift. First, the GCC opponents of Qatar publicly accused the tiny island of supporting terrorism in the region. Qatar has often acted like a regional maverick, and the country has supported Islamic movements such as Hamas. The United Arab Emirates accused Qatar of directly “funding and hosting” terrorist groups, such as the Muslim Brotherhood which is considered a terrorist organization by many countries including the US, UAE and Saudi Arabia.⁵ The Saudi Arabian media has even accused Qatar of supporting al Qaeda and Al Dawlah Al Islamiya fil Iraq wa As Sham (DAESH).⁶ These two latter groups have been significant instigators of conflict and trouble in the region, and are considered at times the top terrorist organizations in the world. In response to the support of terrorism, Saudi Arabia via its state-run news agency said that the cutting of ties with Qatar were to “protect national security from the dangers of terrorism and extremism.”⁷ Bahrain’s foreign ministry used similar themes having stated that it suspended diplomatic relations “in order to preserve its national security interests”.⁸ At face value, the stated official reasons for commencement of blockades and closures that led to the GCC rift of 2017 seemed valid.

In response, Qatar has denied its support for funding terrorism in the Gulf, stating that the moves were “founded on allegations that have no basis in fact”.⁹ While the validity of Qatar’s connections to the financing of terrorist groups are seem more likely than not, the extent to which Qatar supports terrorism is debatable. If the reasons for the rift in the Gulf were just the financing of terrorism by Qatar, one would have expected a quicker conclusion. However, sometimes when Qatar has indicated interest in discussing a solution, there did not seem to be mutual interest from Bahrain, Saudi Arabia and the United Arab Emirates.

Such actions lead one to think that there were stronger motives at play, and indeed there were. Saudi Arabia grew concerned about the future of its’ hegemonic role in the Middle East. As Iran took center stage during the 2014 Iranian nuclear deal, leaders in the house of Saud expressed concern over the growing influence of their regional rival. Saudi Arabia has accused Iran multiple times of meddling in regional conflicts in Syria, Yemen and Lebanon. The conflict in Yemen was a deep thorn in the side of the Saudi Arabian leadership. The state accused the Iranians of arming rebel groups, having explicitly thwarted Saudi Arabian interests and internal stability in the region. Iran’s nuclear program made many in Riyadh nervous. The visit of American President Donald Trump and support pledged during the visit emboldened the regime

in Riyadh to act against Iran. This action was supported by Bahrain and the United Arab Emirates who shared similar concerns over Iran's growing influence. The spark for anti-Qatari fury was briefly fanned from alleged statements made by the Qatari Emir Sheikh Tamim bin Hamad Al Thani "hailing Iran as an Islamic power and criticizing Donald Trump's anti-Iranian foreign policy."¹⁰ Even though these statements were cited as fake news as the results of hacks, it would not be entirely implausible to hear the Qatari regime expressing this sentiment in private. Iran has courted the Qatari royal family which shares mutual interests in the energy sector. It was this growing Tehran-Doha bond about which the GCC members were concerned.

While on the surface, the latter two reasons may seem like a very valid justification to pressure one member of the GCC to alter its ways. However, it may not only be illicit financing and strengthening regional relationships that remained the important reasons for Bahrain's, Saudi Arabia's, and the UAE's aggression. The claims concerning terrorism financing and Iran, regardless of their veracity, are also a cover. These nations are competitors to Qatar on many fronts, especially banking, finance and economically. Despite formal cooperation agreements via the Gulf Cooperation Council, there is no love lost among these four nations as they try to outcompete each other to curry foreign investment to support internal priorities. Pursuing an anti-Qatar campaign represented an opportunity to hurt the tiny island's reputation around the world in the world of finance and markets. As a result, renewed military and political support from the Americans amidst Qatar's cozying up to Iran and a deepening rivalry among GCC countries played a significant part in convincing the Saudi Arabian regime and allies to move forward with drastic measures.

Officially, in order to restore normal relations with the GCC, Bahrain, Saudi Arabia and the UAE has placed thirteen demands on Qatar. Key themes around anti-terrorism, Iran, media influence and cooperation with GCC policies are present. Below are the demands as per Qatari-funded Al-Jazeera¹¹:

1. Scale down diplomatic ties with Iran and close the Iranian diplomatic missions in Qatar, expel members of Iran's Revolutionary Guard and cut off military and intelligence cooperation with Iran. Trade and commerce with Iran must comply with US and international sanctions in a manner that does not jeopardize the security of the Gulf Cooperation Council.
2. Immediately shut down the Turkish military base, which is currently under construction, and halt military cooperation with Turkey inside of Qatar.
3. Sever ties to all "terrorist, sectarian and ideological organizations," specifically the Muslim Brotherhood, ISIL, al-Qaeda, Fateh al-Sham (formerly known as the Nusra Front) and

Lebanon's Hezbollah. Formally declare these entities as terror groups as per the list announced by Saudi Arabia, Bahrain, UAE and Egypt, and concur with all future updates of this list.

4. Stop all means of funding for individuals, groups or organizations that have been designated as terrorists by Saudi Arabia, UAE, Egypt, Bahrain, US and other countries.
5. Hand over "terrorist figures", fugitives and wanted individuals from Saudi Arabia, the UAE, Egypt and Bahrain to their countries of origin. Freeze their assets, and provide any desired information about their residency, movements and finances.
6. Shut down Al Jazeera and its affiliate stations.
7. End interference in sovereign countries' internal affairs. Stop granting citizenship to wanted nationals from Saudi Arabia, UAE, Egypt and Bahrain. Revoke Qatari citizenship for nationals where such citizenship violates those countries' laws.
8. Pay reparations and compensation for loss of life and other financial losses caused by Qatar's policies in recent years. The sum will be determined in coordination with Qatar.
9. Align Qatar's military, political, social and economic policies with the other Gulf and Arab countries, as well as on economic matters, as per the 2014 agreement reached with Saudi Arabia.
10. Cease contact with the political opposition in Saudi Arabia, the UAE, Egypt and Bahrain. Hand over files detailing Qatar's prior contact with and support for opposition groups and submit details of their personal information and the support Qatar has provided them.
11. Shut down all news outlets funded directly and indirectly by Qatar, including Arabi21, Rassd, Al Araby Al Jadeed, Mekameleen and Middle East Eye, etc.
12. Agree to all the demands within 10 days of list being submitted to Qatar, or the list will become invalid.
13. Consent to monthly compliance audits in the first year after agreeing to the demands, followed by quarterly audits in the second year, and annual audits in the following 10 years.

Immediately upon announcement, the list was denounced as unattainable. Qatari officials very publicly scoffed at the demands and asked for more realistic expectations. By March 31, 2018 the full thirteen demands have not been fulfilled. It does not seem likely that all thirteen demands will ever be completely satisfied. As the possibility that the diplomatic and economic standoff would not be solved via submission to these demands, Qatar shifted their attention toward riding out the rift. That concentration pivoted to taking care of the economy and ensuring continuity of operations.

Qatar's Economy Before the Rift

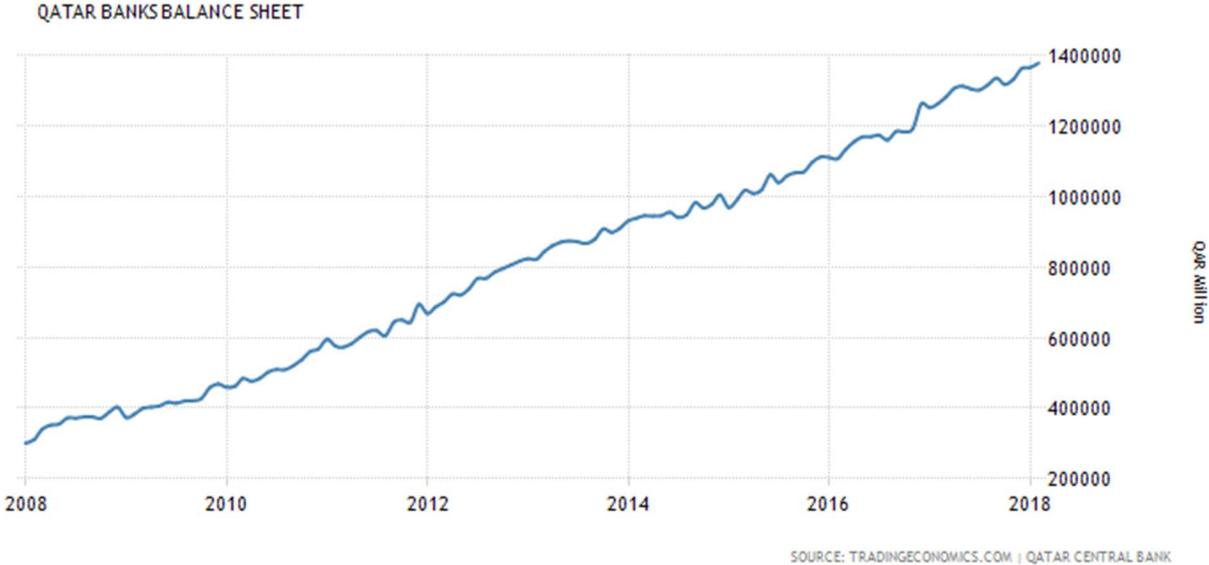
To understand the impact of the GCC rift of 2017, it is important to establish a baseline of the state of the Qatari economy prior to the rift. The main drivers of the Qatari economy are the oil and gas industry. In time, the economic plans of the Qatari Emir indicated an interest in building up tourism and other non-energy focused industries to diversify the economy. With the third largest proven natural gas reserves in the world (25+ Trillion cubic meters), Qatar became a fabulously wealthy country.¹² In fact, Qatar had the second highest Gross Domestic Product (GDP) per capita in the world sitting at roughly US\$124,900 in 2017 according to estimates.¹³ This is primarily due less to the overall size of the economy, roughly US\$341.7 bn (ranking 53 globally), and more to the size of the population at 2.3 Million, as estimated in July 2017.¹⁴ As such, a large disparity between the numerator and denominator created a high per capita GDP ranking. Qatar's economy clearly has a significant output for each person who participates in the labor force. That labor force is a meager 1.953 million people, which ranks 126th globally. A large portion of this workforce is comprised of foreign laborers brought in to take care of blue collar or service sector jobs.¹⁵ In fact, when examining utilization of labor, Qatar's unemployment rate is very low, estimated to be around 0.3 percent in 2017¹⁶, which is good enough to earn a global ranking of third.¹⁷ Therefore, the actual GDP per Qatari national is likely much larger than the reported numbers and the economy does a fantastic job of making every person participate in building national wealth.

An even better indicator of economic prosperity and wealth is Gross National Savings (GNS), measured by the output of an economy comparative to its total consumption. Qatar's 2017 GNS ranked second in the world at 48.8 percent of GDP.¹⁸ Similarly to Qatar's GDP ranking, this position on the global stage can be chalked up to a similar mathematical phenom, i.e. very small denominator. At least, this verifies that, regardless of how many Qataris one knows that own many expensive purses, Qataris saved and as a society have a lower propensity to consume. Even if there were a major influx in spending or consumption, the prices for which Qataris paid for staples remained somewhat stable across the past ten years. The Consumer Price Index (CPI) for Qatar averaged 100.7 index points from 2009 to 2018.¹⁹ In the past three years though, Qatar's CPI has averaged closer 106 index points.²⁰ The Qatari CPI grew an estimated 0.9 percent in 2017, which was down from a 2.7 percent growth in 2016.²¹

The balance sheet of Qatar looked solid in the recent past. From a ten year low after the global financial crisis in 2008, Qatar's balance of accounts grew like clockwork, reaching a high

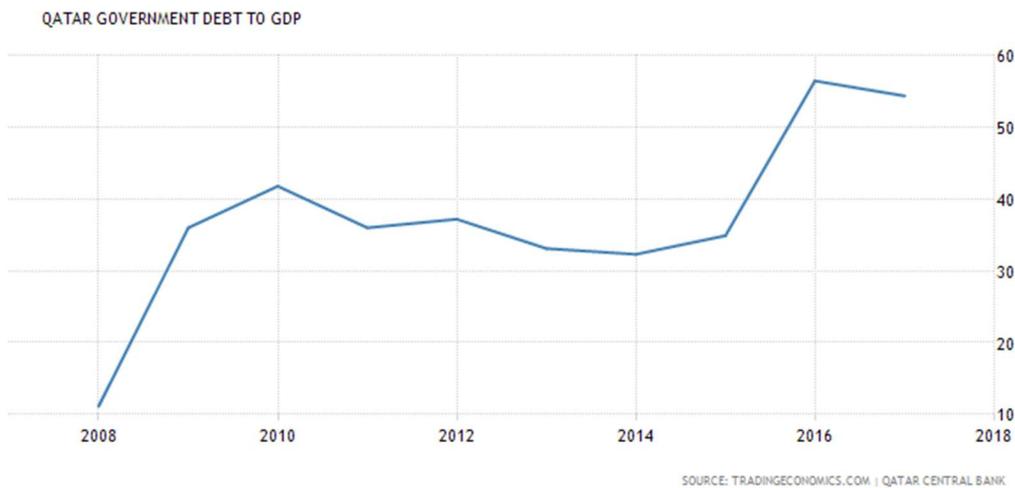
in February 2018 of 1.4 Tn QAR, roughly US\$400 bn (see Exhibit 1).²² This increasingly solid position was not the result of directly expensing purchases and projects off the Qatari public.

Exhibit 1: Qatar’s Ten-Year Balance Sheet



The Qatari central government’s revenue did not rely heavily on taxing citizens. Taxation and other revenues were only equal to 24.9 percent of GDP in 2016.²³ In contrast, the central government has been finding other ways to drive a strengthening balance sheet. With estimated expenditures of close to US\$55 bn and revenues around US\$41.5 bn, the Qatari budget generally runs a deficit, having ranked among the bottom 10 percent of the world for budget surpluses/deficits.²⁴ Upon examining debt levels, it is apparent that the growth of accounts in the balance sheet had been via leveraging the future. Between 2007 and 2018, the central government’s Debt to GDP ratios grew significantly, 8.9 percent in 2007 to 56% percent in 2016 (See Exhibit 2).²⁵ Public debt levels did not astronomically rise, estimated to be in the mid 50 percent range, in 2016 and 2017.²⁶ As debt levels rose and plateaued, Qatar’s liquidity rose as well. From 2012 to leading into the crisis, Qatar’s money supply (M0), i.e. coins, notes in circulation and other assets easily convertible into cash, varied from around 30 to 60 bn Qatar riyals (QAR) (US\$8 to 17 bn), but on average steadily kept rising over the same period (see Exhibit 2).²⁷

Exhibit 2: 2007 to 2016 Qatar Central Government Debt to GDP ratios (Percent)²⁸



In 2017, Qatar had an estimated commercial bank prime lending rate of 5.00 percent.²⁹ Since the rate was not highly competitive, it made sense that the tiny island country punches well above its weight in terms of stock of narrow money, or “the total quantity of currency in circulation (notes and coins) plus demand deposits denominated in the national currency, held by nonbank financial institutions, state and local governments, nonfinancial public enterprises, and the private sector of the economy.”³⁰ When examining the combined growth supply of M1 (M0 plus checking accounts, demand deposits and negotiable order of withdrawal accounts) and M2 (M1 plus time deposits, money market funds and mutual funds), Qatar solidified its enviable position of growing liquidity. Additionally, the stock of broad money, i.e. “compares the total quantity of time and savings deposits denominated in the national currency, held by nonbank financial institutions, state and local governments, nonfinancial public enterprises, and the private sector of the economy”³¹, also indicates the immense wealth of the Qatari populace, economy and government. Even this figure ranking 52nd globally with US\$139 bn estimated as of December 31, 2017, the per capita measures would highly rank Qatar.

In another example of strong balance sheets prior to the rift, Qatar’s foreign exchange reserves also remained consistently high from 2013 to mid-2017 averaging about 150 bn QAR or US\$ 40 bn (see Exhibit 3).³²

Exhibit 3: Ten Year History of Qatar’s Foreign Exchange Reserves³³



Qatar had the 37th (out of 123) largest stock exchange in the world, when comparing the market value of publicly traded shares at the end of the 31st of December 2017.³⁴ The market value of publicly traded stock is calculated by the latest price per share, as priced as of market close on December 31st, 2017, multiplied by the total number of outstanding shares. This is amazing considering the sheer number of businesses and population of the tiny island nation. Most notably, the Qatar Stock Exchange (QSE) had been riding a four-year bear market going into the rift. Since topping out in late 2014, the QSE has consistently declined, even hitting a major low point in early 2016 and later 2017, i.e. during the rift (see Exhibit 4 below).

Exhibit 4: Ten Year History of Qatar Stock Exchange Day End Values³⁵



Qatar in 2017 had an estimated current account balance of almost US\$4 bn (29th), exported US\$56 bn (49th) and imported US\$27 bn (66th).³⁶ The main countries to which Qatar

exported in 2016 were Japan (20.0 percent of exports), South Korea (15.5 percent), India (13.1 percent), China (8.2 percent), the United Arab Emirates (5.5 percent) and Singapore (5.3 percent).³⁷ The primary commodities which Qatar exported were liquified natural gas (LNG), petroleum products, fertilizers, and steel.³⁸ The main import partners in 2016 were the United States (13.7 percent of imports), Germany (9.8 percent), United Arab Emirates (9.2 percent), China (8.6 percent), Japan (7.2 percent), the United Kingdom (5.5 percent), Saudi Arabia (4.6 percent) and Italy (4.4 percent).³⁹

Since July 2001, the Qatari riyal (QAR) has been pegged to the US dollar.⁴⁰ The relationship between the United States Dollar and the Qatari riyal extends before this official pegging to the greenback. The QAR was pegged to Special Drawing Rights in 1975. Special drawing rights (SDR) were created by the Washington D.C. based International Monetary Fund (IMF) to provide a reserve asset for supplement official reserves for countries who are members.⁴¹ The five currencies in the basket (the US dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound sterling) helped to determine the value of the special drawing rights as based on the spot exchange rates as of noon London time.⁴² As a result of the QAR's peg in 1975 to this basket, the Qatari economy and financial system were linked to the movements of other major global economies.

Leading up to the crisis, Qatar's position of liquidity had fluctuated. There was already downward pressure facing Qatar's financial system and national bank due to low oil prices. Citi Bank was quoted as postulating that Qatar would face a higher cost of borrowing in the face of the severe impact on the low oil prices.⁴³ Across a ten-year horizon, Qatar's liquidity had seen stressful times, specifically the year following the post-2008 global financial crisis, and times of plenty such as at the end of 2011. Global interest rates have risen since there are positive signs that the global economy is recovering from the 2008 financial crisis. As a result, Qatar's central bank continued to raise rates, prior to the crisis, reaching 1.5 percent after the US Federal Reserve raised their rates.

In the energy sector, Qatar's pre-conflict history was stellar. As the second largest exporter in the world as of 2016, Qatar had strong influence over the global energy supply of LNG. In that same year, Qatar exported roughly 124 bn cubic meters of LNG, a very large portion of the overall global supply, while GCC neighbors, the United Arab Emirates and Saudi Arabia combined, only exported 11 bn.⁴⁴ Additionally, Qatar produced roughly 1.523 million bbl/day of crude oil in 2016.⁴⁵ However, this ranked only 17th in comparison of global production, far below regional rivals of Saudi Arabia (10.46 mn bbl/day) and the United Arab

Emirates (3.106 mn bbl/day).⁴⁶ Qatar stood a lot to gain from ensuring a continual flow of LNG and natural resources to Asia, Europe, the United States and beyond.

In the aviation industry, Qatar Airways was a fully-state owned entity as of 2013. This dynamic allowed the airliner to allegedly run at a loss for multiple years since 2013. The government primarily focused on mitigating losses by subsidizing flights via more profitable operations, such as the Doha airport, hotels, and alcohol and duty-free shopping.⁴⁷ Despite the lack of profit, the government has continued to pour into the company, ensuring that many portions of the globe can access the tiny island country. The results have shown significant progress. Over 32 million passengers flew on Qatar Airways in 2016 and the airliner has won Skytrax's service quality awards four times.⁴⁸ Also, the aviation industry had an important role in Qatar's economy. Stronger aviation or at least a strong national airline, in theory, was used to increase tourism to the country. The Emir of Qatar sought to position the country as a regional tourism destination, directly competing with the UAE and other major hubs. To support ease for tourists, healthy, sustainable and convenient access was necessary. Qatar made major investments to ensure Doha International airport was one of the most advanced in the world. Ensuring normal or semi-normal operations of the national airline of Qatar was important for Qatar withstand the international pressure of its neighbors. Beyond the push for strong tourism outlets, the Qatari government laid out plans to increase its connectivity of the world to Doha via its national airline. In doing so, Qatar sought to bolster its prospects for economic prosperity, a link that was highlighted by the CEO of the IATA Alexandre de Juniac.⁴⁹

In conclusion, the data indicated that Qatar's economy was strong and resilient prior to the rift. A closer look at each of the five major sectors of the economy is next.

Finance and Banking

Qatar wins this category with a resilient response to the crisis that generally mitigated any negative effects or results. A supportive Qatar Investment Authority has propped up the riyal and ensured liquidity in the banking sector. An initially struck Qatari Stock Exchange has suffered some roller coaster effects, but somewhat rebounded by late December 2017 with few signs of lasting effects. Debt levels have risen, but not astronomically or directly because of the rift. Overall, all GCC parties have suffered from pessimistic views of the Persian Gulf region as worthy of outside investment as a result of the rift. But Qatar escaped with the fewest scars on its record.

Overall score: Bahrain, Saudi Arabia, & UAE - 0 ; Qatar - 1

At the center of the rift is Qatar's finance and banking practices, specifically Qatar's alleged illicit financing of terrorism. The basic strategy of the GCC three countries was to convince the world that Qatar's markets and institutions should be shunned for participating in an economy that supports terrorism. In doing so, they believed that the negative sentiment would erode confidence in the stability and liquidity of Qatar's markets and the foreign investors would flee Doha to bank in Riyadh, Dubai or Manama. Such an approach risked the weakening of investor confidence in the entire region, threatening the potential for investment in Bahrain, Saudi Arabia and the United Arab Emirates as well. Another tool of the big three GCC was that the pressure on Qatar's financial and banking sectors would aggravate Qatari citizens. In theory, a slipping financial position would cause dissent. Angered citizens would compel the Emir to agree to the demands to end the inconveniences. This approach had potential unintended consequences though. It could have created a unifying cause for Qatar's citizens to rally in support of the Emir. The desired far reaching effects with deep negative consequences would have never been felt for the Emir. In reality, this latter effect happened and became a source of resistance to outside pressure.

Motives as Competitors

The anti-Qatari sentiment was clearly designed to bolster prospects for the big three GCC countries and hurt Qatar. Saudi Arabia has the largest economy in the Gulf region, but arguably it was not the most successful in courting foreign investors. The Kingdom has built a very active group of sovereign wealth funds, e.g. SAMA Foreign Holdings, to invest in other locations. The country uses the world's largest proven reserves of oil and the fifth largest natural gas reserves to amass an extremely large pool of foreign reserves to support investing

abroad.⁵⁰In contrast to resting on these laurels, the Crown Prince Mohammed bin Salman elicited foreign investment for internal projects in the Kingdom. As part of his strategic plan, i.e. the Saudi Arabia Vision 2030 plan, the de facto ruler of Saudi Arabia wanted to see a reversal of the flows of funding. A strong, thriving financial sector combined with stable, resilient markets in Qatar posed a threat to the young Prince's aspirations. Investors may be more willing to invest in Qatar and avoid the challenges with investing in the Kingdom, a place where the will of the King trumps the rule of law. Given the mistrust between the Emir of Qatar and the Crown Prince Mohammad bin Salman, the Al-Thani's would love nothing more than to supplant Saudi Arabia's role in the region. Saudi Arabia's leadership is well aware of this and sought to strike first.

The United Arab Emirates successfully built a thriving center of finance and banking, where the world came to create deals. Dubai was labeled the "Singapore of the Middle East", a nod to the Asian thriving city state that rapidly transformed via economic development into a global financial hub. Almost every major international bank has a presence in the metropolitan of Dubai or Abu Dhabi. The United Arab Emirates also had some of the largest sovereign wealth funds in the world, e.g. the Abu Dhabi Investment Authority and the Investment Corporation of Dubai. The UAE held the Middle East's most free economy according to the 2018 Index of Economic Freedom as Published by the Heritage Foundation.⁵¹ As a result of the UAE's successful efforts in building a financial hub, Qatar's Emir was jealous. He made an important objective in his development vision to compete with Dubai as the primary place for foreign investors to park assets and bank. The Al Maktoums (ruling family of the Emirate of Dubai) and Al Nahyans (ruling family of the Emirate of Abu Dhabi) are well aware of the Emir's aspirations. Given their loyalty to the Saudis, the ruling authorities were ready to hurt Qatar's economic prospects, even if it meant hurting their own in the short term.

Despite its' smaller economy, Bahrain punched way above its weight in the global financial markets and economy. With one of the world's most expensive currencies⁵², i.e. the Bahrain Dinar, the Bahrainis built large strategic foreign currency reserves. The state sovereign wealth fund, i.e. Mumtalakat Holdings, was active in supporting many commercial enterprises. Bahrain also served as a hub of Islamic finance. This is an area in which Qatar would love to strengthen its grip and develop dominance. While Manama has found itself more interested in following the lead of Riyadh and Abu Dhabi, they also wanted to preserve what value they held in the Islamic financial markets and industry and keep Doha at bay.

Attacking the financial and banking sector of Qatar struck at the heart of one of the Emir's primary objective with his strategic vision for the Qatari economy. The Emir of Qatar had been positioning Qatar's financial sector as a suitable alternative for international banks and

investors to park assets. Doha competed with Dubai/Abu Dhabi, Manama and Riyadh to become a financial hub in the Middle East. Any impact to the fungibility of the Qatari riyal, the liquidity of the Qatar Central Bank (CNQ) or the larger of the Qatari financial institutions would have provided internal pressure on the ruling family to capitulate to demands.

Qatar Stock Exchange

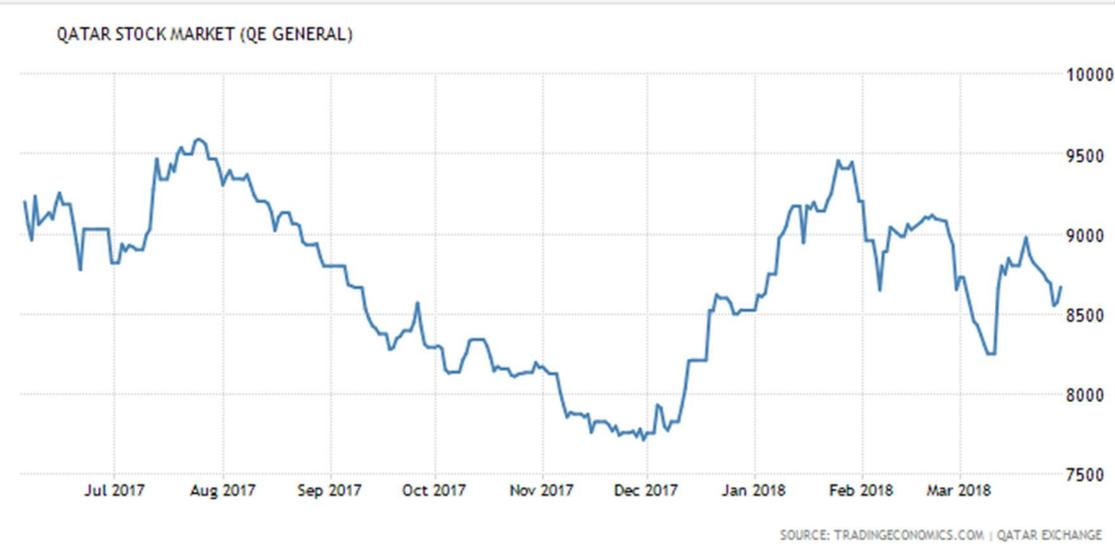
Initially, there were some significant immediate effects on the Qatar Stock Exchange (QSE) as a result of the crisis. Investors and global banks tend to respond with major selling action or increased premiums when uncertainty rises. The Qatari Stock Exchange fell by over 7 percent on Monday June 5 over concerns about the allegations.⁵³ On the same day, over 2.5x the daily average of shares of Qatar's stock index changed hands in as a response to the tensions.⁵⁴ Following the June 5 selloff and ensuing weeks, Qatar's main equity benchmark fell so much that it became the worst performing stock index globally in 2017, posting 12 percent year to date (YTD) losses as compared to 18 percent gains on average from other emerging markets.⁵⁵ Initially, the rift seemed to widely impact the Qatar economy with pressure that causes massive sell offs and loss of real financial capital. It looked as if the plan of the big three GCC countries had worked.

About one week into the rift, it was clear that there would only be immediate and perhaps limited subsequent effects. Lasting effects were not expected. The Qatari stock exchange took about a week to stabilize. By June 12th, Reuters had reported that the financial markets in Qatar had recovered. Since markets generally work on the back of news and public statements, Qatari officials worked to stabilize fears of bank runs, loss of liquidity in the system and massive depletions of value. Ali Sherif al-Emadi, the Finance Minister of Qatar, came out on CNBC on June 12th stating that the reserves of foreign exchange were more than sufficient to cover any short to medium term pressure.⁵⁶ At this point, he claimed that "reserves and investment funds are more than 250 percent GDP."⁵⁷ Implicitly in the statements, the finance minister indicated that Qatar was ready to fight out the rift. His comments indicated a tone that the central actors in the economy were ready to do what's necessary to maintain strength and confidence in the system. He also noted that any hits to the Qatari economy or business would also reflect in losses to the other GCC countries. Buying the confidence of the finance minister, Qatari markets settled down and the Qatari Central Bank began operating as normal. By the end of the week, on June 15, Qatari banks received support from global financial lenders, especially in Asia, Europe and the United States. The support was significant and applicable. One Qatari banker noted that his bank secured US\$100 million three-year unsecured financing

and several six-month deposits within the two weeks of the crisis. Even two weeks into the crisis, the outside world was beginning to see the pressure mounting and responded to support Qatar. Actions like this that signaled the effects and results for Qatar’s stock markets would at least not be lasting.

Despite some mitigation of immediate effects, the QSE would not be out of the woods quite yet. The wild ride within Qatar’s main public equities market endured subsequent negative effects. By mid-September, the index tracking Qatar’s main stock exchange had hit a five year low.⁵⁸ On September 18, the QSE had recorded an eleventh straight losing session.⁵⁹ The results were looking grim for the Qataris. The ruling elite of Qatar had seen enough. The Emir Sheikh Tamim bin Hamad al-Thani indicated willingness to sit down at the negotiating table. It would seem at this point, Bahrain, Saudi Arabia and the United Arab Emirates had won. The subsequent effects had put enough pressure to cause talks. Curiously, the big three GCC countries did not reciprocate the interest in dialogue and no talks ensued. In turn, the lack of talks did not further depress investors’ confidence in Qatar. A strange thing happened. Despite the strength of the Saudi Arabian exchange, riding the back of a strong petrochemical market, investors poured money into the QSE, taking advantage of the low valuations. By September 29, outlook for the Qatar economy looked like the strongest in the region. Bolstered by six straight days of rally, the QSE was rescued by local and regional buyers.

Exhibit 5: Qatar Stock Exchange Day End Values June 5, 2017 to March 31, 2018⁶⁰



The Qatari Stock Exchange bottomed out in late November 2017, but the market has generally rallied to produce stronger results in early 2018 (see Exhibit 5). In December 2017

and January 2018, the QSE saw massive rallies, causing the system to reach close to the pre-rift levels. There have been some fluctuations in the index over the months of February and March 2018 but those are natural for any system. The overall index score is still below the pre-rift levels, but that may also be the result of a five-year decline in the QSE. Overall, it seems likely that there would be no lasting effects from the rift. Despite some of the intermediate and subsequent effects which eroded real wealth in the economy, Qatar has withstood the pressure of the big three GCC and mitigated any major potential for negative effects. The future for the QSE looks positive, going into the 2018 fiscal year of the Qatari central government.

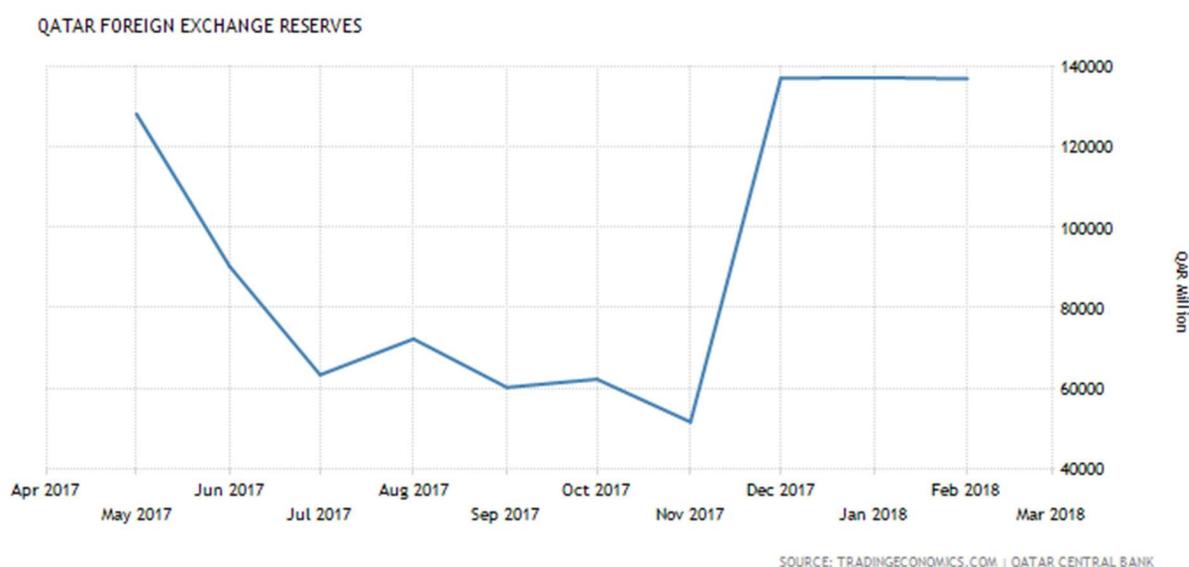
Liquidity of the Qatar Financial System

Throughout the rift, Qatar relied on its reserves and sovereign wealth fund to support financial institutions during the crunch. Even in the early days, Qatar's leaders were confident that liquidity would not be a problem. The governor of the Qatar Central Bank Sheikh Abdullah bin Saud Al-Thani dismissed all concerns. By June 18, the central bank was reported to have US\$34 bn of net foreign reserves and the government was purportedly in control of US\$200 bn in additional liquid assets through the network of sovereign wealth funds, such as the Qatar Investment Authority (QIA). These figures were underestimates though as Sheikh Abdullah bin Saud Al Thani on behalf of the Qatar Central Bank announced on July 10 that the reserves were in the range of US\$340 bn, noting US\$40 bn within the central bank's possession and over US\$300 bn within the QIA's control. With such massive foreign exchange reserves on hand, the likelihood of immediate and subsequent effects causing negative results was low. The Qataris seemed quite satisfied with "riding out the storm" with their massive forex parachute. This mitigated any major immediate or subsequent effects.

The first reported signs of sovereign funds being injected into the local banks to ensure liquidity came on June 20, 2017. While these were reported as "pre-emptive", the amount was reported to have been "several billion dollars" by one Qatari-based banker. From June to July 2017, Moody's Investors Service report indicated that the equivalent of US\$30 bn was withdrawn from the Qatari banking system.⁶¹ In response, the Qatar Investment Agency injected roughly US\$40 bn into the economy and financial system during those same months in order to defend banks and replenish the central bank's reserves.⁶² Likewise, in June 2017, the central bank's reserves fell by roughly US\$10.4 bn. Liquidity rebounded a bit in July, rising 8.3 percent, and the monetary base grew 1.7 percent.⁶³ Qatar's governing authority would rely on that source for ensuring liquidity in the banking sector. Interestingly, reports on July 30 indicated that the levels of the QIA's foreign reserves may be as low as US\$180 bn. If the level of reserves

were really this low, then it would have seemed that the QIA and broader liquidity levels would have suffered from serious immediate effects. However, it remains unclear what the true levels of reserves were at the end of the July 2017, despite announcements and reports by officials as listed by Exhibit 6.

Exhibit 6: Estimated Foreign Exchange Reserves of Qatar - April 2017 - February 2018⁶⁴



In late August, officials from the International Monetary Fund (IMF) issued a statement concerning the balance sheets of Qatar. The Washington DC based international financial organization commended the response of Qatar to the crisis as “effective”.⁶⁵ Mohammed El Qorchi, the leader of the IMF team to Doha on August 13-20, said,

The impact on banks' balance sheets was mitigated by liquidity injections by the Qatar central bank and increased public sector deposits. These reactions reflected effective coordination and collaboration among key government agencies.⁶⁶

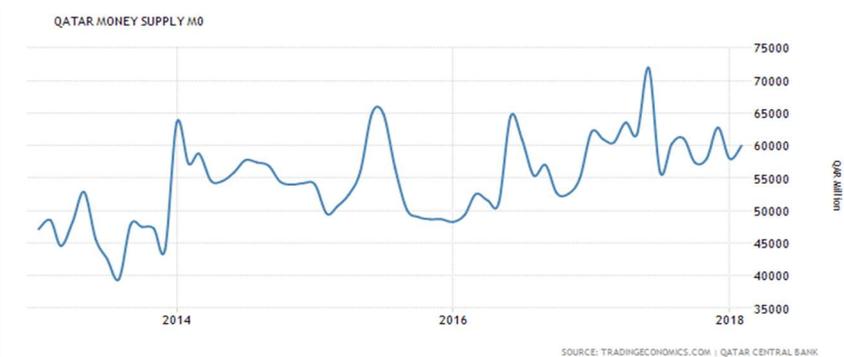
Mr. El Qorchi also commented on the extent to which Qatar has acted in other sectors to ensure stability of operations. This statement could be considered a huge confidence booster for the Qatar regime and a deflator for Bahrain, Saudi Arabia and the United Arab Emirates. Yet, the confidence boost should be considered a measured one. The same IMF, which praised the response of Qatar in late August, issued a dire warning to the medium-term growth prospects of the Middle East and Gulf region just two months later. By the end of October, the Regional Economic Outlook indicated that a prolonged rift would continue to “slow progress toward greater GCC integration and cause a broader erosion of confidence, reducing investment and growth, and increasing funding costs in Qatar and possibly the rest of the GCC.” Despite

Qatar's success in responding well to the external pressure, the region as a whole and the GCC was losing by playing this risky game.

By November 2017, the initial pressure on liquidity had mostly subsided. Qatar's foreign reserves, which at one point the central bank reported to have been in the tens of billions USD, were now above the levels of June 5, 2017. Reports in late December indicated that Qatar Central Bank's reserves rose from US\$36.1 bn in October to US\$39.6 bn in November. Both of those amounts were larger than the US\$34 bn reported by the central bank in June 2017. Part of this is due to the investments of the Qatar Investment Authority, which had been propping up the riyal and liquidity of the financial system. However, a large part of the relief from the liquidity crunch came in the form of the Qatari business community which brought assets back into the country from foreign holdings. The Qatar Foreign Centre (QFC) saw a surge in registry of businesses and assets within the country. This movement, both by locals and multinationals, had boosted the presence locally in the business community according to QFC's CEO Yousuf al-Jaida. There are two reasons for the movement. The first stems from concerns of locals that their foreign assets would be frozen. This would hardly be considered a positive sign that the investments within Qatar are a win. The second reason is that investors and the business community preferred to stay closer to the Qatar economy, which has continued to remain strong as bolstered by the energy sector and rallies within public equities.

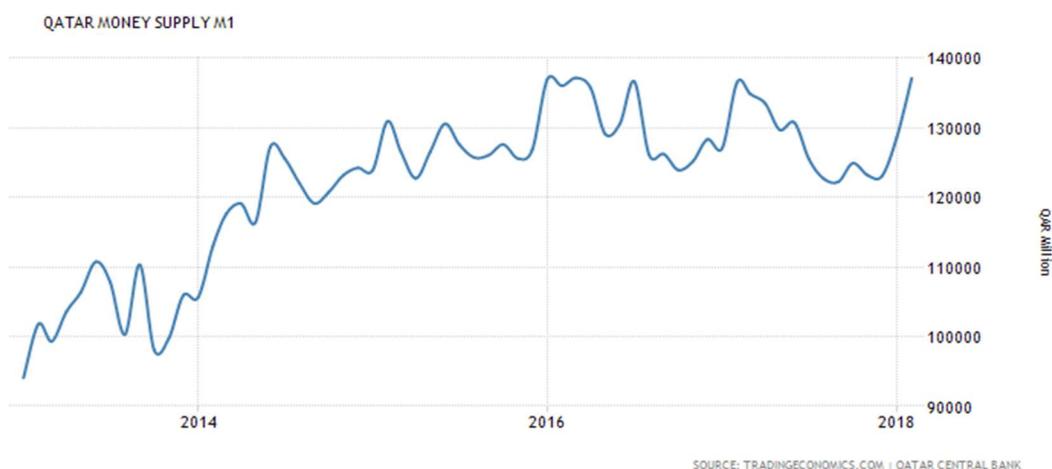
To further solidify why Qatar has warded off negative lasting and most subsequent effects to its position of liquidity, one need look no further than the levels of money supply over the past year. Qatar's M0 money supply, a major indicator of national liquidity, over the past ten months has not dropped significantly out of the normal ranges within the past five years (see Exhibit 7).

Exhibit 7: Five Year M0 Money Supply for Qatar⁶⁷



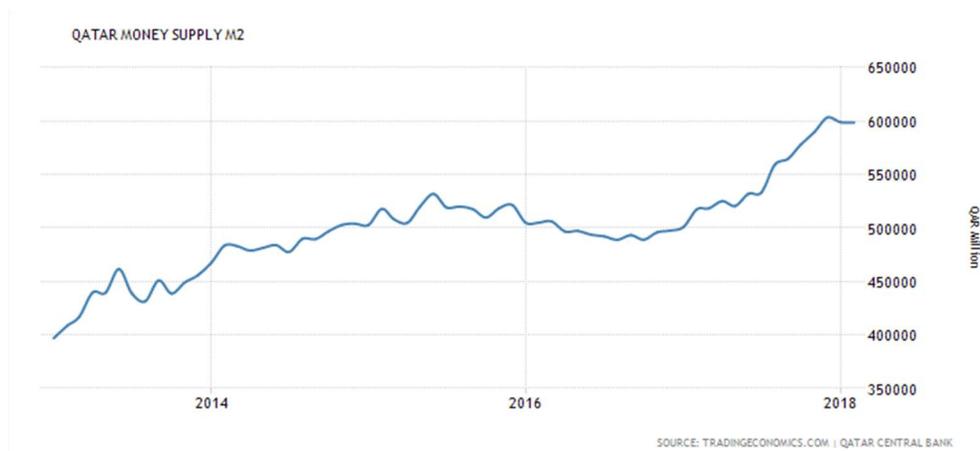
In fact, it could be argued that the money supply has had narrower bands of fluctuation and therefore more stability following a big drop off in the initial stages of the rift. Qatar's five-year M1 money supply indicates an even stronger rebound in the liquidity of the system (see Exhibit 8).

Exhibit 8: Five Year M1 Money Supply of Qatar⁶⁸



It would make sense that the money supply would suffer a large drop in the early days of the rift. People sought to secure as much of their capital as possible from banks. The run on the banks left supply low. By March 2018, the M1 money supply has almost surpassed its five-year high. Concerning the M2 money supply, the upward trend of the last five years only seems to have been dampened and not heavily reversed the growth (see Exhibit 9). Since the M2 money supply includes short term time deposits in banks and 24-hr money markets, one would expect to see more movement in this supply if businesses became more active. As the rift progressed, foreign investors poured funds in the system and nationals moved business interests closer to home. Hence the suffered only slight adjustments to its prior path and accelerated growth toward the end of the 2017 fiscal year.

Exhibit 9: Five Year M2 Money Supply of Qatar⁶⁹



Overall, the levels of liquidity in the Qatari system and support from the central authorities demonstrate that, through all of the ostentatious political saber rattling in the media, Qatar was able to stabilize the system. The central financial authorities with help from the large sovereign wealth funds seemed confident that they can continue to ride out the pressure for years.

Qatari Debt Levels and Bond Prices

Besides the Qatar Investment Authority and the central bank, Qatar relied significantly on external funding in order to support liquidity in its financial system. This approach to financing has exacerbated Qatar's international debts in the past few years. By April 2017, external debts rose to 454.3 bn QAR (roughly US\$125 bn)⁷⁰, the majority of which are bank liabilities and non-resident deposits. Both of the aforementioned make up 89 percent of Qatar's banking systems gross financial debt.⁷¹ Additionally, Qatari banks had a net external debt position of 182 bn QAR (roughly US\$50 bn) around the same time, which was 23.5 percent of domestic loans.⁷² By year end 2017, external debt had risen from an estimated US\$158 bn at year end of 2016 to an estimated US\$168 bn.⁷³ Most notably, net outflows from the Qatari banking system stopped by November 2017 according to the head of economics at Qatar's Central Bank.⁷⁴ Despite the massive forex reserves on hand, Qatar elected to borrow to support its financial ambitions. Those bills will come due one day. Hence, the increase in debt levels may represent one of lasting effects with negative results from the rift.

The nature of how Qatar raised funds is important. The ten-year Qatari bond was also hit with subsequent and potentially lasting effects from the rift. The Qatari bond prices dropped on Monday June 5th, further pressuring the balance sheets of Doha's central bank and banking system. The yields on Qatar's US\$3.5 bn in 2026 bonds rose by 23 basis points up to 3.366 percent, which is the highest that the yields have been since March 2017.⁷⁵ The yields on the

bond prices have continued to rise even through the beginning of 2018. By the end of the 2017 fiscal year, the ten-year Qatari bond rose above 4.00% as shown in Exhibit 10 below.

Exhibit 10: Yield of Ten Year Qatari Central Government Bonds⁷⁶



With rising bond prices, the price of borrowing has substantially increased for the Qatari government. This may cause lasting effects. It remains to be seen whether the Qatari government will truly be called to pay the higher prices or if they will call the bonds early. The rise in the bond prices reflect the growing risk as assessed by the credit ratings agencies. It didn't help when Standard and Poor's downgraded the sovereign debt rating of Qatar from AA to AA- with a negative outlook and the Qatar National Bank from A+ to A.⁷⁷ The credit rating agency also placed three other influential banks in Qatar, i.e. the Commercial Bank, Doha Bank and Qatar Islamic Bank, on the negative credit watch list.⁷⁸ Neither Fitch nor Moody's adjusted the credit rating of Qatar within the early days of the rift. Still the two ratings agencies placed Qatar on the negative watch list.⁷⁹ Most notably, Moody's had previously upgraded Qatar's credit rating from Aa2 to Aa3 in May 2017 not expecting the crisis.⁸⁰ Moody's doubled down on its negative outlook for Qatar by issuing another statement in mid-September giving the tiny island country a negative outlook. Fitch's also downgraded Qatar's credit rating in late August, specifically the 28th, to a "AA minus" with a negative outlook due in part to the pressures from the GCC rift of 2017. That being said, Fitch ratings agency gave a positive sign to the resilience of the Qatar economy but noting in a February 21, 2018 statement that Qatar's fiscal deficit had been narrowing. Buoyed by confidence and interest from Asia in Qatari debt, the government of Qatar plans to issue US\$9 bn worth of debt in 2018 according to Yousef al-Jaida the chief

executive of the Qatar Financial Center.⁸¹ This debt will come at a higher charge to the government, a sign that at least some lasting effects from the rift will be present in the financial and banking sectors. At the end of the day though, it is unclear whether the downgrades in credit rating were only temporary. Once the rift concludes, the credit ratings agencies may raise the grades back to pre-rift levels, allowing the state to borrow at reduced rates to pay off more expensive debt accrued during the rift.

Qatari Riyal

In the early days of the rift, the fluctuations in the Qatari riyal also pressured the central bank to intervene and prop up the peg to the USD. Having fallen as much as 3.6 percent below the lower band of the Qatari central banks preferred band for the peg, the central bank decided to help provide dollars to satisfy inshore demands and support the credibility of the peg, using the official pegged rate when providing funds to the domestic banks, as per the Head of Economic Research for the Middle East and North Africa at Standard Chartered - Dubai. The preferred range of the central bank’s buy-sell rates is 3.6385 to 3.6415 Qatari riyals to USD.⁸² The riyal slumped to as low as 3.7794 on Friday June 16th, roughly two business weeks after the beginning of the rift.⁸³ This marked the weakest valuation in three decades (see Exhibit 11).

Exhibit 11: One Year Value of the Qatar Riyal relative to United States Dollar⁸⁴



This state was exacerbated by the fact that Qatar previously relied on foreign expats for almost a quarter of their deposits. Once the rift became public, a massive sell off happened, which prompted many residents, non-residents and other Gulf banks to withdraw funds. As the bank run happened, the central bank stepped in to provide liquidity and foreign reserves. However,

the early days pressured the activity of the central bank in the offshore markets. With little activity in the offshore markets, the riyal would continue to rise and trigger a massive sell off of dollars as part of a direct or indirect intervention. This would allow the rate to fall pretty quickly.

Despite the initial drop and pressure, the QAR had not suffered the type of downfall that Qatar's opponents had hoped. By June 27, the riyal was already reported to have strengthened against the USD, hitting its' lowest value on Monday June 26 in the first few months of the rift. The Qatari Central Bank even boldly proclaimed an "absolutely stable exchange rate against the US dollar" on June 30, less than four weeks after the diplomatic rift began. Intriguingly, on the same day that the Qatari officials announced the stable exchange rate, major foreign banks stopped trading the Qatari Riyal. Britain's Lloyds Banking Group, Tesco Bank, Barclays, the Royal Bank of Scotland and other notable institutions ceased serving certain or all of their clientele with trades for the Qatari riyal. The Qatari Riyal would continue to fluctuate significantly in the final days and weeks 2017. The worst USD to QAR exchange rate came in late November when the rate almost grew to 3.85 QAR to USD. By the beginning of 2018, the riyal's peg was maintained.

The immediate and subsequent effects of the pressure on the QAR seemed to subside and investors could relax their fears. The Qatari Investment Authority (QIA) has continued to prop up the riyal to ensure the peg remains sufficient. The stock currently available (as of early 2018) remains large enough to support the USD peg for several years. From what can be gleaned from transparent reports, Qatar has retained significant foreign exchange and gold reserves by the end of 2017. Those foreign exchange and gold reserves were just under an estimated US\$17 bn by the end of 2017.⁸⁵ It is likely though that access to international capital markets will come at a premium, as compared to Qatar's prior position. Regardless, Qatar can remain solvent at least through 2018-2019 using those more expensive sources and other internal liquid injections from internal reserves.

In conclusion, Qatar withstood a significant barrage of attacks to its financial and banking system. While the central government may be left paying a somewhat increased bill, governments are very good at kicking the can down the road. Whatever immediate effects ensued, the negative consequences were able to be mitigated by Qatar's massive reserves and national wealth. Any subsequent effects could result in longer term impact to Qatar. That depends on how long the conflict continues. Some lasting effects appeared, but the extent to which they really impact Qatar is still to be seen. Qatar's ability to successfully navigate the past ten months is the result of its abundant wealth from natural resources, the next sector to be discussed.

Energy

Immediate and subsequent effects did not damage Qatar's position as a leader in the global LNG markets. Regional reliance on Qatar's supply of energy resources dampened any effects from the embargo. The commitment of outside actors in the industry to invest in Qatar made the embargo look weak, having nullified any lasting effects. Any initial struggles with the closure of helium plants and trade routes for Qatari-linked vessels looked more like a mere inconvenience as supply was not interrupted. Qatar wins on the back of being blessed with great natural resources and a needy global community.

Overall score: Bahrain, Saudi Arabia, & UAE - 0 ; Qatar - 2

Due to the presence of a massive liquefied natural gas (LNG) field, Qatar has been a global force for supply of energy. This produced a set of circumstances that make Qatar one of the world's richest nations per capita. As a result, the regime in Qatar has been highly supported by the populace. Any disruption to the trade, production or sourcing of liquid natural gas from Qatar would have serious ramifications throughout the world. The GCC members were well aware of this and have tried to limit Qatar's primary source of revenues to disrupt Qatar's promises to buyers. But this approach is dangerous. Certain Middle Eastern countries, such as the United Arab Emirates, relied heavily on Qatar's LNG as a primary source of energy. Many other parts of the world relied on this important source of energy production as well. Bahrain, Saudi Arabia and the United Arab Emirates knew this. Hence, they sought to pressure Qatar via an embargo of energy trade via land and sea. As part of the GCC rift of 2017, Bahrain, Saudi Arabia, the UAE and other sympathetic countries closed ports and access to supply chains for LNG trade. The belief was that disrupting Qatar's flow of natural resources would have applied the pressure necessary for Qatar to capitulate to the GCC's demands. This presented a risk to the other GCC countries who heavily rely on sea bound trade of natural resources for energy. To force Qatar to stop the flow of LNG or energy to the Emirates would have risked dissent in Dubai and Abu Dhabi. Other countries which rely on LNG imports would more likely side with Qatar if forced to choose sides. If the GCC were able to impact the ability of Qatar to export its natural resources used for energy purposes and not impact their own trade, this would be a major win for the big three GCC countries.

Qatar's Supply of LNG

Similar to the finance and banking sectors, there were some immediate effects that had negative results. The United Arab Emirates closed down the port of Fujairah to any Qatari-linked

vessels very early on in the conflict.⁸⁶ Fujairah was the main refueling port for all oil tankers in the Gulf. Closing access to the port would have likely impacted Qatar's shipping times and expenses for outbound LNG shipments. Qatar sought to mitigate the lack of access by shifting refueling to Gibraltar and Singapore.⁸⁷ This was quite expensive for Qatar in terms of financial burden and time delays for shipments. In the immediate and subsequent terms, the Qataris found a way to continue to supply energy to the world. One is unsure how long this redirected approach can continue or how long the country can continue to subsidize the costs.

On June 13, Reuters reported that two helium plants operated by RasGas, which is a subsidiary of state-owned Qatar Petroleum, closed down. Qatar is the second largest producer of helium in the world and the combined annual production capacity from these two plants could meet approximately 25 percent of the global demand for the gas. The 2 bn standard cubic feet of helium was quite a significant loss especially for end use industries such as medical imaging (MRIs), lifting of gas balloons and airships, or keeping satellite instruments cold which rely on the gas every day. If this were the only results of the crisis, one could argue that Bahrain, Saudi Arabia, and the UAE had successfully taken a large chunk out of the tiny island's top line revenue. Not surprisingly, the closures were not the whole story.

Throughout the ten months, there have been subtle and not so subtle reminders of Qatar's position of power via multiple announcements that the supply of LNG and other natural gas products would not be hindered by the rift. Even members of the opposition states certified the necessity of a continued flow of Qatar's LNG supply. The UAE was among Qatar's five Middle Eastern LNG clients. Among the other four, only Egypt demonstrated interest in taking sides in the rift. The main source of supply to the UAE (and Oman) is through a pipeline owned and operated by Dolphin Energy, which is partially owned by Abu Dhabi's Mubadala Development Company. This presented an interesting dynamic as 3.2 mn cubic feet of LNG flows to Oman and the UAE daily via this pipeline.⁸⁸ The UAE relied on this energy source to meet the demands of the populace, especially during summer months where energy costs are high. On June 18, only two weeks into the rift, the chief executive of Sharjah National Oil Company Hatem Al Mosa directly said there no expected impacts to the flow of LNG between Qatar and the UAE. Al Mosa's declaration signified one reason why the embargo had been a resounding failure. Without LNG supply, the UAE would not have been able to supply the steady flow of electricity needed in the summer months that Middle East populations rely on to power air conditioners. Qatar's officials recognize this. They knew the strength of the Dolphin gas pipeline's link among Qatar, the UAE and Oman as a bargaining chip. Qatar Petroleum's CEO in response to the rift came out and made promises to not cut the supply. Importantly though, he

explicitly mentioned the ability to legally cut the lines if Qatar Petroleum decided to do so, justifying the cuts legally via a force majeure exception in the supply contract.⁸⁹ By not choosing to play that card, the Qataris held back an important move but issued a warning that their opponents had to choose carefully how to proceed. Qatar's positioning in the global energy supply showed a reversal of the power dynamics. It was a clear indicator that the Qataris held the upper hand when it came to who dictated the impact to the energy markets during the GCC rift of 2017. Any subsequent and lasting effects were mitigated by the acknowledgement that the UAE and the world needed Qatar to continue to make the LNG flow.

On June 20, the finance minister of Qatar visited with the US Treasury Secretary and reassured him that there would be stability in the global energy markets.⁹⁰ While it is normal for these types of political statements to come out, the markets often rest on the fears and anxieties of disruption. The reassurance, at least, provided some fodder to settle down the global energy trade and those anxious about the rift's impact on supply to the United States. On July 4, Saad al-Kaabi, the CEO of Qatar Petroleum, announced again that the company had not been affected and would not be affected by the crisis.⁹¹ He doubled down on the lack of effect by announcing a new expansion plan to increase production by 2024.⁹² No expansion would have been possible if there were a cut to supply. Part of the expansion effort was driven by external calls for help from ExxonMobil, Royal Dutch Shell and Total. In a meeting with the Qatari Emir, the chief executives of each of the three aforementioned companies lobbied for an increase in output. In return for an increase in 100 mn tons of LNG annual production, ExxonMobil, Shell and Total pledged assets and support to meet this increase in a third of the annual global supply.⁹³ Each of the companies felt the potential political risk was well worth the gamble. By July 10, the first company, France's Total, moved to officially signify their intentions to do business with Qatar. The French energy giant and Qatar's state-owned Qatar Petroleum signed a 25-year agreement to jointly develop the Al Shaheen oil field.⁹⁴ Total's 30 percent stake is given with the intention of transferring of operations of the field from Maersk Oil to Total.⁹⁵

Herein lies the icing on the top of the cake for Qatar. Not only could they control regional aggression by reminding their enemies of the ability to pull supply, but also, they successfully negotiated support from outside parties to further entrench their importance in the global supply of natural gases. Other importers of Qatar's LNG did not notice any major disruption in supply either. On multiple occasions, the Japanese biggest buyer of Qatari LNG, Jera, announced that they did not experience any disruptions in supply from Qatargas. Even if there were any lasting effects with negative implications in Qatar's energy markets, one could be that the rift provided opportunity for Jera to renegotiate future contracts. Jera pushed for less-rigid non-compete

conditions from Qatar gas in order to secure more future supply from the United States.⁹⁶ So it is possible that Qatar may lose some business as its customers diversify for reasons of controlling political risk and diversifying their supplier base.

Only 10 percent of Qatar's shipments in 2016 went to its five Middle Eastern clients.⁹⁷ As a result, it seemed as if the lack of closure to the LNG supply would have benefitted the UAE far more than Qatar. The failure to provide supply would have negative consequences for Qatar's reputation as an energy provider. Among other major global powers which vied for position in the LNG markets, Australia stood ready to supply Far East Asian clients with a stable flow of LNG. The ensuing lost business would have pressured the top line revenue of the Qatari LNG producers. Even though the tiny country was well-connected, it was not guaranteed that it could have reached out to other suppliers to reroute any supply destined to the UAE. So, the ramifications of any closure would not have proved completely unbalanced. In fact, there was no closure to the LNG supply, and immediate pressure did not bleed into subsequent or lasting effects. Qatar did not remain passive during the GCC rift of 2017. By March 14, 2018, Qatar had revealed a new strategy to focus on self-sufficiency for certain industries and renewable sources of energy. It seemed that, as the rift continued, Qatar was not satisfied to rest on its position in the LNG markets. It wanted to ensure it had more control over its future. Given the lack of lasting negative results and the new commitment to diversification, Qatar limited any impact to the LNG markets from the rift. It did so with some creative rerouting of supply.

Trade and Merchants

Qatar found new trading partners in Turkey and Iran to mitigate any immediate effects from lack of supply from Bahrain, Saudi Arabia and the United Arab Emirates. Qatari-linked sea bound and air bound craft were rerouted through Oman or other major ports to ensure continuity of supply. While there were initially high costs and uncertainty concerning food and materials trade, Qatar has taken care of any loose ends to get the country to business as normal. Lasting effects seem unlikely. Qatar wins another round on the back of internal resourcefulness and the enemies of the big three GCC countries.

Overall score: Bahrain, Saudi Arabia, & UAE - 0 ; Qatar - 3

Qatar's position along the Persian Gulf allowed the country to serve as a trade hub. To serve internal interests, Qatar developed strong infrastructure to support sea, air and land links with other GCC countries. The closure of those ports and border crossings were some of the first signs that something was amiss among the GCC members. Qatar is not reliant only on trade with other GCC members. Its' largest trade partner in the Middle East is the United Arab Emirates, but this trade partnership ranks only fifth on Qatar's list globally.⁹⁸ Restricting trade within the GCC was not enough pressure per se to bring Qatar to the negotiation table. However, the restriction of trade within the GCC did have ramifications for certain types of products and goods. Qatar was not self-sufficient when it came to feeding its people. It relied heavily on neighbors for food and supplies. The failure to procure food and supplies would result in pressure to the Qatari regime, especially if the regime had been unable to provide stopgaps in the immediate term. That ensuing pressure of the citizens and inhabitants would have caused unrest in the country, potentially having resulted in a population requesting a resolution as quickly as possible. This was not the case and Qatar found other ways to bring in food. For a third straight category, any lasting effects with negative results was mitigated.

It was not clear in the immediate stages that there would be no lasting effects. Official data indicated that in the early stages of the rift Qatar's imports were slashed significantly. The blockade resulted in a 40 percent shrinkage in imports year-over-year for the month of June 2017. Additionally, imports from that same month dropped by 37.9 percent when compared to May 2017, reaching a total of 5.87 bn QAR (roughly US\$1.61 bn) according to the Qatari Ministry of Development, Planning and Statistics. When those reports came out in late July, it was believed that all major disruptions to supply had been taken care of and Qatar could return to be a major force for trade in the Gulf. Qatar's imports rose in the month of August by 39.1 percent to reach US\$2.38 bn. Even though the level of imports were 7.8 percent lower than the

same month in the previous year, the jump represented a large recovery over levels from June and July. By mid-October, Qatar's non-oil exports had also recovered. The numbers in each of the months from July to September were almost twice as high of those in June 2017. September's exports were still a bit lower than August's, but the levels were 5 percent higher than those of May, the month preceding the rift. Qatar's Chamber Chairman Sheikh Khalifa bin Jassim Al Thani boldly proclaimed that "the unfair siege imposed on Qatar couldn't stop or hinder the export processes for the Qatari private sector due to the robustness of the economy." So, the subsequent effects were dulled by new trading partner and new trading routes.

Qatar fought back against the rift via internationally recognized processes on the global stage. At the end of July 2017, Qatar launched a formal complaint to the World Trade Organization (WTO) against the embargo. This triggered a legal process for formal consultations between Qatar and the three countries. According to WTO regulations, Qatar's actions initiate a 60-day deadline to settle complaints or face litigation at the WTO. Qatar's trade representative to the WTO, Ali Alwaleed Al Thani, claimed that the tiny island nation has:

...always called for dialogue, for negotiations, and this is part of our strategy to talk to the members concerned and to gain more information on these measures, the legality of these measures, and to find a solution to resolve the dispute.

However, it remains unclear whether, if put to the test, the lack of formal negotiations is more a function of an unequal sentiment shared by Bahrain, Saudi Arabia and the United Arab Emirates or that the statement is political grandstanding. By August 4, the WTO confirmed the complaints by Qatar. The official statement on the WTO website was:

Qatar has requested WTO dispute consultations with the United Arab Emirates, Bahrain and Saudi Arabia concerning measures adopted by the three allegedly restricting trade in goods and services from Qatar, and trade-related intellectual property rights.⁹⁹

At the heart of the complaints were Qatar's accusations were that Bahrain, Saudi Arabia and the United Arab Emirates used the blockade to "coercively attempt to economically isolate Qatar.

Routes and Ports

Prior to the rift, the UAE's Jebel Ali handled 85 percent of the shipborne cargo headed to Doha.¹⁰⁰ Qatar quickly pursued other options in which to route goods after the Jebel Ali port was no longer an option. It was reported on June 11 that Qatar ports Authority had launched a new maritime service between Oman's Sohar Port and Qatar's Hamad Port. This service was designed to operate three times per week with an expected journey time of one and half days. Major shipping companies, such as Danish Maersk and Swiss-based MSC, began offering

booking new shipments from Salalah to Doha as soon as June 12. In August 2017, Qatar Navigation (QNNC.QA) officially shifted the regional hub from Jebel Ali to Oman's Port of Sohar.¹⁰¹ As a result, trade between Oman and Qatar grew by 2,000 percent and the traffic to Oman's Sohar port was up 29 percent.¹⁰² In September 2017, Qatar opened up a new port that has allowed ships to avoid going through Jebel Ali.¹⁰³ This was most definitely a hit to the UAE's shipping industry. Once handling roughly a third of all inbound maritime cargo to the Gulf region, Jebel Ali lost its position as Qatar found new routes to sustain trade. Even Pakistan opened new trade routes between Doha and Karachi. With an expected six-day trip from Qatar to Pakistan and eight-day return trip, the new trade route opened up another partner outside the Persian Gulf region which could steal business from the UAE. Overall, the new partnerships and routes offered a way to dull any immediate effects. After a few months, trade of Qatari vessels continued uninterrupted operations. It seemed as if there would be limited lasting effects.

For land-based trade, there were some challenges to normal operations that had immediate and subsequent effects. Qatari trucking companies, many of which had stable, long term routes between Saudi Arabia and Qatar, were hit hard. Since the land borders with Saudi Arabia are closed, most trucking companies had too much capacity and not enough work. Saeed Fadal Ali Al-Kaabi, the director of Al Fadal Transport and Trading indicated that the company had been affected the first moments of the rift. To further cement the impact to the trucking industry, Saudi Arabia permanently closed the Salwa border crossing on December 20, 2017.¹⁰⁴ In response, Turkey discussed new shipping routes through Iran to boost the use of land-based trade. It would have offered at the minimum a competitive outlet for Qatari trucking companies, which laid dormant since the beginning of the rift. However, it was internal needs that jump started the trucking industry in Qatar. Local companies sought to use what spare capacity was available. It still remains to be seen whether the domestic demand will compensate for the lost international contracts. Despite grim prospects for Qatar's trucking industry, it is hard to consider this a win for Bahrain, Saudi Arabia and the UAE. Their own trucking companies suffered as a result of the closure of land crossings and the slowdown in land-based trade.

Overall, the land-based subsector within the trade industry was hit hard with likely lasting effects for all Middle Eastern companies that traded with or inside Qatar. The drop off in land-based trade became a bane for both sides. Whatever pressure that Bahrain, Saudi Arabia and the UAE thought they would have placed upon Qatar in sea trade was ineffective as quickly as two weeks into the rift. The food industry in particular was an area where remarkable replacement was required to ensure trade could continue.

Food and Supplies

The closure of borders and trade with regional partners immediately set off a shock among Qatari citizens fearing that there may be a shortage of food. Stockpiling and hoarding were rampant in the early days of the conflict, specifically for staples like water, frozen foods, canned goods and other essential items.¹⁰⁵ The run on grocery stores was exacerbated by Qatar's lack of self-sufficiency in food production and agriculture. Prior to the conflict, Qatar imported roughly 40 percent of its food from Saudi Arabia.¹⁰⁶ Combined, the UAE and Saudi Arabia accounted for UD\$309 million of food imports to Qatar in 2015, including lots of fresh dairy products.¹⁰⁷ Most of the food imports bound for Qatar, especially those imports from outside the Middle East, came through the Jebel Ali port in Dubai. In theory, closing down ports and restricting food access would have been a good strategic move to hurt Qatar's ambitions. In practice though, other actors filled the gap to alleviate fears of food shortages.

Morocco, Oman, Turkey and Iran rushed to the aid of Qatar providing food and aid. Fresh products that would have regularly been provided by Saudi Arabia were flown in from Casablanca, Muscat, Istanbul and Tehran. On June 12, the Moroccan Ministry of Foreign Affairs announced that multiple airliners filled with food were sent to Doha. Despite the official statement that the food was not in response to the Gulf rift but rather as a gift during Ramadan, the sign was obvious to other parties. Qatar had other ways to secure food and supplies if Saudi Arabia and the UAE decided to send cargo. On the same day that Morocco sent over food by plane, Oman was active in sending hundreds of containers to Qatar. One owner of a Qatari food company was quoted as saying over 300 containers of fresh food had arrived or were arriving soon. By June 17, Turkey got involved by shipping 5,000 tons of food over to the Qatari capital. Iran didn't wait too long either to get involved in the food trade. By June 22, reports of 1,100 tons of Iranian based food shipments were sent to Qatar daily. The earliest official statements about the shipments were recorded on June 11, when the Iranian-based Fars news agency reports 66 tons of beef had been delivered to Qatar with another 90 tons of beef to come. Turkey also reinforced its commitment to Qatar by announcing the beginning of sea-based trade with Qatar to start the following weekend. By mid-July, Turkey had sent nearly 200 cargo planes, 16 trucks and one ships worth of food to Qatar. The Qatar regime rewarded the Turks by signing significant cooperation deals in health and pharmaceuticals. Qatar offered an additional US\$19 bn in investment, focusing US\$650 mn on livestock and agriculture. By the end of October, Turkish imports to Qatar were reportedly up 90 percent to US\$216 mn for the four months following the beginning of the rift and over 29 percent, or US\$382 bn, for the year.

Within only two weeks of June 5th, Qatari port officials were already declaring that the rift had been a “blessing in disguise”. The new trade options and routes are going to help with contract negotiations for Qatari shipping and logistics companies. What was designed to be a curse has turned out to be a boom for Qatar’s trade industry. Four months into the rift exports from Turkey into Qatar had increased exports by 90 percent reaching US\$216 mn.¹⁰⁸ The main Turkish beneficiaries of this changing dynamic has been firms such as Banvit, Pinar Et Un and Pinar Sur that produce or refine dairy, poultry and meat respectively. Not every Turkish exporter has benefitted from the crisis. The shares of Ulker Biskuvi Sanayi AS, the largest Turkish producer of confectionery and snacks, fell 6.5 percent in the first week of the rift.¹⁰⁹

Given the blockade and cessation of sea-based trade relations between Doha and Dubai, the Qatari officials flew food and other needed imports into the country. This was an expensive and unsustainable method. As a result, Qatar Airways saw a massive increase in its cargo division as it serviced routes for medical supplies and more time sensitive items. The airline saw a 160 percent increase in cargo in June 2017 compared to that of June 2016. Qatari residents saw a sharp increase in food prices, which were already on the rise due to the supply-demand market dynamics disrupted from lack of imports in the months preceding the rift. In August 2017 alone, food prices jumped by 4.2 percent as a direct result of the more expensive methods of importing.¹¹⁰ Additionally, the Qataris shifted supply of materials from the UAE’s Jebel Ali to Oman’s Port of Sohar, partially in an attempt to curb the requirements to airlift in food.¹¹¹ By September 16, 2017, the Qatari central government reported that food price inflation had stabilized. Throughout the ten months, Qatar’s resilience was evident in their ability to maintain control of prices across the basket of goods necessary for living. The Consumer Price Index (CPI) hit a ten year high in January 2018 at 109.73 index points (see Exhibit 12).¹¹² Nevertheless, the rise did not deviate much from the increases seen in the CPI of the past five years.

Exhibit 12: Ten Year Consumer Price Index of Qatar¹¹³



Interestingly, the rift forced Qatar to introspectively address what the future of its food industry would look like. Qatar had previously focused on building sustainable sources of food for its people via the National Food Safety Program. The program aims to ensure Qatar can produce 70 percent of its food requirements by 2024.¹¹⁴ One such definitive sign that the country wants to wean itself off of dependence on other countries for food is the investment of US\$444 million in a 530,000 sq. meter food storage and processing facility at Hamad Port.¹¹⁵ The rift demonstrated the necessity of expediting the process of becoming less dependent on outside providers for food and agriculture. In a sign of progress, Qatari dairy companies indicated in early 2018 that they could handle the demand for fresh dairy products during the 2018 month of Ramadan. It is likely that others within Qatar's food industry will make similar future claims of self-dependency in the upcoming 2018 fiscal year.

There must always be other parties involved in trades, and what started as a bane for all has become a more lopsided affair. Some of the actors in Bahrain, Saudi Arabia and the UAE have suffered as a result of the rift. The Dubai-based Al Khaleej Sugar Co. has had to stop imports to Qatar. As the UAE's only sugar refinery and the world's largest port-based sugar refinery, Al Khaleej Sugar Co. lost substantial long-term business as a result of the blockade. Other major players in the international sugar industry such as India and other European countries may fill in the gap. But it is unclear whether the lost supply can be met in demand from those countries. Bahrain's Arabian Sugar Company is acutely aware and concerned about this same phenomenon. According to Bloomberg, Yves El Mallat, the CEO of the Arabian Sugar

Company, noted this exact concern.¹¹⁶ Additionally, the Riyadh based Almarai Company relies on Gulf neighbors for more than 25 percent of its annual revenue.¹¹⁷ Despite the lack of clarity around how much of Almarai's revenue is accrued from contracts with Qatar agencies, the firm had suffered some setbacks as its stock fell by the largest amount on June 5, 2017 than it had in the eight months prior to the conflict.¹¹⁸ If anything, there will be some lasting negative effects from the rift in Bahrain, Saudi Arabia and the UAE.

Non-Food Trade

Other multiple non-food related items, e.g. Qatar's aluminum trade and camel trade, saw mixed results as a result of the rift. The aluminum industry, while inconvenienced for a bit while Qatar re-shifted trade operations, saw no immediate, subsequent or lasting negative effects. A June 13 statement from the Norsk Hydro, the Norwegian aluminum and renewable energy company, indicated that normal volumes of trading is happening via Kuwait and Oman. Norsk Hydro has a 50 percent stake in a high producing plant in Qatar, the Qatalum plant, which produces 600,000 tons of primary aluminum per year. The continuity of normal operations resulted from Qatari companies having rerouted supply chains to avoid Bahrain, Saudi Arabia and the United Arab Emirates. Despite the possibility of renegotiating contracts after the rift ends, the general sentiment has been that companies in Qatar would rather not risk working with suppliers in the three countries. The chairman of the International Projects Development Company, Ahmed Al-Khalaf, stated his displeasure with the hold ups of his production chain from suppliers in Saudi Arabia and the United Arab Emirates. The regional camel trade was not excused from the effects of the rift. By mid-June, Saudi Arabia had expelled more than 12,000 camels and 5,000 sheep owned by Qatari herders. Not all of the livestock made it back to their owners in Qatar. Saudi Arabian officials made the process difficult to retrieve the livestock and some of the camels, each worth up to US\$75,000, died in the process. This must have angered Qatari camel owners, given the per unit value of the animals. It is not clear though that there was widespread reduction in camel trade or the extent to which disruption of land-based trade truly hurt the niche industry. If anything, it caused an inconvenience for wealthy Qataris many of whom had more important priorities during the rift.

In conclusion, Qatar was successful in establishing new trade routes and supply of food for its people while also inadvertently hurting the competing nations industries. The containment of price inflation and support from new trade partners helped Qatar survive some rough times in the weeks immediately after the rift began. Subsequent months ushered in some price increases, but it is likely that these will not last into the new fiscal year. Qatar will also enjoy

lasting positive effects from finding new suppliers, who are eager to establish long term relationships.

Aviation

From the first day of the rift, Qatar Airways was hurt. The national airline of Qatar had major losses due to a slowdown in traffic to Doha and great pricing slashes. While many regular routes to Doha were shut down, Gulf Air, Emirates, Etihad, Saudia Airways and other major Middle Eastern airlines were not hit as hard. The big three GCC members win this one by hurting the state-owned Qatar Airways with negative immediate and subsequent effects. Lasting effects will likely be felt by Qatar Airways as the perception of instability left tourists second guessing the region as a holiday destination.

Overall score: Bahrain, Saudi Arabia, & UAE - 1 ; Qatar - 3

A thriving aviation industry is integral to the movement of goods and human capital throughout the Middle East. So, pressure from the big three GCC countries that redirected traffic through their own respective airports instead of through Doha was considered a win. At the onset of the rift, major airline companies stopped services to and from Qatar. This cessation of regular traffic between Bahrain, Egypt, Saudi Arabia, the UAE and Qatar affected the airlines, some of which are the top carriers in the world. On the first day of the rift, players like Emirates, Etihad, and Saudia Airlines cancelled flights between Qatar and their respective home countries. This not only signaled the changed state of political relations between the countries, but also exacerbated the urgency of the rift. At the time of closing, the conflict went from affecting major international trade organizations and players to causing everyday citizens and expatriates to adjust plans. To some, it was a minor inconvenience that impacted vacation plans or visits to relatives. To others, it was a potentially devastating impact to long established plans, such as making hajj. Firms, which operated in multiple involved countries, also saw an impact from the cancellation of flights. Regardless, the aviation industry in the Middle East followed the wishes of their home governments and chose to do the tough thing, i.e. forgo solid, regular business.

Traffic and Passenger Count

The immediate negative effects were not overwhelmingly evident during the early days of the conflict. Reports indicated mixed signals concerning air traffic to the Middle East during the early days of the conflict. In June 2017, the traffic from Middle Eastern carriers increased by 2.5 percent as reported by the International Air Transport Administration (IATA).¹¹⁹ The IATA report also indicated that entire world saw a 7.5 percent increase in international air traffic demand, a result that could have been bolstered if the conflict in Qatar had not caused

stoppage of flights.¹²⁰ It was clear that the slowdown in the early summer months was not directly caused by the rift or had been part of a generally decline in travel to the region. The same IATA report indicated that passenger demand in the Middle East had slowed down in May with a subdued 3.7 percent growth.¹²¹ Interestingly, the IATA partially attributed the lower demand to other regional policies that disincentivized travel to and from the Middle East.¹²² For example, the laptop and travel bans had created a slower than normal travel season for the North America-Middle East route leading up to and through a portion of the conflict. Despite being lifted completely in mid-July, those planning trips to and from the Middle East had probably done so anticipating that the two major American-initiated bans would be in place. The IATA also indicated that capacity for passengers (3.1 percent rise in June) had risen among Middle East airlines leading up to the summer months despite a load factor below the desired 70 percent. So, the industry wasn't planning for a major slowdown or major fallout from an event like the GCC rift of 2017.

In the early days of the rift, hundreds of flights in and out of Qatar were cancelled, many of which were daily or weekly routes.¹²³ For example, prior to June 5, 2017, Qatar Airways had at least 14 daily shuttles between Dubai and Doha.¹²⁴ The impact to the company's bottom line was significant and there were quite substantial losses. It was estimated in the early days of the rift that 30 percent of the company's revenue could be lost due to lost traffic, the cost of diverting flights, and drops in bookings according to the strategy consulting and marketing research firm Frost & Sullivan. As of November, that same consultancy indicated that over 50 flights per day had been cancelled in and out of Doha and over US\$500 Million in profit was lost.¹²⁵ The immediate effects were overwhelmingly negative.

In response, Qatar Airways offered substantial discounts and increased routes to serve more customers. This was not a strategy that was successful to mitigate subsequent and lasting effects, as the company's bottom line was continued to be hit hard. The Eid al-Fitr holidays and late June period were kind to Doha and Qatar Airways. From June 19-25, traffic was substantial, and Hamad International Airport handled more than 580,000 passengers from almost 3,000 flights in the last week of June. In the peak of the holiday season, almost 50,000 passengers were flying directly from Doha. This provided some respite from the immediate negative effects. By June 19 (only two weeks into the conflict), Qatar Airways CEO indicated that the rift would leave a lasting wound for the company. Had Qatar Airways been a public company, this could have been seen as a CEO trying to prepare investors for the losses. But without public shareholders to answer to, the chief executive was most likely being honest and forthright, admitting that the fight would be hitting the bottom lines of the company for quite some time. On

March 7, 2018, Al-Baker reiterated the previously statement that Qatar Airways was going to report heavy losses.

Subsequent effects indicated that Qatar suffered beyond just the summer months. Tourism to Qatar was down 20 percent year-over-year in November 2017.¹²⁶ Flights into Qatar were down 25 percent and flights by Qatar Airways were down 20 percent in the third quarter as compared to the same quarter of the previous year.¹²⁷ Tourism receipts from June to December 2017 fell by US\$600 mn according to Capital Economics, the independent macroeconomic research firm.¹²⁸ Needless to say, Qatar airlines had seen much better days than those of the final quarters of the 2017 fiscal year. It will take years to see a full recovery from the lost revenue and loss of confidence in Qatar aviation industry.

The Hajj Saga

One of the most intriguing aspects of the rift's impact on aviation happened during late August in the lead up to the Eid Al-Adha holidays. Saudi Arabia has a unique position of being the country in which the two Holy Mosques are located. As part of the Eid Al-Adha tradition, millions of pilgrims flock to these holy sites for pilgrimage annually. Initially, news trickled out that Saudi Arabia was going to restrict Qatar pilgrims from visiting the holy mosques. This caused an outrage in the Muslim world and especially in Qatar. Eventually when the king of Saudi Arabia relented and allowed for Qatari Hajj pilgrims, the passengers were only allowed to travel on Saudia Airlines. In response, Qatari officials issued a very strongly worded statement against the restriction and made it difficult for the Saudia flights to arrive at Hamad International Airport. Official reports indicated that the Civil Aviation Authority denied that Qatar refused the flight of Qatari Hajjis on Saudia Airlines. This may be a situation where one must read between the lines of an official statement. Like other public statements, what was not said may have been more revealing of what truly happened. In an attempt to remove the rift from impacting the Islamic holiday, King Salman of Saudi Arabia ordered for land borders to be opened for Hajj pilgrims on August 17, 2017.¹²⁹ By August 26, it was unclear whether pilgrims from Qatar could actually complete reservations and travel to Mecca.¹³⁰ Reports flooding out of Doha indicated that there had been not enough communication between the Qatari Ministry of Awqaf and Islamic Affairs and the counterpart in Saudi Arabia to ensure Qataris could go on Hajj. Through the whole process, the Saudi Arabians were labeled as using the Islamic high feast to accomplish political gains. As compared to the energy situation, the Saudi Arabians held the power in this situation and likely were reminding the Qataris that they were in control. While spun as negative press against Saudi Arabia, the denial of free passage to Mecca for the hajj

season left Qataris and other Islamic pilgrims dissatisfied. In such a state, these people longed for an end to the conflict and a resumption of normal relations among the GCC members. While there were no lasting effects from the Hajj saga, the ensuing pressure on Qatar and dissatisfaction favored the big three GCC countries.

Qatar Airways Strikes Back

As with actions in other sectors, Qatar did not idly stand by and remain silent. With an ambitious CEO in Akbar Al-Baker and an endless checkbook, Qatar Airways has been actively building relationships around the globe to boost demand and connections. With the joining of One World Alliance^a in 2013 and multiple acquisitions of minority stakes, Qatar Airways have not been passive in preparing for inevitable political conflict in the Middle East. They continued to work the strategy of diversification via acquisition, as described before. One move was to try and buy a minority stake, roughly 10 percent, in American Airlines. In early November, Qatar Airways pursued a stake in Cathay Pacific. The acquisition would hopefully translate into future traffic into Doha. Qatar's backing of Meridiana also looks like a smart move as compared to the UAE's backing of Alitalia which filed for bankruptcy. In February 2018, Meridiana changed its name to Air Italy, a sign that the firm plans to fight Alitalia for the right to be called Italy's flagship carrier. To top all of the aggressive strategy off, Qatar Airways announced some revolutionary new designs to Business and Economy classes aboard their longer flights.

In early 2018, the Minister of Finance of Qatar publicly announced the expectations that Qatar Airways would be opening up 10-15 new routes in 2018, on top of the 10 routes they opened last year.¹³¹ While this would sound positive in isolation, those new routes pale in comparison to the 50 flights per day that were cancelled due to the rift.¹³² The sign of growth certainly indicates that the national carrier will not sit back. The overall consensus is that Qatar Airways has a while to recover from the lost business. It will continue to be a leech on the government, which has indicated happiness to provide the support, for some time.

ICAO and Airspace Restrictions

Throughout the rift, there has been an issue of whether the restriction of airspace for Qatari aircraft was legal. On June 14, the CEO of Qatar Airways, Akhbar Al-Baker, went on the offensive, asking the International Civil Aviation Organization (ICAO) to "declare the restrictions an illegal act." Al-Baker's argument focused on the nature of his business, i.e. as an airline which provides a service and not a political body with intentions without rights. Within a few

^a Qatar has left the One World Alliance since 2013.

days, the United Nations aviation authority confirmed that it would investigate Qatar's claims. Allegedly in response to Qatar's pursuit of justice with the ICAO, Suleiman Al-Hamdan, the Transport Minister of Saudi Arabia, addressed the ICAO members, warning them that the restriction of airspace and the conflict is "something bigger than the ICAO." At the Montreal Talks in June, the ICAO indicated that ministers and high-ranking officials from Bahrain, Qatar, Saudi Arabia and the United Arab Emirates would have talks. In response to those talks, the ICAO issued out a statement on August 1st urging for all member states to comply with the Chicago Convention on International Aviation. The United Arab Emirates was the first of the big three GCC members to reopen some of its airspace to Qatar Airways flights. While not issued via an official UAE government channel, the announcement was first broadcast on the Federal Aviation Administration's Notice to Airmen database. It is likely that the UAE did not want to publish the fact that they were relinquishing its pressure on Qatar and made the announcement in a quiet fashion. Additionally, the route opened to Qatar Airways was done so with a timeline of only three months, i.e. August 17 to November 9 and was designed for use with inbound flights only.

Competitor Actions

In the early days of the rift, airlines such as Etihad, Emirates and flyDubai offered to reschedule passengers and provide full refunds to appease customers. While this was a setback for these airlines, it paled in comparison to the losses suffered by Qatar Airways. Other direct competitors of Qatar Airways, such as Gulf Air and Singapore Airlines, were major beneficiaries in the immediate term. With the negative perception of the Middle East, other airlines such as Lufthansa, Philippine Airlines, Thai and Sri Lankan Airways benefitted from the increased traffic for those bound to and from the Gulf region as they stole business from Qatar Airways. As the conflict rolled on, carriers in Bahrain, Saudi Arabia and the UAE attacked Qatar Airways on multiple fronts. First, about a week into the rift, one of Saudi Arabia's airlines was reported to have been trying to poach Qatar Airways staff. Flynas, a Saudi budget airlines, used its Twitter account to announce vacancies specifically targeted toward Saudi nationals working for Qatar Airways. Not only were the airlines set on stealing business, but a major reduction in key talent would increase the likelihood of a long term rebound. There are no official numbers on the total loss of staff to other competing airlines during the first few months of the rift. However, no one would blame airline officials who jumped ship in those early days.

Overall, Qatar Airways is expected to suffer major losses with lasting negative effects. It is important to keep the losses in perspective given the fact that Qatar Airways had been a loss

operating machine for years prior to the rift. A huge drop in service and loss in passenger count would exacerbate any prior losses and pressure the Qatari elite to capitulate to demands from the big three GCC countries.

Infrastructure Investments for 2022 World Cup

Through the first ten months of the rift, there was not enough damage done to the Qatar construction industry to throw timelines off for the World Cup preparations. It is more notable that several Saudi Arabian and Emirati construction companies lost business as a direct result of the cessation of operations due to the rift. With no clear immediate or subsequent effects, the final category is chalked up to Qatar by sheer virtue of not seeing their timelines thrown off and affirmation from FIFA that the 2022 World Cup is still in Doha and preparations are on schedule.

Overall score: Bahrain, Saudi Arabia, & UAE - 1 ; Qatar - 4

The final area of exploration is the impact to infrastructure investments in preparation for the 2022 World Cup. In an attempt to enhance its image, Qatar won the rights to host the 2022 World Cup. While the World Cup is not usually a financially profitable endeavor, the elevation of global status as a result of hosting the event is quite considerable. The sporting event represents a great chance for Qatar to introduce the rest of the world to its country and the Middle East region. The global event, in turn, represents an attempt to bolster tourism and global standing. Pulling off a successful global event like the World Cup or the Olympics can leave citizens and the global community with a lasting impression. Qatar will be the first host from the Middle East. So, the opportunity to expose the world to the region's benefits, peoples and cultures represented an enviable opportunity for this tiny island country.

Preparations for World Cup 2022

In order to host this global event, major preparations are required. The host country needed to invest in adequate lodging, transportation and stadia to host the games and influx of participants, fans and media. Failure to do so could be an embarrassment in front of the global community, and would provide especially shameful to the Middle East region. If the rift could disrupt the flow of goods and materials or even the construction industry in Qatar, considerable pressure could mount on the Qatar ruling family to negotiate a settlement. Regional players knew this and sought to disrupt the trade or materials and goods as discussed before.

The Qatari government borrowed roughly US\$200 bn to support infrastructure spending to host the 2022 World Cup.¹³³ The country has sought to raise funds via issuance of bonds to pay for the investments. A drop in the price of the Qatari bond could have had a ripple effect throughout the Qatari financial system and pressure the government's bottom line. As discussed before, after the announcement of the rift, the Qatari bond dropped, thus making projects more expensive.¹³⁴ Additionally, pressure from the trade disruption caused prices of construction

equipment to rise. There was no longer a normal supply of materials, e.g. aluminum, used in construction or other materials usually imported by land.¹³⁵ This fueled a rise in inflation across the Qatari economy. Additionally, a large portion of the infrastructure project revolved around the installation of a metro system to transport fans throughout the country. By March 2018, Abdullah al-Subaie, the chief executive of Qatar Rail, indicated that 77 percent of the railway system had been completed.¹³⁶ Included in his presentation during a private business lunch hosted by the Qatar Business Association was the designation of which service provider would operate the project once completed and the plans for releasing retail unit contracts of the stations along the line. With no clear negative impact to construction plans, Qatar withstood any intentional pressure to the World Cup preparations, a frustration to Bahrain, Saudi Arabia and the United Arab Emirates.

FIFA's Commitment to Qatar

Throughout the initial stages of the rift, officials from FIFA and the organization team responsible for preparing Qatar for hosting the 2022 World Cup did not anticipate any issues in delivering on promises to be ready for the event. FIFA has declared that there is no "Plan B" to find an alternate host for the event in 2022. In support of this, on June 15, the executive director of Qatar's committee overseeing the preparations, Ghanim al-Kuwari, said that there was no impact to the timelines and disruptions to date. By July 18, FIFA doubled down on their intention to keep the World Cup in Qatar for 2022. Interestingly, some fake news trickled out that a Swiss news publication had found a group of Arab nations had asked FIFA to withdraw the World Cup from Qatar. Perhaps this was goaded on by analysts who were skeptical of Qatar's official statements, especially as the conflict continues to persist. But the truth came out soon after and the affirmations from other news sources indicated that no such requests were made. In general, FIFA's commitment to Qatar was an important weapon to combat any intentions to hurt Qatar's preparations for the World Cup or the chances that instability would cause a revoking of Qatar's right to host the global event.

Loss for non-Qatari Construction Companies

As with the other areas of exploration, the neighboring countries did not enjoy a free pass. Prior to the rift, the Dubai-based contractor Drake & Scull International PJSC won the rights to build the first stage of the Doha Metro.¹³⁷ With increased prices, decreased access to construction materials and the further ramifications of the blockade, the Drake & Scull relented its obligations and subsequently lost 10 percent of its market value in mid-2017. The firm relied

heavily on the 500 million dirhams (US\$136 million) worth of projects in Qatar, one of which was the metro.¹³⁸ Other companies fared worse. Arabtec Holding PJSC, the UAE construction company, suffered from a 41 percent decline in shares in the early stages of the rift. The firm had two major joint ventures in Qatar, but the future of those two projects relied on some legal cases and pending receivables. By July 29, though, French construction company, Vinci, indicated that there were no disruptions to their operations as a result of the rift. The company's operations work through a Qatari subsidiary QDVC of which it owns 49 percent. So, the unfavorable ramifications may have been reserved for only GCC-headquartered construction companies.

By early August, domestic Qatari construction companies made up for the lost capacity from Saudi and Emirati entities. Qatari-based Don Construction Products saw its workload double in late July, especially with the creation of construction chemicals. After the blockade was announced, Ashghal public works won US\$1.7 bn worth of contracts to work on projects relating to the World Cup 2022. An on-time arrival for the eight stadiums and US\$35 bn metro and rail station seemed achievable due to Qatari companies picking up the slack. Between August and October, Hassan al-Thawadi, the secretary general of the Qatar World Cup supreme council, reiterated that there were no disruptions due to the rift. He did mention that there were some inconveniences initially, but that secondary plans kicked in and there would be no changes to plans to deliver on the country's promises. In a huge boost of support, Qatar's Minister of Foreign Affairs supported al-Thawadi's statements by saying in March 2018 that the country is confident it will hold a successful event in 2022. With US\$9 bn worth of contracts and an anticipated-on time completion date for most of the major infrastructure by the end of 2018, the rift has not affected Qatar's ambitions to put on a grand party for the World Cup in 2022.¹³⁹ Any short-term inconveniences from the immediate and subsequent effects should not create lasting impact for Qatar.

The Qatari Economy Leading into Fiscal Year 2018

By the end of the 2017 fiscal year, Qatar's economy had mostly recovered from the struggles of the early days of the rift. The 2017 second quarter Gross Domestic Product (GDP) of Qatar only rose by 0.2 percent yoy, but by the third quarter growth had returned to normal levels, i.e. 1.9 percent yoy.¹⁴⁰ These numbers don't really tell the full story. Outside of oil and gas, the Qatari economy grew by 3.6 percent in the third quarter, indicating that the rest of the economy had returned to pre-rift levels.¹⁴¹ To track growth during the 2017 fiscal year, third quarter grew about 5.5 percent over the second quarter.¹⁴² Qatari industries were faced with self-sufficiency or trade with new partners, and they responded well. One lesson from the rift has been that Qatar never wants to ever be put in a situation where it must rely on other countries for basic needs. Qatar has shifted its strategic plans and budget to reflect this revelation. The Qatari Foreign Minister Sherif Al-Emadi indicated that the 2018 fiscal year budget will focus on Qatari private sector development and local industry to develop greater self-sufficiency.¹⁴³ Specifically, Qatar will focus on dairy production and poultry farming. Agriculture, forestry and fishing were up by 9.6 percent.¹⁴⁴ Manufacturing rose by 5.1 percent.¹⁴⁵ Construction output grew by 14.7 percent.¹⁴⁶ Estimates of the overall growth of the Qatari non-hydrocarbon economy were around 4.5 percent according to the Qatar National Bank.¹⁴⁷ If the numbers add up, this would make Qatar's economy rank as one of the strongest overall in 2017. The International Monetary Fund estimates that Qatar's economy will grow by 3.1 percent in 2018, an increase over the 2.5 percent growth in 2017.¹⁴⁸ Focused on the 2030 National Vision plan and investments in the economy for 2018, Qatar has set forth a strong guide for the 2018 Fiscal Year. While the ease of doing business has declined in recent years, Qatar still maintains a positive attitude that it will be able to fortify its reputation in 2018. This will be key to continuing to win the rift.

Conclusion

By a score of four categories to one, it is clear that Qatar has won the GCC rift of 2017 so far. It thwarted the plans of Bahrain, Saudi Arabia and the United Arab Emirates by building domestic capabilities where it had none prior to the rift and relying on regional relationships to cope with the isolation. These new dynamics to the Qatari economy are an exciting advancement for those within the tiny island nation who opposed deep GCC involvement. The rift has forced Qatar to look internally as well to solve its economic deficiencies. Even if the new

trade partners do not work out, Qatar will have gained from building new avenues to feed its people, finding new trade routes for its natural resources, and shifting the regional alliances towards a less-Saudi focused hegemon. It will be intriguing to see the lasting positive effects from Qatar's pivots.

Just as with any trade relationship, the new trade partners also come with drawbacks and expected reciprocal loyalty. Both Iran and Turkey drew closer to Qatar diplomatically and economically as a result of the rift. The increasing involvement of Iran in Qatar's affairs drew the ire of Saudi Arabia and exacerbated the situation. Turkey, on the other hand, was more opportunistic in its approach to the conflict. The Turks sought to broaden their influence and strengthen ties with a source of energy that can be tapped in the future. Both nations will come calling one day to cash in the diplomatic goodwill built up during the GCC rift of 2017. Examining the movements and actions of these two powers with regards to Qatar should provide insight into the new regional landscape.

The GCC rift of 2017 also raised a considerable question of Qatar's future within the GCC union. While Qatar has not expressly indicated interest in leaving, one must acknowledge the possibility given the movement towards self-sufficiency and the stronger capabilities in areas from which Qatar used to import. Soon the benefits to GCC membership may begin to decline for Qatar. The Emir may ultimately elect to leave the Gulf Cooperation Council all together, choosing to rely on the strength of its newly formed industries. New partners may be able to provide the bridge to a more diversified economy less reliant on regional alliances. While the future of the GCC may not be in the balance in 2018, the end of the economic alliance as known today may be a lasting outcome. As the crisis continues into the new fiscal year, Qatar and the big three GCC countries are faced with an enormous challenge - mending the gap between expectations and saving face. Either the countries will continue to heighten the chances of further separation or the sides could find ways to mend the relationships in 2018. Even a truce may not preserve the interests and unification of the GCC long term. Surely, things are no longer the same. Qatar has tasted life outside the GCC and may ultimately decide they like that path better. If so, the GCC rift of 2017 would be labeled as an important reason for such a move. Only time will tell who the true winners and losers will be from the worst diplomatic crisis in the Middle East in years.

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