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Chapter 1

To What Extent has the Sovereign Wealth Fund Assisted Qatar's Security and Foreign Policy in Resisting the Blockade.

Fahad Al-Marri

Abstract

The tiny Gulf State of Qatar is currently being blockaded by fellow GCC members Saudi Arabia, the United Arab Emirates and Bahrain in collaboration with Egypt but has largely withstood the sanctions. One means by which the Qatari government has managed to withstand the challenges of the blockage is the use of its sovereign wealth fund (SWF). QNB (2017) indicates that \$30 billion dollars of the domestic holdings of Qatar's SWF has been transferred to the Ministry of Finance and that further assets could be sold from the SWF to meet budgetary requirements if required. With over \$335 billion in assets invested around the world, Qatar Investment Authority, which manages the country's main SWF, is the 14th largest according to the Sovereign Wealth Fund Institute (Sergie, 2017).

SWFs are national wealth management agencies that primarily invest in foreign assets with a relatively long-term investment horizon. They have become prominent institutional investors in the global capital market (Xie et al., 2015). Broadly, SWFs can be classified into two categories according to their source of funding: commodity-based and non-commodity-based. Countries in the GCC (of which Qatar is a member) as well as Russia and Norway, among others, have commodity-based SWFs. In contrast, most of China's SWF's are non-commodity based (Xie et al., 2015).

Although SWF investors have indicated that their investments are purely business transactions, concern about how they could possibly be used to influence domestic activities (especially from Western governments) has led to debate about their real purpose (Chhaochharia and Laeven, 2008). In this respect, Gilson and Milhaupt (2008) argue that SWFs' voting rights in companies should be suspended so as to mitigate the concerns of Western powers. Bahgat (2011), however, indicates that GCC SWFs could have a foreign and security policy undertone. However, Fotak et al. (2008) indicate that SWFs have generated positive returns on their investments and it can be said that they are legitimate elements of the investment milieu. The investments of SWFs in foreign assets have been seen by SWFs as a way of insuring against challenges that could affect them in future. Additionally, SWFs have also been seen as stabilisation funds that have been set up to buffer the country's budget from commodity price volatility or external shocks.

Qatar's SWF and its innovative foreign and security policy have supported the country in its attempts to withstand the blockade. Instead of a purely bandwagoning foreign and security policy that would have seen the country within the sphere of influence of Saudi Arabia, Qatar has been able to deploy the vast proceeds from its gas and oil exports to carve out an

independent foreign security policy that has given it influence. In addition to the investments made by its SWF around the world which have provided the country with some soft power, Qatar has been able to develop relations with the opposing side in the current geopolitical mixture.

Qatar's relationship with Turkey means that its ports have been used to ensure the delivery of vital supplies during the blockade, while its relationship with Iran means that Qatar Airways has continued to have access to airspace to maintain contact with the outside world. Hosting two US military bases and its SWF investments in Russia also mean that the microstate has been able to use its SWF as well as an innovative foreign and security policy to ensure that it can withstand what would otherwise have been an economic disaster. The use of its SWF to stabilise the domestic economy at this challenging time has demonstrated the importance of these funds. It also indicates that the current crisis should be a lesson for Qatar and other countries in the region of the need to accumulate emergency funds in SWFs to support governments in times of need.

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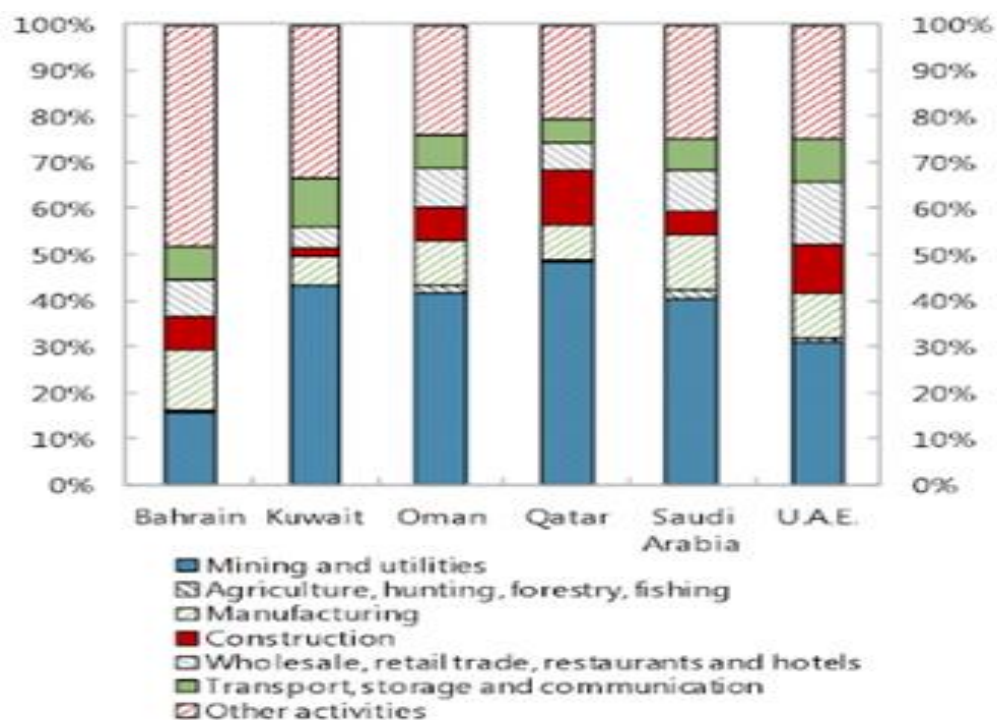
1.0 Introduction

The blockade of Qatar by its neighbours since June 2017 has divided the Gulf Cooperation Council (GCC) (a regional Persian Gulf organisation) with Qatar, Kuwait and Oman on one side of the divide and Saudi Arabia, Bahrain and the United Arab Emirates on the other. The dispute stems from the accusation that Qatar is involved in detrimental activities including supporting the Muslim Brotherhood which is regarded as an extremist group (Gordon et al., 2017). With just one day's notice, an embargo was imposed on Qatar that included closing land and sea routes, the cancellation of flights, the withdrawal of diplomats and the expelling of Qatari nationals. Other actions taken in the blockade include the designation of 59 Qatari nationals as terrorist supporters, the prohibition of the screening of Qatar's Al-Jazeera TV network as well as the UAE banning the showing of sympathy towards Qatar (Gordon et al., 2017). The other Arab country that has joined the three GCC countries in this embargo is Egypt. Despite challenges associated with the embargo and the fact that Qatar Airways has had to re-route its flights to Doha, Qatar has managed to weather the storm thanks to alliances with regional powers like Turkey and Iran as well as the use of its sovereign wealth fund (SWF).

Although it is currently the wealthiest country in the world on a per capita income basis (Katzman, 2017), Qatar is a small "vulnerable country situated in the turmoil of the Middle East" (Baabood, 2017:1). The country faces an existential geopolitical threat that comes primarily from rivalry with its much larger neighbours, especially Saudi Arabia, Iran and Turkey. With overreliance on its hydrocarbon wealth, Qatar is also vulnerable to resource prices on the world market which supports its social contract with its citizens. Additionally,

the country's traditional population faces social issues originating from the pace of transformation to a modern society as well as the cultural friction associated with its large immigrant population (Baabood, 2017). Furthermore, regional instability such as conflicts in Iraq and Syria pose existential threats to Qatar because they are breeding grounds for militias and terrorists that could threaten the security of the country. Such threats are particularly detrimental for the United States' military bases in the country as well as for Qatar's liquid petroleum gas (LNG) and oil facilities that are the lifeblood of the economy (Euler Hermes, 2016). Also, economic diversification in Qatar, as with the rest of the GCC, is still limited with more than 50% of Qatar's GDP still being derived from mining and utilities (Callen et al., 2014), as can be seen in Figure 1.

Fig. 1.1 Composition of real GDP by sector



Source: Callen et al. (2014)

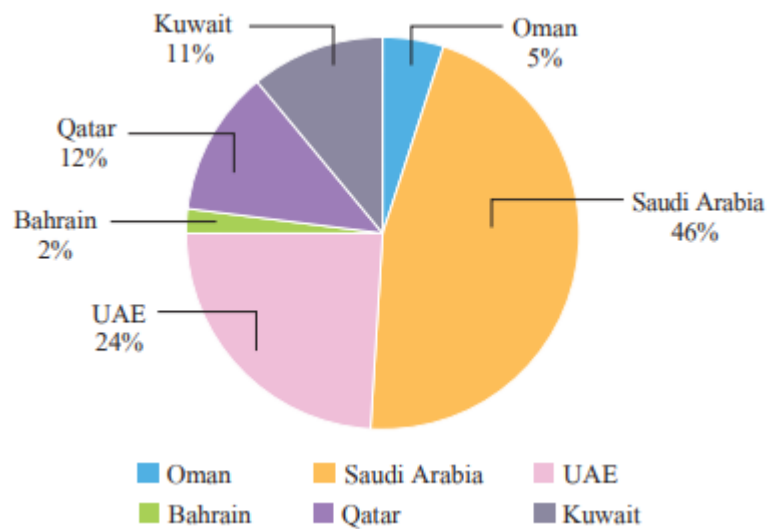
Hvidt (2013) argues that economic diversification has always been part of the economic plan of the Gulf States because of their awareness of the finite nature of gas and oil. However,

political emphasis on economic diversification has fluctuated with the income derived from these resources at any given time. Morakabati et al. (2014) agree and indicate that Qatar, for example, has developed strategies over the years to limit its dependence on its oil and gas reserves; although some of the plans such as the development of tourism as a possible substitute for hydrocarbon exports requires further investment. Some of the changes that are required include the creation of a strong distinctive image that include personal safety for visitors, civil liberty and political stability, none of which are common in the region. Other challenges for Qatar include effective management of its Vision 2030 agenda, acquiring adequate human resources and developing an efficient communication strategy (MDPS, 2017). Despite these challenges and the current blockade on the country by its neighbours, Qatar has been able to develop resilience in various ways including the formation of the Qatar Investment Authority which primarily manages the country's sovereign wealth fund that has grown since 2005 and provided additional revenue to the national economy (McSparren et al., 2017). England and Kerr (2017) indicate that since the embargo, the Qatari government has been able to return \$20 billion of its more than \$300 billion SWF onshore to cushion the impact of the embargo. Finance officials in the country argue that Qatar Investment Authority's deposits are being used to create a 'buffer' and provide liquidity to the banking system after the gas-rich state suffered capital outflows of more than \$30 billion (England and Kerr, 2017). This tallies with the constructivist explanation of state interest by Finnemore (1996) which indicates that states become what they do and there is a social construction of entities that continually evolves with the development of new bureaucracies to manage new tasks. The article provides analysis of how Qatar has developed resilience through such constructions, especially using the country's SWF to withstand the effects of the embargo.

1.1 Theoretical discussion and Qatar's blockade issues

In seeking to provide an overview of sanctions, Biersteker (2014:1) indicated that "sanctions in international relations are restrictive economic measures imposed by a state, a group of states or the United Nations Security Council to persuade a target to change its behaviour." The intention is to constrain the target from engaging in activities that are proscribed and violate the norms of international behaviour (Biersteker, 2014). This tallies with Caruso's (2003) argument that the purpose of boycotts and embargoes is to deprive a target country of some of the gains that accrue from trade and eventually the inducement of lower welfare within the target state. Caruso (2003) indicates that the more the target state is integrated in trade with the enforcing country, the more exacerbated the effect of the sanction will be. However, it has also been shown that enforcing countries could also be adversely affected depending on the degree of economic integration (Davis and Engerman, 2003). With Saudi Arabia's economy being the largest among the GCC states (see Figure 2) and exerting influence across the region's other economies as well as the fact that the GCC has a free trade agreement that began in 1983 to help reduce trade restrictions between member states (Al-Mawali, 2015), the embargo on Qatar was meant to cause considerable economic difficulties that would break the country's resilience. A variety of reasons has been provided to support the imposition of the blockade which Qatar has thus far withstood with relative ease.

Fig. 1.2 Economic share of GCC countries



Source: Al-Mawali (2015)

Rivlin and Friedman (2017) indicate that the reasons for the blockade on Qatar by Saudi Arabia, the UAE, Bahrain and Egypt are complex, with some of the explanations being obscure. Some of the reasons given for the blockade include that Qatar supports Islamist fighting in Syria as well as supporting Hamas in Gaza. Also, it has been intimated that Saudi Arabia and others imposing the blockade are opposed to Qatar's closeness to Iran and reports that Qatar 'paid a \$1 billion ransom for the release of members of the ruling family who were kidnapped in Iraq' (Rivlin and Friedman, 2017). The complexity and obscurity of some of the reasons for the blockade are highlighted by the accusation that *Al Jazeera* (Qatar's television network) criticises all Gulf countries except the Qatari government and that the Emir of Qatar reportedly criticised the Saudis while praising Iran (Roberts, 2017; Rivlin and Friedman, 2017). The wide-ranging reasons put forward by Qatar's neighbours for the embargo demonstrate the dynamics of geopolitical players in the Middle East. This is clearly seen from Davidson's (2017) analysis of the crisis in which it is argued that Qatar has been resilient. However, the strategy adopted by Saudi Arabia and others was not only

geared towards punishing the country but also ensuring that changes would be brought about in Doha that would support the political narrative being heralded by the Saudi King-in-waiting.

Qatar's resilience has been built over decades, which Roberts (2017) indicates is based on its traditional and innovative approaches to foreign policy and security that have helped withstand the effects of the embargo and supported by theoretical developments. Realising its small size, Qatar has over the years developed a foreign policy underpinned by hegemonic relationships for its security. The United States has most recently played that role with its US Central Command being based at the Al Udeid Air Base (Roberts, 2017). A similar hegemonic approach has been employed since the embargo to ensure that the country does not experience shortages of essentials. In such situations, Qatar allows a dominant international power such as the United States to provide security through association or a regional power like Iran or Turkey to provide the passage of essential commodities during the blockade. Kabbani (2017) indicates that after the sudden embargo by Saudi Arabia, Bahrain and the UAE, Qatari residents rushed to stock up on food as well as foreign currency given that cargo lingered at the Saudi border, UAE ports and offshore. Within just two days, the Qatari government was able to replenish stocks by using alternatives sources including Iran, Turkey and other countries. By using regional powers like Iran and Turkey, Qatar was being innovative and also using its traditional approach to conflict resolution, foreign and security policy.

The effectiveness of sanctions is seen as the function of the outcome of the policy and there have been some estimates produced for the outcome of sanctions and embargoes. Work by Hufbauer et al. (2007) and Morgan et al. (2009) show that only in one-third of cases are

sanctions effective. Others have found that the effectiveness of UN targeted sanctions is even lower at approximately 22% on average (Biersteker et al., 2013). Such research has sought to distinguish the purpose of sanctions including coercion, constraints and signalling. Biersteker et al. (2013) indicate that UN sanctions that were meant to coerce a target state to change its behaviour were typically only effective in 10% of cases. Lacy and Niou (2004) refer to this as the paradox of economic sanctions, indicating that in the most pessimistic views, their effectiveness is as low as 5%. The reason for such a low degree of effectiveness according to Hovi et al (2005) is that the threat of sanctions is most often more effective than the sanction itself because the target state's leaders become determined to show their citizens that they have the ability to keep the country going without the support of those imposing the embargo or sanctions. Additionally, the targeted state could choose to demonstrate that it is diplomatically more mature than the countries imposing sanctions. For example, Kabbani (2017) indicates that the UAE (one of the embargo imposing countries) receives 30% of its liquid natural gas from Qatar. However, Qatar has chosen not to stop the supply of liquified gas to the UAE. Qatar is aware of the integration of the GCC countries given not only the cultural ties but also the economic ties. For example, before the embargo, 40% of Qatar's food came overland through Saudi Arabia and the remainder came through shipping routes via ports in the UAE. Cross-border investments are considerable with the Saudi and UAE banking sectors having made loans to Qatar totalling tens of billions of dollars (Kabbani, 2017).

With such intense integration, both economically and socially among the GCC countries, an embargo of this kind can have consequences beyond those that are intended.

Andreas (2005) argues that each implemented policy development has both intended and unintended consequences, with sanctions tending to leave a legacy of criminality. Sanctions

and embargoes have also been known to strengthen the rule of authoritarian regimes and possibly increase rights violations where there is a lack of checks and balances.

Biersteker (2010) argues that such authoritarianism is especially pronounced when state agents increase their capacity to monitor suspicious financial transactions. Hernandez-Truyol (2009) provides a classic example of the US embargo of Cuba which increased the resolve of the authoritarianism and effectively ensured that its ideological purposes were promoted even more vehemently. It must be indicated that despite the high failure rates of sanctions and embargoes, Biersteker (2014) argues that they are important instruments for contemporary global governance that when applied in conjunction with policy measures such as threats, legal referral and negotiations can prompt the target to engage and desist from the proscribed activities. For Qatar, the challenge in negotiating with its neighbours stems from a 13-point list of demands that includes curbing diplomatic relations with Iran and closing its missions; severing ties with 'terrorist organisations' and handing over 'terrorist figures;' shutting down Al-Jazeera and closing the Turkish military base among others (BBC, 2017:4). With Turkey and Iran being the two main regional powers that have ensured Qatar can withstand the current embargo and meet the needs of its domestic constituents, the likelihood of negotiation is greatly reduced.

It would appear that the intention of the embargoing countries is to ensure that Qatar's sovereignty is eroded and that it becomes a satellite region of one of its neighbours without the ability to pursue an independent foreign and security policy in the region. Caruso (2003) argues that it is possible to look at economic sanctions from three perspectives: the objectives, actors involved and the object of the sanctions. With regards to the objectives, the work of Barber (1979) identifies three categories: primary, concern for the action as well as the behaviour of the government of the state against which the embargo or sanction is

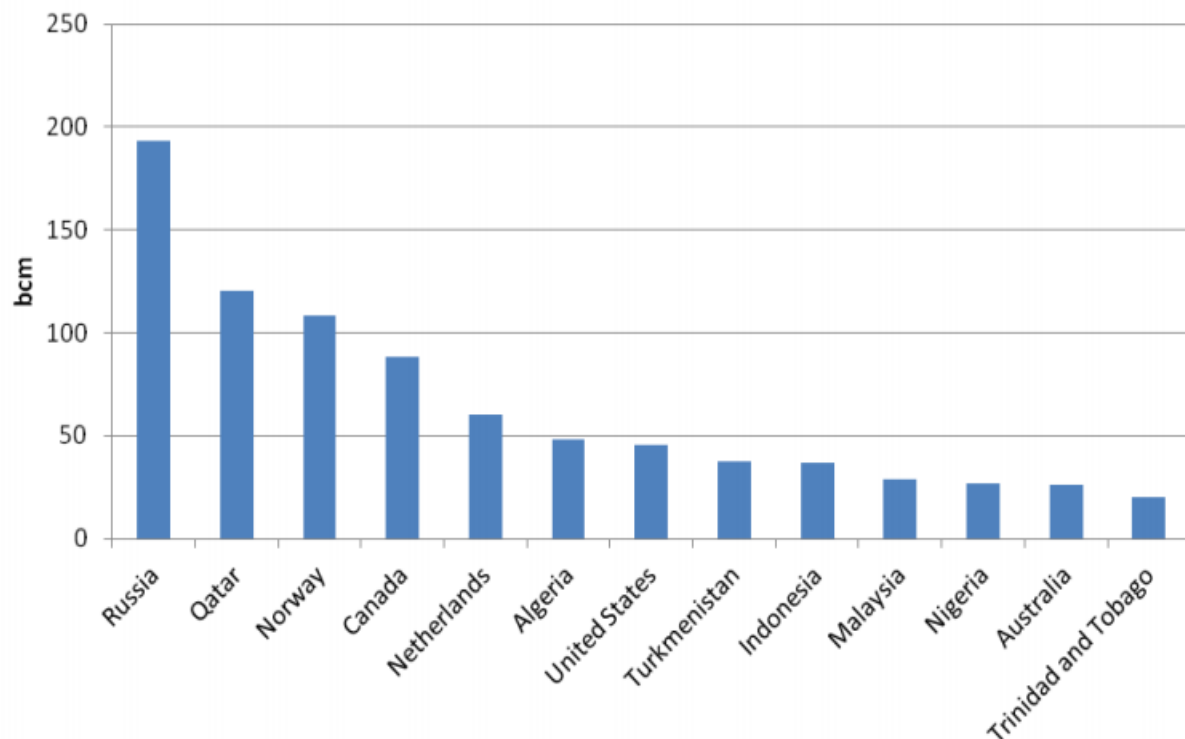
being imposed. Secondary objectives relate to the status, the behaviour as well as the expectations of the governments imposing the sanctions and tertiary objectives that are concerned with the wider international considerations related to the international system as a whole or parts of it. It can be seen that for Saudi Arabia, Bahrain and the UAE, their primary objectives seem to be overturn Qatar's unilateral stance on Shia Iran because its Sunni neighbours would like to see a collective isolation of Iran. Other primary objectives include the complex web of allegations such as support for terrorism, including hosting Hamas leaders and supporting leaders of the Muslim Brotherhood in Egypt and the wider region (Warren, 2017). The secondary objectives include showcasing the hegemony of Saudi Arabia in the region with the UAE and Bahrain following suit because of historical issues as well as the rise of Qatar to a position of international significance (Ulrichsen, 2014). The tertiary objectives include concern about international terrorism and the variety of actors connected with such networks. It also includes the rise of Qatar in the international geopolitical system and its economic significance due to its vast LNG deposits that have enabled the country to become the richest in the world on a per capita basis. Ulrichsen (2014:5) indicates that Qatar has been able to adopt an "activist foreign policy and attempt to balance competing interests because of its need to preserve the security of its resources." It can be seen that the issue of the GCC members' embargo against Qatar is a complex regional challenge with geopolitical implications. Qatar's ability to withstand the effects of the sanctions is based on its innovative foreign policy as well as its SWFs. These contributions are analysed in the following two sections.

1.2 Qatar's security and foreign policy

Qatar's security and foreign policy has changed over the years from the time of its independence as a British Protectorate in the Gulf. Qatar's security and foreign policy was

based on the traditional approach of bandwagoning. Given Saudi Arabia's size, economic clout in the region and its support from the United States, Qatar has usually followed Saudi Arabia's position in all foreign relations since the country's independence, engaging in no provocative foreign disputes and concentrating instead on domestic developments (Roberts, 2016). Diversion from the foreign policy of Saudi Arabia gradually started from 1985 onwards as the influence of the crown prince, Hamad bin Khalifa al-Thani, spread among diplomats before his eventual ascendancy. Hamad used the period of low Arab-Persian tensions to improve Doha's relations with Iran, including striving to build a pipeline from Iran's Karun Mountains to import fresh water for Qatar. Additionally, by 1996, Hamad had authorised the development of an Israeli trade office in Doha (Roberts, 2017). These foreign policy actions indicated that Qatar was making independent foreign policy that was controversial because of its refusal to listen to advice from Riyadh. Qatar's independent foreign and security policy emphasises the multilateral process and international co-operation that is not constrained and demonstrates a philosophy of inclusion (Al-Attiyah, 2013). Independence has been enabled by Qatar's vast natural gas reserves and its prudential development over many years. Qatar has the third-largest proven natural gas reserves and, as of 2014, it was the second-largest exporter of liquified natural gas, as can be seen in Figure 3.

Fig. 1.3 Ranking – liquified natural gas exporters



Source: Krane and Wright (2014)

In recent years, Qatar has developed a more activist foreign and security policy with roles in regional conflict resolution in addition to supporting the US-led coalition in Libya in conjunction with support for Syrian opposition forces, making Qatar atypical of many small states in terms of international relations (Young, 2013). Foreign Minister Al-Attiyah (2013) argues that Qatar's intervention in Syria was motivated by a desire to protect human life, create a safe humanitarian corridor and provide humanitarian aid for Syrian refugees.

As a microstate, Qatar's foreign policy is positioned within the realist paradigm of self-preservation that is designed to gain power by aligning with a much larger and more powerful country. While Qatar aligned itself with Saudi Arabia following independence, the country later opted to bandwagon with the United States to provide the means of pursuing independent security and foreign policy without being a stooge of Saudi Arabia. Bandwagoning with the United States along with Qatar's wealth from oil and LNG has

provided the means for the country to form alliances with other countries (Kaussler, 2015). Abdullah (2014a) argues that after independence in 1971, Qatar generally pursued foreign and security policies in accordance with Saudi Arabia but by the mid-1990s the country began forming independent policy that better suited its interests. Qatar's new foreign and security policy not only emphasises mediation and an activist posture but is also open as well as relying on soft power instruments such as humanitarian intervention, economic development, media, education, culture and sports, among others (Abdullah, 2014b). Qatar's constitution indicates that its foreign policy comprises principles that coalesce around the strengthening of international peace and security through the encouragement of the peaceful resolution of disputes. It also emphasises the support of people for self-determination (Wipo, 2009). This supports Ulrichsen's (2014:7) argument that "Qatar's emergence as an increasingly powerful actor has been facilitated by broader changes to the structure of the international system." This is primarily because of the acceleration of globalisation which has made it possible for Qatar to use its soft power (Ulrichsen, 2011).

Qatar's foreign and security policy has also included carving out a regional niche as a mediator. Qatar's diplomatic mediation has formed part of its independent and innovative policy, thereby distinguishing itself from its neighbours. Such foreign policy development by Qatar stems from its leadership's awareness that such moves provide an opportunity to make a statement about autonomy, both at the regional and international level (Gulbrandsen, 2010). Speaking in 2007 at the United Nations General Assembly, the emir of Qatar indicated that the world's conflicts have become too numerous for one power to manage (Janardhan, 2011). This was a signal that Qatar was ready to provide leadership in resolving some of the conflicts of the world. Three of the main conflicts that Qatar dedicated substantive resources and time to resolving were Yemen (2008 – 2010),

Lebanon (2008) and Darfur in Sudan (2008 – 2010). Qatar also mediated between the Sudanese and Chadians in 2009 as well as between Djibouti and Eritrea in 2010 (Ulrichsen, 2017). In addition to these mediations and the push for an independent foreign and security policy, Qatar's leaders actively engaged various parties during the Arab Spring in addition to committing substantial financial resources to affect its mediatory outcome. It can be indicated that despite the many engagements and mediatory efforts, Qatar experienced significant weakness in the form of large professional diplomatic corps that could push forward their initial engagement into successful implementation and conclusive agreements (Ulrichsen, 2017). In addition to all of these mediatory foreign policy and security initiatives, Qatar continued its self-preservation and bandwagoning policy and had already developed strong ties with the United States to establish two US bases in the country (Salem and de Zeeuw, 2012). These strong ties meant that during the Arab Spring, for example, Qatar was a notable member of the coalition that intervened in Libya to remove Col. Kaddafi (Young, 2013). Because Qatar lacks some of the classic pyramidal power, inventory of instruments, resources and capabilities (Hill, 2003), it has developed its independent foreign and security policy by developing soft power that provides implicit influence to develop a foreign policy that supports Qatar's security policy (Barakat and Zyck, 2012).

1.3 Sovereign wealth fund: purpose and investment

Qatar's vast natural gas reserves and its innovative development has made it possible for the country to carve out an independent foreign and security policy that has sometimes led its neighbours to be taken aback. Although not officially part of the foreign and security policy elements of most countries, Perera (2015) argues that the pattern of SWF investment in Western democracies can be linked to their search for security. Like its neighbours, Qatar

has been able to accumulate sizeable surpluses during periods of high oil prices. Some surpluses have been invested into SWFs and the purpose for such funds varies. Steigum (2013) indicates that SWFs have grown rapidly with various jurisdictions choosing to form their own. Nominal assets under the management of SWFs doubled between 2005 and 2007 and they have been rising ever since (Truman, 2010). SWFs are government-owned funds that are invested both inside and outside the country or jurisdiction that own them. The *International Forum of Sovereign Wealth Funds* which was established in 2009 states that SWFs are “special purpose investment funds or arrangements, owned by the general government. Created by the general government for microeconomic purposes, SWFs hold, manage or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign assets...” (IFSWF, 2009).

Investing in foreign assets has been seen by SWFs as a way of shoring up against future challenges such as a shortfall in government revenues. Another reason for establishing SWFs from both oil and other resources include macroeconomic fluctuations (Steigum, 2013). The International Monetary Fund has identified five types of SWF according to their intended purposes and the recent use of at least \$20 billion of Qatar’s SWF to ensure that the domestic economic situation was stabilised following the embargo is emblematic of one such type. The five types are as follows:

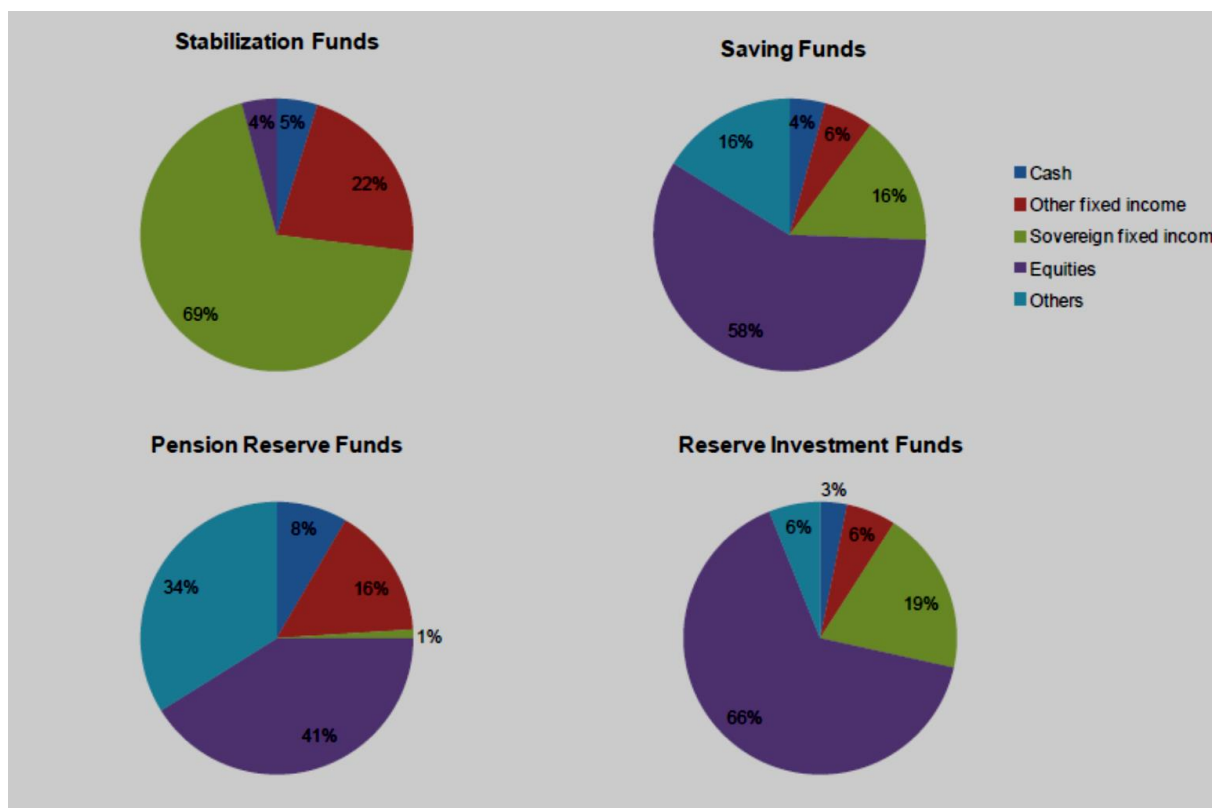
1. Stabilisation funds – these are formed to buffer the country’s budget against possible commodity price volatility as well as external shocks. These SWFs typically have investment horizons that have liquidity objectives that could be compared to central bank reserves.
2. Savings funds – these have the intention of sharing wealth across the generations by transforming non-renewable assets into various financial assets. Usually, their

investment portfolios have high risk-return profiles with higher shares allocated to equities and other investments.

3. Development funds – these are specifically established to allocate funds to socio-economic projects that support the development of the country.
4. Pension reserve funds – these are assigned to meeting outflows that are pension-related liabilities on the government balance sheet.
5. Reserve investment corporations – these are intended to offset the negative carry cost that accrues from the holding large reserves or to earn higher returns on reserves. It should be noted that such funds continue to be counted as reserves for countries that have chosen to pursue such objectives (Al-Hassan et al., 2013).

Figure 4 illustrates the approximate allocation of SWF resources to various investment portfolios, as indicated by the International Monetary Fund Global Financial Stability Report of 2012. It shows that for stabilisation funds, almost 70% goes into sovereign fixed income, whereas savings funds invest almost 60% into equities. For pension reserve funds, at least 40% is invested in equities. For most reserve investment funds, at least 66% is invested in equities (IMF, 2012). The opaque nature of most SWFs makes it very difficult to be certain what the precise investment strategies and purposes of such investments are (Behrendt, 2009), despite the Santiago Principles that are geared towards improving the transparency of SWFs.

Fig. 1.4 SWF types and asset allocations



Source: IMF (2012)

The objectives and investment decisions of SWFs are dependent on the circumstances of the specific country and may evolve over time. A stabilisation fund, for example, may adopt a short-term investment horizon, whereas savings funds would typically have long-term investment horizons. Such investment horizons may also be related to macroeconomic purposes including fiscal policy, monetary policy and the exchange rate. The reason for this could be withdrawal rules derived from fiscal rules as well as significant fluctuations in fiscal revenues and the investment of SWF resources abroad to help insure against variation in exchange rates (Das et al., 2010). The investment strategies of most SWFs are intended to achieve diversification of portfolios across many asset classes and world regions so as to support risk reduction (Steigum, 2013). Additionally, the type of SWF as well as its investment horizon and funding sources affect the strategic asset allocation (Das et al.,

2010). Long investment horizons would usually be associated with the ability to assume greater risk, where risk can involve the probability of a loss or underperformance with reference to other assets. Also, long investment horizons usually indicate the ability to invest in illiquid assets that provide the means to accrue the benefit of an illiquidity premium (Kunzel et al., 2011). This indicates that assets such as infrastructure, real estate and private equity may take a longer time to exit without adversely affecting the prices of these assets. SWFs with long-term investment horizons often venture into the former asset classes. On the other hand, investors with short or uncertain investment horizons such as stabilisation funds usually have a larger proportion of their holdings in cash portfolios and other relatively liquid assets like bonds that enable them to meet potential unexpected outflows without incurring substantive losses. Qatar returned \$20 billion to stabilise its domestic economic situation in the face of the sudden embargo by Saudi Arabia, Bahrain, the UAE and Egypt which was a classic example of how the diversification of SWF investments is strategic in a changing geopolitical environment in which friendly countries can suddenly become belligerent (Hvidt, 2013).

Such investments must take into consideration debates about SWFs which Balin (2008) argues are complex and multidimensional. The business and social element of this debate can be seen from the large losses that the world's SWFs made during the financial crisis of 2008, estimated by Morgan Stanley to be in the range of \$500 billion to \$700 billion but also the prediction that SWFs will continue to grow, reaching \$15 trillion by 2015 (Jen and Andreopoulos, 2008). Also, Gunes (2016) argues that SWFs can be seen as the rise of state capitalism with state-owned investment. This supports Hatton and Pistor's (2012) assertion that SWFs can be used for the maximisation of autonomy in the shadow of great powers.

Furthermore, SWFs have become political because some countries are still not very forthcoming with data about their investments. The Santiago Principles provided a voluntary code of conduct referred to as the Generally Accepted Principles and Practices but has remained voluntary. Therefore, some SWFs still lack the transparency required by recipient countries (Behrendt, 2009). SWFs and their purchases of strategic assets in the United States and western Europe have prompted much political debate about their intentions. Indeed, Bahgat (2011) assessed GCC SWFs and indicated that recipient countries (especially the United States and western European nations) viewed them as having possible alignment with state national interests the a political agenda beyond business. This concurs with Draniceanu's (2014) argument that SWFs could possibly be foreign policy vehicles. These various debates indicate that SWF investors must begin to ensure that transparency becomes the hallmark of their investment practices to ensure that the debate about SWFs is not seen from a shadowy perspective. In seeking to provide analysis of the workings of the GCC's SWFs, Setser and Ziemba (2009) found them to be generally opaque. Qatar's SWF over the years has announced most of its acquisitions and investments and it has grown its portfolio since its formation in 2005.

1.4 Qatar's sovereign wealth fund investment

According to the Boston Consulting Group, the GCC SWFs are some of the largest in the world and they have a tendency for direct investment including infrastructure. Three challenges that have been identified about GCC SWF investment include seeking to invest using equity instead of debt, favouring investments in mature markets as well as selective emerging markets that provide stable cash flows with limited political and regulatory liability, and requiring an internal return rate of approximately 15% and minimum equity stake of at least \$50 million (The Boston Consulting Group, 2012). It can be seen that GCC

SWFs invest selectively and that their criteria for return on their investment is quite high. This is the environment in which the Qatar Investment Authority (QIA), which manages Qatar's SWF, operates. Before the establishment of the QIA to invest Qatar's budget surpluses, Qatar's Ministry of Finance had a small in-house team responsible for this task. The QIA was founded with the remit of strengthening the country's economy by diversifying into different asset classes, strategies and investments (SWFI, 2016). The Sovereign Wealth Fund Institute indicates that Qatar is one of the fifteen-largest SWFs with \$320 billion dollars under investment (SWFI, 2017). It should be noted that Qatar's SWF is believed to manage assets totalling between \$320 billion and \$345 billion according to various sources including Kattasova (2017) who indicates that most of Qatar's global SWF has been invested in various institutions, most notably in Western countries.

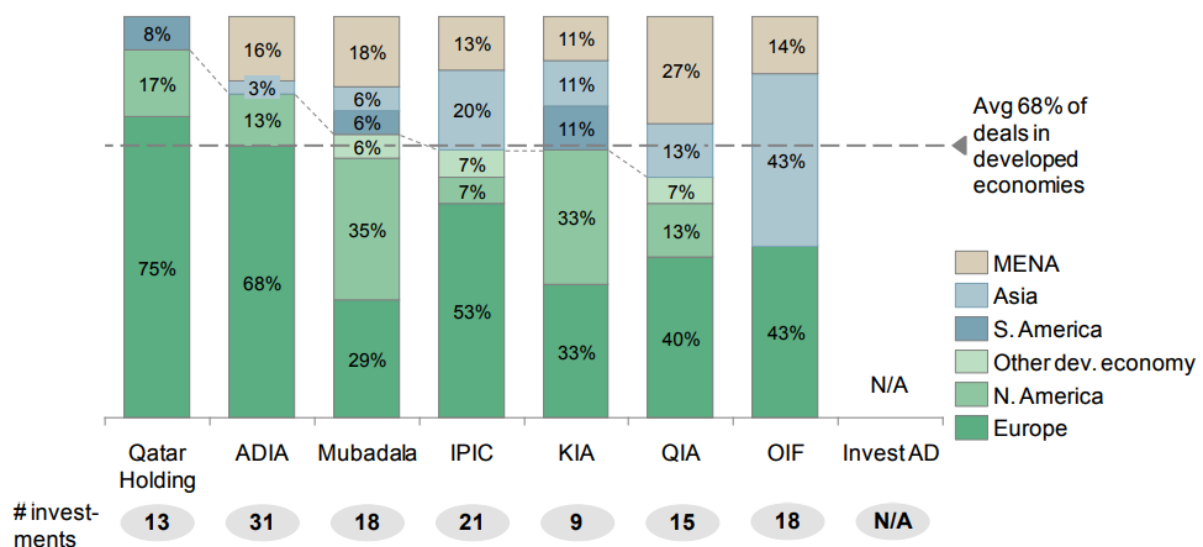
Bahgat (2011) indicates that the primary objective of the QIA is to pursue revenue diversification for the country. This goal is achieved by the QIA investing its funds in international markets including the United States, the United Kingdom, other European countries and Asia. Additionally, the QIA invests in Qatar and the wider region in the non-energy sector. The four main areas that the fund focuses on when investing include public equity, real estate, private equity and investment funds. By 2011, some of the main investments held by Qatar's SWF included Four Seasons Healthcare in the UK, the European Aeronautic Defence and Space Company (EADS), the London Stock Exchange, Sainsburys, Barclays, Credit Suisse, Volkswagen and the Commercial Bank of China (Bahgat, 2011). While it is true that the QIA initiated most of the SWF's investments in Europe's mature markets with their stable political and regulatory base, the SWF has also been busy extending its reach into emerging markets in Asia, North America and Latin America. Saidi

(2017) indicates that QIA's purchase of Singapore's well-known Asia Square Towers was the largest office transaction in Singapore history. Meanwhile, in the United States, the QIA bought 10% of the Empire State Realty Trust and it now has an office in Silicon Valley to further grow its investments in the United States. It can be seen that Qatar's SWF has become a global investor with holdings of both liquid and illiquid assets that not only provide the stability required by its mandate but also provides the means to promote Qatar to the world.

It shows a forward thinking country that is building an economy that is "not merely reliant on hydrocarbons or imports of food from other countries, but one that seeks to address its own resiliency to future challenges" (McSparren et al., 2017:1). Qatar's use of its mediation and humanitarian activities (Al-Attiyah, 2013), along with its investments in different various of the world provide the means to acquire influence. This is comparable to the geopolitical advantages and influences developed by advanced economies such as the United States through their foreign aid programmes. Milner and Tingley (2013), based on McKinlay and Little (1978), indicate that foreign aid has geopolitical and strategic purposes depending on the goals of the donor. Qatar's determination to continue to develop it autonomous foreign and security policy despite the actions of its neighbours is evident in recent announcements concerning continuing new foreign investments by the QIA despite the blockage (Reuters Staff, 2017). QIA's investment pattern (in accordance with most GCC SWFs) has provided the means for its portfolios to be able to achieve resiliency. Approximately 62% of GCC SWF assets are direct investments in developed economies but the figure for Qatar's SWF is as high as 92%, as can be seen in Figure 5 which indicates the investment patterns of Qatar Holdings and the QIA. To introduce greater diversity, the QIA and Qatar Holdings have

increased their investments in three north African countries. Morocco has received investment totalling \$600 million in a luxury housing and tourism complex, while Tunisia has benefitted from several infrastructure projects, especially in real estate and tourism. Finally, Egypt (one of the four countries enforcing the blockade on Qatar) has received real estate investment along the Nile and in the tourist resort of Sharm el-Sheikh. Qatar Holdings has also embarked on joint projects with other SWFs such as the Kuwait Investment Authority to develop tourism in Morocco through Morocco's Fund for the Development of Tourism (Boston Consulting Group, 2012). It should be noted that despite the stance taken by Egypt, Qatar has maintained a policy of positive engagement.

Fig. 1.5 GCC country allocation of direct investments



Source: Boston Consulting Group (2012)

Through its investments in these various countries, Qatar has been able to create a web of supporters that are not only necessary for its foreign and security policy but also as allies in its ongoing economic blockade. With the exception of Egypt, all other north African countries that have traditionally looked to Saudi Arabia as an Arab leader have refused to

support the Qatari blockade, instead calling for dialogue and a diplomatic solution to the problem (Cherif, 2017).

1.5 Analysis of reasons for the sanctions and blockade of Qatar

In seeking to provide possible scenarios for the outcomes to the Qatari blockade and the challenges that accompany the current situation between the GCC countries, Sailer and Roll (2017) indicate that political tension between Qatar and its neighbours has existed since the 1970s in the form of border disputes. This supports Zafirov's (2017) argument that the Gulf crisis is not an isolated incident but a product of smouldering tensions that has existed between these countries. Adding to this is the fact that Qatar's path to autonomous foreign and security policy has diminished Saudi strategies for hegemony over the Gulf region and its policies clearly infuriate the Saudi regime, especially the Crown Prince. For a region in which family ties cross national borders, this has led to the pitting of relations against each other as creative nationalist music and vitriolic media coverage (Freer, 2017). Egypt followed the lead of Saudi Arabia and the UAE to demonstrate its gratitude to the two countries given that they supported the July 2013 coup that removed the Muslim Brotherhood government in Egypt at the time. Jordan, on the other hand, gave only cursory support to the embargo to appease the embargoing states. It did not fully break with Qatar, although it downgraded its diplomatic ties and revoked Al-Jazeera's licence to operate in Jordan. Bahrain has been obliged to follow Saudi Arabia and the Emirati in their blockade of Qatar given the fact that since the Arab Spring and the support of the Saudis and Emirati in quelling the uprising, Bahrain has been unable to develop an independent foreign and security policy (Aljazeera Centre, 2017). A small number of other Arab countries have also acted to support the embargo. These included Djibouti, Mauritania as well as the Riyadh-based Yemeni government and the Emirati-supporting Libyan government in Tobruk

(Aljazeera Centre, 2017). Caruso (2003) argues that the effectiveness of an embargo is dependent on the role of the interest group to manage the sanctions and ensure that it works. With most neighbouring countries failing to support or only partially support the embargo, this effectively provides a way out for Qatar.

The complex and convoluted reasons that have been provided for the sanctions (some of which have been outrightly dispelled) continue to be debated. In the weeks before the embargo was suddenly imposed, Ulrichsen (2017b:6) indicates that the website of the Qatar News Agency (QNA) alleged that the Emir stated that Qatar's relationship with Trump administration was tense, describing Hamas as 'the legitimate representative of the Palestinian people' and called Iran 'a big power in the stabilisation of the region.' Although Qatar reported that the QNA website had been hacked and the information was false, the media (especially in Saudi Arabia and the United Arab Emirates) began to discredit Doha, despite US investigators indicating that the Russians were behind the hack at the QNA (Jones, 2017). The convoluted reasons for why Riyadh and its allies have embargoed Qatar have been linked to Jared Kushner, President Trump's son-in-law and adviser. Swisher and Grim (2018) indicated that Charles Kushner (Jared's father) solicited funds from the Qataris including the finance minister as well as Sheikh Hamad bin Jassim Al Thani, Qatar's former foreign minister. The solicitation of funding was not forthcoming and Jared, whose brief in the White House includes the Middle East, provided critical support to Qatar's neighbours led by Saudi Arabia. It can be seen that in addition to the accusation that Qatar supports terrorist groups connected to Hamas, the Muslim Brotherhood and forces in the Syrian civil war, there seem to be other forces at play in the very complex web of reasons why Qatar was embargoed. So far, Qatar has been innovatively resisting the embargo through its

foreign and security policy that has ensure it maintains good relations with Iran and Turkey along with other Middle Eastern and North African (MENA) countries.

1.6 Use of Qatar's sovereign wealth fund to resist blockade

In addition to Qatar's innovative foreign and security policy, the country's SWF has helped to resist the embargo by its neighbours. Baabood (2017) argues that throughout its history Qatar has sought to develop its own mode of state society and resilience. While resilience is an opaque concept in the discourse of international relations, it has been used to advance sustainable development (Perrings, 2006) which is an intrinsic element of Qatar Vision 2030. Resilience is also considered to be very important in the European Union 2016 Global Strategy for Foreign and Security Policy and its definition covers a wide range of concepts including individuals and entire societies with facets such as democracy, institutional trust, sustainable development and the capacity to change (European Commission, 2017). Qatar has been following this path of change through its autonomous economic, political, social, foreign and security policies that are geared towards making the country more individual. This trajectory has seen monarchs of country looking to transform Qatar from a poor state to a high-income economy with the highest per capita income in the world as of 2017 at approximately \$130,000 (Statistics Times, 2017).

This forward-looking vision led to the development of the Qatar Investment Authority in 2005 to ensure that budgetary surpluses can be invested to "cushion against the harmful effects of economic slowdowns" (Baabood, 2017:5) as well as for the purpose of economic diversification which is critical to the future of Qatar's resilience. It is for this reason that Naser (2016) argues that one of the roles of SWFs in Gulf States is to deliver strategic socioeconomic objectives. Analysis of the QIA's SWF investments indicates that the variety

of assets in which it has invested made it easy to quickly transfer some into liquid assets since the embargo. With more than \$300 billion in the SWF, investments have been made in both the domestic and foreign markets. Torchia and Finn (2017) indicate that the portion of Qatar's SWF that is in foreign bank accounts, tradable bonds or listed equities that could easily and quickly be liquidated when a need arises is a state secret, although this has raised questions regarding Qatar's true financial strength. Faced with capital flight from Qatar due to the embargo, the QIA was able to transfer at least \$20 billion to the Finance Ministry to ensure that the country could withstand the impact of the embargo (Torchia and Finn, 2017). This tallies with Alkhereiji's (2017) assertion that Qatar's SWF has repatriated \$20 billion to help ease the effects of the embargo that was imposed by its Arab neighbours. The finance minister indicated that this transfer was a pre-emptive measure and that it has always created a 'buffer' that provides liquidity within the country's banking system. The smooth transfer of some of Qatar's SWF to support the economy in the face of the sudden embargo indicates the preparedness of the Qatari system to work in unison to preserve the resilience of the country.

1.7 Foreign and security policy implications for Qatar and the GCC

By using innovative foreign and security policies, including its SWF to resist the embargo, the prospects for further GCC integration and coordination have been fundamentally undermined with various alliances being shaped by the crisis. The Washington Institute indicates that due to the embargo, Qatar is establishing new trade routes to ensure that it continues to meet the needs of its population. On the first day of the embargo it began using C-17 Globemaster military transport aircraft to import food from Turkey. These aeroplanes had previously been used to carry troops to Iraq as part of the US-led military effort against Islamic State from the Udeid Airbase. With the Turkish government eager to

enter the Qatari market, the government suggested that Turkish suppliers take advantage of the crisis in the GCC to increase prices. The Turkish government has also taken advantage of the situation to diplomatically press the Qatari government to select Turkish vendors and to sign long-term agreements (2017). Given Qatar's dependence on food imports, some of the possible trade routes that Doha could use if the embargo persists for a prolonged period could be sea routes from Turkey to Doha, a land route from Turkey follow by sea to Doha, and a route from Aqaba in Jordan to Doha by sea (The Washington Institute, 2017). By strategically developing its foreign and security policies in the region and beyond, Qatar has been able to change the course of its challenges to exercise the resilience it has developed over the years.

It is in this light that Champion and Sergie (2017) indicate that Saudi Arabia and the United Arab Emirates' possible estimation that Qatar would rapidly capitulate in the face of the embargo has proven to be wrong. Qatar's isolation from the GCC regional organisation could push it closer to Turkey and Iran, albeit that with two US bases in the country, its relationship with Iran must be balanced in the face of US hegemony. Collins (2017) argues that a simple look into history would have shown the Saudis and Emirates that embargoes push states into making sudden policy changes that often have unintended consequences and most often they do not work. Without a clear endgame, the embargo of Qatar was risky and past experience teaches that embargoed countries usually find a way around the embargo (Hufbauer et al., 2007). This is particularly true when the state against which the embargo has been placed is small, well-resourced, has a small population and is not necessarily dependent on the countries that are imposing the sanction (Collins, 2017). The economic ramifications for Saudi Arabia and the UAE are also clear to see given that Qatar quickly expanded its liquified natural gas production just after the embargo, thereby

demonstrating its systematic importance in the global gas market. Additionally, while the embargoing countries export goods and services to the value of \$5.6 billion to Qatar, they import \$5 billion goods and services to the value of \$5 billion from Qatar (Collins, 2017), thereby indicating that Saudi Arabia and its allies will lose out financially in terms of trade. Carey and Champion (2017) argue that although Saudi Arabia dwarfs Qatar in almost every measure, there are many ways in which the current tussle could end up hurting the Saudis. Qatar's economic advantage and its relationship with Turkey have both improved in light of the embargo and some Turkish troops have been deployed onto Qatari soil. Turkish support for Qatar makes a quick win for Saudi Arabia and its allies impossible. Additionally, Carey and Champion (2017) indicate that Qatar's perception that the Saudis and their allies' embargo is an attempt at regime change in their country creates even more resistance. The issue of maintaining its sovereignty and identity in the face of Saudi hegemony in the region has driven Qatar to use its economic muscle to ensure that their sovereignty is respected. Trenwith (2017) argues that given the sociocultural dimension of the Gulf, the solution to the problem will require each side to make compromises in a face-saving exercise that provides the means for each side to come out with its own kind of victory.

Ehteshami and Mohammadi (2017) indicate that Qatar and Saudi Arabia have different politics in their dealing with the Middle East and Mediterranean region. From a Saudi perspective, it is the leader of the Muslim world (Pan-Islamism), whereas Qatar's politics is one of Pan-Arabism with an open foreign policy that supports its relationship with various Arab and other countries. Kose and Ulutas (2017) argue that the Qatari embargo and the formation of different alliances in the region makes the Middle East highly vulnerable because it exacerbates existing problems such as the wars in Yemen and Syria as well as the

ongoing instability in Libya and Iraq among others. The crisis could also lead to the isolation of the Middle East as the region becomes increasingly polarised. With various countries taking different sides in the Qatari crisis, this splinters the region even more which could increase political conflict in the MENA region. The security dilemma created by the embargo of Qatar can only be overcome by the region realising that their interests are tied together and that whatever happens to one country could affect other countries.

1.8 Conclusion

The embargo imposed by Qatar's neighbours on the small Persian Gulf country indicates the ongoing uncertainty in the volatile Middle East. Given that the main actors (Saudi Arabia, the UAE and Bahrain) are members of the GCC, more careful consideration should have been given to the situation before such drastic action was taken. The multilayer reasons given by Saudi Arabia and its allies for imposing the embargo on Qatar indicates that smouldering issues that have been dredged up from the past, including Qatar's support for the Muslim Brotherhood in Egypt as well as the hosting of Hamas leaders and support for opposition forces in Syria. Importantly, these are situations that could have been resolved without the need to resort to embargoes. US President Trump declared support for Saudi Arabia and its allies, although information about how the president's son-in-law and senior adviser Jared Kushner's interests in the family business and their inability to secure funding from Qatar may have influenced Mr Kushner's support for the embargoing countries, thereby calling into question whose interest is being served.

Qatar, with its innovative foreign and security policies, has been able to use its influence with allies in the region (including regional powers Iran and Turkey) to ensure that the impact of the embargo on its domestic market, especially for food and essential goods, has been muted. With one of the largest SWFs in the world, Qatar has been able to draw upon

these assets to help stabilise the domestic banking market. Also, the country's SWF with its innovative processes has enabled substantive funds to be easily and quickly converted into liquid assets required in the country. Not only that, Qatar has expanded its liquified natural gas production from 77 million tonnes to 100 million tonnes, thereby bringing an extra \$6 billion into the country. With the second-largest proven deposits of natural gas and with numerous stable customers in Asia such as Japan and South Korea, the country is well prepared to withstand the economic effects of the embargo. The historical failure rate of embargoes also indicates that the solution to the current impasse is negotiation in which each party compromises to ensure that a region already facing various challenges does not have to experience a further crisis.

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