

Qatar needs more diversification

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The private sector plays a very limited role in Qatar's economic development, while the public sector acts as the primary engine of growth, thanks to the resilient oil and gas sector. However, relying too heavily on the public sector is risky, especially during oil depressions, which can take a heavy toll on the economy.

When oil prices fell during 1982-86, Qatar's gross domestic product (GDP) contracted significantly, and it took over a decade to pull GDP up to its pre-oil shock (1981) level. This painful experience prompted the Qatari government to initiate the process of economic diversification in order to limit the effects of oil price fluctuations on its economy. Privatisation has since become an integral part of Qatar's diversification programme.

Qatar initiated its privatisation programme in 1998. Initially, the speed of the programme was slow due to its undeveloped capital market. However, after a short hiatus, privatisation speeded up with the transfer of responsibility of the state-owned electricity and water corporation to an independent authority. In subsequent moves, controlling stakes of major state companies such as Industries Qatar and Qatar Gas were floated on the national stock market. The success of the partial privatisation has led the state-owned energy company, Qatar Petroleum, recently to sell 70 per cent of its stake to domestic investors. More privatisation and deregulation are in progress.

The process of privatisation has been gradually complemented by a series of reform initiatives in education, health, transportation and service sectors. There are now more hospitals and universities in Qatar than in the past, and the tourism industry is expanding at a pace that beats all other similar developments in the country. Besides, the opening of the national stock market to foreign investors in 2005 helped to attract foreign portfolio and direct investments.

FDI inflows

In 2006, foreign direct investment reached \$1.78 billion compared to the annual average of \$169 million between 1990 and 2000. It helped Qatar to develop a vibrant private sector which created more job opportunities and generated revenues for the government.

Despite ambitious development goals, Qatar is trailing its Gulf neighbours in some key areas. For example, wholly foreign-owned firms are permitted to operate in Qatar, provided they have a local sponsor. The same rule applies in the UAE, and Kuwait recently abolished the requirement for a local sponsor.

Qatari companies are not required to pay income tax, and foreign companies pay up to 35 per cent,

putting Qatar in a comparatively disadvantageous position vis-à-vis Kuwait (15 per cent tax) or Bahrain (zero tax). Besides, the speed of conducting business-related activities, such as setting up a new business, takes about three to four weeks in Qatar, compared to four days in Saudi Arabia and six days in the UAE.

Qatar has taken a number of policy measures (e.g. privatisation, liberalisation, free trade area) to increase its private sector participation in the nation's economic development. Most of these measures are interlinked and simultaneous promotion of them will enhance diversification. However, meaningful diversification involves not only 'privatisation', but also eliminating entrenched rigidities in the labour market and developing a financial market that is compatible with reform policies.

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