# Qatar's Regulations – Striking a Balance between Protectionist Measures and Encouragement of Foreign Direct Investment (FDI) in Qatar

**Maha K. Al Thani**

Hamad Bin Khalifa University (HBKU), Ar Rayan, **QATAR**

*E-mail for correspondence: mkk.althani@gmail.com

## ABSTRACT

As part of its commitment to fostering economic prosperity and to further fortifying its already robust economy, Qatar has spearheaded several initiatives to attract Foreign Direct Investment (FDI). In doing so, however, Qatar must balance attracting investments from abroad while safeguarding its interests at home. This balance often becomes fragile as the same regulations imposed to offer protection to Qatari businesses (e.g., partial ownership and restricting investment to only a select few industries) often deter interests from abroad and raise barriers to entry. To restore this balance, Qatar has introduced various measures, including tax exemptions, free zones, and the use of commercial agents who are registered with the Ministry of Commerce and Industry (MOCI) to incentivize foreign investors and facilitate and stimulate the growth and diversification of its economy, while allowing the nation to protect its assets at home. This essay will argue that although Qatar's regulation might discourage some investors, the law finds an appropriate balance between protecting Qatari interests and encouraging FDI.

**Keywords:** Commercial Law, FDI, National Vision 2030, Qatar

## Introduction

The Qatari National Vision 2030 aims at diversifying the economy, one way is through Foreign Direct Investment (FDI). FDI is helpful to improve an economy's growth as it provides new opportunities through new knowledge and skills.[1] There are a number of different ways for foreign investors to invest in Qatar. However, these methods are heavily regulated, so that Qatari companies are adequately protected. This essay will argue that although Qatar's regulation might discourage some investors, the law finds an appropriate balance between the protection of Qatari interests and encouragement of FDI.

## Regulation of Foreign Ownership

Law No. 1 of 2019 states that non-Qatari investors can only own up to 49% of the shares of a company,[2] while the remaining majority share must be held by a Qatari-national. Owning the minority of the shares of a company results in the implications that foreign investors do not have control in the decision-making of a company, as the governing decision will be won by the shareholder holding the majority of the shares, i.e., the Qatari national. Moreover, foreign investors are prohibited from investing in banks, insurance companies, and commercial agencies. This protects the interest of Qataris, as it is important for locals to make decisions in industries where they have more experience, such as Islamic finance. Moreover, protectionist measures allow for production and skills to develop locally. Therefore, it is appropriate to restrict foreign investors, as it would be undesirable for foreign investors to harm domestic investment [3].

However, there is an exception which states that non-Qatari nationals can own up to 100% of the shares of a company following obtaining approval from the ministry.[4] This is a good initiative as it allows foreign investors to invest in areas that will add value to the local economy, align with the country's national development plans, introduce new technologies, and offer training to Qatari nationals. It is hoped that by allowing investors to invest 100% in a company will mean that a middle ground is found. Nevertheless, it is not clear as to the details behind the process as the full regulations upholding Law No. 1 of 2019 have yet to be published. Once further details on the process are published, transparency will likely encourage foreign investors to consider investing in Qatar [5].

When comparing the obsolete Law No. 13 of 2000 to its replacement Law No. 1 of 2019, much is the same. The generous incentives for foreign investors are still in place, including the exemption from import and custom taxes on importing any equipment, machinery, raw and manufactured materials necessary for the venture. The income tax exemptions also still exist for investors to avail. Additionally, the exceptions to the sectors that can be invested in are the same, including companies that have working partnerships with government or public entities, certain companies who have special contracts involved in natural resource management, and banks and insurance companies. Although the new law has included companies owned by Qatar Energy to the list of exemptions [6], it has added the provision that foreign investors can now invest more than 49% in companies that are listed in the Qatar Stock Exchange [7]. Some additional differences exist between the two laws. The process for investors is clearly explained in the new law, whereas it was not set out in the 2000 law [8],[9]. Although the procedure for foreign investors to embark on ventures in Qatar is said to be simplified, the process to increase the shares from 49% to 100% are more stringent, are on a case-by-case basis, and are solely granted by the Minister of Commerce and Industry. [10]

## Economic Free Zones: QFC, QSTP, and QFZA

The Qatari government has been instrumental in developing and diversifying its economy and businesses. One of the ways it has aimed to do so is by establishing Free Zones where non-Qatari investors can enjoy 100% ownership and several tax exemptions. These Free Zones include Qatar Science and Technology Park (QSTP), Qatar Financial Centre (QFC)[11], and the Qatar Free Zone Authority (QFZA).[12] The QSTP centers around scientific research and development focusing on technology projects [13]. The QFC is labelled as a 'world-class business and financial center' [14]. It has established a legal system based on common law so that its regulations and procedures are easy for foreign investors to follow and conduct business. It caters for companies who wish to set-up either financial services, such as banking and investment services, or non-financial services, such as consulting and legal services [15]. The QFZA is split up into two separate zones each in their own strategic location. Ras Bufontas sits near Hamad International Airport while Umm Al Houl is close to the seaport. Combined, QFZA aims to develop exports, trade, maritime, emerging technologies and manufacturing industries [16]. Free Zones are beneficial for foreign investors as investors have access to these organizations and their resources to support them in establishing their company. The investors also have full control over the decisions governing their companies. In addition, the QFC has established a separate alternative dispute resolution court which follows a common law system and is separate from the Qatari civil law system. This legal approach is much more attractive to foreign investors over an Islamic or individual countries' civil law as common law is more likely to be legally and judicially fair, as well as enforce market and contract regulations, thereby better protecting an investor's interest [17]. The additional benefits of Qatar's Free Zones are that they diversify the country's economy and increase sustainable development in line with the Qatar National Vision 2030 as they attract investments in non-oil sectors [18]. Similar to the incentives laid out in Law No. 1 of 2019 governing foreign investors, each Free Zone has its own set of incentives. Companies within the QFC are subject to a 10% corporation tax on taxable profits that arise in or derive from Qatar.[19] The QSTP and QFZA exempt companies from taxes and custom duties altogether.[20]

Although it may appear that the activities that can be carried out in the Free Zones are somewhat limited and narrow in scope, thereby excluding many investors and sectors, the range of activities that companies can allowably carry out is in fact quite broad. Furthermore, the free zones have attracted lucrative and prominent companies such as 'Google, DHL, and Volkswagon' [21]. Due to the tax benefits, governing common law, 100% ownership, and the lack of bureaucratic red-tape to establish a business, Qatar's Economic Free Zones provide many more benefits, incentives and opportunities to investors over 'onshore' investments.

## Commercial Agents

An alternative to ownership is for foreign investors to rely upon a commercial agent, who is either a wholly Qatari-owned company or a Qatari individual for the sale of products [22]. When entering into this relationship, a commission will be paid to the agent and the agent will have the right to terminate the relationship at any point. The advantage of this is that once the agent is registered with the Ministry of Commerce and Industry, the investors have new opportunities available to them, as they can benefit from the agent's local knowledge and connections. However, the option of using a commercial agent is not perfect. For example, the idea that the agent must be paid, even after they have been terminated, might deter investors from entering into a principal agent relationship. Moreover, it is more suited to sales contracts, therefore it will be undesirable to investors who would like to benefit from the advantages of being a shareholder; for example, receiving dividends.

## Recommendation

In order to make it easy for foreign investment, Qatar could include the various exceptions to foreign ownership in one single document Qatar Commercial Companies Law (QCCL) to make it more accessible and clearer. In addition, foreign investors are recommended to register under QFC, QSTP, and/or the QFZA due to the benefits they provide.

## Conclusion

Overall, this essay has demonstrated that although there are some restrictions on foreign investment and these might deter investors, the restrictions are legitimate as it is

ISSN 2313-4747 (Print); ISSN 2313-4755 (Online)

necessary to protect Qatari interests. Notwithstanding these restrictions, the creation of several hubs to allow for 100% ownership, and other flexibilities such as tax exemptions outside of the QCCL, are helpful in finding an appropriate balance and encouraging financial investment from foreign investors. Therefore, it can be argued that the foreign investment rules do not hinder growth or deter investment. Nevertheless, to ensure foreign investors feel confident with their investment in Qatar, making the law more accessible and transparent in terms of when exceptions will apply would be desirable.

---

[1] Luiz Demello, 'Foreign Direct Investment-Led Growth: Evidence from Time Series and Panel Data (1999) 51(1) Oxford Economic Papers 133.

[2] Law No. 1 of 2019, Article 3.

[3] Manuel Agosin and Roberto Machado, (2005) 'Foreign Investment in Developing Countries: Does it Crowd in Domestic Investment?' 33(2) Oxford Development Studies 149.

[4] Law No. 1 of 2019, Articles 2 and 3.

[5] Roberto Lusardi, Khaled Al-Assaf, and Amjad Hussain (2021) 'Qatar Free Zones and Progress So Far', K&L Gates. Available at: https://www.klgates.com/Qatar-Free-Zones-and-Progress-So-Far-4-26-2021

[6] Mohammad Farhad Bakhtiarian, (2020) 'Investment Guide in Qatar', 4th International Conference on Business, Management & Economics .

[7] Law No. 1 of 2019

[8] Law No. 13 of 2000

[9] Basel Zeitoun (2021) 'Regulations No.1/2019 Concerning Non-Qatari Capital/Investors' Hamad Alyafei Law Firm.

[10] Basel Zeitoun (2021) 'Regulations No.1/2019 Concerning Non-Qatari Capital/Investors' Hamad Alyafei Law Firm. Available at: https://alyafeilaw.com/blog/2019/06/18/regulation-no-1-2019-concerning-non-qatari-capital-investors/

[11] Law No. 7 of 2005 Qatar Financial Centre Law, Article 12.

[12] Doing Business in Qatar, Squire Patton Boggs <https://www.squirepattonboggs.com/en/insights/publications/2019/06/doing-business-in-qatar> accessed 22nd January 2020.

[13] Sharq Law Firm (2021) 'Doing Business In: Qatar', The Legal 500. Available at: https://www.legal500.com/doing-business-in/qatar/

[14] Sharq Law Firm (2021) 'Doing Business In: Qatar', The Legal 500. Available at: https://www.legal500.com/doing-business-in/qatar/

[15] Sharq Law Firm (2021) 'Doing Business In: Qatar', The Legal 500. Available at: https://www.legal500.com/doing-business-in/qatar/

[16] https://qfz.gov.qa/

[17] Hoon Lee, Glen Biglaiser and Joseph L. Staats (2014) 'Legal System Pathways to Foreign Direct Investment in the Developing World', Foreign Policy Analysis, 10(4) pp. 393-411. Available at: https://www.jstor.org/stable/44783706

[18] Qatari Business Men. (2020) 'The Qatari Businessmen Association and Qatar Free Zones Authority Signed an MOU to Enhance Cooperation and Achieve Mutual Economic Goals' Qatari Business Men. Available at: https://qataribusinessmen.org/eng/event.aspx?id=559

[19] Doing Business in Qatar, Squire Patton Boggs <https://www.squirepattonboggs.com/en/insights/publications/2019/06/doing-business-in-qatar> accessed 22nd January 2020.

[20] Doing Business in Qatar, Squire Patton Boggs <https://www.squirepattonboggs.com/en/insights/publications/2019/06/doing-business-in-qatar> accessed 22nd January 2020.

[21] Roberto Lusardi, Khaled Al-Assaf, and Amjad Hussain (2021) 'Qatar Free Zones and Progress So Far', K&L Gates. Available at: https://www.klgates.com/Qatar-Free-Zones-and-Progress-So-Far-4-26-2021

[22] Doing Business in Qatar, Squire Patton Boggs <https://www.squirepattonboggs.com/en/insights/publications/2019/06/doing-business-in-qatar> accessed 22nd January 2020.

--0--

**How to cite this article**

Thani, M. K. A. (2022). Qatar's Regulations – Striking a Balance between Protectionist Measures and Encouragement of Foreign Direct Investment (FDI) in Qatar. *American Journal of Trade and Policy*, *9*(1), 19-22. https://doi.org/10.18034/ajtp.v9i1.616