



ISSUE BRIEF

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SAUDI SALWA CANAL PROJECT

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



“Starting [to dig] the Salwa Canal. Congratulations to the Saudi people for this wonderful project that will transform the small terrorist state of Qatar into an island.”¹ This was a video caption by Saud al-Qahtani, adviser to Saudi Crown Prince Mohammed bin Salman when he retweeted a video on June 18, 2018.

In April 2018, Saudi Arabia announced plans to dig a 60 km canal stretching from Salwa to Khor al Adaid, which would turn Qatar into an island. It is anticipated that the canal will be completed by 2019. The planned canal, expected to cost SAR2.8bn (around \$750m) will be 200 meters wide and 15 to 20 meters deep.² The water channel will also allow ships up to 300 meters long and 32 meters wide to pass.³

Five international companies with expertise in digging canals have submitted tenders for the project.⁴ The winning bidder is to be proclaimed within 90 days now that the June 25 deadline for submitting tenders has passed. The winner will have one year to complete the project.

Qatari media have called the Salwa Canal project “a propaganda tool”- an effort to scare Doha.⁵ If accomplished, the canal would irrevocably end land trade with Qatar and allow shipping routes to

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¹ Iyad Elbaghdadi, Twitter Post, June 19, 2018, 8:07 AM.

² “Work set to begin on Saudi’s Salwa Canal project”, *Gulf Business*, 20 June 2018.

³ “Salwa Canal to change the world’s geography”, *AME Info*, June 22, 2018.

⁴ “Five major firms in race for \$745m Saudi canal project”, *Trade Arabia*, June 21, 2018.

⁵ Salwa maritime channel, Twitter Post, April 12, 2018, 1:07PM.

circumvent the emirate, making it even more isolated than it already is. Following the announcement in April, the customs and passports departments vacated the crossing and handed over its control to the Saudi Border Guards. It has been reported that a Saudi military base will also be established in the one kilometer area separating the Salwa waterway from Qatar, while the remainder will be converted into a waste dump for the Saudi nuclear reactor, which Riyadh plans to build in the near future.⁶

Apart from the silent message, there are significant benefits of such a project for the Saudis. Not only would it serve as a requital for Doha's stubbornness, it would also be a financial project which will create jobs, generate tourism and boost trade. The canal is expected to contribute to the Kingdom's efforts propagated by its Vision 2030. With new port cities, luxurious yacht piers and five-star resorts, the canal project is expected to transform the area into a unique industrial and economic hub. The Salwa Canal project, therefore, has been declared as an impetus for the Saudi economy not only because will it create thousands of employment opportunities, but because it will also make the Kingdom one of the most attractive tourist areas in the Gulf region.⁷

The mere proposal of the plan marks the latest stage in the ever-deepening rift between the Gulf countries. Saudi Arabia, along with the UAE, Bahrain and Egypt broke off all ties – including land, sea and air routes – with Qatar on June 5, 2017, blaming the Gulf state of supporting extremists and funding terrorism. The Quartet also issued a list of thirteen demands and urged Qatar to submit to the demands in order to restore ties. These included shutting down Al Jazeera and other media outlets they claimed were being funded by Qatar; downgrading diplomatic ties with Iran; severing ties with “terrorist organizations,” including the Muslim Brotherhood; and paying reparations to other Gulf countries for “loss of life” and “other financial losses” resulting from Qatar's policies. Neither party has shown any signs of compromise as yet.

With the Saudi-led economic blockade against Qatar having entered its second year, the socio-political and economic deadlock looks set to become more complicated. Qatar has so far showed a successful resistance during the present Gulf crisis. The Qatari economy has seen a sensational turnaround from the early days of the crisis, which were marked by panic over the possibility of food shortages and a potential Saudi invasion. In those early days, Qatar had to turn to allies, Turkey and Iran for supplies as imports dropped by 40 per cent of their previous levels.⁸

⁶ “Saudi Arabia Spending \$750 Million to Turn Qatar into Island”, *Iran Front Page*, June 20, 2018.

⁷ Hassan Sajwani, “Salwa Canal Arab quartet's silent message to Qatar”, *Gulf News*, July 8, 2018.

⁸ Muhammad Sergie, “Embattled Qatar Is Rich Enough to Get by for another 100 Years”, *Bloomberg Businessweek*, June 6, 2018.

Despite a heavy anti-Qatar campaign coming from Saudi and Emirati quarters, those countries did not have enough authority to make the blockade work. Qatar's economy is based on LNG and petroleum exports and it transports those commodities entirely by sea. So, in order to disrupt Qatari oil and gas exports, its rivals would have had to obstruct the passage of Qatari tankers through any of the key sea bottlenecks: Strait of Hormuz, Bab-el-Mandeb Strait or Suez Canal - an unrealistic scenario since it would have hurt Egypt's economy and political image more than those of Qatar.

Despite the present economic sanctions, Qatar is expanding its contracts, with new long-term supply deals to Bangladesh⁹ and Vietnam¹⁰, and launching partnerships with the private sector for logistics zones and other infrastructure projects. Other reforms are also on the agenda: Qatar is reducing restrictions on foreign investment and hoping to attract more tourists by relaxing visa regulations. Moreover, Qatar is also seeking to establish new trade routes, rectify their human rights record and increase their production of essential goods such as dairy products.¹¹ Qatar has also been altering its supply lines via the Hamad Port, (located South of Doha and fully operational since December 2016), thus creating ten direct routes to countries ranging from Oman and Turkey to Pakistan and China.¹² The Saudi blockade has also not put a dent in defense cooperation between Qatar and the West either.¹³

Qatar's progress is impressive by any standard: the International Monetary Fund (IMF) foresees the country's economy to grow by 2.6 per cent in 2018 – up from 2.1 per cent in 2017,¹⁴ while the country's fiscal deficit has also narrowed as a percentage of GDP. The Qatari economy remains highly resilient, exhibiting persistent GDP growth with Fitch¹⁵ and Moody's¹⁶ upgrading, Qatar's outlook from negative to stable.

Although it remains to be seen if and when the blockade will end, this long standing stalemate brings into question once again the effectiveness of the Gulf Cooperation Council (GCC) as the politico-economic bloc that will continue to supervise the region's affairs. In terms of efficiency, the GCC seems to have been completely incapacitated by the Qatar blockade, which has highlighted a level of disorder that runs much deeper than this single issue alone. Despite their purpose of strengthening

⁹ Ruma Paul, "Bangladesh set to sign 15-year LNG import deal with Qatar" *Reuters*, September 13, 2017.

¹⁰ "Qatar to supply oil products to Vietnam over 15 years", *Middle East Monitor*, April 30, 2018.

¹¹ Samantha Maloof, "How Saudi Arabia's Canal Plans Could Backfire" *Eurasia Review*, July 5, 2018.

¹² "Two new shipping lines from Hamad Port", *Hellenic shipping news*, September 11, 2017.

¹³ Simeon Kerr, "Qatar attempts to build its way out of a blockade", *Financial Times*, May 16, 2018.

¹⁴ Qatar: Staff Concluding Statement for the 2018 Article IV Mission, *International Monetary Fund*, March 5, 2018.

¹⁵ "Middle East," RIDF Viewer.

¹⁶ "Moody's Changes outlook on Qatar's banking system to negative from stable owing to weakening operating conditions", *Moody's*, Aug 8, 2017.

the Gulf cooperation, the GCC's internal mechanisms gave way for serious tensions between its members to grow and have been unable to do much to solve the current crisis.

The larger question is: Will Qatar survive this most recent Quartet jab?

Keeping in mind the resilience Qatar has shown so far, the way it has been expanding economically and the fact that Doha hosts the FIFA 2022 World Cup, it can be assumed that the country will be able to navigate around the latest Saudi initiative. However, continued problem between Qatar and the Quartet will only bring hurt to all parties. They all will tend to benefit if they find a way to amicably resolve the issue.