

# An Untapped Definition of the State: The Virtual State and Example of Qatar

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**Abstract:** The facet of territorial and military ambitions began to lose its importance as the states started to specialize in high value-added and intangible assets. Richard Rosecrance endeavored to formulate a novel development method for relatively small-scale states. Instead of developing an immense domestic manufacturing capacity with traditional production methods, ‘virtual’ states have followed knowledge, artificial intelligence, and innovation-based development that emphasizes investment, high added value, and the mobility of intangible assets. Although some states did not wholly fit into the virtual state framework within the scope of Rosecrance’s definition, they carried some of its characteristics. This study claims that Qatar, which has succeeded in establishing a sphere of influence beyond its borders and population, has some virtual state characteristics by merging its rich hydrocarbon resources with technology and innovation. After a theoretical review, the study claims that Qatar’s virtual state characteristics have considerably mitigated the deleterious effects of the embargo imposed on Qatar by four Arab countries in 2017. The final part expands the Qatar-Turkey relationship that comes to the forefront as the field of applying these characteristics from an economic and financial perspective, contrary to the prevailing ideology and politics-based studies in the literature.

**Keywords:** Virtual State, Turkey-Qatar Relations, Qatar Diplomatic Crisis, International Cooperation, Investment

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# Devletin Bakir Bir Tanımı: Sanal Devlet ve Katar Örneği

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**Öz:** Yüksek katma değerli ve soyut varlıklarda uzmanlaşmaya başlayan devletler ile birlikte karasal ve askerî hırslar önemini yitirmeye başladı. Richard Rosecrance, nispeten küçük hacimli bu devletlerin yeni kalkınma yöntemlerini formüle etmeye gayret etti. Bu “sanal” devletler, geleneksel üretim metotları ile içeride devasa bir imalat kapasitesi geliştirmek yerine, bilgi-bazlı, yapay zekâ ve inovasyona dayalı, sermayeyi öne çıkaran, katma değeri yüksek ve soyut varlıkların mobilitesini içeren bir kalkınma izledi. Bazı devletler, Rosecrance’ın tanımına göre tam olarak sanal devlet çerçevesine oturmasa da onun bazı karakteristiklerini taşıdı. Bu çalışma, zengin hidrokarbon kaynaklarını etkin ve verimli bir şekilde teknoloji ve inovasyon ile harmanlayarak sınır ve nüfusunun ötesinde bir nüfuz alanı kurmayı başaran Katar’ın birtakım sanal devlet karakteristikleri taşıdığını iddia etmektedir. Teorik bir incelemenin ardından bu çalışma, 2017 yılında dört Arap ülkesi tarafından Katar’a yönelik uygulanan ambargonun yıkıcı etkilerinin Katar’ın taşıdığı sanal devlet karakteristikleri nedeniyle bu ülke üzerinde sınırlı kaldığını iddia etmektedir. Son olarak; çalışmanın son bölümü, Katar’ın bu karakteristiklerinin en önemli uygulama sahası olarak Türkiye ile ilişkileri olduğunu iddia etmekte ve bu ilişkileri ideoloji ve siyaset temelli hâkim literatürün aksine iktisadi ve finansal açılarından değerlendirmektedir.

**Anahtar Kelimeler:** Sanal Devlet, Türkiye-Katar İlişkileri, Katar Diplomatik Krizi, Uluslararası İş Birliği, Yatırım

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# تعريف جديد للدولة: الدولة الافتراضية وحالة قطر

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## الملخص

بدأت المطاعم البرية والعسكرية تفقد أهميتها مع الدول التي بدأت تتخصص في الأصول ذات القيمة المضافة العالية والأصول غير الملموسة. سعى ريتشارد روزكرانس إلى صياغة طرق تنمية جديدة لهذه الدول ذات الحجم الصغير نسبياً. اتبعت هذه الدول «الافتراضية» تطوراً قائماً على المعرفة والذكاء الاصطناعي والابتكار يركز على القيمة المضافة العالية ورأس المال ويتضمن تنقل الأصول غير الملموسة، بدلاً من تطوير قدرة تصنيعية داخلية ضخمة بأساليب الإنتاج التقليدية. على الرغم من أن بعض الدول لا تتناسب مع مفهوم الدولة الافتراضية وفقاً لتعريف روزكرانس، إلا أنها تحمل بعض خصائصها. تطرح هذه الدراسة فكرة أن قطر لديها بعض خصائص الدولة الافتراضية، حيث نجحت في إنشاء مجال نفوذ أبعد من حدودها وسكانها، من خلال مزج مواردها الهيدروكربونية الغنية مع التكنولوجيا والابتكار بفعالية وكفاءة. خلصت هذه الدراسة، بعد تحليل نظري، إلى أن الآثار المدمرة للمقاطعة التي فرضتها أربع دول عربية في عام 2017 على قطر كانت محدودة على هذا البلد بسبب خصائص الدولة الافتراضية التي تحملها. وأخيراً، يدعي الجزء الأخير من الدراسة أن أهم مجال لتطبيق هذه الخصائص لقطر هي علاقاتها مع تركيا ويقم هذه العلاقات من منظور اقتصادي ومالي، على عكس الأدبيات السائدة على أساس الأيديولوجيا والسياسة.

**الكلمات المفتاحية:** الدولة الافتراضية، العلاقات التركية القطرية، الأزمة الدبلوماسية القطرية، التعاون الدولي، استثمار.

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## Introduction

States seek to adapt to changes in the international context. In order to realize their political, military, and economic ambitions, they, consciously or not, follow different strategies to the extent permitted by their assets or capacities. It is possible to examine and categorize these states and their strategies with various models and formulations. The virtual state formulation, developed by Richard N. Rosecrance at the end of the 1990s, brought a new expression to the deviations of some states from the conventional understanding of manufacturing and industry-based development. According to the approach, states that can slide their intangible assets beyond their borders, thanks to their mobility, focus on areas such as research and development, finance, artificial intelligence, and technology rather than developing their domestic production capacities. Describing the states that shift their production outward as the head and those that continue manufacturing with traditional methods as the body, Rosecrance envisions mixed environment states between these two categories.

This study argues that Qatar has some virtual state characteristics as it utilizes its intangible assets as an effective tool. These assets have caused Qatar to gain relatively significant influence in its regional affairs. At this point, Turkey, which has profound relations with Qatar at various levels, emerges as an appropriate example for examining these intangible assets of Qatar. Contrary to the extensive literature examining the relations between the two countries based on the Muslim Brotherhood, this study will focus on the relations between the two countries in the light of a different interpretation of Qatar's state capacity. This study further argues that the embargo imposed by four Arab countries (Saudi Arabia, the United Arab Emirates, Bahrain, and Egypt) in 2017 did not seriously affect Qatar, contrary to expectations, due to its carrying some of its virtual state characteristics.

In 2017, four Arab countries, also known as the quartet, imposed an absolute embargo on Qatar on charges of notably supporting terrorism and establishing close ties with Iran. The former President of the United States of America, Donald Trump, showed his support for the blockade imposed on Qatar.<sup>1</sup> At the same time, Turkey continued gradually to increase its support. The ideological and political motivations behind Turkey's support for Qatar at the expense of its allies were undoubtedly significant. However, this does not necessarily eliminate the need to examine the effects of other dynamics on the relations

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1 Patrick Wintour, "Donald Trump Tweets Support for Blockade Imposed on Qatar," *The Guardian*, June 6, 2017, <https://www.theguardian.com/world/2017/jun/06/qatar-panic-buying-as-shoppers-stockpile-food-due-to-saudi-blockade>.

between the two countries. On the other side, the Gulf Embargo serves as a test for virtual state formulation because some virtual state characteristics toughen those states to resist catastrophic times such as crises and wars.

Regarding Turkey's improving partnership with Qatar, the literature often deals with Turkish geo-economic motivations and the Gulf geo-security imperatives,<sup>2</sup> their standing with each other vis-a-vis various regional developments,<sup>3</sup> exceptional theoretical stances such as practical geopolitical reasoning,<sup>4</sup> and the impact of Turkey's bold decision on regional security.<sup>5</sup> Başkan and Pala also try to explain Turkey's support for Qatar in times of crisis in path dependence and the special relationship that preceded the two states, despite larger relations between Saudi Arabia and the United Arab Emirates (UAE).<sup>6</sup> Çavuşoğlu claims that not just favorable conditions of Qatar's 1995-2013 ascension period but also stiff conditions of the diplomatic crisis in 2017 significantly distinguished Qatar from the other Gulf countries and contributed to its increasing position on the international stage.<sup>7</sup> Furthermore, Peterson points to Qatar's 'strategy of branding the state' as a leading source of its becoming an influential international actor despite itself being a tiny country.<sup>8</sup> According to Kamrava, pointing out Qatar's influence beyond its borders, the material incentives distributed during international conflicts increased its importance in the international mediation mechanism.<sup>9</sup>

Concerning theoretical literature, the concept of the virtual state put forward by Rosecrance has become an untapped subject not only in studies containing Turkey and Qatar but also in the whole literature. Aside from the studies examining the relationship between trade and cooperation,<sup>10</sup>

- 2 Ali Bakır, "The Evolution of Turkey—Qatar Relations Amid a Growing Gulf Divide," in *Divided Gulf: The Anatomy of a Crisis*, ed. Andreas Krieg, Contemporary Gulf Studies (Singapore: Springer, 2019), 197–215, [https://doi.org/10.1007/978-981-13-6314-6\\_12](https://doi.org/10.1007/978-981-13-6314-6_12).
- 3 Ebrar Şahika Küçükaşçı, "Entente Cordiale: Exploring Turkey–Qatar Relations," Discussion Paper (TRT World Research Center, February 2019).
- 4 Özgür Pala and Bülent Aras, "Practical Geopolitical Reasoning in the Turkish and Qatari Foreign Policy on the Arab Spring," *Journal of Balkan and Near Eastern Studies* 17, no. 3 (July 2015): 286–302, <https://doi.org/10.1080/19448953.2015.1063274>.
- 5 Nesibe Hicret Battaloglu, "Ideational Factors in Turkey's Alignment with Qatar and Their Impact on Regional Security," *The International Spectator* 56, no. 4 (2021): 101–18, <https://doi.org/10.1080/03932729.2021.1994181>.
- 6 Birol Başkan and Özgür Pala, "Making Sense of Turkey's Reaction to the Qatar Crisis," *The International Spectator* 55, no. 2 (2020): 65–78, <https://doi.org/10.1080/03932729.2020.1739846>.
- 7 Esra Çavuşoğlu, "From Rise to Crisis: The Qatari Leadership," *Turkish Journal of Middle Eastern Studies* 7, no. 1 (2020): 81–82, <https://doi.org/10.26513/tocd.624334>.
- 8 J. E. Peterson, "Qatar and the World: Branding for a Micro-State," *Middle East Journal* 60, no. 4 (2006): 732.
- 9 Mehran Kamrava, "Mediation and Qatari Foreign Policy," *Middle East Journal* 65, no. 4 (2011): 544.
- 10 Edward D. Mansfield, Helen V. Milner, and B. Peter Rosendorff, "Why Democracies Cooperate More: Electoral Control and International Trade Agreements," *International Organization* 56, no. 3 (ed

manufacturing and development,<sup>11</sup> protectionism and interdependence,<sup>12</sup> The concept of the virtual state in the literature is used only to express the state's digitalized management, organization, and power.<sup>13</sup> Some other studies closely examine states following an innovative and avant-garde development strategy. However, they do not directly use Rosecrance's formulation. Linda Low questions the flexibility of Singapore's developmental state experience in a system surrounded by information, communication technology (ICT), knowledge-based economy (KBE), and hyper-competition.<sup>14</sup> Similarly, Spiegel argues that three types of countries emerged with the disappearance of Cold War rivalry. According to him, these are the twenty-first-century states keeping up with globalization in the pursuit of high technology; nationalist nineteenth-century states that put land and territories ahead of welfare; and twentieth-century states torn between technological development and economic and social crises, falling between these two categories.<sup>15</sup> In the rentier economy, which is similarly discussed in the literature, productive activities are limited to a very small fraction of the population since the production and distribution of wealth are largely limited to this small fraction.<sup>16</sup> However, almost 90% of Qatar's population consists of foreigners who are highly mobile and whose productive activities are more widely distributed than in a rentier state.

Despite these studies, Rosecrance's formulation was not adapted to different cases and systems. To this end, this study aims to utilize Rosecrance's virtual state theoretical framework to offer a new way of understanding that the literature has not particularly touched upon. Rosecrance's virtual state without a strong military force is quite capable of creating an international sphere of influence by mobilizing its production line and facilities and investment

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2002): 477–513, <https://doi.org/10.1162/002081802760199863>.

- 11 Wei-Chin Lee, "The Development of Taiwan's Commercial Aircraft Manufacturing Industry," *Asian Affairs* 23, no. 1 (1996): 34–63.
- 12 Helen V. Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade*, 1989, <https://press.princeton.edu/books/paperback/9780691010748/resisting-protectionism>.
- 13 Gary D. Rawnsley, "Virtual China: The Internet as Threat or Opportunity?," *St Antony's International Review* 3, no. 1 (2007): 42–57; Martin Walker, "America's Virtual Empire," *World Policy Journal* 19, no. 2 (2002): 13–20.
- 14 Linda Low, "The Singapore Developmental State in the New Economy and Polity," *The Pacific Review* 14, no. 3 (January 2001): 411–41, <https://doi.org/10.1080/09512740110064848>.
- 15 Steven L. Spiegel, "Traditional Space vs. Cyberspace: The Changing Role of Geography in Current International Politics," *Geopolitics* 5, no. 3 (December 1, 2000): 114–25, <https://doi.org/10.1080/14650040008407694>.
- 16 Bi Puranen and Olof Widenfalk, "The Rentier State: Does Rentierism Hinder Democracy?," in *Values and Perceptions of the Islamic and Middle Eastern Publics*, ed. Mansoor Moaddel (New York: Palgrave Macmillan US, 2007), 160–61, [https://doi.org/10.1057/9780230603332\\_7](https://doi.org/10.1057/9780230603332_7).  $\{\{ \backslash i \} \}$  Values and Perceptions of the Islamic and Middle Eastern Publics}, ed. Mansoor Moaddel (New York: Palgrave Macmillan US, 2007

opportunities abroad. It is likely to see the effects of the financing obtained from these sources in the international relations of Qatar, which sits on one of the world's richest hydrocarbon resources. Therefore, Qatar invests in other countries for their support in times of crisis.

This study also focuses on the embargo imposed on Qatar by the Arab quartet in 2017 and the financial motivations of Turkey's support for Qatar during the embargo, prior to the theoretical discussion. This is because it would be unhealthy to examine the relations between Turkey and Qatar without addressing such a crisis and the developments behind it. A second reason to touch on the diplomatic crisis is to observe the crisis-time behaviors of the actors with some virtual state characteristics. Rosecrance puts forward that the silhouette of war has changed with the virtualization of states. Land can be conquered, whereas capital, labor, and knowledge can be transferred to different places and not captured. Despite the short-term volatility of the stock markets of Qatar and other boycotting countries due to the crisis, the boycott did not produce the expected result of continued volatility and directional risk spillovers, and Qatar firmly withstood.

The study consists of three main parts. The first section of the study introduces the theoretical framework and conceptualization of the 'virtual state.' A little more weight will be given to how far Qatar falls into the scope of a virtual state. The second section brings to light the pre-crisis dynamics and structural factors behind the Qatar diplomatic crisis of 2017. It focuses on the strategic interests of countries in the region and the factors that led to the accusation of Qatar of destabilizing the region. The last section examines the levels and dimensions of cooperation between Turkey and Qatar and shows how Turkey became a field of application for Qatar's virtual state characteristics.

## **THEORETICAL FRAMEWORK: THE RISE OF THE VIRTUAL STATE**

Trade relations, among the factors affecting states' foreign policies, were seen as subjects of the 'low foreign policy' field in international relations. However, the foundation of the General Agreement on Tariffs and Trade, the success of the post-war economic order, and the role of economic and trade associations in the establishment of the European Community in the early 1950s started to change this argument.<sup>17</sup> Similarly, owing to the high level of foreign trade deficit between the United States and China, the implementation

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17 Richard N. Cooper, "Trade Policy Is Foreign Policy," *Foreign Policy*, no. 9 (1972): 20–21, <https://doi.org/10.2307/1148083>.

of some harsh measures limiting trade in 2018 by US President D. Trump even caused the use of the words 'trade' and 'war' together.<sup>18</sup> Overall, trade relations began to penetrate 'high foreign policy' more.

### From the Trading State to the Virtual State

Since the 1980s, rapid liberalization of the national economies and international trade's large-scale encouragement have made all the difference in states' foreign policies. Cooperation and trade instead of conflict and isolationism have created a tendency for states to follow more multi-dimensional and constitutive foreign policies.<sup>19</sup> In other words, the strict classification between some high foreign policy issues, including national security, and low foreign policy issues, including foreign trade relations, is not as tenable as it used to be.

Following World War II, advanced states, such as Germany and Japan, "setting free the productive and trading energies of people and merchants who would find markets for their goods overseas," sought to increase their portion of international trade instead of handling territory.<sup>20</sup> On the other hand, a few (non-trading) states, including Singapore and Hong Kong, have significantly increased their influence on regional issues without holding rich assets such as large territories, populations, and underground resources, thanks to the rapid and easy flow of relatively intangible assets across borders. Rosecrance described these 'head' states of the global economic system as virtual states that devote their resources to research and development, innovation, and intangible assets rather than spending time and effort on domestic production.

The fact that the economy greatly impacts the formation of foreign policy gains prominence with Rosecrance's trading state concept. In Rosecrance's model, he points out the existence of a new trading world that has been

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18 Trade wars are not specific to the tensions between US and China in the twenty-first century. If other reasons are set aside, the Anglo-Dutch wars of the 17th and 18th centuries were due to commercial competition, and the opium wars of the 19th century were for commercial concessions. Trade and economic factors have played a role somehow in almost every war in history. As a matter of fact, the trade wars between China and the United States did not cause a hot conflict and continued with the increase of trade measures and restrictions reciprocally.

19 Some states make a profit from a high volume of trade, while some may make a loss. According to this balance, the foreign policies of these countries may differ from each other to a considerable extent. More specifically, when citizens in a country benefit from international trade, they have a tendency to develop more peaceful relations with trading partners of their countries. This characteristic of promoting trade creates a motive in society for foreign policy to follow more favorable attitudes. Katja B. Kleinberg and Benjamin O. Fordham, "Trade and Foreign Policy Attitudes," *Journal of Conflict Resolution* 54, no. 5 (March 12, 2010): 687–89, <https://doi.org/10.1177/0022002710364128>.

20 Richard Rosecrance, "The Rise of the Virtual State," *Foreign Affairs* 75, no. 4 (1996): 46, <https://doi.org/10.2307/20047658>.



transforming from the one characterized by war and the threat of war to one with economic interdependence.<sup>21</sup> In today's globalized and trading world, rather than choosing the threat and threat of war, states are likely to follow foreign policies compatible with economic interdependence because the existing global economic system rewards states that cooperate through systemic tools, such as institutions and norms.

According to Rosecrance, territorial aspirations and political and military motives can no longer dominate the state of affairs.<sup>22</sup> Shares of world output have become the determinant characteristic of the state system, especially among developed countries. Later, capital mobilization became prevalent as exports of goods were, and developed countries realized that exports were no longer the most prevalent way to sustain economic growth.<sup>23</sup> Describing these states as 'virtual states,' Rosecrance underlines that, as capital is more mobile than goods and services, exporting is not as essential for economic growth as before.<sup>24</sup> What Rosecrance emphasizes to increase the international influence of the state is the capacity of its financial resources and its ability to mobilize them beyond its own borders. These developments are examples of how maintaining trade relations and the flow of capital could be the origins of creating a wide-ranging area of influence.

The virtual state refers to a state in which labor, capital, and knowledge are mobile, reducing its territorially based production capability.<sup>25</sup> The most critical resources are the least tangible ones, such as educated masses rather than land and flow rather than a stockpile of goods, capital, and labor.<sup>26</sup> The average qualification of a country's population rather than its size and its economic and financial activity outside its borders rather than the production within its borders come to the fore. The movement of increasing qualifications and the shift of production to the outside also contained a risk: job losses that could occur in sectors where the virtualized state did not find it efficient to produce. According to Rosecrance, this was expected as education levels increased and industries started to require more modern technology. In such a case, new opportunities to be created in sectors including research and development, financing, product design, marketing, transportation, insurance, and legal services would provide a longer-term and beneficial solution to

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21 Kemal Kirişçi, "The Transformation of Turkish Foreign Policy: The Rise of the Trading State," *New Perspectives on Turkey* 40 (ed 2009): 40, <https://doi.org/10.1017/S0896634600005203>.

22 Rosecrance, "The Rise of the Virtual State," 45.

23 Rosecrance, 45–46.

24 Rosecrance, 46.

25 Rosecrance, 46.

26 Richard N. Rosecrance, *The Rise Of The Virtual State: Wealth and Power in the Coming Century*, Revised ed. (New York: Basic Books, 2000), 3–5.

the emerging employment problem. When Rosecrance theorized, sectors such as transportation, marketing, and insurance were perhaps seen as higher value-added and intangible tools. However, today, these sectors have shifted to areas such as cutting-edge investment, technology, software, and human capital, where the knowledge-based or learning economy is more dominant. This shift is critical in terms of adapting the virtual state to today's conditions and demonstrating the relevance of the example case of this study as a (semi) virtual state.

Rosecrance had described Singapore and Hong Kong as “virtual states” for their time. When looked at today, it can be argued that South Korea fits these states very well. However, it may not always be possible for a state to fully carry the characteristics of a virtual state. Therefore, he introduced the category of the mixed environment to the head states and body states.<sup>27</sup> It is helpful to examine Rosecrance's three-stage transition process for the virtualization process to understand the mixed environment. States that move most of their production or intangible assets abroad, such as Singapore and Taiwan, are fully virtual. Some intermediate states, like the USA and Germany, on the other hand, have not yet moved a significant part of their production abroad for reasons such as the protection of the employment market and having a large-scale economy, but they still conduct a considerable amount of production inside and specialize in research and development activities and high-level service areas.<sup>28</sup> As revenues from these services exceed production returns, these countries are expected to experience corporate downsizing and move towards higher-yielding and specialized manufacturing.<sup>29</sup> As manufacturing shifts to the body states such as China, Mexico, and Brazil, these states would require substantial infrastructures, such as transportation links, highways, and port facilities. A virtualization impulse will emerge as these states operate cultivated plants of the head states with an energetic workforce with adequate training.<sup>30</sup> Regarding the stages of virtualization, Rosecrance's formulation delineates the virtual and non-virtual states. However, in detail, it has not examined those in the intermediate area within a mixed environment. As a result, the purpose of this study is to discuss which aspects of Qatar resemble those of a virtual state.

27 Rosecrance, 57–70.

28 Rosecrance, 43–45.

29 Rosecrance, 43.

30 Rosecrance, 43–44.

## **To what extent is Qatar a virtual state?**

When Rosecrance theorized (the early 2000s), Qatar was far from its current economic capabilities—assuming that even if it would not, to what extent would Qatar adhere to this theoretical conceptualization? Rosecrance’s conceptualization focused on the transition from the trading state to the virtual state. He underlined that each developed state expects to become a virtual state but in different ways and processes.<sup>31</sup> Singapore did not realize it had a high manufacturing capability or trade level.<sup>32</sup> This point of departure leaves the door open for virtual state discussions of different countries’ experiences. Before that, it would be helpful to examine the aspects in which Qatar falls outside the virtual state formulation.

Modern technical and research services, high-level production techniques, and innovation are areas where virtual states often apply and are good at. Qatar ranks 58th in the intangible assets category, 50th in creative goods and services, and 79th in the field of technology and knowledge output.<sup>33</sup> Indeed, the Qatari state is aware that its hydrocarbon resources are not unlimited or sustainable in the long run. Therefore, to maintain its role in the knowledge-based and competitive international system, the Qatar National Vision 2030 has prioritized human development.<sup>34</sup>

On the other hand, Qatar carries some virtual state characteristics. Due to its abundant underground resources, it is a highly effective and influential country in terms of economic and financial assets. Qatar is the fifth-largest in the world’s natural gas production, the second-largest in gas exports, and the largest in liquefied gas exports.<sup>35</sup> Due to its extremely high income and low population, it is one of the leading countries in the world in GDP per capita, as can be seen in Figure I. In Qatar, which occupies the fifteenth place in the world in net foreign direct investment in 2018,<sup>36</sup> approximately 90% of

31 Rosecrance, 43–45.

32 Annual percentage growth rate of the world’s trade value was 7.07 in 2000, while the rate of Singapore as a virtual state, was 10.56. “Singapore Trade Summary 2000 | WITS |” (World Bank), accessed April 6, 2022, <https://wits.worldbank.org/CountryProfile/en/Country/SGP/Year/2000/Summarytext>; Moreover, Singapore and Qatar’s export volumes since 2000 have followed a similar trend. In 2013, Qatar achieved approximately 28% more export volume than Singapore. “Export Volume Index (2000 = 100) - Singapore, Qatar | Data” (World Bank), accessed April 10, 2022, <https://rb.gy/fszk0w>.

33 Overall, Qatar ranks 68th in global innovation index. “Global Innovation Index 2021 - 14th Edition” (World Intellectual Property Organization (WIPO), 2021), 139.

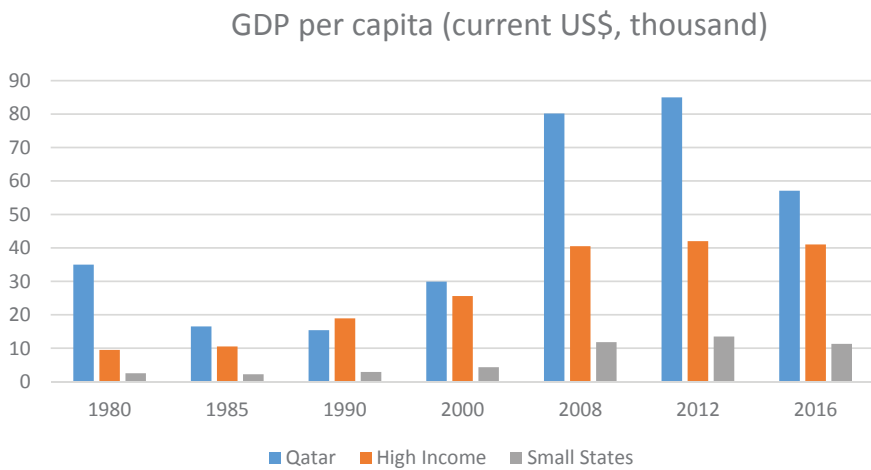
34 “Qatar National Vision 2030” (Doha: General Secretariat For Development Planning, July 2008), <https://www.gco.gov.qa/wp-content/uploads/2016/09/GCO-QNV-English.pdf>.

35 “Qatar’s Economic Update 2020” (The World Bank, October 19, 2020), <https://www.worldbank.org/en/country/qcc/publication/economic-update-october-2020-qatar>.

36 “Foreign Direct Investment, Net (BoP, Current US\$) - Qatar, High Income | Data,” accessed October 21, 2021, <https://rb.gy/wcramv>

the labor force is met by foreign workers. According to the formulation, the virtual state is a state that invests in human capital rather than in internal production capabilities.<sup>37</sup> According to the World Bank’s 2020 Human Capital Index, Qatar is among the first category states with a human capital of 0.64 and above.<sup>38</sup> The high ratio of this foreign labor force, which provides a wide range of mobility, and high human capital score are important as virtual state instruments.

**Figure 1 GDP per capita (current US\$) -Qatar, High-Income Countries, and small states**



*Source:* World Bank national accounts data, GDP per capita (current US\$) - Small states, Qatar

What Rosecrance pointed out in his virtual state formulation was the increased competitiveness of virtual states despite their shrinking material capacities. Qatar was named the 10th most competitive country by Switzerland’s IMD’s Global Competitiveness Yearbook in 2012.<sup>39</sup> Qatar’s avid interest in brainpower, knowledge-based production, and technological advancement rather than labor force or conventional production techniques played a high level of competitiveness because they made Qatar the lowest-

<sup>37</sup> Rosecrance, *The Rise Of The Virtual State*, 27–30.

<sup>38</sup> The index scale is between 0-1, with 1 meaning highest potential. Best performing country is Singapore with a 0.88 value. “Human Capital Index (HCI) - Qatar | Data” (World Bank, 2020), [https://data.worldbank.org/indicator/HD.HCI.OVRL?locations=QA&most\\_recent\\_value\\_desc=true&view=map](https://data.worldbank.org/indicator/HD.HCI.OVRL?locations=QA&most_recent_value_desc=true&view=map).

<sup>39</sup> In 2021, it fell to 17th place due to the fluctuations in oil prices due to the pandemic crisis and the ongoing effects of the diplomatic crisis. “IMD World Competitiveness” (International Institute for Management Development, 2021), <https://worldcompetitiveness.imd.org/rankings/WCY>.

cost global LNG supplier.<sup>40</sup> During the upstream phase of its LNG value chain, Qatar applied advanced technology, conducted wellhead operations for optimization, and minimized offshore operational and maintenance staff.<sup>41</sup> Qatar increased liquefaction plant capacity during the downstream phase and applied APX liquefaction technology.<sup>42</sup> Other innovative leaps in the stages of transportation, regasification, and marketing have also accompanied these phases.

The current system, where stocks of goods, capital, and labor are less critical than flows, has become directly related to how mobile they all are. Qatar, which prefers to evaluate its assets in international markets by keeping its production limited and mobile in the domestic market, has invested around \$400 billion worldwide.<sup>43</sup> The study briefly mentions the background of the crisis before it continues showing Qatar's application of some virtual state characteristics to its relationship with Turkey.

## THE ROOTS OF THE QATAR DIPLOMATIC CRISIS

### Process prior to the crisis

The area of power and influence, especially in terms of an economic and diplomatic manner, in the Middle East began to shift away from the old power centers toward the relatively small but quite influential powers of the Persian Gulf region as of 2003, with the US intervention in Iraq and the policy of containment of Iran.<sup>44</sup> While countries such as Turkey and Egypt were trying to impose, and sometimes compete for, their role as regional powers,<sup>45</sup>

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40 Gabriel Collins, "Anti-Qatar Embargo Grinds Towards Strategic Failure," in *The GCC Crisis at One Year: Stalemate Becomes New Reality*, ed. Zeina Azzam and Imad K. Harb, First ed. (Arab Center Washington DC, 2018), 63, <https://arabcenterdc.org/resource/the-gcc-crisis-at-one-year-stalemate-becomes-new-reality/>.

41 Ibrahim Ibrahim and Frank Harrigan, "Qatar's Economy: Past, Present and Future," *QScience Connect* 9, no. 1 (2012): 7, <https://doi.org/10.5339/connect.2012.9>.

42 Ibrahim and Harrigan, 7.

43 Qatar invested more than \$20 billion to companies such as Volkswagen, Deutsche Bank, Siemens in Germany; over £40 billion to places like the HSBC tower, the Shard skyscraper, the Olympic Village, the Harrods store, and also London Stock Exchange in the UK; and in some sports clubs in France and some fashion design brands in Italy. Bahattin Gonultas, "Qatar Continues Investments across World," *Anadolu Agency*, November 27, 2020, <https://www.aa.com.tr/en/economy/qatar-continues-investments-across-world/2058198>.

44 Mehran Kamrava, *Qatar: Small State, Big Politics*, With a New Preface edition (Ithaca: Cornell University Press, 2015), 16.

45 Elizabeth Monier, "The Arabness of Middle East Regionalism: The Arab Spring and Competition for Discursive Hegemony between Egypt, Iran and Turkey," *Contemporary Politics* 20, no. 4 (October 2, 2014): 426–27, <https://doi.org/10.1080/13569775.2014.968474>.

countries under some organizations such as the Gulf Cooperation Council started to follow a more independent and proactive policy.<sup>46</sup> Meanwhile, the rivalries between the blocks intensified. Saudi Arabia, for instance, is engaged in a struggle with Turkey over the Sunni world and Iran over a sectarian and regional rivalry.<sup>47</sup> On the other side, as competition between the UAE and Turkey increased in areas such as global media discourse, the energy industry, and, more recently, ports and the high seas, so did Qatar's marginalization in the eyes of other Gulf regions.<sup>48</sup>

As Rosecrance drew attention to, Qatar has been one of these relatively small but influential countries. It would be useful to clarify where the terms "small state" and the virtual states are distinguished here. In the literature, it is a common practice to put states in the category of small states according to their population size, geographic area, and per capita GDP.<sup>49</sup> The main point where virtual states differ from this definition is GDP per capita, which implies a lot about a state's economy. According to some, the definition of a small state is a discursive construction that engenders material consequences.<sup>50</sup> Although the major assets of the virtual state are intangible, it is necessary to go beyond a discursive construction to explain the smallness of these states. Finally, small states can be regarded as the most vulnerable and dependent economically (in times of economic crises, sanctions, and so on), in security issues (inability to provide their own security), in times of natural disasters, and so on.<sup>51</sup> As this study shows in the last section, some of these virtual states have developed the capacity to cope with some of these crises thanks to the influence, power, and potential created by their intangible assets, despite their limited material capacity.

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46 Meliha Benli Altunışık, "The New Turn in Turkey's Foreign Policy in the Middle East: Regional and Domestic Insecurities," *Istituto Affari Internazionali*, 2020, 16–17.

47 Christopher Phillips, "Rivalry Amid Systemic Change: Iranian and Saudi Competition in the Post-American Middle East," in *Sectarianism and International Relations* (POMEPS Studies 38, 2020), 7–8.

48 Esra Çavuşoğlu, "From Rise to Crisis: The Qatari Leadership," *Turkish Journal of Middle Eastern Studies* 7, no. 1 (2020): 83, <https://doi.org/10.26513/toed.624334>.

49 Peter R. Baehr, "Small States: A Tool for Analysis?," *World Politics* 27, no. 3 (April 1975): 456–66, <https://doi.org/10.2307/2010129>.

50 Donna Lee and Nicola J Smith, "Small State Discourses in the International Political Economy," *Third World Quarterly* 31, no. 7 (2010): 1092. and opportunities for, small states. Instead, we argue that discourses surrounding the 'inherent vulnerability' of small states, especially developing and less-developed states, may produce the very outcomes that are attributed to state size itself. By presenting small states as a problem to be solved, vulnerability discourses divert attention away from the existence of unequal power structures that, far from being the natural result of smallness, are in fact contingent and politically contested. The article then explores these themes empirically through discussion of small developing and less-developed states in the Commonwealth and the World Trade Organization (WTO)

51 Sheila Harden, ed., *Small Is Dangerous: Micro States in a Macro World* (New York: Palgrave Macmillan, 1985).

Here, Qatar deserves special attention due to its growing prominence and proactive foreign policy in the region. First, to speak systematically, Kenneth Waltz emphasized that it would be reductionist to explain changes in international relations only with the behavior of actors without emphasizing systematic effects.<sup>52</sup> The systemic factors created specific opportunities and space for Qatar to fill with the decreasing influence of the traditional powers of the Middle East grappling with more existential crises.<sup>53</sup> The second and unsystematic factor that increased Qatar's importance in the region and drove a wedge between Qatar and other Gulf states was the United States' use of Qatari lands as an operational base following the 9/11 and Iraq invasions.<sup>54</sup> The direct correlation between economic resources and security on the one hand, and the ability of governments to challenge or manage foreign interventions on the other, stands out as an important development, perhaps a risk, that Qatar is willing to take and other Gulf countries cannot afford.<sup>55</sup> Finally, Qatar varies greatly, with Bahrain experiencing sectarian strife, the United Arab Emirates experiencing confederation divisions, and Saudi Arabia experiencing sectarian and geographical divisions.<sup>56</sup> Furthermore, the economies of these countries are heavily dependent on hydrocarbon exports, whose prices are highly volatile in the international markets. The uncertainty of oil prices can cause these countries to face some challenges, as they deeply affect their economies in times of crisis and economic recession. Hence, Qatar, which has a more homogeneous and stable domestic environment, has a greater capacity to cope with imbalances without facing serious challenges, such as social unrest.<sup>57</sup>

Qatar's rapid, challenging and proactive regional rise, mainly due to the three reasons mentioned above, did not evolve into a harmonious integration with other Gulf countries and formed the basis of tension.<sup>58</sup> Although these

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52 Kenneth N. Waltz, *Theory of International Politics* (Boston: Addison-Wesley Publishing, 1979), 65–66.

53 Kamrava, *Qatar*, 40–41.

54 Kamrava, 40–41.

55 Kamrava, 40–41.

56 Kamrava, 43–44.

57 Kamrava, 43–44.

58 Marginalization of Qatar by other Gulf countries was a leading reason for the failure to achieve this harmony in attitudes towards the Arab Spring. Unlike other Gulf regions, Qatar did not stand out against anti-revolutionary forces and strikingly supported post-Arab Spring administrations such as the Muslim Brotherhood. It would also be misleading to say that the separation only happened with the Arab Spring. In particular, the rivalry between Qatar and Saudi Arabia existed in different countries and levels. For example, while Saudi Arabia not only provided money and arms support to Jaysh al-Islam, which was established to intervene against the Assad regime, but also helped its establishment, Qatar later supported the rival group Faylaq al-Rahman, which clashed with Jaysh al-Islam. "Mapping Militant Organizations. 'Jaysh al-Islam,'" Stanford University, March 2019, <https://cisac.fsi.stanford.edu/mappingmilitants/profiles/jaysh-al-islam>.

reasons have badly affected relations, two key developments have recently annoyed them.<sup>59</sup> At the center of these developments were Qatar's policies aimed at reducing the security and stability of the region. Qatar's assertive foreign policy was considered part of Qatar's backing of Islamist groups. Qatari authorities explained that they assisted Islamist groups affiliated with the Muslim Brotherhood and Hamas but had disclaimed supporting militant groups linked to al-Qaeda or the so-called Islamic State (IS).<sup>60</sup> Unlike Qatar, most Gulf countries, which stood against the revolutionary forces during the Arab Spring, adopted a different manner from Qatar towards the post-Arab Spring power elites and saw a slight difference between these elites and other vicious extremist groups.<sup>61</sup>

Another issue was Qatar's close relations with Iran, which was seen as Saudi Arabia's main regional rival and the main threat to the region's stability or even its existence by other Gulf states.<sup>62</sup> Qatar voted against the United Nations Security Council resolution calling for a halt to its nuclear activities against Iran in recent years; signed a bilateral counter-terrorism agreement with Iran; continued to pursue economic cooperation; congratulated President Hassan Rouhani for his re-election; and provided \$700 million in aid to Iran and the Hezbollah, Iranian-backed Shiite militant organization, for the return of Qatari royal family members held captive in Iraq.<sup>63</sup>

### The Gulf embargo on Qatar

As a result of Qatar's assertive foreign policy, first, the country's relations with Saudi Arabia, the UAE, and Bahrain hit rock bottom on June 5, 2017. These countries also advised Qatari citizens to leave their territory in two weeks.<sup>64</sup> Egypt followed the others by cutting diplomatic relations with Qatar but did not place restrictions on its Qatari citizens in Egypt.<sup>65</sup> Yemen, the

59 "Qatar Crisis: What You Need to Know," *BBC News*, July 19, 2017, <https://www.bbc.com/news/world-middle-east-40173757>.

60 After this accusation, Hamas made a statement stating that they could not make sense of how Saudi Arabia made such an accusation that harmed the Palestinian people's struggle for independence. "Hamas 'shocked' by Saudi Comments on Qatar," *The Associated Press News*, June 7, 2017, <https://rb.gy/0ootnp> Accessed on June 1, 2022. Indeed, Qatar was part of the US-led alliance against IS.

61 Philip Gordon, Amos Yadlin, and Ari Heistein, "The Qatar Crisis: Causes, Implications, Risks, and the Need for Compromise" (The Institute for National Security Studies, June 13, 2017), 2.

62 Gordon, Yadlin, and Heistein, 2.

63 Gordon, Yadlin, and Heistein, 2–3.

64 Patrick Wintour, "Gulf Plunged into Diplomatic Crisis as Countries Cut Ties with Qatar," *The Guardian*, June 5, 2017, accessed on June 1, 2022, <https://rb.gy/s6nmff>.

65 Patrick Wintour, "Qatar Diplomatic Crisis – What You Need to Know," *The Guardian*, June 5, 2017, sec. World news, accessed on June 1, 2022 <https://www.theguardian.com/world/2017/jun/05/qatar-diplomatic-crisis-what-you-need-to-know>.



Maldives, and Libya's regional government followed the same policy.<sup>66</sup> In addition to Saudi Arabia, the UAE, Bahrain, and Egypt closed their airspace to Qatari flights. Worse, Saudi Arabia put a naval and air blockade on Qatar.<sup>67</sup> Only two of the six-member Gulf Co-operation Council (GCC) continued to pursue its relations with Qatar. These were Oman and Kuwait, which have also offered to mediate in the dispute.<sup>68</sup>

The Gulf countries that imposed an embargo presented a list of 13 points for Qatar to accept. These points roughly included a downgrade of Qatar's diplomatic relations with Iran, termination of ties with terrorist organizations, especially those alleged as terrorists by other blockading countries, and the closure of the Turkish military base and Al-Jazeera.<sup>69</sup> Other demands were the closure of all media outlets funded by Qatar, compensation for the financial losses of blockading countries that Qatar has caused, non-intervention in internal affairs of blockading countries and naturalizing their citizens, handing over of all terrorists that were on the list of these blockading countries and the US and sharing all the intelligence, following policies in harmony with other Gulf countries, an agreement that stipulates detailed reports to monitor the development of all these demands, and acceptance of these 13 points within ten days, otherwise, all of them would be deemed null and void.<sup>70</sup> Qatari Minister of Foreign Affairs bin Abdul Rahman, on July 5, 2017, considered these demands a threat to sovereignty and the vital interests of Qatar. Consequently, Qatar did not accept to fulfill these demands.

During the Gulf crisis, Qatar effectively used some of its virtual state characteristics (especially its highly mobile financial instruments and labor power, and virtual commercial relations) to a great extent, warding off the devastating effects of the crisis. Qatar's engagement with Turkey is critical to showing how effectively Qatar uses these assets in the state's system. Therefore, the following section reveals the cooperation between the two countries based on trade and investment and discusses how Qatar utilized these tools effectively. Lastly, the study concludes with Qatar's satisfactory performance in the face of the crisis.

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66 Wintour.

67 Qatar is a country in need of sea and land imports in terms of basic needs. For example, the country met 40% of its food supply through the land border with Saudi Arabia. Therefore, this blockade was of vital importance for Qatar. "Qatar Crisis."

68 Alex MacDonald, "Qatar Blockade: What Caused It and Why Is It Coming to an End?," Middle East Eye, accessed June 1, 2022, <http://www.middleeasteye.net/news/qatar-blockade-saudi-arabia-lift-cause-end>.

69 "Qatar Crisis."

70 Alia Chughtai, "Understanding the Blockade against Qatar," *ALJAZEERA*, June 5, 2020, accessed on June 1, 2022, <https://www.aljazeera.com/news/2020/6/5/understanding-the-blockade-against-qatar>.

## APPLICATION OF SOME OF THE VIRTUAL STATE CHARACTERISTICS OF QATAR

The most critical virtual state characteristic of Qatar is its mobile financial assets. In this sense, the cooperation of the two states even paved the way for their foreign relations to be aligned on many issues in parallel. Therefore, its relationship with Turkey is of high importance. To Rosecrance, because some states are already virtual or on the way to becoming virtual, the flow of intangible assets is easier, and these resources are more secure at the target location than before. Foreign direct investment comes first among these resources. Qatar uses its huge capital as a relatively active foreign policy tool (soft power element) by investing in the valuable assets of different countries. Qatar's high-level collaborations and strategic committee meetings with other states in technology and science are also factors that reveal its virtual state characteristics. The section examines the financial and economic dimensions of the special relationship established between Qatar and Turkey due to some virtual state characteristics of Qatar.

The fastest developing areas of cooperation in the relations between the two countries were in the fields of finance, education, and technology, as emphasized by the virtual state formulation. The Turkey-Qatar Supreme Strategic Committee has been the building block for improving economic and bureaucratic relations between the two countries. The Committee brings together various business people and investors on various institutional levels, such as financial, commercial, and industrial grounds in both countries and multiple fields, such as education, commerce, culture, and technology. At the first meeting of the Turkey-Qatar Supreme Strategic Committee in 2015, the parties signed 15 agreements and decided to lift the visa requirement during citizens' visits to the two countries.<sup>71</sup> Some definitive contracts were as follows: 'Memorandum of Understanding on Cooperation in Education between both governments'; 'Memorandum of Understanding on Cooperation in Banking between several Turkish banks and Qatar Development Bank'; 'Memorandum of Understanding between Small and Medium Enterprises Development and Support Administration of Turkey and Qatar Development Bank'; Cooperation Protocol on Science and Technology between TUBITAK (Scientific and Technological Research Council of Turkey) and Qatar Foundation'; and 'Memorandum of Understanding regarding the liquefied

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71 "15 Agreements Signed between Turkey and Qatar," Presidency of the Republic of Turkey, February 12, 2015, accessed on June 1, 2022, <https://www.tcgb.gov.tr/en/news/542/36171/turkiye-ile-katar-arasinda-15-anlasma-imzalandi>.

natural gas purchase between BOTAS (Turkish National Petroleum Pipeline Corporation) and Qatargas regarded as the world's largest liquefied natural gas (LNG) company.<sup>72</sup>

In order to better understand the level of cooperation between the two countries, it will be useful to elaborate on two of them. Following the MoU between TUBITAK and Qatar Foundation, the TUBITAK – Qatar National Research Fund (QNRF) Joint Funding Program was established with “the aim of the call is to intensify cooperation between Turkish and Qatari participants in science and industry through Academia and Industry Cooperation.”<sup>73</sup> This fund carries out projects in many fields, such as smart energy, smart environment, smart healthcare, smart transportation, and smart security with the participation of at least one research institution/university/hospital and one commercial company from both sides. One of these outstanding projects is the “Academia-Industry Cooperation on Cybersecurity” program to build public-private sector partnerships whose innovative projects address cyber-safety issues that Qatar and Turkey share.<sup>74</sup> Another important development was the agreement on the purchase of liquid natural gas between the two countries. As for that, in 2017, Qatargas stipulated to “deliver 1.5 million tons of LNG per annum for three years to Turkey under the terms of the agreement.”<sup>75</sup>

The second session of the Supreme Strategic Committee between the Republic of Turkey and Qatar was held on December 18, 2016. A Memorandum of Understanding (MoU) was made in areas similar to those signed in the first meeting. In the second meeting, a memorandum of understanding, agreement, and action plan were signed in areas such as agriculture, health, finance, customs, and communication. Regarding the economic cooperation between the two states, a Memorandum of Understanding on Cooperation on the Organization of Fairs between the two governments, the Memorandum of Understanding for the Development of Economic and Free Zones, and an Action Plan between Turkey's Small and Medium Enterprises Development Organization (KOSGEB) and the Qatar Development Bank were signed.<sup>76</sup> As KOSGEB Chairman Recep Biçer explains: “*Qatar Development Bank*

72 “Katar Ile Anlaşmalar Imzalandı,” *Anadolu Agency*, December 18, 2016, accessed on June 1, 2022, <https://www.aa.com.tr/tr/gunun-basliklari/katar-ile-anlasmalar-imzalandi/708956>.

73 “TÜBİTAK - QNRF Joint Funding Program,” Qatar National Research Fund, accessed March 10, 2020, <https://rb.gy/wqisn5>.

74 “QNRF and TÜBİTAK Award Cybersecurity Projects,” Qatar Foundation, accessed March 14, 2020, <https://www.qf.org.qa/media-center/qnrf-and-tubitak-award-cybersecurity-projects>.

75 Hüseyin Erdoğan, “Qatargas, BOTAS Sign New Three-Year LNG Agreement,” *Anadolu Agency*, September 20, 2017, <https://www.aa.com.tr/en/energy/natural-gas/qatargas-botas-sign-new-three-year-lng-agreement/723>.

76 “Katar Ile Anlaşmalar Imzalandı.”

wants to start joint activities for Turkish and Qatar SMEs in the establishment of incubation centers, mapping (B2B), technology and know-how transfer, especially in OSTIM (Middle East Industry and Trade Center) region clusters. We believe that the activity plan signed by KOSGEB will provide opportunities for Turkish and Qatari SMEs, and significant economic gains will emerge from the cooperation of the two countries.”<sup>77</sup> The Committee steers the parties to make cooperation agreements in these fields. In August 2017, Qatari and Turkish companies compromised as a result of bilateral negotiations.<sup>78</sup> Again, the “Expo Turkey by Qatar” initiative, created jointly by Qatar and Turkey due to close trade relations, hosted more than 150 Turkish companies.<sup>79</sup>

In order to ensure the mobility of financial assets that is crucial to a virtual state, some sectors witnessed a high level of cooperation between the two countries. Apart from the Supreme Strategic Committee meetings and Expo affairs, Qatar’s 2022 FIFA World Cup preparations and construction sector are growing at the same pace as the country’s booming economy offer enormous opportunities for Turkey. The construction sector, containing a concrete example of multi-dimensional cooperation between Turkey and Qatar, is emerging as a quite attractive option, especially when Turkey most needs an inflow of foreign currency. Turkish companies’ contracts rose beyond \$2 billion in 2018 from \$496 million in the previous year, just after the Qatar diplomatic crisis in which Turkey sided with Qatar.<sup>80</sup>

Like Supreme Strategic Committee meetings, bilateral Turkey and Qatar Business Council and Joint Economic Commission meetings promoted trade relations between the two countries. Turkish exports to Qatar reached almost \$162 million in 2012 and soared beyond \$440 million in late 2016.<sup>81</sup> Moreover, Qatar’s exports to Turkey increased to \$971 million by 2015.<sup>82</sup> The

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77 “KOSGEB ve Katar Kalkınma Bankası güçlerini birleştirdi [KOSGEB and Qatar Development Bank united forces],” *Dünya Gazetesi*, February 3, 2017, accessed on June 1, <https://www.dunya.com/kobiden/kosgeb-ve-katar-kalkinma-bankasi-guclerini-birlestirdi-haberi-348515>.

78 “Qatari and Turkish Firms Sign 15 Agreements,” *The Peninsula Qatar*, August 13, 2017, accessed on June 1, 2022, <https://thepeninsulaqatar.com/article/13/08/2017/Qatari-and-Turkish-firms-sign-15-agreements>.

79 “More Than 150 Turkish Companies Participate in ‘Expo Turkey by Qatar,’” Qatar Embassy in Ankara - Turkey, accessed October 20, 2021, <https://www.qatarchamber.com/150-turkish-companies-participate-expo-turkey-qatar/>.

80 “Qatar Development Bank Joins Turkeybuild Istanbul 2019,” Yapı Turkeybuild İstanbul, May 2, 2019, accessed on June 1, 2022, <https://yapifuari.com.tr/Articles/qatar-development-bank-joins-turkeybuild-ista>.

81 “Turkey-Qatar Economic and Trade Relations,” Rep. of Turkey Ministry of Foreign Affairs, accessed October 20, 2021, [https://www.mfa.gov.tr/turkey\\_s-commercial-and-economic-relations-with-qatar.en.mfa](https://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-qatar.en.mfa).

82 “Qatar Product Exports to Turkey 2010 | WITS Data,” The World Bank, accessed October 20, 2021, <https://wits.worldbank.org/CountryProfile/en/Country/QAT/Year/2010/TradeFlow/Export/Partner/TUR/Product/all-groups>.

steady increase in the trade volume between Qatar and Turkey demonstrates that it may soar beyond \$2 billion shortly.<sup>83</sup>

Qatar's investments in Turkey also played an important role in this puzzle. Qatar, making important purchases in large amounts, causes a significant foreign exchange inflow to Turkey. Most notably, Qatar National Bank bought Finansbank, one of Turkey's biggest banks, and was acquired by the National Bank of Greece in 2006<sup>84</sup> for approximately €2.7 billion in 2016.<sup>85</sup> In 2015, the Qatari Bein Media group bought Digiturk, one of Turkey's largest satellite television providers, with about 3.5 million subscribers and 239 channels, the majority of which was owned by the Saving Deposit Insurance Fund, for approximately \$1.2 billion.<sup>86</sup> In addition, Qatar purchased ERGO Portfolio and Alternatif Bank and acquired shares in Turkey's leading businesses such as Banvit, BMC, Mado, and Boyner.<sup>87</sup>

These relations were mutual and permanent. In 2017, Turkey's exports to Qatar increased by 48% and reached \$649 million right after the crisis.<sup>88</sup> In 2018, Turkish exports to Qatar increased by 69% to \$1.1 billion; in 2019, it reached \$1.2 billion.<sup>89</sup> In 2018, Qatar's investments in Turkey reached \$6.2 billion, \$21.8 billion in 2019; and in 2020, the amount of Qatar's investments in Turkey reached almost \$33 billion.<sup>90</sup> This amount is about six times the size of the United States' investments and almost four times that of France's investments. As the Qatar Investment Fund's estimated value is currently \$345 billion,<sup>91</sup> Qatar realizes approximately 10% of its investments in Turkey. Among these investments, some strategic purchases also draw attention. For

83 "Expo Turkey by Qatar."

84 "Hakkımızda | QNB Finansbank'ı Taniyin [About - QNB Finansbank]," QNB Finansbank, accessed October 14, 2021, <https://www.qnbfinansbank.com/qnb-finansbanki-taniyin/hakkimizda> Although the last owner of the bank was the National Bank of Greece, Qatar provides the flow of resources to Turkey with its investments.

85 "Madde madde Katar'ın Türkiye yatırımları," *BirGün*, December 16, 2019, accessed on June 1, 2022, <https://www.birgun.net/haber/madde-madde-katar-in-turkiye-yatirimlari-280178>.

86 "Digiturk'ü Katarlılar aldı," *BloombergHT*, July 14, 2015, sec. world, <https://www.bloomberght.com/haberler/haber/1812810-digiturku-katarlilar-aldi>.

87 Şerif Dilek, "Katar Yatırımları ve Türkiye'nin Yeri [Qatar Investments and Turkey's Place]," Analiz (İstanbul: Siyaset, Ekonomi ve Toplum Araştırmaları Vakfı (SETA), 2020), 15.

88 "Katar Ülke Profili [Qatar Country Profile]" (Ministry of Commerce, the Republic of Turkey, 2021), accessed on June 1, 2022, <https://ticaret.gov.tr/data/5fa9240113b8762e4ca1a800/Katar%20%C3%9Clike%20Profili.pdf>.

89 "Katar Ülke Profili [Qatar Country Profile]."

90 "Yurt İçindeki Doğrudan Yatırımların Ülke Dağılımı [Share by Country of Domestic Direct Investments in Turkey]," Central Bank of Republic of Turkey, accessed October 25, 2021, <https://evds2.tcmb.gov.tr/index.php?evds/dashboard/4944>.

91 "Qatar Investment Authority (QIA) - Sovereign Wealth Fund, Qatar," Sovereign Wealth Fund Institute (SWFI), accessed October 25, 2021, <https://www.swfinstitute.org/profile/598cdaa60124e9fd2d05bc5a>.

example, Qatar owns 10% of the Istanbul Stock Exchange,<sup>92</sup> some shares of Istinye Park, a prominent shopping center with luxury stores, and, most importantly, 49% of the tank pallet factory affiliated to the Turkish Ministry of National Defense<sup>93</sup> belong to Qatar. In August 2018, after the sudden depreciation of the Turkish lira by 60% in a few months, primarily due to political reasons, Qatar's direct investment promise of \$15 billion<sup>94</sup> seemed like an indication that the relations went beyond the ordinary cooperation of the two states.

### **Qatar in the Aftermath of the Embargo Crisis**

The study's introduction revealed that wars, conflicts, and crises do not operate in their usual course for virtual states. Virtual states or states with some virtual characteristics can minimize the crisis's adverse effects as they can continue to utilize their highly mobile assets effectively in those times. For this reason, this study underlined that Qatar has managed to protect itself from the harmful effects of the blockade due to some of its virtual state characteristics. Specifically, despite the short-term volatility in the Qatar Stock Exchange and markets of other boycotting countries, contrary to expectations, the boycott could not defeat Qatar in terms of volatility persistence and the directional risk spillovers, and Qatar successfully resisted the blockade.<sup>95</sup> Qatar has obviated this rancorous dispute by increasing its foreign partners, strengthening the management of gas resources, and maintaining investment mediation.<sup>96</sup> Similarly, despite the harsh, unpleasant effects of the crisis on business, Qatar has shown remarkable resilience with the help of the convenience of substantial exterior and fiscal buffers and a robust financial sector.<sup>97</sup>

Another example is that Credit default swap (CDS) prices for five-year Qatari sovereign debt (or the cost of insuring \$10 million of five-year Qatari

92 "Borsa İstanbul A.Ş. - Kurumsal Yönetim [Istanbul Stock Exchange Corp. - Corporate Management]," accessed October 25, 2021, <https://www.borsaistanbul.com/tr/sayfa/218/kurumsal-yonetim>.

93 Recep Tayyip Erdoğan, "Tank Palet Fabrikası İnceleme Programı'nda Yaptıkları Konuşma [Speech at the Tank Pallet Factory Review Program]," <https://www.tcgb.gov.tr/konusmalar/353/128582/tank-palet-fabrikasi-inceleme-programi-nda-yaptiklari-konusma>.

94 "Katar'dan Türkiye'ye 15 milyar dolar yatırım [Investment by \$15 billion from Qatar to Turkey]," Anadolu Agency, August 15, 2018, <https://www.aa.com.tr/tr/gunun-basliklari/katardan-turkiyeye-15-milyar-dolar-yatirim/1232364>.

95 Jamal Bouoiyour and Refk Selmi, "The Gulf Divided: The Economic Impacts of the Qatar Crisis," 2020, hal-02523284f.

96 Bouoiyour and Selmi.

97 Refk Selmi and Jamal Bouoiyour, "Arab Geopolitics in Turmoil: Implications of Qatar-Gulf Crisis for Business," *International Economics* 161 (May 1, 2020): 100–101, <https://doi.org/10.1016/j.inteco.2019.11.007>.

debt, in other words) were raised to almost \$125,200 from \$88,000 after the crisis.<sup>98</sup> The cost of insuring \$10 million in five-year debt in Qatar was \$381,000.<sup>99</sup> The deleterious impact of the crisis on Qatar was limited because Qatar's credit risk profile per dollar-decline in oil prices was more stable and robust than the profile of similar LNG exporting countries such as Russia and Mexico.<sup>100</sup>

Qatar has even made some other opportunities from the crisis. The diplomatic crisis has acted as a catalyst for Qatar to increase domestic food production,<sup>101</sup> reduce its dependency on certain countries, and carry out structural reforms in its business circles.<sup>102</sup> It has established new routes for food supply nearly overnight, thanks to its trade links, and has improved existing links with Oman, Turkey, Iran, and India. Qatar has effectively performed its influence gained by its intangible assets in other ways. Some countries, such as Chad, which supported the boycotting countries during the crisis, restored relations with Qatar in its aftermath.<sup>103</sup>

## Conclusion

Countries strive to adapt and sometimes even go beyond the changing international economic and political conjuncture. Since virtual states are the actors that can keep up with this change most successfully, they can invest in tomorrow with today's tools. According to Rosecrance's formulation, it is possible to place Qatar in a place between virtual states (head states) and non-virtual states (body states). He defines it as a mixed environment. This study has shown the position of Qatar in this virtualization stage and wished to revisit an untapped theoretical formulation. This study highlighted a deep and multi-dimensional relationship in financial and commercial terms between Qatar and Turkey, in addition to their ideological and political ties. The pace of the relationship can be regarded as an additional motivation for Turkey's bold decision to back Qatar at the expense of its allies during the diplomatic crisis. The fact that Qatar received the support of many states, especially Turkey, during the crisis and did not suffer as much as expected

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98 Collins, "Anti-Qatar Embargo Grinds Towards Strategic Failure," 65.

99 Collins, 65.

100 Collins, 65.

101 In 2016 to 2018, there was an increase of approximately 13% in Qatar's food production. "Food Production Index (2014-2016 = 100) - Qatar | Data," accessed April 17, 2022, [https://data.worldbank.org/indicator/AG.PRD.FOOD.XD?locations=QA&most\\_recent\\_value\\_desc=true](https://data.worldbank.org/indicator/AG.PRD.FOOD.XD?locations=QA&most_recent_value_desc=true).

102 Ibrahim and Harrigan, "Qatar's Economy: Past, Present and Future," 3.

103 "Qatar Restores Relations with Chad," *Al Jazeera*, February 21, 2018, <https://www.aljazeera.com/news/2018/2/21/qatar-and-chad-restore-relations-first-since-blockade>.

from it underlines the importance of its virtual state characteristics. Qatar has successfully deployed its mobile financial assets and labor force, 90% of which are foreigners. Thanks to its investments in human capital, information technologies, and innovative sectors, it managed to increase its influence in the regional sense and weather the storm after the comprehensive embargo in 2017.

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