

2000 Country Reports on Economic Policy and Trade Practices

Released by the Bureau of Economic and Business Affairs

U.S. Department of State, March 2001

BAHRAIN

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 (1)
<i>Income, Production and Employment:</i>			
GDP (current)	6,167	6,401	6,657
Nominal GDP Growth (pct)	-2.6	3.8	4.0
GDP by Sector:			
Agriculture	56	57	57
Manufacturing	1,035	1,050	1,095
Financial	1,412	1,500	1,575
Government	1,149	1,300	1,665
Per Capita GDP (US\$) (2)	9,776	9,611	9,781
Labor Force (1,000s)	294	306	318
Unemployment Rate (Govt. figures)	2.4	2.35	2.4
Unemployment Rate (Embassy estimate)	16	17	18
<i>Money and Prices (annual percentage growth):</i>			
Money Supply (M2)	16.6	4.3	6.9
Exchange Rate (US\$/BD)	2.65	2.65	2.65
<i>Balance of Payments and Trade:</i>			
Total Exports FOB (3)	3,263	4,070	5,300
Exports to U.S.	170	241	318
Total Imports CIF	3,554	3,600	3,900
Imports from U.S.	295	348	332
Trade Balance	-291	470	1,400
Trade Balance with U.S. (4)	-125	-107	-14
External Public Debt	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	0	0	0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	1,015	1,038	1,129
Aid from U.S.	0	0	0
Aid from All Other Sources	50.0	50.0	50.0

(1) 2000 figures are all estimates based on data available in October 2000.

(2) Current prices, based on population projections.

(3) Exports include transshipment, which accounts for 14 percent of non-oil exports from

Bahrain.

(4) Figures reflect merchandise trade.

Sources: Bahrain Monetary Agency, U.S. Department of Commerce, Embassy estimates.

1. General Policy Framework

Although the Government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies that affect demand for U.S. exports, can best be described as *laissez faire*. Except for certain basic foodstuffs and petroleum products, the price of goods in Bahrain is determined by market forces, and the importation and distribution of foreign commodities and manufactured products is carried out by the private sector.

Effective January 1, 2000 the Government of Bahrain abolished import duties on 43 food and feed items, and reduced duties on consumer goods from 10 percent to 7.5 percent. The import duty on tobacco was increased to 100 percent (up from 70 percent) in 2000 in compliance with an earlier GCC health ministers' decision. Tariffs on cars and boats (20 percent) and alcoholic drinks (125 percent) remain in effect. In principle, no tax or duty is payable on imports of raw materials or semi-manufactured goods for manufacture, or imports required for development projects, on transshipments, or on re-exports.

The Bahraini dinar is freely convertible, and there are no restrictions on the remittance of capital or profits. Bahrain does not tax either individual or corporate earnings. The only exception would be for petroleum revenues under a production-sharing agreement.

Over the past three decades, the government has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a secure regulatory framework that has fostered Bahrain's development as a regional financial and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute approximately 50 percent of governmental revenues, and oil and related products account for about 66 percent of the island's exports. Bahrain's oil production amounts to about 40,000 barrels a day (b/d), and it markets and receives oil revenues from the 140,000 b/d produced from Saudi Arabia's Abu Sa'fa offshore oil field. Gas production amounts to about 1.11 billion cubic feet per day.

The 1999-2000 budget (Bahrain's budgets are prepared biannually) was prepared amid very difficult circumstances because the deterioration in oil prices caused a difficulty in estimating expected oil revenue over the next two years. Government revenues were forecast at \$3.0 billion, down 8.6 percent from \$3.3 billion in the previous budget. Conversely, government expenditures were projected at \$3.9 billion, up 4.5 percent. Oil revenues constitute 49 percent of projected government revenues. The resulting deficit was to be covered by internal borrowing and loans from Arab funds and the Jeddah-based Islamic Development Bank. Sustained high global oil prices since mid-1999, however, significantly boosted government revenues over initial projections. Although the government has not released figures detailing the impact of high

oil prices on the national budget, the government is now anticipating a budget surplus at the end of 2000. The 2001-2002 budget, including new assumptions on oil prices, will be published in December 2000.

The Bahrain Monetary Agency (BMA) has limited instruments of monetary policy. Treasury bills are used to regulate dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including discounting treasury bills, and sales by banks of bills to the BMA with a simultaneous agreement to repurchase at a later date. Starting in 1985, the BMA imposed a reserve requirement on commercial banks equal to five percent of dinar liabilities. Although the BMA has legal authority to fix interest rates, it has not yet exercised the authority. The BMA has, however, published recommended rates for dinar deposits since 1975. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989 the maximum prime rate was abolished, and in February 1990, new guidelines permitting the issuance of dinar certificates of deposit at freely negotiated rates for any maturity from six months to five years were published.

2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the dinar and the dollar at the rate of one dollar equals 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

As a member of the Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain). In addition to duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiating a free trade agreement with the European Union.

Bahrain is an active participant in the ongoing U.S.-GCC economic dialogue. In addition, Bahrain signed a Bilateral Investment Treaty (BIT) with the United States in September 1999, the first Gulf state to do so. It was ratified by Bahrain in November 1999 and was pending before the U.S. Senate as of October 2000. The inaugural meeting of the Joint Economic Dialogue (JED) between Bahrain and the United States also took place in September 1999. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain still officially participates in the primary Arab League economic boycott against Israel, but does not observe secondary and tertiary boycott policies against third-country firms having economic relationships with Israel.

With the exception of a few basic foodstuffs and petroleum product prices, the government does not attempt to control prices on the local market. Because most manufactured

products sold in Bahrain are imported, prices basically depend upon the source of supply, shipping costs, and agents' markups. Commissions are capped at five percent and are due to be phased out by 2003. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, and the 1998 revision in the Agency Law that abolished sole agency requirements, local merchants have been less able to maintain excessive margins and, as a consequence, prices have tended to fall as competition has heated up somewhat.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain potentially would be levied on oil, gas, and petroleum producers, all of which are state-owned at this time. There is no individual income tax, nor does the country have any value-added tax, property tax, production tax or withholding tax. Bahrain has customs duties and a few indirect and excise taxes, which include a tax on gasoline, a 10 percent levy on rents paid by residential tenants, a 12.5 percent tax on office rents, and a 15 percent tax on hotel room rates. Firms with 50 or more employees pay a training levy at the rate of 3 percent of the payroll for expatriates and one percent for Bahrainis.

4. Debt Management Policies

The government follows a policy of strictly limiting its official indebtedness to foreign financial institutions. To date, it has financed its budget deficit through local banks. In April 1998, Bahrain launched its first bond issue, worth approximately \$107 million, which was well received. The government has no plans for a second issue at this time. Bahrain has no International Monetary Fund or World Bank programs.

5. Aid

Bahrain receives assistance in the form of project grants from Saudi Arabia, Kuwait, and the United Arab Emirates. On April 1, 1996 Bahrain began receiving 100 percent of the revenue from the 140,000 b/d of oil produced from Saudi Arabia's offshore Abu Sa'fa field. This has proved to be a major source of funding for the government's budget.

6. Significant Barriers to U.S. Exports

Standards: Processed food items imported into Bahrain are subject to strict shelf life and labeling requirements. Pharmaceutical products must be imported directly from a manufacturer that has a research department and must be licensed in at least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively promotes foreign investment and permits 100 percent foreign ownership of new industrial enterprises and the establishment of representative offices or branches of foreign companies without local sponsors. Other commercial investments are made in partnership with a Bahraini national controlling 51 percent of the equity. Except for citizens of Kuwait, Saudi Arabia, and the United Arab Emirates, foreign nationals must lease rather than purchase land in Bahrain. There is, however, currently legislation under consideration that would allow all foreigners to own property in Bahrain. The government

encourages the employment of local nationals by setting local national employment targets in each sector and by restricting the issuance of expatriate labor permits. Nevertheless, a sizable expatriate labor force continues to work in Bahrain.

Government Procurement Practices: The government makes major purchasing decisions through the tendering process. For major projects, the Ministries of Works and Agriculture, and of Electricity and Water, extend invitations to select prequalified firms. Smaller contracts are handled by individual ministries and departments and are not subject to prequalification.

Customs Procedures: The customs clearance process is used to enforce the primary boycott of Israel, insofar as it is enforced. Goods produced by formerly blacklisted firms may be subjected to minor delays; the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance. The process of removing firms from the blacklist has become routine, upon application by the subject firm. Bahraini customs also protects against the import of pirated goods and enforces the Commercial Agencies Law. Goods manufactured by a firm with a registered agent in Bahrain may be imported by that firm's agents or, if by a third party, upon payment of a commission to the registered agent. This arrangement is being phased out.

7. Export Subsidies Policies

The government provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly established export industries. The government does not target subsidies to small businesses.

8. Protection of U.S. Intellectual Property

Bahrain was deleted from the U.S. "Special 301" Watch List in 1999, and remained off the list in 2000, in recognition of greatly enhanced IPR protection in Bahrain. The government has made dramatic progress in reducing copyright piracy; patent and trademark protection has always been strong. There continue to be no reports of significant violations of U.S. patents and trademarks in Bahrain. Bahrain signed the Bern Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property in 1996.

9. Worker Rights

a. *The Right of Association:* The partially suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain, and the government does not encourage their formation. Article 27 of Bahrain's Constitution states: "Freedom to form associations and trade unions on national bases and for lawful objectives and by peaceful means shall be guaranteed in accordance with the conditions and in the manner prescribed by the law. No person shall be compelled to join or remain in any association or union." In response to labor unrest in the mid-1950s and in 1965 and 1974, the government passed a series of labor regulations that, among other things, allows the formation of elected

workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-Management Committees (JLCs) established by ministerial decree. There currently are 19 JLCs in Bahrain.

b. *The Right to Organize and Bargain Collectively*: Bahrain's Labor Law neither grants nor denies workers the right to organize and bargain collectively. While JLCs are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.

c. *Prohibition of Forced or Compulsory Labor*: Forced or compulsory labor is prohibited in Bahrain. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compelled foreign workers from developing countries to perform work not specified in their contracts. Once a worker has lodged a complaint, the Labor Ministry opens an investigation and takes action.

d. *Minimum Age for Employment of Children*: The minimum age for employment is 14. Juveniles between the ages of 14 and 16 may not be employed in hazardous conditions or at night, and may not work over six hours per day or on a piecework basis. Child labor laws are effectively enforced by Labor Ministry inspectors. Child labor is not believed to be significant outside family-operated businesses.

e. *Acceptable Conditions of Work*: Minimum wage scales, set by government decree, exist for employees and generally afford a decent standard of living for workers and their families. Wages in the private sector are determined on a contract basis. For foreign workers, employers consider benefits such as annual trips home, housing, and education bonuses part of the salary. Bahrain's Labor Law mandates acceptable working conditions for all adult workers, including adequate standards regarding hours of work (maximum 48 hours per week) and occupational safety and health. Complaints brought before the Labor Ministry that cannot be settled through arbitration must, by law, be referred to the Fourth High Court (Labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor laws are generally considered to favor the worker.

f. *Rights in Sectors with U.S. Investment*: The company law does not discriminate at all against foreign-owned companies and is in the process of being liberalized further. Workers at all companies with U.S. investment enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category	Amount
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Petroleum		-92
Total Manufacturing		-5
Food & Kindred Products	(1)	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	-3	
Wholesale Trade		(2)
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(2)
Other Industries		-1
TOTAL ALL INDUSTRIES		-92

(1) Suppressed to avoid disclosing data of individual companies.

(2) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.