

SUMMARY

Economic environment

1. Since its last Review in 2007, the Kingdom of Bahrain's economy has continued to grow, despite the global financial crisis, some sporadic domestic tension since 2011, and oil production dips in 2012. Bahrain's growth in 2013 was driven primarily by the oil sector, with real GDP expected to reach 4.8%. Bahrain's balance of payments featured current account surpluses during the review period, and the trade surplus increased to US\$6,795 million in 2012, up from US\$2,865 million in 2007. The annual average inflation rate in Bahrain remained low, on average (2%). There was a sharp decline of the inflation rate to -0.4% in 2011, due largely to a decrease in housing rents, but it rebounded to normal levels in the second half of the year.

2. Since 2008, Bahrain has been implementing a development strategy, Economic Vision 2030 aimed at, *inter alia*, reducing its high dependence on oil and gas. The strategy has helped diversification efforts: the services sector, led by financial services, contributed 58% of Bahrain's real GDP in 2012, and the manufacturing sector based on Bahrain's comparative advantages in energy-intensive industries (mainly aluminium and petrochemicals) contributed 15.2% of real GDP.

Institutional framework

3. Formulation and implementation of the trade policy are the responsibility of the Ministry of Industry and Commerce (MOIC). The MOIC consults with relevant ministries and other institutions that also take part directly or indirectly, including the Economic Development Board. The private sector provides inputs to trade policy formulation, on an ad hoc basis, through the Chambers of Commerce and Industry. The National Committee and its sub-committees deal with WTO-related matters under the ambit of the MOIC.

4. Bahrain has been reviewing and amending its laws with a view to their conformity with WTO obligations. Several new laws have been introduced since its last TPR, including a new Civil Aviation Law (2013), a trade remedies law covering anti-dumping, subsidies and countervailing, and safeguards measures (2011), as well as other laws related to government procurement and maritime transport.

5. Bahrain is an original member of the WTO. It is a signatory to the WTO Information Technology Agreement (ITA), and an observer to the Plurilateral Agreement on Government Procurement. Bahrain has not been involved in any dispute under the WTO Dispute Settlement Mechanism, either directly or as a third party. Bahrain grants at least MFN treatment to all its trading partners. It has difficulties in meeting a number of the notification requirements under certain WTO Agreements, most notably TRIPS.

6. Bahrain is a member of the Gulf Cooperation Council (GCC), and participates in the Pan-Arab Free Trade Area (PAFTA). In the context of the GCC, Bahrain has signed an FTA with EFTA and Singapore. It also has its own bilateral trade agreements, notably with the United States. Bahrain was the first country in the region to have such a bilateral agreement, followed by Oman. GCC Heads of States consider both of these agreements as an exception and all future trade agreements are to be negotiated collectively as a group. As at January 2014, the GCC countries are evaluating the feasibility of negotiating future FTAs with other countries and regions.

Trade policy instruments

7. Bahrain has applied the GCC common external tariff (CET) since 1 January 2003. Bahrain's simple average applied MFN was 5.1% in 2013. All rates are *ad valorem* (except on tobacco), and there are no tariff quotas, no nuisance rates, and no other duties and taxes on imports. Bahrain's exceptions to the GCC CET include alcohol (125%) and tobacco (subject to an alternate tariff, with an *ad valorem* component of 100%). On the basis of the WTO definition, tariffs average 7.5% in agriculture and 4.6% on non-agricultural products. Using ISIC (Revision 2) definition, the least tariff-protected sector is agriculture with 3.0%, followed by mining and quarrying (4.9%) and manufacturing (5.2%).

8. On aggregate, Bahrain's tariff displays positive escalation, from first-stage processed products, with an average tariff of 3.9% to semi-finished goods, with an average rate of 4.8%, and fully processed products, on which tariffs average 5.5%. Bahrain has bound 70.6% of its tariff lines. Most bound tariffs are at a ceiling rate of 35%: however for tobacco and alcohol products (24 lines), tariffs are bound at 100% and 200% respectively, thus leaving ample margins for applied tariff increases. Bahrain has never taken any anti-dumping, countervailing or safeguard actions. Duty concessions may be granted (including on a selective basis) as part of various investment incentives.

9. The documentation for all imported products must be authenticated by the Consulate of Bahrain in the country of origin. Non-tariff measures are maintained on imports and exports, mainly for health, security, and moral reasons. Bahrain has largely harmonized its regime on standards and technical regulations with other GCC members.

10. In 2010, Bahrain adopted a new government procurement regime; it still provides for 10% and 5% price preferences for local and GCC products, respectively. Bahrain has no competition legislation per se, but the telecommunications and financial sectors are well regulated for anti-competitive practises.

Sectoral policies

11. The Bahraini economy continues to be dominated by the oil sector and connected industries, although Bahrain's oil and natural gas reserves are limited. As part of its Economic Vision 2030, attempts are under way to diversify the economy, particularly into financial services and manufacturing. The petroleum subsector accounted for 24.6% of GDP in 2012 and 75% of government income.

12. Agriculture represents a meagre share of Bahrain's economy, accounting for only 0.3% of GDP. Due to lack of arable land and scarce water supply, Bahrain remains a net food importer. Agricultural production is supported through the provision of subsidies and preferential loans to farmers. The simple average applied MFN tariff for agricultural products is 3%.

13. The manufacturing sector continued to grow during the review period and constituted the third largest contributor to Bahrain's economy after hydrocarbons and financial services. As part of its diversification process, Bahrain has focused on high-value-added and energy-intensive industries such as aluminium, petrochemicals, metal products, and steel. These industries are primarily managed by large state-owned companies, most notably Aluminium Bahrain (ALBA) and Gulf Petrochemicals Industries Company (GPIC). Bahrain may authorize up to 100% of foreign investment in companies in the industrial sector. The simple average applied MFN tariff for manufacturing products is 5.2%.

14. Bahrain has continued to expand its services sector, which represented around 58% of GDP in 2012. However, the sector as a whole was strongly affected by the recent financial crisis as well as by the domestic tension in 2011. The financial sector, the cornerstone of Bahrain's diversification strategy, is well regulated by the Central Bank of Bahrain (CBB). In recent years, Bahrain has been focusing on developing its Islamic banking and its insurance subsectors in an attempt to create a niche in a highly competitive market in the Gulf region. However, the size of the banking sector remains a key structural vulnerability; assets for retail banks and wholesale banks accounted for 248% and 390% of GDP respectively in August 2013.

15. The telecommunications market has been liberalized since 2003. A mobile operator, Viva Bahrain, entered the market in 2009, making it the third telecom provider after the partially state-owned operator BATELCO and Zain Bahrain. As the regulator of the market, the Telecommunications Regulatory Authority (TRA) undertakes periodic reviews to ensure that operators do not hold significant market power or dominance in the market.

16. Bahrain's transportation sector has been streamlined by the Ministry of Transportation (MOT), which has taken over responsibility for the development of Bahrain's transportation infrastructure systems, including air, port and maritime, and land transportation. Important legislation that has entered into force on civil aviation and maritime transport, helps to align air

and maritime transport with international practices. After making large losses, in 2007, Gulf Air, the principal flag carrier of Bahrain was fully bought by the state holding company, Mumtalakat.

17. The tourism sector in Bahrain draws on the country's cultural and historical heritage but also on its sports and business tourism potential. The sector was badly affected by the domestic tension of 2011, with tourist arrivals plummeting by 32.7% but rebounded in 2012. In 2010, the Tourism Sector under the Ministry of Culture became responsible for tourism activities in Bahrain. Foreign investment is allowed up to 100% in the sector.