
SUMMARY

1. The Kingdom of Bahrain is a high-income country, with a population of about 1.5 million and a GDP per capita of USD 23,300, according to the World Bank. As a result of long-standing diversification efforts, including under Bahrain's Economic Vision 2030, the services sector has become the backbone of the economy, accounting for nearly 60% of real GDP in 2020. Nevertheless, petroleum products alone still account for some 18.3% of GDP, with significant contributions to government revenue, exports, and other economic activities. The manufacturing sector (14.2% of GDP) is energy-intensive and the second largest contributor to non-oil GDP, while agricultural activities remain marginal (0.3% of GDP). The economy continues to rely heavily on foreign labour, although sustained efforts to increase the employment share of Bahrainis have borne fruit. Heavily involved in economic activities, the public sector, including state-owned enterprises, continues to be one of the largest employers. Bahrain maintains a fixed exchange rate regime, with a conventional peg of the national currency, the Bahraini dinar, to the US dollar.

2. Under its Economic Vision 2030, Bahrain implemented several projects to improve the quality of infrastructure, promote digitalization, and ensure high-quality services. A medium-term Fiscal Balance Program (FBP) was adopted in 2018 in response to falling foreign exchange reserves, and high fiscal deficit and central government debt. The programme includes voluntary retirements of public sector employees, tax reforms, and spending controls. A financial support agreement covering the period 2018-22 was also reached between Bahrain and some of its Gulf Cooperation Council (GCC) partners to tackle these challenges. The reforms contributed to maintaining positive but fluctuating levels of economic growth, largely supported by the expansion of the non-oil sector, while the fixed exchange rate regime contributed to domestic price stability. However, the subsequent onset of the COVID-19 pandemic and the measures adopted by Bahrain to help mitigate its impact, including the USD 12 billion economic stimulus package, are likely to delay the success of these macroeconomic stabilization reforms. The economy contracted by about 5.1% in 2020 due to the COVID-19 pandemic and falling oil prices. Economic recovery is expected in 2021, with annual real GDP growth estimated at 3.1%, and at 2%-2.5% in the medium term (2022-25), thanks to continued government expenditure on infrastructure and its related impact on the non-oil sector.

3. The economy remains highly dependent on trade, with its ratio of trade in goods and services to GDP fluctuating between about 176% in 2014 and 136% in 2020. Petroleum products continue to account for the bulk of merchandise exports (over 40% of the total) followed by non-ferrous metals, while imports are dominated by crude oil destined for the national refinery, agricultural products, and various manufactured goods. Bahrain is a net exporter of services, with the surplus on an upward path. Its main trading partners are the other GCC member States, in particular the Kingdom of Saudi Arabia and the United Arab Emirates. The shares of other partners (notably the European Union, China, and Brazil) as the sources of imports were on an upward trend over the review period.

4. Bahrain is an active participant in the multilateral trading system. It submitted various notifications to the WTO during the review period. Nevertheless, notifications on, *inter alia*, state trading enterprises and subsidies remain outstanding. Bahrain participates in Joint Statement Initiatives on e-Commerce; investment facilitation for development; and micro, small, and medium-sized enterprises. Bahrain has never been a complainant in a WTO dispute settlement case, but it was a respondent in a case brought by Qatar in 2017. Bahrain also maintains a network of regional trade and investment agreements. These include the trade protocols under the Pan-Arab Free Trade Area, the Organization of the Islamic Cooperation, and the GCC. It has also a bilateral trade agreement with the United States. Based on a decision by the GCC, all future trade agreements should be negotiated as a group. Four bilateral investment treaties and six double taxation agreements were signed during the review period.

5. Bahrain continued to improve its investment regime during the review period. In 2016, it implemented an online commercial registry system (SIJILAT) to simplify business registration, streamline licensing requirements, and ensure coordination between relevant agencies. In 2018, foreign ownership restrictions were removed on 62 business activities. Steps were also taken in 2021 to further facilitate foreign participation in some of the selected economic activities where foreign access remains prohibited. In fact, bookkeeping and accounting services (not including auditing); imports, exports, and sales of racing car fuel; cargo clearing; and fishing are allowed only for Bahrainis and GCC citizens and companies.

6. Bahrain ratified the WTO Trade Facilitation Agreement in September 2016, and the Government indicates that it has implemented 100% of its commitments under the Agreement, ahead of schedule. New trade facilitation initiatives include Bahrain's implementation of the GCC unified guide on advance rulings, the launch of a remote customs clearance service, and the introduction of an authorized economic operator scheme and other schemes giving facilitated access for trusted operators. Reportedly, around 90% of goods are released without inspection, typically the same day.

7. Bahrain's customs tariff is based on the common external tariff of the GCC, except for 34 items (prohibited by Bahrain) on which each GCC member State is free to set its own regime. Non-*ad valorem* (mixed) duties apply to tobacco and tobacco products (20 tariff lines). Bahrain's simple average applied MFN tariff rate was 4.7% in 2021 (down from 5.1% in 2013), with *ad valorem* tariff rates ranging from zero to 100%. Average applied rates are higher at 5.4% on agricultural products (WTO definition) than on non-agricultural products (4.6%). Tobacco products are subject to the highest duties (*ad valorem* or mixed). On the basis of the ISIC nomenclature, the mining and quarrying sector and manufacturing are each subject to the highest average tariff rate of 4.9%.

8. Bahrain has bound about 70% of its tariffs at rates ranging up to 200% on alcohol products. The average bound tariff is 34.7%, giving Bahrain a large amount of flexibility to increase applied tariffs. Moreover, the imposition of mixed tariffs on tobacco and tobacco products on which the binding is *ad valorem* (100%) does not ensure compliance with Bahrain's commitments.

9. Bahrain has a low-tax environment. Corporation taxes are levied only on companies in the oil and gas sectors and those that generate profits from hydrocarbon extraction or refinement. However, as part of the FBP, Bahrain introduced excise taxes on tobacco, energy drinks, and carbonated drinks, and a value added tax (VAT) at a standard rate of 5%. Although the excise duty and the VAT apply equally to locally produced goods and imports, most of the revenue deriving from these taxes comes from imports, due to a low level of domestic production.

10. Since its last Review, Bahrain has introduced import prohibitions on waste, parings, and scrap of plastic. Together with the other GCC member States, it imposed definitive anti-dumping duties on four products from five WTO Members, and safeguard duties on imports of certain iron/steel products and chemical plasticizers. It imposed (and subsequently lifted) export prohibitions on face masks and export licensing requirements on alcohol solution, hand sanitizer, and other disinfectants.

11. Bahrain provides various programmes to support domestically established industries, including tariff exemptions for inputs used by companies having an industrial licence and, in some cases, incentives to encourage exports. Since the last Review, new initiatives have included a loan scheme for women's commercial start-ups, a Liquidity Support Fund for companies' working capital requirements, a pilot grant initiative for first-time exporters, and a business development programme for small and medium-sized enterprises (SMEs). Additionally, the recently established export promotion agency, Export Bahrain, has entered into partnership agreements with state-owned and private-sector entities to enable companies to access transportation and related services discounts, access export credit facilities, and market local products. In parallel, Bahrain removed consumer subsidies for beef, chicken, and petrol.

12. In 2016, Bahrain enacted a new law on standards and metrology to enable the adoption of international standards and expand the scope of work to be aligned with international and regional practices. A "Made in Bahrain" mark was launched to promote local products. Various specific trade concerns were raised regarding GCC technical regulations in the WTO TBT Committee and one specific trade concern was raised in the SPS Committee.

13. In 2018, Bahrain enacted the Law on Competition Promotion and Protection and subsequently issued various implementing orders. The Law regulates anti-competitive practices, abuse of dominant position, and economic concentration. Pending the establishment of the Competition Promotion and Protection Authority, the Law is being implemented by the Ministry of Industry, Commerce and Tourism's Consumer Protection Directorate, and there have not yet been any competition-related investigations.

14. Bahrain has been an observer to the WTO's plurilateral Agreement on Government Procurement (GPA) since 2008. Recent developments in its regime on government procurement

include the full automation of its electronic tendering system and the introduction of a 10% price preference for SMEs in government tenders for goods, construction, and service contracts. In the intellectual property (IP) rights sphere, Bahrain approved the GCC Trademarks Law, issued implementing regulations for trademarks and patents and utility models, and launched an e-service platform enabling filing of industrial property applications online. Bahrain also became party to various IP-related international conventions.

15. Bahrain continues to rely on imports to meet its domestic demand for most agricultural products, despite the Government's efforts to promote the sector. The main incentive programmes for agriculture include preferential loans to farmers, subsidized prices for irrigation and greenhouse equipment, and the provision of various agricultural services. The agriculture, hunting, and fishing sector (ISIC definition) benefits from the lowest average tariff protection of 3.0%, but with rates ranging up to 100% on tobacco.

16. The petroleum and gas industry remains of great importance to the economy. State ownership is high in exploration, exploitation, and marketing activities. NogaHolding, the investment arm of the National Oil and Gas Authority, administers the Government's shares in 13 companies, mostly in the energy sector. The import and export of petroleum products are solely conducted by the Bahrain Petroleum Company, a subsidiary of NogaHolding. Bahrain's efforts in this sector aim to promote energy-efficiency and environmentally friendly practices, while optimizing the industry's contribution to its economic prosperity. The declared objective is to achieve 10% production of energy from renewable sources by 2035. To this end, a resolution adopted in 2017 aims to promote clean energy production from renewable sources, and to increase the share of the latter in the energy mix. While power generation has been open to competition, its transmission and distribution remain exclusively under the responsibility of the publicly owned Electricity and Water Authority. Import tariff rates average 4.9% in the mining and quarrying sector (ISIC definition) and range up to 5%.

17. The manufacturing sector is dominated by energy-intensive industries such as aluminium and petrochemical production. The main manufacturing companies are large and partially state-owned. In fact, Aluminium Bahrain Company is one of the largest aluminium companies in the world. It is a joint venture between the Saudi Arabian Basic Industries Corporation and Bahrain's Mumtalakat. Bahrain has undertaken efforts in recent years with a view to building an environmentally friendly manufacturing sector. Manufacturers are encouraged, through various means, to shift to cleaner production activities. An environmental impact assessment has to be made before a project is launched. Import tariff rates average 4.9% in the manufacturing sector (ISIC definition) and range from zero up to 100%.

18. Financial services are the largest non-oil contributor to Bahrain's real GDP. They are open to foreign investment and comprise a large number of Islamic and conventional financial companies. Bahrain has recently taken steps to promote the fintech industry; several supporting regulations were adopted, and a number of licences were granted in the area of crypto-asset services. The Central Bank of Bahrain also adopted new measures, in line with certain Basel III requirements, to further mitigate risks in banking activities. Responsibilities of the Compliance Directorate of the Central Bank were extended to include anti-money laundering and combating the financing of terrorism.

19. In the securities industry, the Central Bank adopted certain measures to further develop Bahrain's capital markets and promote transparency, including the obligation of listed companies to immediately announce any dividend distribution and relevant information. Regarding insurance activities, in 2019, the Central Bank prohibited insurance licensees from having any form of direct or indirect exposure to their controllers (including subsidiaries and associated companies of the controllers).

20. Telecommunications services are open to foreign investment. In 2019, Amazon Web Services chose Bahrain as its regional hub. Bahrain deployed 5G towers in 2019 and has now achieved full 5G coverage. A number of regulations were adopted to strengthen cybersecurity. In July 2018, a personal data protection law was issued and came into force in August 2019. Other recent regulations concerning personal data protection include rules on electronic transactions, and on technical requirements for sending, receiving, and updating the electronic records and signatures of public bodies.

21. Bahrain established a strategic plan on land transport, and investments in bus transportation and infrastructure were undertaken, notably through different public-private partnerships. Steps were also taken to further regulate internal and international transport for passengers. Maritime services are, in general, provided by private companies. Foreign participation was further eased during the review period, and full foreign participation was allowed in, *inter alia*, re-exportation of goods and other logistics value-added services, ship building and repair services, pilotage, and towage. Bahrain International Airport's infrastructure was modernized in 2021 to further improve its passenger handling capacity and better support the tourism industry, which has been affected by the global pandemic and related travel restrictions. Moreover, international events that involve large numbers of visitors have been promoted with a view to strengthening the position of Bahrain as an important destination for both regional and international tourists. Established in 2015, the Bahrain Tourism and Exhibitions Authority remains in charge of regulating all tourism activities.