



TRADE POLICY REVIEW

REPORT BY

KINGDOM OF BAHRAIN

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Kingdom of Bahrain is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on the Kingdom of Bahrain.

Contents

1 INTRODUCTION	3
2 NATIONAL DEVELOPMENT	4
3 ENHANCING PRODUCTIVITY AND CAPACITY.....	5
3.1 Policy initiatives	5
3.1.1 Developing industry	5
3.1.2 Building on the financial services sector	5
3.1.3 Telecommunications.....	6
3.1.4 Encouraging inward investment	6
3.1.5 Importance of intellectual property rights	7
3.1.6 Privatization.....	7
3.1.7 Skilled human resource development.....	8
3.1.8 Fiscal policy	8
3.1.9 Monetary policy	9
3.1.10 Stability.....	9
3.2 Growth sectors.....	9
3.2.1 Financial services.....	10
3.2.2 Manufacturing	10
3.2.3 Education	10
3.2.4 Healthcare	11
3.2.5 Real estate and construction.....	11
3.2.6 ICT	12
3.2.7 Tourism.....	12
4 TRADE POLICY	13
4.1 Bahrain and the world	14
4.2 Bahrain and the region.....	14
4.2.1 GCC membership.....	14
4.2.2 GAFTA membership.....	15
4.3 Bilateral agreements.....	15
ANNEX 1 TRADE RELATED TECHNICAL ASSISTANCE	16
ANNEX 2 CONTRIBUTORS TO THIS GOVERNMENT REPORT	17

1 INTRODUCTION

1.1. Bahrain has served for millennia as a hub for investment and trade in the Arabian Gulf and beyond. Bahrain's unique business culture builds on a long-standing tradition of openness to people, ideas, and capital. This accounts for its deeply entrenched culture of freedom, tolerance, and innovation. Bahrain is strongly committed to regional integration and offers unique connectivity with the neighbouring GCC economies. It has, or is negotiating, free trade agreements with a number of major economies, including the U.S. since 2006. The country has a modern logistics infrastructure, including its new Khalifa bin Salman Port opened in 2009.

1.2. Bahrain has been a regional pioneer of economic development in a number of areas. It was the first country in the Gulf to pioneer public education as well as to start producing oil commercially. This in turn engendered a long period of industry-led diversification. Bahrain established a regional offshore financial hub in the 1970s and is now home to a full gamut of financial and ancillary services. Its locational has allowed it to consolidate its position as a regional logistics hub.

1.3. Policy-making in Bahrain is explicitly anchored in a clear long-term vision and driven forward through a strategic focus in a fact-based manner. The Economic Vision 2030 is a roadmap for making Bahrain a sustainable, competitive, fair and knowledge based economy. Its implementation takes place through government programs with clear, measurable objectives. Bahrain is in the category of "highly developed economies" ranking 48th in the Human Development Index according to the UNDP report for 2013.

1.4. Bahrain has made significant strides toward diversifying its economy in recent decades. Whereas the oil and gas sector accounted for 44% of the Kingdom's real GDP in 2000, this proportion had more than halved to 19% as of 2012. The largest sectors of the non-oil economy are financial services (17%), manufacturing (15%), and government services (approximately 13%). The process is continuing at a brisk pace with a number of sectors recording double digit annual average growth rates between 2000 and 2012. These included private health care and education, construction, and transportation and communications. Also downstream manufacturing has expanded rapidly.

1.5. Bahrain's economic diversification is reflected in a diverse national labour force where two-thirds of economically active Bahraini nationals are now active in the private sector. Following decades, of economic diversification and focused investment in education and training, there are Bahrainis active in all sectors of the economy, and Bahrainization rates are strongly correlated with economic productivity.

1.6. A number of training programs have been developed to ensure ongoing matching between the evolving needs of the economy and the country's human capital assets. Key initiatives include the Tamkeen labor fund and the Bahrain Polytechnic which began its operations in 2008. Teacher training has been boosted through a training college and an independent body to monitor the quality of education in the Kingdom – Quality Assurance Authority for Education and Training (QAAET) – has been established. These initiatives have improved Bahrain's standing in international rankings with, for instance, the World Economic Forum's Global Competitiveness Report 2013-2014 ranking Bahrain 48th out of 148 countries worldwide for the quality of its educational system.

1.7. Bahrain has been repeatedly recognised for the quality and flexibility of its business regulation. The 2012 Heritage Foundation Index of Economic Freedom places the Kingdom at the 12th position worldwide, ahead of a number of advanced economies and major emerging markets. Among other things, foreign investors in Bahrain can benefit from 100% foreign ownership. The liberal principles underpinning the Bahraini business climate are not confined to free zones but apply to the entire economy, which constitutes a unified jurisdiction. Also the country's physical infrastructure has continued to be modernized with the World Economic Forum's Global Competitiveness Report 2013-2014 ranking the Kingdom 20th worldwide in terms of the "quality of overall infrastructure."

1.8. Bahrain is a dynamic and resilient economy which has continued to expand throughout the global economic crisis. The main structural growth drivers include demographic dynamics,

connectivity with the broader region, and the ongoing economic diversification. Real GDP growth reached 1.9% in 2011 and accelerated to 3.4% in 2012 and projected to be 4.8% in 2013.

1.9. Bahrain's long-standing status as a financial centre is reflected in the fact that financial services account for some 17% of real GDP. Bahrain is home to a number of institutions of excellence, such as the Bahrain Institute of Banking and Finance, which has trained a large and growing cadre of national professionals. A number of international Islamic finance advisory bodies operate from the Kingdom. These include the Accounting and Auditing Organization for Islamic Financial Institutions and the International Islamic Financial Market. These entities have been instrumental to fostering standardization and product development in a rapidly evolving sector.

1.10. Bahrain's commitment to sustained diversification and inclusive development has engendered a number of important initiatives to foster entrepreneurship and the growth of small and medium-sized enterprises (SMEs). Institutions such as the Bahrain Development Bank and Tamkeen play a key role in supporting SME development through financial and non-financial support. While SMEs already account for more than 90% of Bahraini companies and three-quarters of private sector employment, the focus of policy initiatives is increasingly shifting toward enabling SME growth and progress in areas such as exports and innovation.

1.11. Bahrain has significant progress in recent years in terms of modernising its government sector and increasing efficiency standards. Key initiatives include targeted education and training, increased transparency and accountability through institutions such as the Tender Board and the National Audit Office. The provision of public services has increasingly shifted to state-of-the-art electronic platforms to enable timely delivery and greater responsiveness.

1.12. Bahrain's commitment to inclusive development has involved a number of initiatives to empower women and foster their active participation in the economy. The Supreme Council for Women was established in 2001 to champion the cause of Bahraini women who have enjoyed full rights to participate in the political process since 2002. Women are present at all levels of society and the political establishment. They represent 35% of the Bahraini labour force and 72% of students in higher education.

2 NATIONAL DEVELOPMENT

2.1. The transition into a constitutional monarchy in 2002 based on a national referendum has resulted in political liberalization and strong backing for economic reform programs. Elections in 2010 and the bi-elections of 2011 following on those in 2006 and in 2002 witnessed engagement from parties and sections of society, and has brought with them a shift in perceptions of what can be achieved at an individual level, with an amplified sense of citizenship.

2.2. The launching of Bahrain's Economic Vision 2030 in 2008, and the new constitutional amendments in 2012 have positively impacted the national business environment towards more competitiveness, sustainable development, skilled employment, economic growth, and social fairness.

2.3. The commitment to openness and democracy has invigorated economic development strengthened Bahrain's one family spirit. In terms of economic development, the focus has been a shift towards a private-sector driven economy with the Government acting as a policy maker and regulator, with the overall objective of ensuring that growth is inclusive.

2.4. A number of public boards and intergovernmental committees have been established to ensure full integration of the private sector into the economic development process, with the process being coordinated alongside the Bahrain Economic Development Board (EDB), which is focused on attracting inward investment into Bahrain with the aim of creating quality jobs for Bahrainis.

2.5. The competence of the National Audit Court, which was established in 2002 (Law No. 16 of 2002), has been expanded in 2010 (Law No. 49 of 2010) to include financial auditing in addition to administrative auditing of the Government ministries and agencies.

2.6. An efficiency drive, spearheaded by the Civil Service Bureau, aims at strengthening the performance and efficiency of government departments, whilst at the same time the process of outsourcing will lead to a downsizing of government.

3 ENHANCING PRODUCTIVITY AND CAPACITY

3.1 Policy initiatives

3.1.1 Developing industry

3.1. Industrialization has formed the backbone of Bahrain's drive for economic diversification for more than four decades. Bahrain's development strategy, Vision 2030, confirmed the importance of the manufacturing sector as a key driver for the diversification process, innovation, and knowledge based economy.

3.2. Bahrain's diversification plans focus on reducing positively correlated volatilities amongst industries, avoiding fluctuation and attracting some optimal combination of industrial investments in this pursuit.

3.3. Bahrain has made significant infrastructural investments (port facilities, road networks, electrical networks), and this can significantly serve its policy ambitions in expanding the pace and contribution of SMS through the anticipated expansion of regional and international trade and investment.

3.4. The Ministry of Industry and Commerce manages eight industrial areas with a total size of 22 million m². The history of the industrial areas in Bahrain started in the sixties and currently there are major industrial projects in Bahrain, for example: Aluminium of Bahrain "ALBA", Gulf Petrochemical Industries Company "GPIC" and Gulf Aluminium Rolling Mill Company "GARMCO". Salman Industrial City is the latest industrial area with a size of 12 million m² which is home to the Bahrain International Investment Park, Bahrain Investment Wharf and the Hidd Industrial Area.

3.5. Bahrain is concurrently focusing on developing a competitive SME sector, delivering international quality products and services, and contributing to quality employment opportunities.

3.6. Micro, small and medium enterprises represent a significant part of the Bahraini economy. Micro, small and medium enterprises (MSMEs) constitute almost 99% of all business enterprises in Bahrain. As per Central Informatics Organisation's estimates, these enterprises contribute nearly 28% of total nominal GDP of Bahrain. Manufacturing, trading and construction constitute the main segments of the MSME sector in Bahrain. Micro, small and medium enterprises also provide jobs for nearly 73% of private sector employees.

3.1.2 Building on the financial services sector

3.7. The financial services sector is one of Bahrain's strongest assets. Not only does it contribute heavily to the country's GDP but it is also one of the most important employers in the economy providing around 14,000 jobs with the highest average wage of any sector.

3.8. The success witnessed in the financial sector can be linked to the steps taken by the Central Bank of Bahrain (CBB) to enhance the regulatory environment in which financial institutions operate. Many important regulations have been issued which are in line with internationally recognized standards such as the implementation of Basel II and III.

3.9. Over the years, the Central Bank of Bahrain (CBB) established a system of legislation and practices that contributed effectively to the development of the financial sector to keep pace with the global developments and maintain its competitiveness, this in turn contributed to the growth of the national economy, particularly through the development of banking and insurance services and investment services. This also elevated Bahrain to become internationally recognised as one of the world's leading centres for Islamic finance. Bahrain today is home for around 132 Islamic financial institutions.

3.1.3 Telecommunications

3.10. Pursuant to its National Economic Strategy, Bahrain was one of the first GCC countries to liberalize its telecommunications market. While Bahrain has the smallest market in the Middle East by population, its telecommunications market is now one of the most competitive. Bahrain has been leading regulatory trends in the telecommunications sector among the GCC countries and its Telecommunications Regulation Authority (TRA) has been awarded, twice in 2009 and 2011, the “Most Progressive Regulator of the Year” award by the South Asia, Middle East, and North Africa (SAMENA) Telecommunications Council.

3.11. Bahrain's telecommunications sector generates skilled job opportunities, especially for youth. Presently, 3,141 people work in the sector, marking a 50% increase since the launch of the liberalization policies in 2003. The number of Bahraini employees in this sector is also amongst the highest in Bahrain, standing at 80% as of 2012. This is mainly due to the sector's high productivity and reliance on skilled employment. The sector also boasts a high female ratio of 29% relative to a Bahraini workforce average of 21%.

3.1.4 Encouraging inward investment

3.12. Bahrain offers various investment incentives to national and foreign investors alike. These incentives include short and long-term loans with low interest rates from the Bahrain Development Bank for financing capital assets, and a core portion of working capital for small and medium-sized industrial projects; low rents for land in government industrial areas; low energy tariffs for production; and flexible regulations and procedures regarding foreign workforce.

3.13. Most recently, and in conformity with the Economic Vision 2030, the Business Licenses Information Service (BLIS) pilot phase was launched by the Ministry of Industry and Commerce in December 2013, in cooperation with the e-Government Authority, Economic Development Board and other government agencies concerned with issuing trade licensing. BLIS forms a unified and comprehensive guide for establishing businesses in Bahrain and aims at facilitating the procedures for exercising trade and economic businesses in Bahrain and contributes to raising the level of efficiency, bolsters cooperation among partners and promotes business leadership and innovation.

3.14. The e-Government Authority of Bahrain was established in 2007. Its strategy focuses on ensuring the effective delivery of government services to citizens, residents, businesses and visitors with an aim to improve the quality of life by doing much more than simply implementing technology. The e-Government website (<http://www.bahrain.bh/business>) includes all the conditions, procedures, laws and regulations including those related to acquiring business licenses. It also provides links to the e-services provided by different ministries and government agencies in Bahrain (<http://www.bahrain.bh/>).

3.15. More incentives are provided in industrial zones. In 2010, the Bahrain International Investment Park (BIIP) was established by the Ministry of Industry and Commerce (MOIC). It is a considered a landmark Business Park in Bahrain, a low cost location for value added manufacturing and international services projects, is competitive internationally with a world class physical environment with high management standards, and is aimed at creating quality employment opportunities for Bahrainis. Incentives offered at the BIIP, include: 100% foreign ownership; 0% corporate tax (with a 10 year guarantee); exemption from import duties on raw materials and equipment; duty free access to all GCC markets (unlike free zones in the region); free trade access to the United States and Singapore; 100% repatriation of capital; no recruitment restrictions; and no minimum capital requirements.

3.16. The BIIP is centrally located near the new seaport, Khalifa Bin Salman Port, the Bahrain Logistics Zone, Bahrain International airport with advanced road network that takes only a 30 minutes uninterrupted drive to King Fahad causeway connecting Bahrain by land to Saudi Arabia and the region. As of December 2013, the total value of investment in BIIP is around US\$2 billion including world class manufacturing brands that are taking Bahrain as their regional distribution hub for their goods and services.

3.17. Recently, the 2012/13 Global Free Zones of the Future Top 50 Rankings, released by Foreign Direct Investment Magazine has included four zones in Bahrain. Bahrain International

Investment Park "BIIP" (ranked 15), Khalifa Bin Salman Port (ranked 16), Bahrain International Airport (ranked 19) and Bahrain Logistics Zone (ranked 30). Such recognition shows how far Bahrain has gone in establishing its regional supply chain logistics infrastructure.

3.1.5 Importance of intellectual property rights

3.18. Bahrain is party to various intellectual property treaties and conventions. In addition to WIPO and other IPR agreements already reported during the past TPR in 2007, Bahrain has acceded to the Patent Cooperation Treaty (PCT) on 18th March 2007, and to the Trademark Law Treaty (TLT) on 18th March 2007. On 20th November 2012, Bahrain became a contracting party to the Budapest Treaty on the International Recognition of the Deposit of Micro-Organisms for the Purpose of Patent Procedure. Bahrain is in the process of becoming party to: the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; and to the International Union for the Protection of New Varieties of Plants.

3.19. Bahrain authorities are also keen on further developing intellectual property protection, and the ability to handle any violations diligently according to a wide spectrum of penalties. During the last few years, Bahrain has made significant progress in reducing copyright piracy. The Government's enforcement campaign is mainly based on inspections, closures, and improved public awareness. Since then, continuous monitoring by the CPO, both in Bahrain and, in cooperation with Customs, at the border, has ensured a decline in rates of piracy. The CPO has been granted significant powers, including joint powers with the police to arrest alleged infringers and confiscate goods suspected of violating copyright laws. According to the authorities, the CPO may also act in an ex-officio capacity in taking action against alleged infringers.

3.1.6 Privatization

3.20. In 2002, the Government passed a privatization law (No. 41 of 2002) which, among other matters, established procedures for determining privatization policy, identified the sectors to be targeted for privatization and detailed the use of privatization proceeds. In 2008, a Prime Ministerial Edict (No. 10 of 2008) was issued providing the guidelines for privatization and follow-up of privatization and established the High Council for Privatization. In 2013, a decision was made to amend the Decree, which now includes outsourcing, and the sale of shares through a public offering.

3.21. Privatizations accelerated following the enactment of these laws. Private power capacity increased significantly following the establishment of the private Al Ezzel, 1000 megawatt power and 90 million gallons per day ("gpd") water plant which began commercial production in 2006. Hidd Power plant was privatized in 2008, and Al Dur Power and water plant was established in 2010. Currently the private sector produces around 90% of Power, and 80% of water requirement of the Kingdom. In 2007 the Seef Mall was privatized through a sale of government shareholdings in the Company through an Initial Private offering (IPO).

3.22. As set out in Vision 2030, privatization remains a priority for the Government and includes a focus on: deregulation in order to encourage private investment in schools, hospitals and other public services. The Government's strategy is, by 2030, to move away from public sector employment and provide opportunities through the private sector. Accordingly, privatization will take centre stage as the private sector will remain the focus for economic growth.

3.23. The Government has liberalized its telecommunications sector with the telecommunications law which came into effect in November 2002. Currently there are 3 private Mobile operators. The Government is also encouraging private sector investment in various sectors such as utilities, education healthcare, Housing and has privatized its public transport system. Independent operation and management of King Hamad Teaching Hospital, located in Muharraq which serves the adjacent private medical university. This year a public Infrastructure project (Sewage treatment plant) based on Public Private Partnership (PPP) model is due for completion.

3.24. The airport was also converted into a fully owned Government company, following the privatization of the management and operation in 2008. In 2007, a new Holding Company (MUMTALAKAT) was formed to manage the Government assets in non-oil industrial and commercial undertakings, while another holding company (Nogaholding) was formed to manage

the Government assets in oil such as Gulf Petrochemical industries (GPIC) and Bahrain Petroleum Company (Bapco) etc.

3.1.7 Skilled human resource development

3.25. Bahrain enjoys one of the highest ratios of working population among developing countries - about 60% of its total population. Bahrain's labour productivity has also been rated as the highest in the Gulf¹ with available workforce of young (ages between 25-40) bilingual graduates and has the Highest Literacy Rate and English skills among the GCC countries.² Bahrainis are 30% of the private sector workforce and up to 80% in key sectors such as Aluminium and Financial Services. It also enjoys a respectable level of female participation in public and private sectors. The Labour Fund "TAMKEEN" provides financial support for training.

3.26. Unemployment figures in Bahrain are relatively low, estimated at 4.3% in December 2013. Out of a total of 716,473 people employed in Bahrain in 2013 in both the private and public sectors, nationals only account for 26.3% of the total, with private sector participation of about 17%. This relatively low participation of Bahrainis in the labour market has led the authorities to establish several government organizations to help Bahraini nationals better compete for jobs, also known as Bahrainization. One such organization, known as Tamkeen, an Arabic word for "empowerment" was set up in 2006 to foster the formation and growth of local firms in addition to helping Bahraini nationals obtain employment in the private sector by funding training initiatives.

3.27. Ministry of labour is active in providing training courses for the Bahraini job seekers and aims to make Bahrain one of the most important centres for training and human resources development in the region.

3.28. Bahrain is a pioneer in the region in such areas as: providing unemployment insurance schemes for both nationals and expatriates, free labour mobility which allows all expatriate workers to shift freely from one employer to another, freedom of association which allows the workers to freely establish trade unions, domestic workers are covered by the labour law, and many other initiatives and regulations.

3.1.8 Fiscal policy

3.29. The 2013-14 Government Budget was based on a \$90 oil assumption which ranges closely to the current oil market price. For the 2014 budget, spending was budgeted at BD 3.7 billion (US\$9.8bn) against budgeted revenues of BD 2.8 billion (US\$7.4b) for 2014.

3.30. Oil accounts for around 86% of the total budgeted government revenue, however with the Government keen on diversifying its revenue base, non-oil revenues have increased by 27% over the years 2009 to 2012, resulting in an average annual growth of 8% per annum over the past four years.

3.31. Economic diversification has always been a major policy driven by the Government throughout the past decades, resulting in the oil sector's contribution to GDP decreasing from 55.8% in 1980 to 21.5% in 2011, resulting in a higher contribution of non-oil sectors to the economy from 44.2% in 1980 to 78.5% in 2011.

3.32. The Government offers subsidized products and services at an estimated amount of BD 1.5 billion for the year of 2014 through an umbrella of social inclusive programs and policies to lower the cost of living of all citizens (except for housing and social welfare which are only provided to nationals). Such programs include subsidies in the following areas: education, housing, health, food, social welfare, electricity, water, oil and gas.

3.33. GCC leaders have announced in 2011 the establishment of a development fund for Bahrain worth US\$10 billion. The Development Fund will be provided as a grant and will be distributed over a 10 year period. The Government of Bahrain has identified the following priority sectors for the

¹ 'Growing Beyond Oil' Report, The Conference Board, USA, 2011.

² UN Human Development report 2010.

utilization of the GCC Development Fund: housing, infrastructure, electricity & water, education, health, social development, youth programmes.

3.1.9 Monetary policy

3.34. The Central Bank of Bahrain is responsible for setting monetary policy objectives, carrying out monetary operations and ensuring the health of the financial sector. Its objectives are:

- Set and implement monetary, credit and other financial sector policies for the Kingdom of Bahrain;
- Provide effective central banking services to the Government and financial sector of the Kingdom;
- Develop the financial sector and enhance confidence therein; and
- Protect the interests of depositors and customers of financial institutions, and enhance the Kingdom's credibility as an international financial centre.

3.35. Bahrain follows a policy of maintaining a fixed exchange rate against the United States dollar. Bahrain and the other GCC countries all agreed to have their currencies pegged to the U.S. dollar, as a first step towards creating a GCC Monetary Union.

3.1.10 Stability

3.36. The Government believes that political and economic stability are the key enablers of growth and the principle determinants of the level of inward investment, and that the democratic process is fundamental to achieving such stability in the long term.

3.37. Monetary stability and a well-developed financial system significantly mitigate Bahrain's vulnerability to economic shocks, as does the demand led nature of developments.

3.38. The Central Bank of Bahrain (CBB) defines financial stability as a situation where there is continuous and prudent provision of financial services, even in the face of adverse shocks. It believes that financial stability is critical for maintaining Bahrain's position as an international financial centre and for ensuring that the sector continues to contribute significantly to growth, employment and development in Bahrain.

3.39. The pursuit of this objective is the primary responsibility of CBB's Financial Stability Directorate (FSD), which conducts regular surveillance of the financial system to identify areas of concern and undertakes research and analysis on issues relating to financial stability.

3.2 Growth sectors

3.40. The structure of the Bahraini economy has been transformed by a rapid process of economic diversification since the turn of the century. While the share of the hydrocarbons sector (mining and quarrying) more than halved in relative terms from 44% to 20% of GDP between 2000 and 2012, all other sectors with the exception of real estate have shown an increasing contribution to Bahrain's GDP. The largest sectors of the non-oil economy are financial services (17% of real GDP), manufacturing (15%), and government services (approximately 13%). A number of smaller sectors have achieved rapid growth, led by social and personal services (mainly private education and health care), to reach a compound annual growth rate of 14.3% in 2000-2012), construction (14.1%), and transportation and communication (9.8%).

Sector	2000	2012	CAGR %	2000 share of GDP	2012 share of GDP
Social and personal services	111	549	14.3%	2%	5%
Construction	142	688	14.1%	2%	7%
Transportation and communication	234	716	9.8%	4%	7%
Other	271	616	7.1%	5%	7%
Retail	172	461	8.6%	3%	5%
Government	514	1,235	7.6%	9%	12%
Finance	781	1,745	6.9%	14%	17%
Manufacturing	713	1,577	6.8%	12%	15%
GDP	5,736	10,187	4.9%	100%	100%
Real estate	289	428	3.3%	5%	4%
Mining and quarrying	2,510	2,172	-1.2%	44%	20%

3.2.1 Financial services

3.41. In 2013, the financial sector represented almost 17.0%. There is a growing market demand for financial services and products, particularly for Islamic financial instruments. The Bahrain Financial Harbour and the Bahrain World Trade Centre along are some of the witnessed projects that have successfully developed since 2005.

3.42. Bahrain is currently home to 415 financial institutions (as of December 2013), with total Banking Assets of US\$190.9 billion at November 2013.

3.43. Bahrain has become host to the largest number of Islamic banks in the world, as well as a growing support industry. There are 132 Islamic financial institutions, which includes banks, insurance companies and investment funds.

3.44. Insurance is a well-developed industry in Bahrain (36 insurance firms), and has an important growth potential.

3.2.2 Manufacturing

3.45. Manufacturing experienced 7% average annual growth between 2000-2012, contributing 15% towards real GDP and 16% of private sector employment in 2012. Non-oil manufactured goods comprised 20% of Bahrain's total goods exports.

3.46. The majority of manufacturing output is concentrated in basic metals, refined petroleum products and chemical products, which combined, constitute nearly 60% of total manufacturing output.

3.47. In the past five years, iron and steel production in Bahrain has increased markedly. In 2010, one of the leading companies in the industry has nearly doubled its production of iron oxide pellets with a new plant, and a new project was launched by its sister steel company to produce steel beams as a downstream industry to first company, and which is forecast to create 1,700 new jobs. A new rolling mill company also started commercial production of steel rebars in 2008.

3.48. The development of the manufacturing sector has been increasingly driven by the emergence of downstream clusters around some the first generation of manufacturing companies. Particular progress has been seen in the aluminium sector where a number of new players have significantly boosted the value added and driven export diversification and job creation.

3.2.3 Education

3.49. Education is a central growth area in a country where the population growth rate is set to remain in excess of 2.0% a year. The working age population is set to reach approximately 65% of the overall population in 2020. Many Bahraini institutions also cater to broader regional demands, capitalizing on similar trends across the GCC.

3.50. Private provision of education has grown rapidly. Employment in private sector education increased by 20% between 2008-2012, and real output of the sector increased by 69% over the same period. While government output still constitutes the majority of real GDP output, private sector share of education service output has risen from 36% to 42% in the five year period.

3.51. The quality assurance authority, now in its fifth year of operation, is providing external assessment of public and private educational establishments leading to enhanced student outcomes. According to the World Economic Forum (WEF)'s Global Competitiveness Report of 2013–2014 Bahrain's ranking in educational standards has improved and the Kingdom is now placed 48th worldwide in terms of the quality of the educational system in the latest report. This compares to the 56th position in 2008.

3.52. The Government actively supports training schemes. As part of its human capital development support programs, Tamkeen has reached a total of 47,053 individuals by end of 2012 (total as of 2013 is not available at hand). In 2014 it is planning to reach 14,900 at a budget of approximately BD30 million.

3.2.4 Healthcare

3.53. Private sector healthcare employment increased by 45% between 2008-2012, and real output of the sector increased by 69% over the same period. Private health care output has almost matched public output as a contributor to GDP, increasing from 42% to 48% in the five year period.

3.54. The National Health Regulatory Authority (NHRA) was established in 2009 in order to separate the Government's regulatory function from service provision. The NHRA was set up with a view to elevating healthcare standards in the public system through improved monitoring and inspection of public healthcare facilities and practitioners.

3.55. Since the NHRA's establishment, public healthcare facilities devised plans to upgrade their operations and gain international accreditation. The regulatory authority has also granted licenses to investors in ventures that were previously restricted. Among other things, the NHRA was tasked with the development of a framework for healthcare research and development in Bahrain. As a result, a project was launched to conduct genetic screening on approximately 15,000 babies in the next two years to support genetic research on prevalent disorders like diabetes (7,059 cases in 2010) and hypertension (7,522 cases).

3.56. Despite significant expansion in recent years, growth potential in healthcare in Bahrain is enormous in view of population growth and the range of existing services. The most promising opportunities exist in tertiary care facilities and research institutions. Since 2007, the private healthcare sector has grown by more than 12% per year, surpassing the pace of expansion in the public sector and thereby capturing a large market share. This movement has been prompted by the proliferation of healthcare insurance in the Kingdom upon the adoption of prepaid schemes by corporations and individuals.

3.57. King Hamad University Hospital was established in 2010 as part of a medical strategy to develop a Centre for organ transplant surgeries and Trauma in the Kingdom of Bahrain.

3.2.5 Real estate and construction

3.58. Real estate and construction have become important segments of the country's non-oil economy during the past decade. In real GDP terms, the combined contribution of the two sectors stood at 11% in 2012, marginally down from 13.7% in 2008. In view of the demographic dynamics and economic diversification, construction has been, and is likely to remain, one of the faster-growing sectors of the economy.

3.59. Despite the post-boom slowdown, there was a fairly broad-based bottoming out of the market in 2012 followed by the emergence of pockets of renewed growth. The industry has to a degree focused away from high-end residential and commercial real estate to ventures more closely aligned with the demographic and economic dynamics. The sector was estimated to have grown 4%, mainly due to increased public spending on social housing projects and a refocusing on

low to middle-income housing projects by private developers. The 2013–2014 state budget draft incorporates a BHD 580mn program to build 16,000 new houses.

3.2.6 ICT

3.60. In 2002 Bahrain implemented its telecommunications law which included the establishment of an independent Telecommunications Regulatory Authority (TRA) as the industry regulator. The TRA's objective is to liberalize the telecommunications sector and protect the interest of subscribers and consumers as well as foster transparency and quality assurance.

3.61. Following the launch of the sectoral reforms, there are currently three telecommunication companies including existing the national one. Both new entrants began as mobile service providers but eventually expanded to include fixed line and broadband services.

3.62. The transport and communication sector emerged as one of the most dynamic sectors of the economy toward the end of the last decade mainly due to privatization and liberalization initiatives. Its share of GDP increased from 4% in 2000 to 7% in 2012, although the pace of growth subsequently slowed down. Going forward, the telecommunications sector is projected to grow as the TRA fulfils its licensing targets and executes additional phases of its liberalization agenda. Despite the somewhat slower pace of expansion, the sector was still responsible for 9% of the GDP growth in 2012.

3.63. Liberalisation efforts in the telecommunications sector have contributed to significant employment growth, taking the total number of jobs in the sub-sector to 2,700 as of 2011. This marked a 50% increase since the launch of the liberalization policies in 2003. Bahrainization in this sector is also amongst the highest in the country, standing at 80% as of 2011. This is mainly due to the sector's high productivity and reliance on skilled employment. The sector also boasts a high female ratio of 28% relative to a workforce average of 21%.

3.64. Bahrain ranks 29th in the world for Network Readiness, according to the Global Information Technology Report issued by WEF. This shows how Bahrain has leveraged advances in information and communication technologies (ICT) drive economic productivity and social development.

3.2.7 Tourism

3.65. Bahrain seeks to develop its tourism industry as a key platform for sustainable future economic growth and diversification. In seeking to maximise the potential of growth in the tourism industry, Bahrain will capitalise on the advantages of its natural environment, cultural heritage, geographical location, moderate and tolerant society and remarkable culture of hospitality.

3.66. Bahrain offers great potential as both a regional and a world tourist destination. Composed of 33 islands, a cosmopolitan culture, an attractive liberal lifestyle and a rich history and culture, the Kingdom offers a developed infrastructure of hotels, resorts, shopping malls, and restaurants that is being further expanded. The number of hotels in Bahrain grew by 32.5% between 2001 and 2012. The number of apartment establishments surged 142% since 2003. There has been a particularly pronounced upward trend for 5-star, 4-star, and 3-star hotels.

3.67. Reflecting its rich historical heritage, Bahrain is home to a number of museums as well as archaeological and historic sites.

3.68. Event tourism has expanded through a number of new initiatives, such as the Bahrain Grand Prix which became the first Formula One Grand Prix to be held in the Middle East in 2004. The Bahrain International Circuit in Sakhir also hosts other races such as drag races, GT races, Formula 3 races and the Australian V8 Supercar. The annual 'Spring of Culture' festival hosted a variety of dance, music, and theatrical performances and brought internationally renowned musicians to the Kingdom. To support such events, the Bahrain National Amphitheatre opened its doors in November 2012. The facility is one of the largest of its kind in the region with a seating capacity of 1,001.

3.69. Manama held the status of 'Capital of Arab Culture' in 2012 as part of UNESCO's cultural capital campaign and was named 'Capital of Arab Tourism' in 2013 by the Arab Tourism

Organization. In celebration of Bahrain's 2012 'Capital of Arab Culture' debut, the Ministry of Culture planned a year-long program of performances, seminars, and other events showcasing Arab culture. Each month provided a new focus area ranging from visual arts to poetry, and even the environment.

3.70. Business tourism plays an increasingly important role in the Kingdom. The Bahrain Exhibition and Convention Authority (BECA) hosts a number of industry events and exhibitions. Landmark events include the annual Bahrain Boat Show and the bi-annual Bahrain Air Show, which is the island's largest exhibition. Other events included Jewellery Arabia – a gold, jewellery, watch and clock exhibition – and the Autumn Fair, a consumer product exposition. Due to the growing importance of exhibitions and conferences in Bahrain in recent years, BECA is planning to expand its exhibition and conference space through the construction of the Bahrain Expo City. This would increase the net available exhibition space to 145,000 sq m from the current 16,000 sq m facility located in Manama city. This project is scheduled for completion by 2015.

3.71. According to the World Travel and Tourism Council, the tourism sector contributed BD 538 million to Bahrain's GDP in 2012, an increase of 8.5% from 2011. Tourism accounted for an estimated 4.9% of GDP in 2012. Tourism-related employment rose 1.58% from 2011, supporting around 32,100 employees in hotels, travel agencies, airlines, as well as restaurants and other businesses dealing directly with tourists. The sector's contribution to total employment stood at 5.2% in 2012.

3.72. Total arrivals in the Kingdom rebounded to 8.06mn by the end of 2012. A vast majority of tourists were overland visitors from Saudi Arabia. The King Fahd Causeway accounted for 79.1% of the overall visitors to the Kingdom in 2012, compared to other ports of entry. Bahrain International Airport and Mina Salman, along with Shaikh Khalifa Bin Salman Port, accounted for 20.2% and 0.7%, respectively. GCC nationals, Asians, and non-GCC Arabs continued to dominate the visitors market in 2012, jointly accounting for 88.2% of the overall arrivals.

4 TRADE POLICY

4.1. Being a traditional free market economy, and liberal trading country, Bahrain maintains a profound interest in its trade expansion and its investment growth. Accordingly, Bahrain's trade policy objectives are to ensure a fair and predictable international trading environment; allowing liberal access to international markets for its exports, and minimize impediments to the flow of imports.

4.2. These goals are pursued through the sustained maintenance and enlargement of Bahrain's adherence and engagement with its trading partners multilaterally, regionally, and bilaterally. This would also contribute to the attainment of the long term objectives of Bahrain's Economic Vision 2030, which aims for attaining sustainable development by moving towards economic diversification to increase economic viability; raise productivity levels, and enhance Bahraini competitiveness as a knowledge-based economy.

4.3. Bahrain is currently a net importer of manufactured products and food stuffs. The economy is services based, but with a growing industrial capability, the expansion and diversification of which is being actively pursued as a policy objective by the Government. The Government is also a strong supporter of free markets and an open rules based global trading system, advocating economic openness as a strong development trigger, to encourage and facilitate export of its products and services, as well as to strengthen domestic capacity and competitiveness by encouraging inward investment.

4.4. Having maintained its position as the financial capital of the Middle East, Bahrain is also a global hub for Islamic Financing. It is also aiming to become a key regional trading hub, and retail trade centre. Bahrain has traditionally cherished trade liberalization and efficient international trade transactions, enhanced by its causeway connections to Saudi Arabia and eventually to Qatar, and a rail road network which would support its Trade Facilitation and supply chain logistics potential, not only with its GCC partners, but also with the world at large.

4.5. Import trade enjoys duty free entry for most basic raw materials, industrial inputs and basic foodstuffs. Of the remaining goods which are dutiable over 90% of these incur very low customs duties of between 0 and 5%.

4.6. Bahrain's trading environment is stable and transparent. There are no import restrictions except for patrimonial heritage, environmental, health or security considerations.

4.1 Bahrain and the world

4.7. Bahrain is a founding Member of the WTO. Bahrain is a signatory to the WTO's Information Technology Agreement (ITA). On 9 December 2008, Bahrain became an observer to the WTO Plurilateral Agreement on Government Procurement.

4.8. Bahrain grants at least most-favoured-nation (MFN) treatment to all its trading partners. Bahrain is an advocate of the multilateral trading system and is a member of the Arab Group. Bahrain's main interests in the Doha Development Agenda (DDA) include greater non-agricultural market access (NAMA) and further liberalization of trade in services.

4.9. As a small economy, Bahrain endorses the staunch application of the Special and Differential Treatment for developing and small economy countries, and values the fairness and objectivity of WTO's Dispute Settlement Body.

4.10. Bahrain's active participation in the Doha Round of Multilateral Trade Negotiations (MTN) is evidenced, by the positive offers and proposals, submitted to different areas of the negotiations, especially in the field of services. It has also been supportive of the successful conclusion of the Trade Facilitation agreement as one of Bahrain's priorities to ensure supply chain logistics' development, technical and legislative adjustment requirements, standards and conformity implications, HRD and trade capacity building. Bahrain also supports the positive and equitable implementation of the Aid For Trade initiative with sufficient funds and active involvement of all agencies involved with the WTO.

4.2 Bahrain and the region

4.2.1 GCC membership

4.11. Bahrain is a founding member of the Cooperation Council for the Arab States of the Gulf (GCC), along with Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Since 1981, the free-trade area has been effected among GCC members by eliminating customs duties on all the products originating in the member states.

4.12. As of 1st of January 2003 the GCC Customs Unions was established to eliminate the tariff and non-tariff barriers among its Member States in order to facilitate intra-GCC flow of goods and creating a collective negotiating power for the GCC states.

4.13. In January 2008 the GCC announced the GCC Common Market in order to attain equality in treatment of GCC nationals in many economic aspects including: movement and residence, work in private and government jobs, pensions and social security, engagement in all professions and crafts, engagement in all economic/investments and service activities, real estate ownership, capital movement, tax treatment, stock ownership and formation of corporations, education/health and social services.

4.14. In June of 2009 four GCC countries (Bahrain, Saudi Arabia, Kuwait, Qatar) signed the agreement establishing the Monetary Union, which in line created the GCC monetary council that was decided to be positioned in Riyadh in Saudi Arabia, the GCC countries are currently in progress of shaping the final characteristics of the Monetary Union.

4.15. The GCC has recently concluded a Free Trade Agreement (FTA) with Singapore, which came into force on 1st of September 2013 and is waiting the ratification of the European Free Trade Association (EFTA) Free trade agreement. Presently the GCC countries are evaluating the feasibility impacts of negotiating Free Trade Agreements (FTA) with other countries and regions in order to finalise the priorities of negotiations in this regard.

4.2.2 GAFTA membership

4.16. Bahrain is also a founding member of the Greater Arab Free Trade Area (GAFTA), which was signed on 19 February 1997 and entered into force on 1 January 1998. Currently the Arab league is in discussions about setting the concept of the Arab Customs Union.

4.3 Bilateral agreements

4.17. Bahrain, as of January 2014, has a bilateral FTA with the United States, and maintains over 110 bilateral agreements in: protection and promotion of investment, avoidance of double taxation, economic, trade and technical cooperation.

ANNEX 1 TRADE RELATED TECHNICAL ASSISTANCE

1. While Bahrain, is a small sized economy, yet, it is determined to play a leading Role in the Multilateral Trading System, and reaping it's full rewards, by becoming the region's trading and investment hub, after successfully, retaining the first position in financial services.
2. Accordingly, Bahrain's technical cooperation requirements include the following areas:
 - Enhancing Aid for Trade related technical and institutional support, within the WTO and other relevant international institutions and funds;
 - Trade Facilitation legislative and logistic requirements, single window, customs valuation cooperation, and risk management technical and institutional support, and money laundering, and fraud prevention, support and Human Resource Development (HRD), nationally, regionally, and Internationally;
 - Supply-chain infrastructure enhancement, and adjustment needs support;
 - IPR institutional upgrading, and HRD;
 - Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), and Standards institutional upgrading, notifications, awareness and HRD;
 - Multilateral Trade Negotiations (MTN) and FTAs Negotiating Skills upgrading, and HRD;
 - Export promotion technical and institutional support;
 - Trade capacity building, and competitiveness enhancement, awareness, and networking;
 - Enhancing institutional capacity and export potential for SMEs, as well as in negotiations the and implementation of trade in goods and services agreements;
 - Development of competition policy and legislation; and
 - Ensuring Bahrain's participation in national, regional and international HRD and training programs for government, parliamentarians, and private sector, whether at WTO or other relevant agencies.

ANNEX 2 CONTRIBUTORS TO THIS GOVERNMENT REPORT

The Ministry of Industry and Commerce; the Ministry of Finance; the Ministry of Labour; the Central Bank of Bahrain; and Economic Development Board.
