Bahrain Trade Brief

Trade Policy

An oil exporter, Bahrain is endowed with less oil than its neighbors. Awareness of this and of unfavorable agricultural conditions has led the government to pursue a development strategy that has resulted in Bahrain being one of the most diversified economies in the Gulf.[1] Today, based on its 5.1 percent MFN Tariff Trade Restrictive Index (TTRI)[3], Bahrain's trade regime is more restrictive than that of an average high-income non-OECD (4.0 percent) or high-income (3.9 percent) country. Much the same as its comparators, Bahrain's trade barriers for agricultural goods (with a TTRI of 7.8 percent) are higher than those for non-agricultural goods (with a TTRI of 5.0 percent). Based on the TTRI, it ranks 61st out of 125 countries (where 1st is least restrictive). Bahrain's simple average of the MFN applied tariff in 2008 was 5.3 percent, after having been significantly cut from 7.8 percent in 2001 when Bahrain began applying the Gulf Cooperation Council common external tariff.[2] When preferences are taken into account it is apparent that the country's trade regime is effectively more open, since its simple average of the applied tariff falls to 4.9 percent. Bahrain has a maximum MFN applied tariff, excluding alcohol and tobacco, of 65 percent, which is lower than the regional average of 112.5 percent. The government's trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), has not changed much in the recent years and in 2008 it was 28.9 percent. Based on the extent of its trade liberalization in services, Bahrain ranked 112th out of 148 countries according to the GATS Commitment Index.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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External Environment

Judged by its Market Access TTRI[4] (including preferences) of 2.6 percent, Bahraini exports have similar access to international markets as those of an average high-income non-OECD country (2.7 percent), but better than those of an average high-income country (3.6 percent). The simple average of the overall rest of the world tariff (including preferences) faced by the country's exports is 9.7 percent. When its trade flows are taken into consideration, however, access to international markets by Bahraini exports appear more favorable. Bahrain mainly exports hydrocarbons, which traditionally have low tariffs applied by imports, explaining the 2.0 percent weighted rest of the world tariff (including preferences). The Bahraini dinar remained pegged to the U.S. dollar at a rate of 2.7 dollars per dinar through 2008.[5] However, the real effective exchange rate depreciated by 6.7 percent in 2008, increasing the competitiveness of exporters.

Bahrain has a free trade agreement with the United States, which entered into force in August 2006 and according to which 100 percent of bilateral trade in consumer and industrial products is duty free. Bahrain is scheduled to phase out tariffs on the remaining handful of agricultural products by 2015.[6] The country also gained better access to markets as a member of the Gulf Cooperation Council which signed a free trade agreement with Singapore in December 2008 and another one with the European Free Trade Association (EFTA) in June 2009.[7]

Behind the Border Constraints

Bahrain remained in the top 20 percent of institutional environments conducive to business in 2009, being ranked 20th out of 183 countries in the Ease of Doing Business Index. However, Bahrain's Logistics Performance Index score, which reflects the extent of trade facilitation in the country, is below the income group average, reflecting a less conducive climate for trade. Bahrain scores 3.15 on a scale of 1 to 5, with 5 being the highest score, while the average for the high-income group is 3.67. Bahrain is ranked 36th out of 150 ranked countries in the world. The logistics indicator in which it performed the best is the efficiency and effectiveness of customs and other border procedures, while it needs most improvement in reducing domestic logistic costs.

Trade Outcomes

Bahrain was not able to maintain its average trade growth momentum of 14.5 percent over the 2005–07 period, with real trade (in constant 2000 U.S. dollars) in goods and services falling by an estimated 4.6 percent in 2008. The real growth rate of trade is expected to turn positive in 2009, with trade growing by 0.8 percent. In 2008, exports fell in real terms by an estimated 3.0 percent after growing at an average rate of 9.8 percent over the 2005–07 period, while imports fell by an estimated 6.0 percent after growing at an average rate of 20.2 percent over the 2005–07 period.

While crude oil, processed in Bahrain, accounts for more than half of the country's imports,[8] about 75 percent of total fiscal revenue is derived from exports of oil.[9] As such, Bahrain's trade flows are highly vulnerable to swings in fuel prices. With the high prices in 2008, which peaked at $147 per barrel in July 2008, Bahrain's nominal imports increased by an estimated 14.4 percent in 2008, after growing by 9.2 percent in 2007. At the same time, its nominal exports also increased by an estimated 25 percent after growing by 10.5 percent the year before. Consequently, its nominal trade growth accelerated to an estimated 20.2 percent in 2008 from 10.0 percent the year before. However, it is projected that in 2009, in nominal terms, both exports and imports will fall, with a steeper decline in export growth causing a narrowing in the country's trade surplus. The fall in exports is influenced by lower prices of oil as well as aluminum, Bahrain's main non-oil export.[1] Bahrain has a lot of foreign migrant labor, and outflows of total remittances amounted to 6.9 percent of GDP. FDI inflows were 8.3 percent of GDP in 2008, slightly lower than 9 percent of GDP in 2007.

Notes

1. World Trade Organization, October 23, 2007, p. vii.
2. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
3. Ibid.
4. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
5. International Monetary Fund (IMF), August 2009.
6. Office of the United States Trade Representative, 2009.
7. Gulf News, December 15, 2008; EFTA, June 22, 2009.
8. EIU, 2009, p. 28.
9. World Bank, June 29, 2009.
10. EIU, September 2009, p. 9.

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