

# Analysis of bahrain's economy's strength and weakness



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ANALYSIS OF BAHRAIN'S ECONOMY The economy of Bahrain has been ranked twenty-fifth in the world and is as the Middle East's "most free economy" by the 2006 Index of Economic Freedom (Wikipedia. org).

### Economy Overview

Petroleum production and processing provide the bulk of export revenues {60%}, Gross Domestic Product [GDP] {60%} and government earnings {60%}. A large number of multinational firms are based in the country, having been attracted by its modern infrastructure, excellent transport facilities and extremely good communication network. Taxation and import laws have equal relevance for both Bahraini and foreign-owned companies. Oil and gas companies are required to pay 46% tax on income from the sale of crude oil and its derivatives. Organizations in non-oil sectors are not required to pay tax (Wikipedia. org).

Crude oil derivatives produced from imported crude oil form a significant part of exports. Many industrial projects are under way. Unemployment {mainly among young Bahrainis}, declining oil reserves and decreasing underground water resources comprise Bahrain's three main problems with long term implications (Wikipedia. org).

The main economic indicator data (Wikipedia. org) are as follows:

GDP {2005}: \$ 14. 08 billion purchasing power parity, \$ 20, 500 per capita and 5. 9% real

growth rate

Inflation {1998}: 0. 5%

Labor force {1998}: 295, 000 {56% national, 44% expatriate}

Unemployment rate {1998}: 15%

Exports {1998}: \$ 3. 3 billion {f. o. b} comprising petroleum and its  
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derivatives {61%},

aluminium {7%}, others {32%} mainly to India {18%}, Japan {11%},

Saudi Arabia {8%}, South Korea {7%}, U. A. E {5%}.

Imports (1998): \$ 3. 5 billion {f. o. b} comprising crude oil {41%}, others {59%} mainly

from Saudi Arabia {45%}, U. S. A {10%}, U. K. {6%}, Japan {5%} and Germany {4%}

External debt {1998}: \$ 2 billion

Economic Aid received {1995}: \$ 48. 4 million

Currency exchange rate: 1 U. S. \$ = 0. 376 Bahraini Dinars {fixed rate}

### Strengths of the Bahraini Economy

The first strength is the realization of the need for maximum oil conservation. It has stabilized its oil production at 6, 400 m<sup>3</sup> or 40, 000 barrels per day with the aim of stretching its oil reserves to 15 years (Wikipedia. org).

Secondly, it has realized it cannot depend on oil for long and should diversify its economy. It has made commendable progress in this direction. It is utilizing its idle oil refineries to refine crude oil imported from its giant oil producer neighbors, particularly Saudi Arabia. Its ' Persian Gulf Petrochemical Company' is operating as a joint venture between Bahrain, Kuwait and Saudi Arabia, to produce petroleum derivatives methanol and ammonia. ' Aluminium Bahrain' is the largest factory of its kind in the world that produces 525, 000 metric tons yearly. ' The Arab Iron and Steel Company' produces 4 million tons of iron ore pellets. Bahrain has a giant shipbuilding and repair yard that gets lucrative business from the hundreds of oil tankers and commercial ships plying to and from the Gulf nations. Its <https://assignbuster.com/analysis-of-bahrains-economys-strength-and-weakness/>

most commendable diversification is in financing: its impediment-free regulations have attracted more than 100 offshore banking institutions in addition to many onshore institutions (Wikipedia. org).

Thirdly, it has provided an attractive setting to attract multinational firms. It has a modern infrastructure. Its airport serves 22 international carriers. Its seaports provide direct and regular links to Europe, the Far East and the U. S. It has a state-of-the-art communication network. These facilities have attracted a large number of banks and multinational firms {including 65 from the U. S} (Wikipedia. org).

#### Weaknesses of the Bahraini Economy

Unemployment is an increasing problem especially among young Bahrainis (Wikipedia. org), who perceive the large number of expatriates as taking up jobs that should rightfully go to locals. Protests have flared up against the government, albeit on a small scale.

Despite ongoing diversification, oil continues to be the backbone of the economy and its depleting nature spells economic problems in the long run. Its underground water resources are depleting (Wikipedia. org). Although it has {like most other Gulf countries} circumvented this problem by resorting to desalination, still the increasing non-availability of fresh water is always a problem.

Reference used:

“ Economy of Bahrain.” Wikipedia. org. 2007. 5 May 2007.