

Impact of barriers

Business



Impact of Barriers Barriers to investment contribute to market inefficiencies, so if Bahrain stands by and does nothing, or drags its feet for too long before doing anything to lift these barriers, it may suffer dire consequences. The main reason is the fierce competition for investments from its gulf neighbors, notably Dubai and Oman in the United Arab Emirates, which have similar world-class regulatory frameworks as Bahrain but, because they are the region's eager upstarts, are more aggressive at making their investment climates friendlier (Johnson 1). Bahrain has the upper hand now, and for it to cement its leading position as the financial capital of the region, it has to move faster towards the goal of developing a frictionless market. What are the stakes

Crippling debt burden. Doing nothing about lowering the share of government expenditures and debt to finance its welfare society will lead to an increase in the debt burden. One effect of lifting trade barriers is to diversify the economy, which will enable Bahrain to generate new revenues from non-oil related sources like tourism and technology. Freeing up the full value of land assets by allowing more widespread ownership to foreigners may not be politically attractive, but Bahrain has to balance cost with potential benefits.

Unemployment and Inflation. Not lifting investment barriers will deny Bahrainis the opportunity to work in sectors like the tourism sector where they may fit. This will exert upward pressure on the unemployment rate which was 6% in 2003 (Samad 1), a figure that may be underestimated so as not to alarm both potential investors and citizens, and on the inflation rate, currently at 2.4% (CIA) if investments come in without the corresponding increase in the country's productivity. Lifting investment barriers will provide

<https://assignbuster.com/impact-of-barriers/>

employment opportunities in high value-added jobs that can attract the best and the brightest from the region and expose them to the world of financial management and a deeper understanding of the western world.

Diversification will relieve inflationary pressures in the economy.

Political instability. If Bahraini society is not weaned away from a culture of dependence on public largesse, the government can fall victim to sentiments of destabilization when the next economic downturn comes. As it learned shortly after the first Gulf War, Shi'a activists can foment unrest and take advantage of the unemployment issue among locals (CIA). This can scare investors and, if this happens a few years from now when oil-related revenues start to dwindle, affect the inflow of foreign investments and worsen the market's liquidity problem. Lifting trade and investment barriers will hasten the country's economic integration with other Gulf countries and minimize tendencies for oil funds to be channeled to terrorism (" Unfamiliar" 29). If Bahrain has a developed financial market, it can even act as the Switzerland of the Gulf and a haven for capital, assuring it of getting protection from neighboring and Western nations against a hostile invasion. Raise the region's level of financial risks. Bahrain's big dreams to be a leader in the financial industry would be easier if it acts as a magnet that will give liquidity, diversity and depth to attract investors to the region. These conditions will pave the way for the sale of exotic financial instruments like derivatives that shift various types of market risk (Dodd 3). Financial reforms can also help Bahrain stay at the forefront of generating innovative ideas for Sharia-compliant financial instruments that will play an important role in managing risks in the region's financial markets.

Loss of first mover advantage. Johnson (1) mentions that the New York

<https://assignbuster.com/impact-of-barriers/>

Mercantile Exchange (NYMEX) plans to set up an open-outcry commodity exchange in Dubai in the UAE, where it plans to trade energy contracts, including energy futures and options. Oman is doing the same to attract investors from India and South Africa. Whichever country develops the right investment environment will win the lion's share of new investment flows not only from the region's cash-rich oil producing nations, but also more importantly from booming developing countries looking to diversify their investment portfolios.

Works Cited

CIA. The World Fact Book: Bahrain. 1 November 2005. CIA. 30 November 2005
Dodd, Robert. Derivatives Markets: Sources of Vulnerability in U. S. Financial Markets (Draft). New York: Derivatives Study Center, 2001.
Johnson, Mark. " Futures Gazing." The Gate. 4 April 2005. IPT News. 30 November 2005
Samad, A. Bahrain's Commercial Bank Performances during 1994-2001. Credit and Financial Management Review. 1st quarter 2004. 4 December 2005
" Unfamiliar questions in the Arab air." The Economist. 26 November - 6 December 2005. 28-30.