



## Economic and Social Commission for Western Asia



# TRADE PERFORMANCE AND STRUCTURE PROFILES<sup>1</sup>

## Bahrain

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# TABLE OF CONTENTS

TRADE PERFORMANCE AND STRUCTURE PROFILES: BAHRAIN	3
I. Trends in Trade and Investment	3
II. Merchandise trade structure and indicators performance	6
Exports	6
Imports	6
Exported Products	7
Imported Products	7
II. Trade Policy	15

# TABLE OF FIGURES

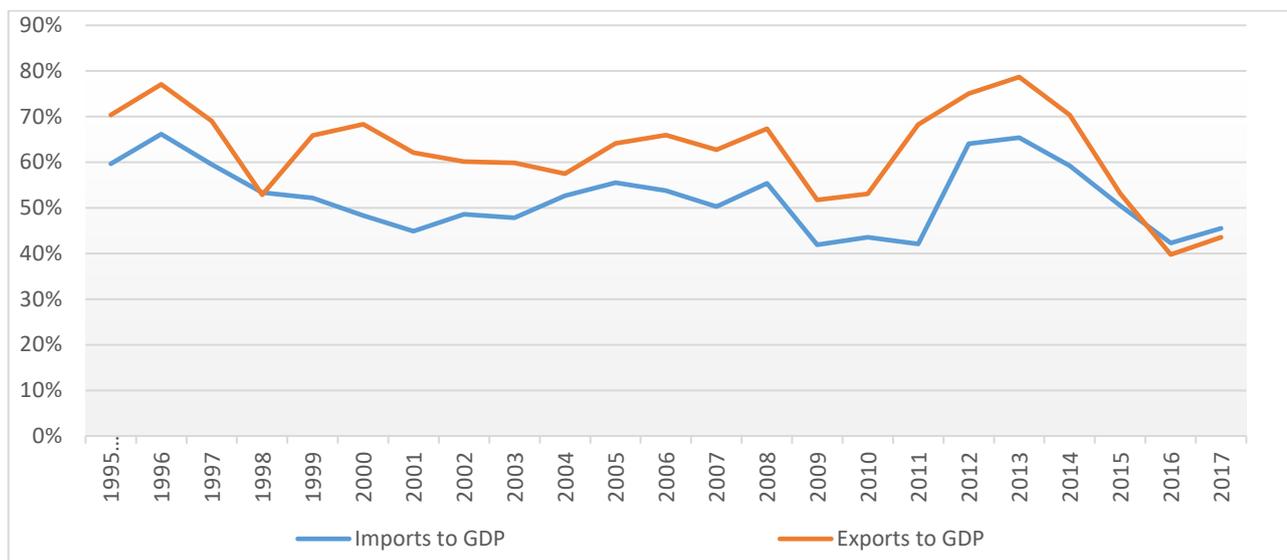
Figure 1: Merchandise Exports and Imports, as a share of GDP	3
Figure 2: [Alternative of Figure 1 with SD data] Merchandise exports and imports, as a share of GDP	4
Figure 3: The Share in World's Merchandise Exports and Imports	4
Figure 4: Bahrain's Services Trade, 1995-2017, as a share of GDP	5
Figure 5: FDI net inflows and outflows, 1996-2017, as a share of GDP	5
Figure 6: Top export destinations and import sources, as a share of total exports and imports, 2016	6
Figure 7: Top products exported and imported, 2016 (as a share of exports and imports)	7
Figure 8: Trade Intensity Index	7
Figure 9: Trade Complementarity Index	8
Figure 10: Hirschman-Herfindahl Index (bilateral export portfolio diversification)	9
Figure 11: Export Diversification Index	9
Figure 12: Export Sophistication	10
Figure 13: Export Market Penetration Index	10
Figure 14: Export Similarity Index	11
Figure 15: Hummels-Klenow intensive and extensive margins (product)	12
Figure 16: Hummels-Klenow intensive and extensive margins (market)	13
Figure 17: Intra-industry Trade Index	13
Figure 18: The composition of the change in bilateral merchandise exports between 2000 and 2016 along intensive and extensive margins	14
Figure 19: MFN and applied tariff rates for all products, simple and weighted means	15
Figure 20: Services Trade Restrictiveness Index, 2010	16

# TRADE PERFORMANCE AND STRUCTURE PROFILES: BAHRAIN

Bahrain's performance in merchandise trade and attracting foreign direct investment over the past two decades have been weak. Bahrain's merchandise exports, expressed as a share of GDP, have closely tracked developments in oil prices and its merchandise imports had been essentially stable in most of the 2000s. Bahrain's services trade, measured as a share of GDP, has surged since 2011, practically tripling in the following five-year period. Net FDI inflows had seen rather elevated levels but, as of late, have generally been weak. FDI outflows appear to be more muted since 2009 with relatively small positive or negative values that reflect the dominance of disinvestment by the residents of Bahrain of their assets abroad. Traditional destinations for Bahrain's exports and sources for its imports have mainly been PAFTA and ASEAN+++ countries. PAFTA and sub-Saharan African countries hold relatively favorable prospects for Bahrain's exports, which have shown some improvement in diversification but very limited gains in sophistication.

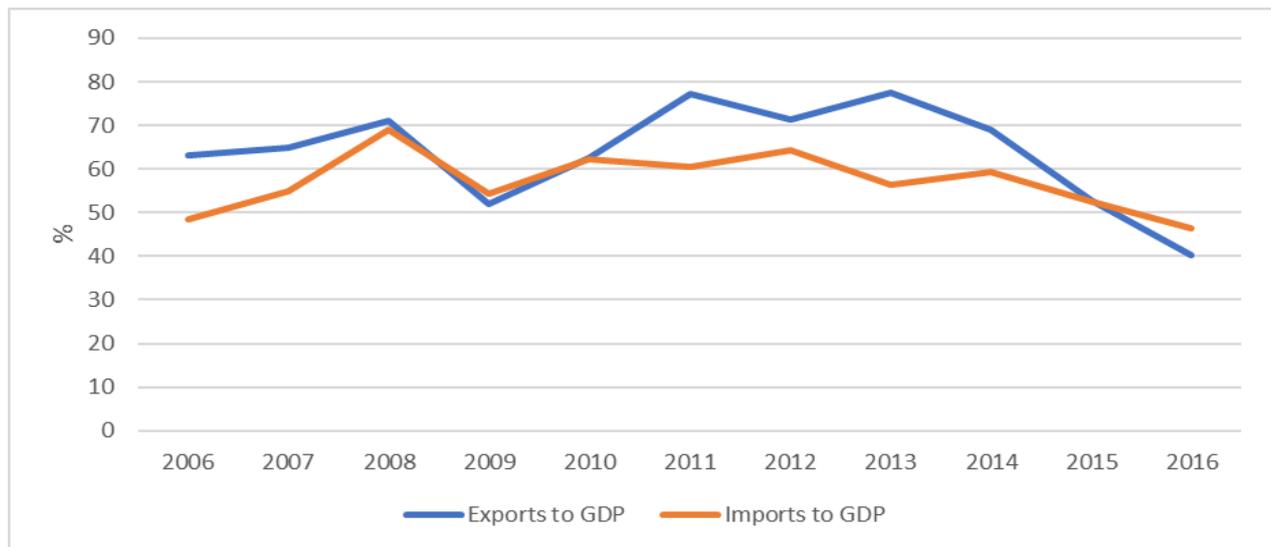
## I. Trends in Trade and Investment

Figure 1: Merchandise Exports and Imports, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

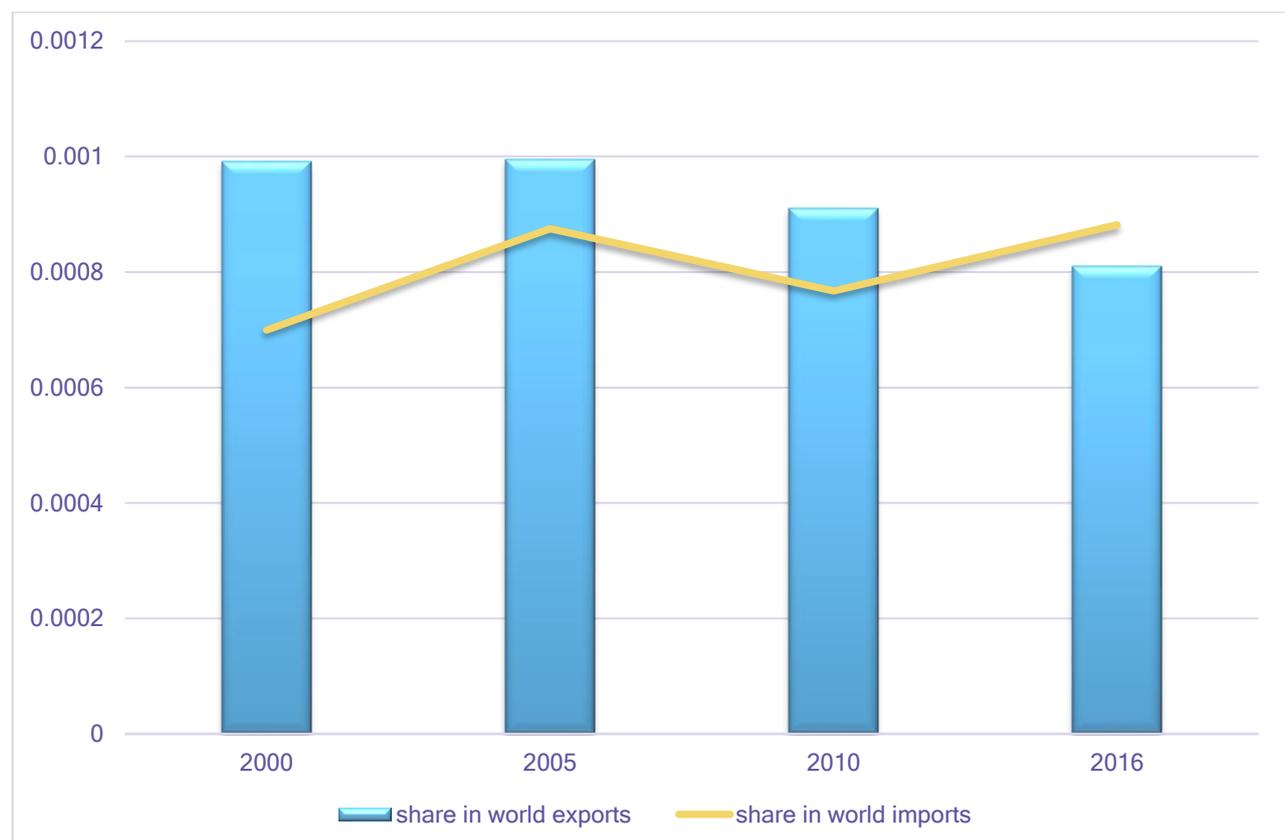
Figure 2: [Alternative of Figure 1 with SD data] Merchandise exports and imports, as a share of GDP



Source: *External Trade Bulletin of the Arab Region, No:26, ESCWA* (<https://www.unescwa.org/publications/external-trade-bulletin-arab-region-issue26>).

Bahrain's merchandise imports and exports have exhibited some variation over the past two decades, with its exports closely tracking the direction of movements in oil prices. Bahrain's merchandise imports had been rather stable in the first half of the 2000s but since have dropped precipitously in 2008 and surged in 2011, before reverting to levels recorded in the early 2010s.

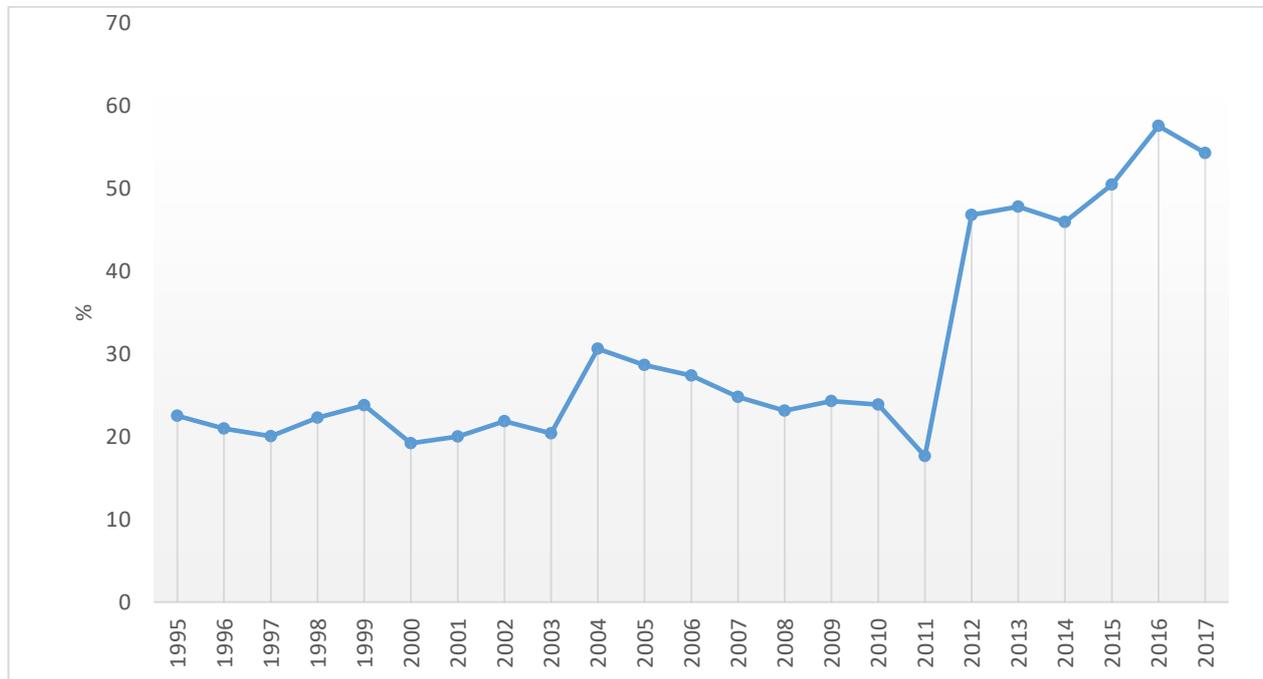
Figure 3: The Share in World's Merchandise Exports and Imports



Source: *ESCWA calculations using the World Development Indicators database (accessed October 2018).*

Bahrain has mostly maintained its share in world export in the first half of the 2000s, but it has lost some ground since then. Bahrain's share in world merchandise imports, though not steadily, has increased since 2000.

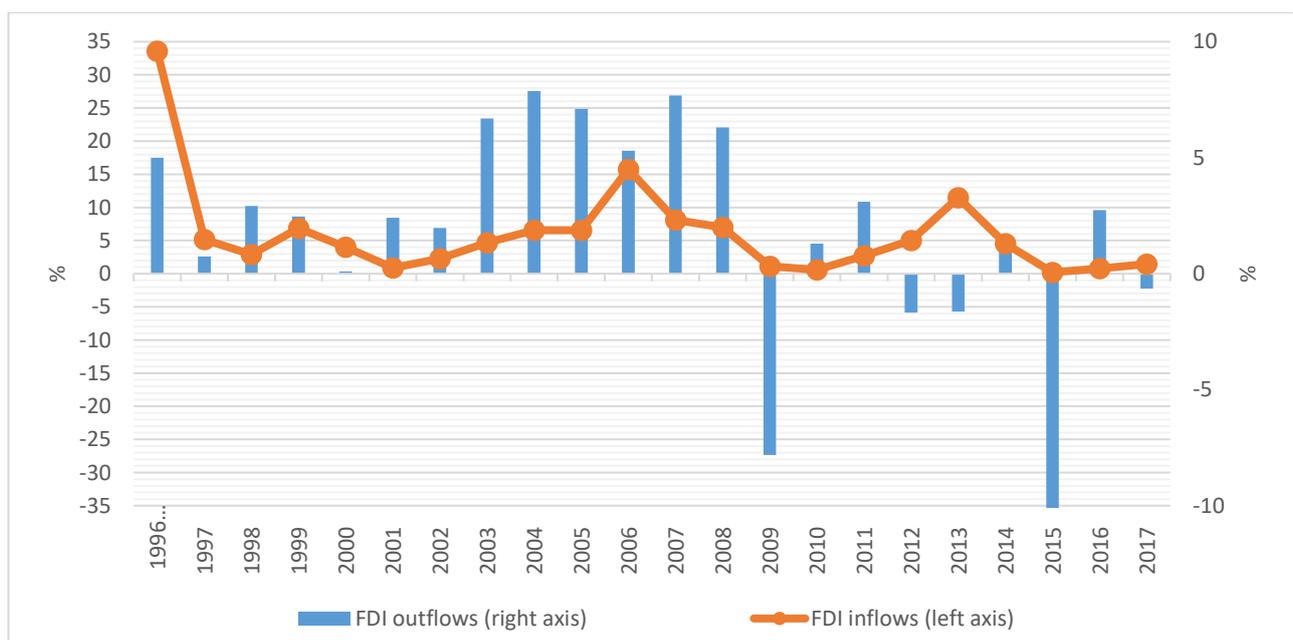
Figure 4: Bahrain's Services Trade, 1995-2017, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Bahrain's services trade, as a share of GDP, has been rather volatile over the past two decades. The surge of Bahrain's services trade between 2011 and 2016 is rather remarkable, essentially tripling in the span of five years.

Figure 5: FDI net inflows and outflows, 1996-2017, as a share of GDP



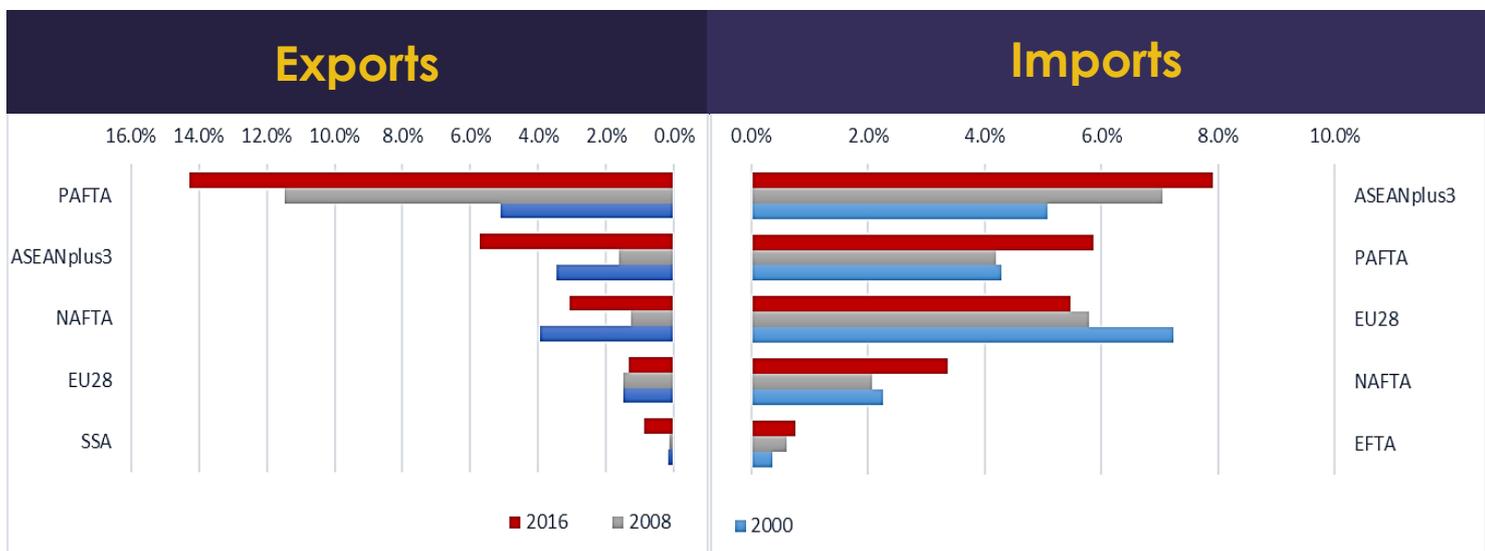
Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Net FDI inflows into Bahrain by foreigners and outflows by the residents of Bahrain have been volatile over the past two decades. Net FDI inflows had seen rather elevated levels but, as of late, have been weak. FDI outflows appear to be more muted since 2009 with relatively small positive or negative values that reflect the dominance of disinvestment by the residents of Bahrain of their assets abroad.

## II. Merchandise trade structure and indicators performance

This section assesses the trade performance and structure of Bahrain, employing a range of indicators and indices created using highly disaggregated product-level data.

Figure 6: Top export destinations and import sources, as a share of total exports and imports, 2016



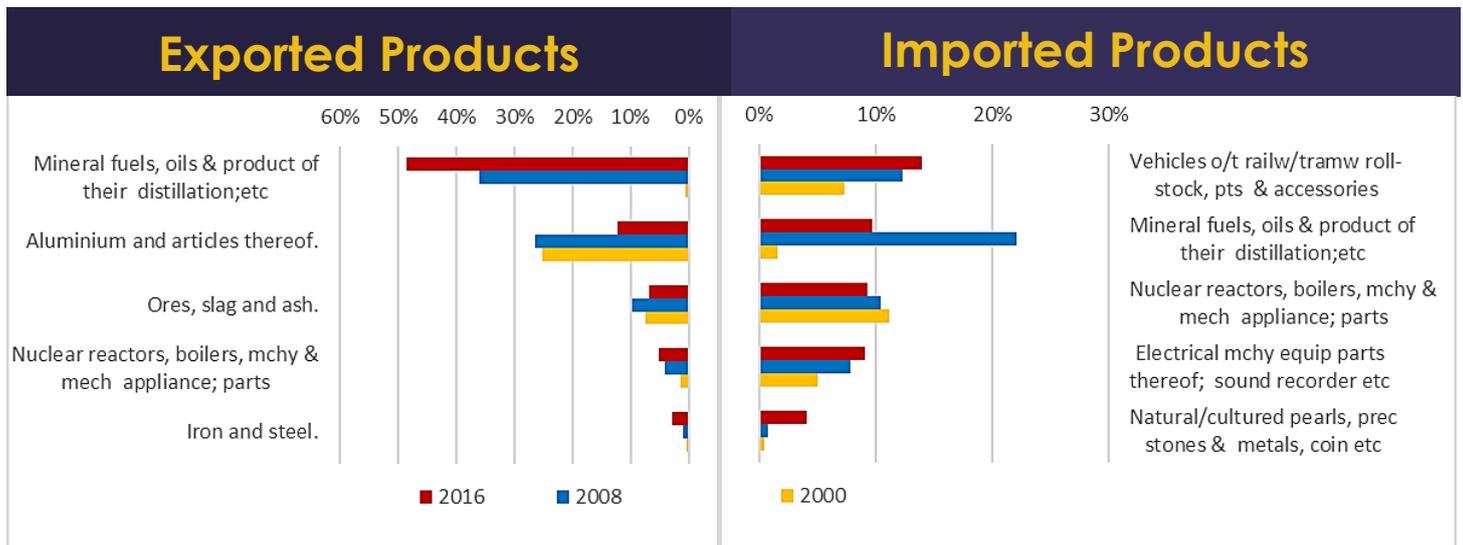
Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Based on COMTRADE data, which rely on data declared by countries and might miss partner-level detail<sup>2</sup>, PAFTA has been the top export partner for Bahrain and its share has increased substantially since 2000. ASEAN+++ follows PAFTA as the second most important destination for Bahrain's exports.

**ASEAN+++ is also the top source for Bahrain's imports, overtaking the EU, which stood atop in 2000.**

<sup>2</sup> This appears to case with Bahrain, for which a large share of its merchandise exports is not assigned to identified partners in COMTRADE data.

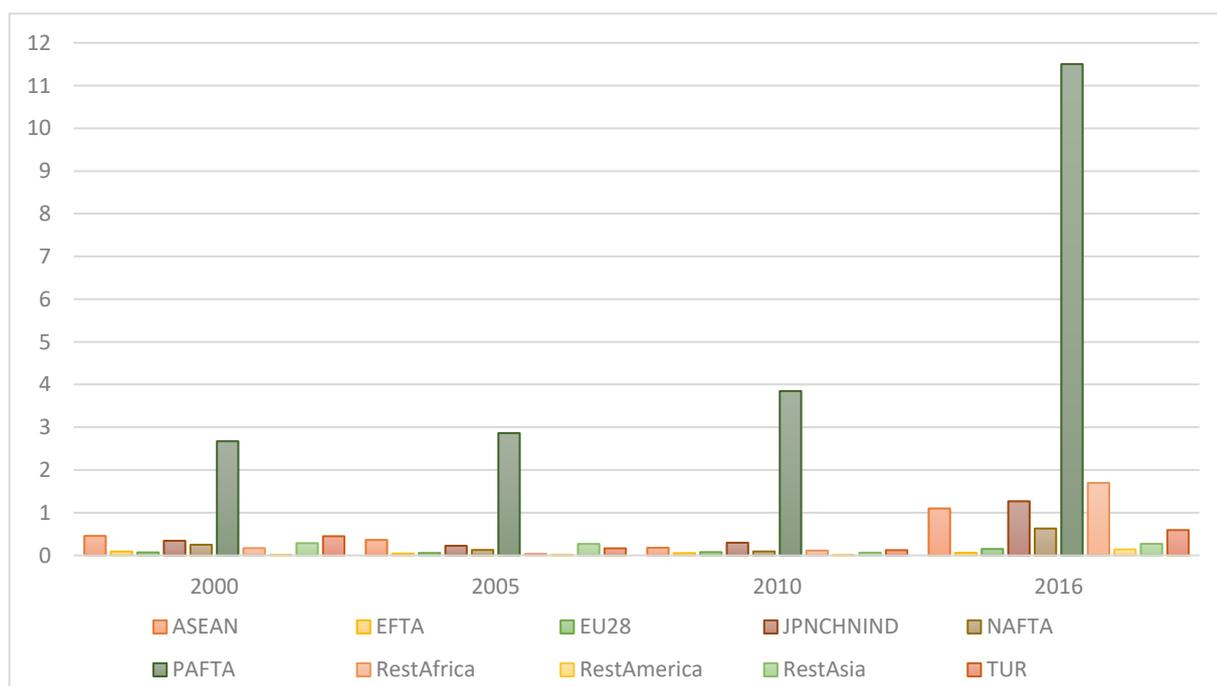
Figure 7: Top products exported and imported, 2016 (as a share of exports and imports)



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Mineral fuels, oils and their distillation products have by far been the most important product group in Bahrain's merchandise exports, with increasing importance over time. Bahrain's merchandise imports have been distributed somewhat more evenly across different products. Vehicles and vehicle parts, nuclear reactors, boilers, machinery and mechanical appliances, and electrical machinery and equipment have been notable products with high import shares. Mineral fuels, oils and their distillation products also figure among top imported products, indicating the importance of oil refinery for Bahrain.

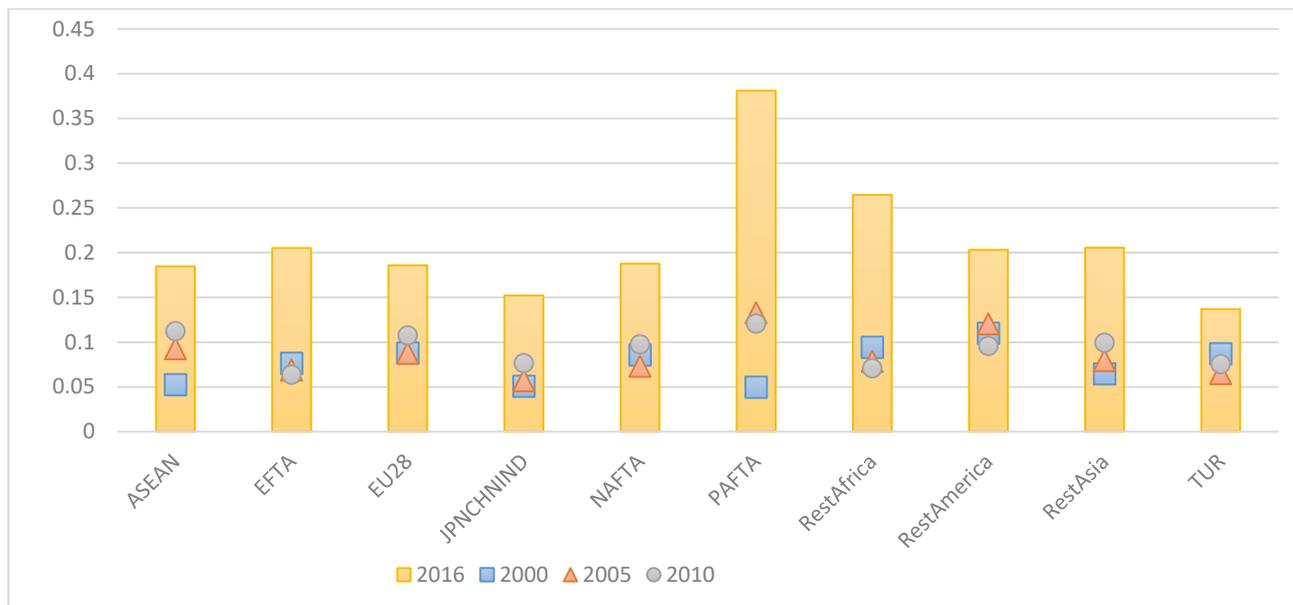
Figure 8: Trade Intensity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade intensity index captures whether the value of trade between a reporter and partner is greater or smaller than would be expected on the basis of their importance in world trade. Bahrain traditionally has traded more intensively with PAFTA countries compared to other blocs or regions and appears to trade more intensively with PAFTA over time. As of 2016, ASEAN and sub-Saharan Africa stand out as the other blocs or regions with which Bahrain's trade is in line with their respective world trade shares imply.

Figure 9: Trade Complementarity Index

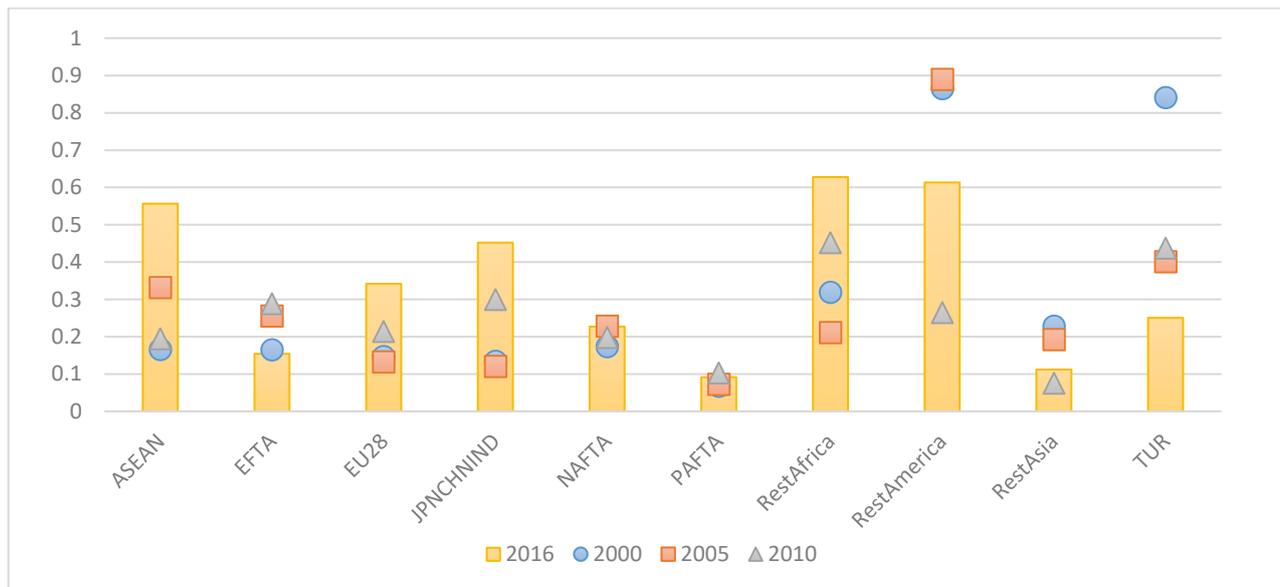


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade complementarity index captures how well the structures of a country's exports and its partner's imports match, showing the extent of prospects for further exchange. The index takes on the value zero when no goods are exported by one country or imported by the other and 1 when the export and import shares exactly match.

The index for Bahrain attains relatively higher values with PAFTA, followed by sub-Saharan African countries.

Figure 10: Hirschman-Herfindahl Index (bilateral export portfolio diversification)

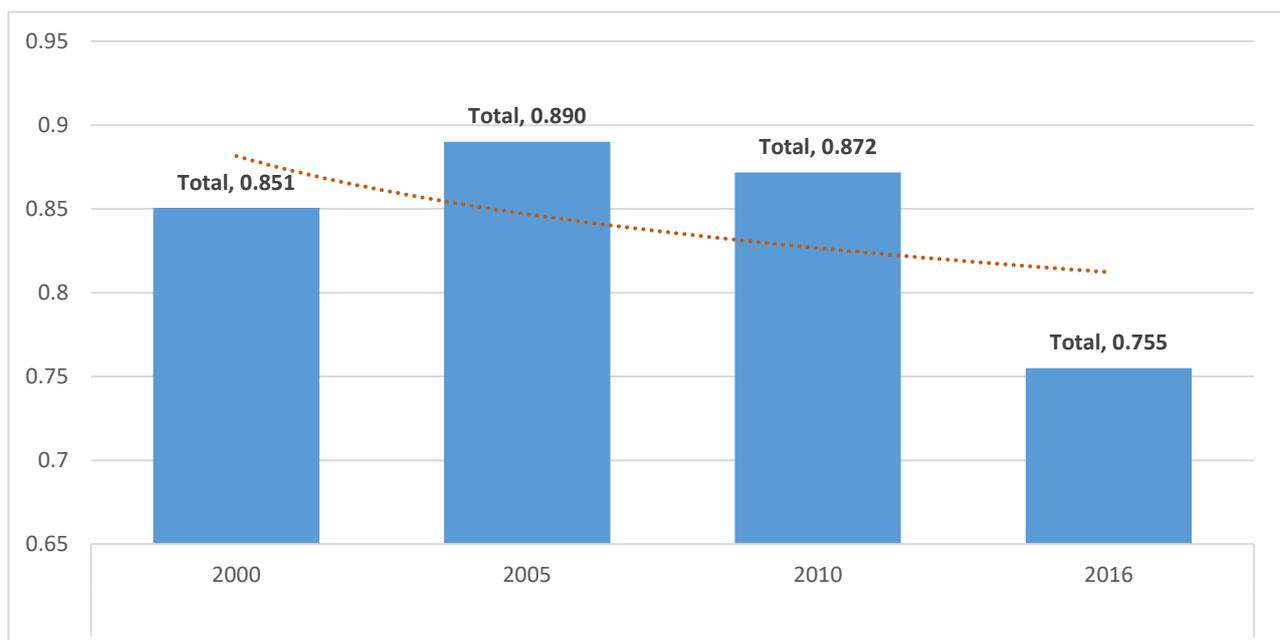


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Bahrain does not appear to have diversified its export portfolio vis-à-vis most of its partners, as measured by the Hirschman-Herfindahl Index. The diversification of Bahrain's export portfolio visa-a-vis Sub-Saharan African countries and Turkey is marked. The Hirschman-Herfindahl Index captures how diversified a bilateral export portfolio is.

**A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one product would attain the value of unity (least diversified).**

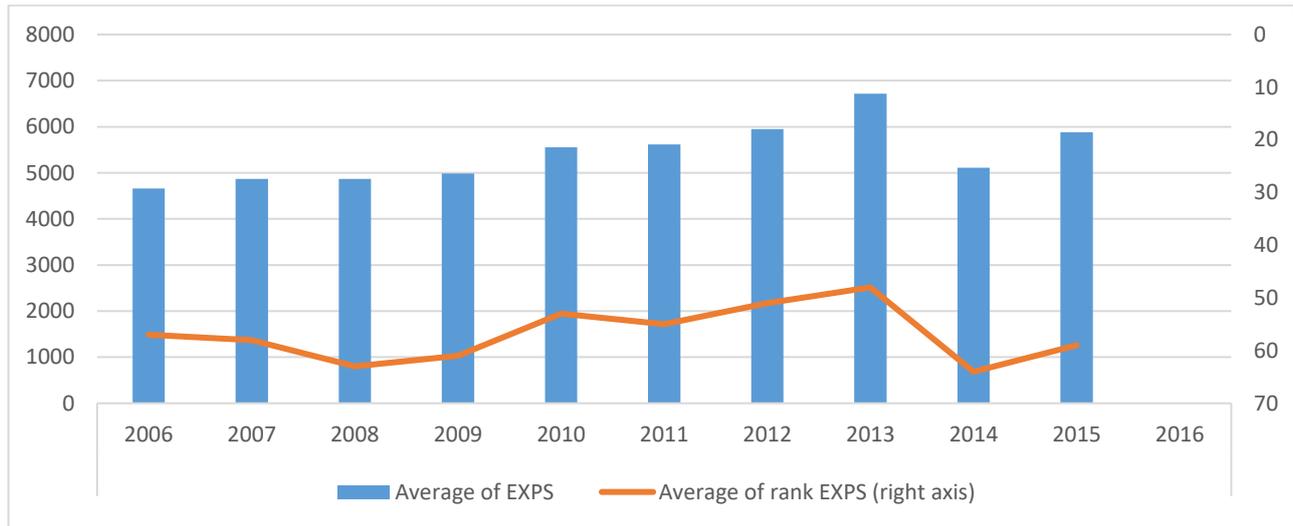
Figure 11: Export Diversification Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The Export Diversification Index measures whether a country is highly dependent on relatively few products or its export portfolio is diversified. The lower the index, the less concentrated are a country's exports. As measured by this index, Bahrain's exports have become more diversified since 2000, with significant strides having been made in the first half of the 2010s.

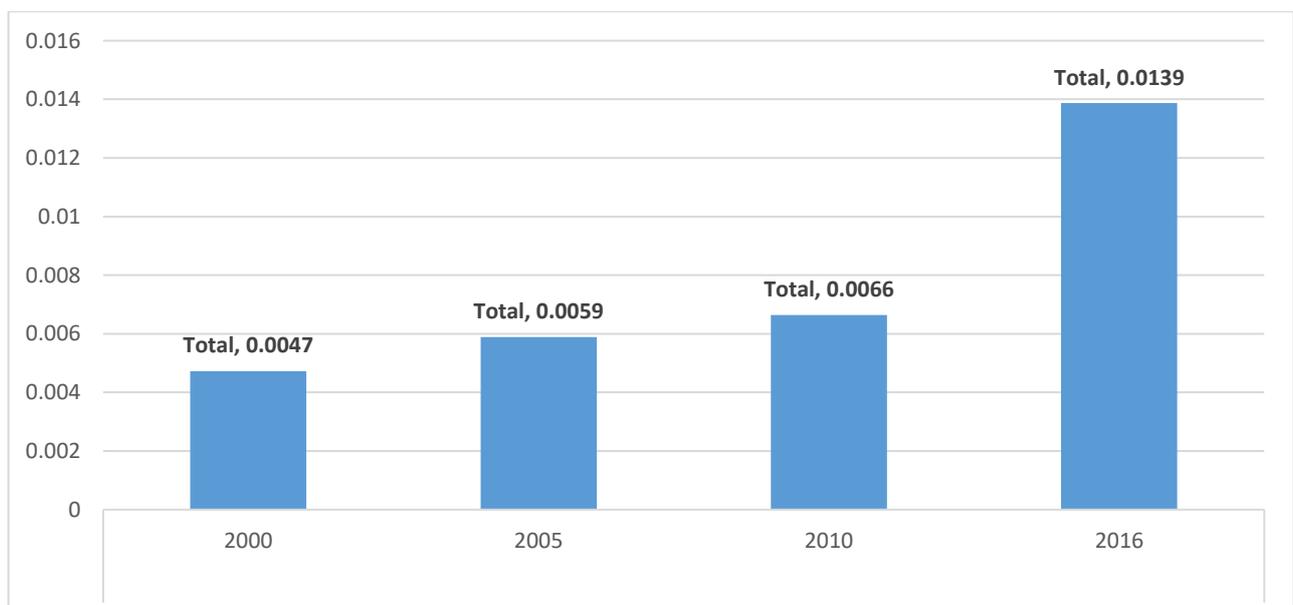
Figure 12: Export Sophistication



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Bahrain had managed to specialize in more sophisticated products until 2013 and had climbed by some ten spots in global rankings. The deterioration between 2013 and 2014, however, more than offset the gains in global rankings achieved prior to 2013.

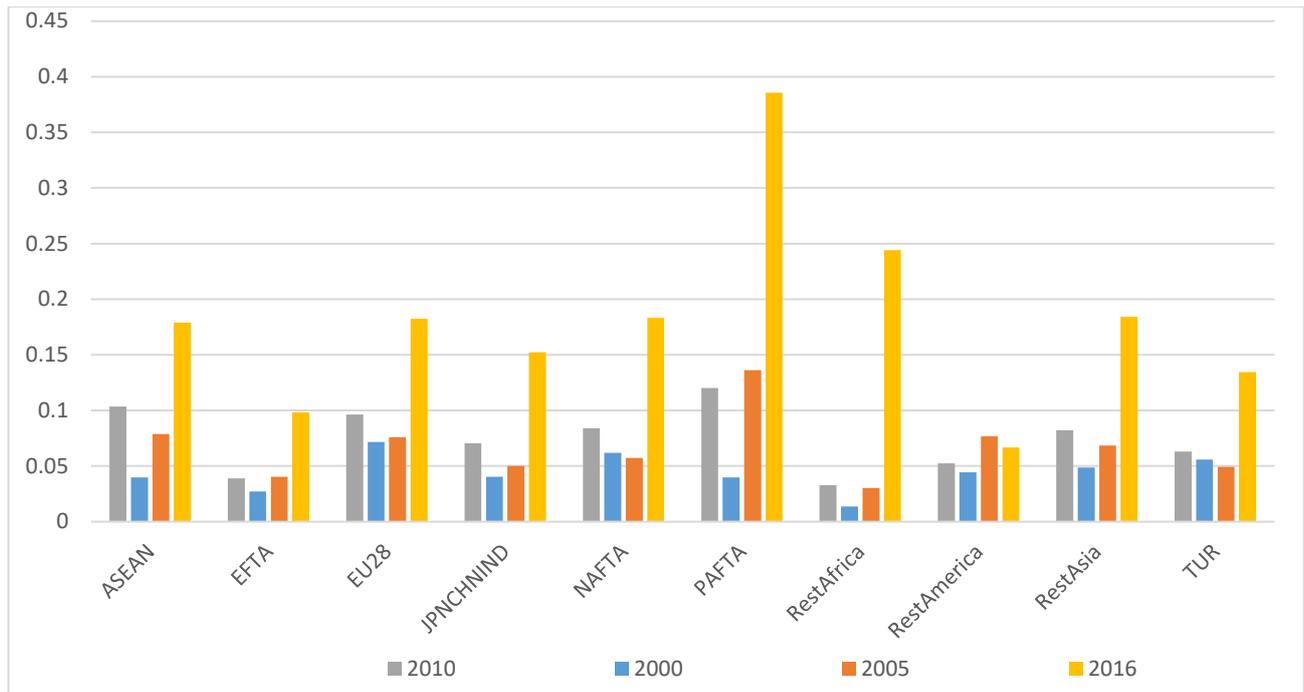
Figure 13: Export Market Penetration Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Bahrain's penetration into export markets has improved significantly since 2000, with a rather sharp improvement in the first half of the 2010s, as measured by the Export Market Penetration index. The index is essentially the share of the actual number of export relationships (at the country-product level) forged by the country in question in the maximum possible number of export relationships it can form given its exports.

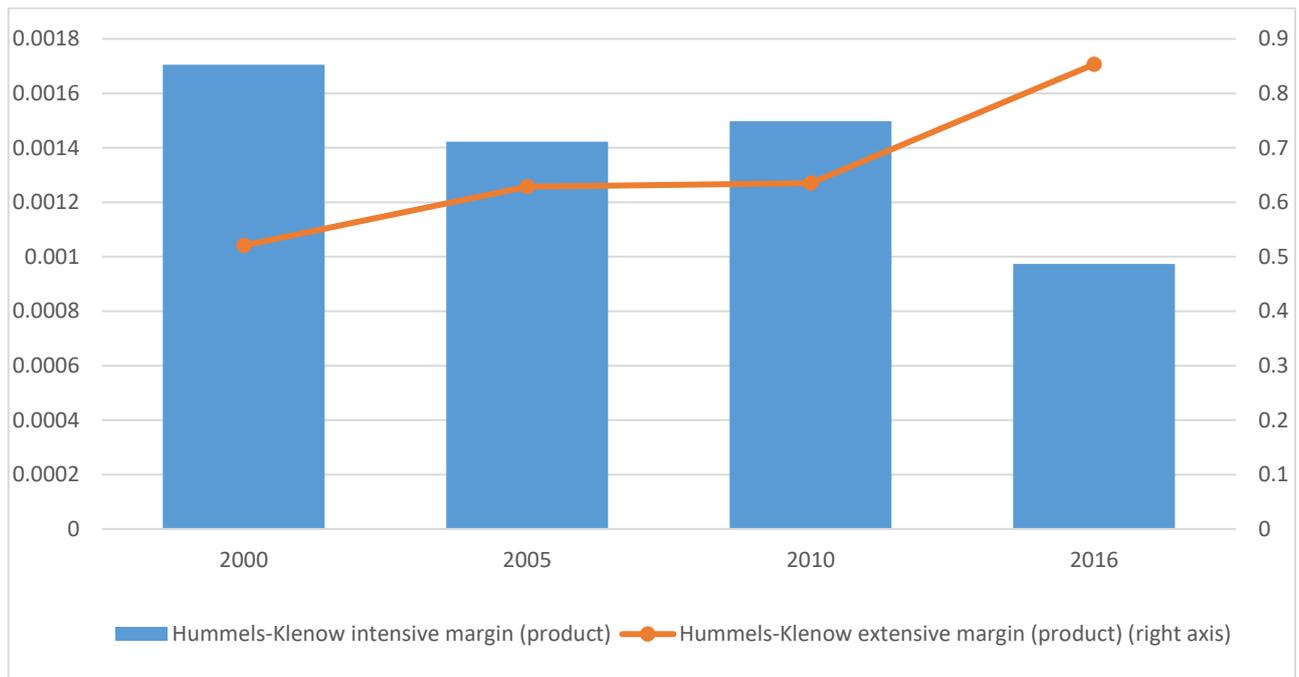
Figure 14: Export Similarity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The export similarity index captures the extent to which two entities in question are competitors in a common market. The index value of zero suggests that there is no competition between the two countries and of one that they are perfect competitors. Based on the export similarity index, Bahrain's main competitors in world markets are PAFTA countries.

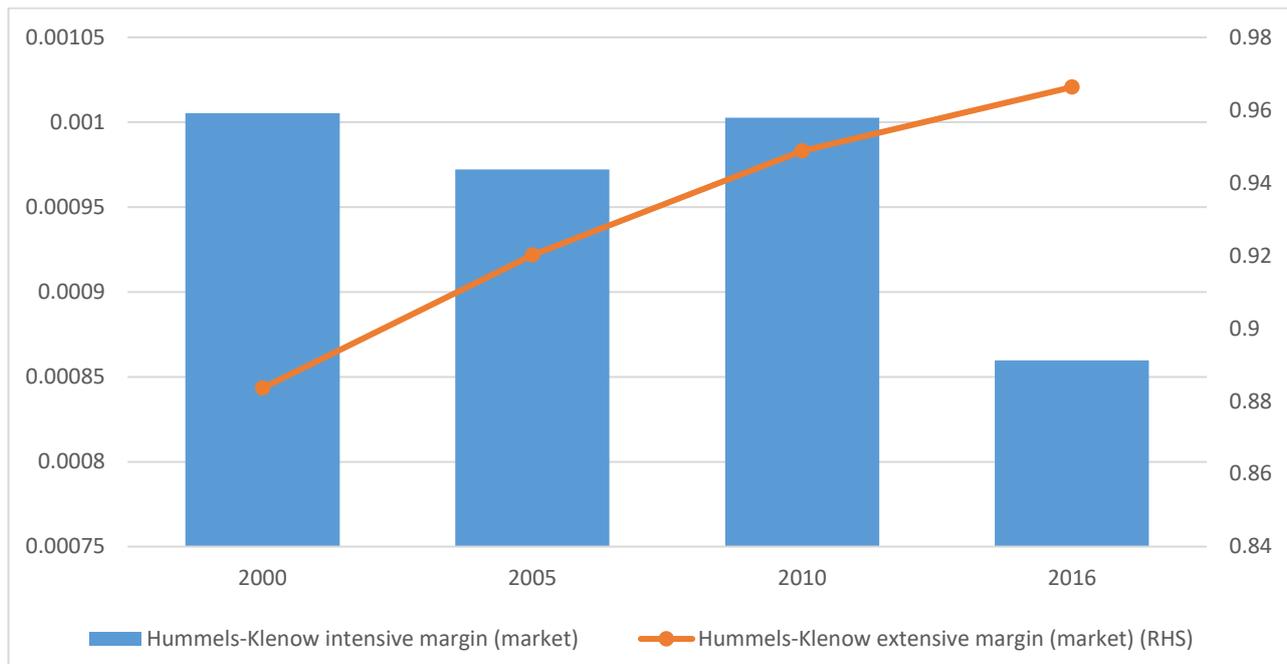
Figure 15: Hummels-Klenow intensive and extensive margins (product)



*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*

It is interesting to explore whether Bahrain exports larger quantities or a greater variety of goods. To measure the first, the Hummels-Klenow intensive margin in products could be employed, which essentially captures the share of Bahrain's exports in the world exports of products that Bahrain exports. This index has deteriorated significantly since 2000, with declines in the first half of 2000s and 2010s. Bahrain experienced a rather sizable increase in the share of the products Bahrain exports in total world exports of all goods, also referred to as the Hummels-Klenow extensive margin in products and gives an indication of how comprehensive the set of goods a country exports is.

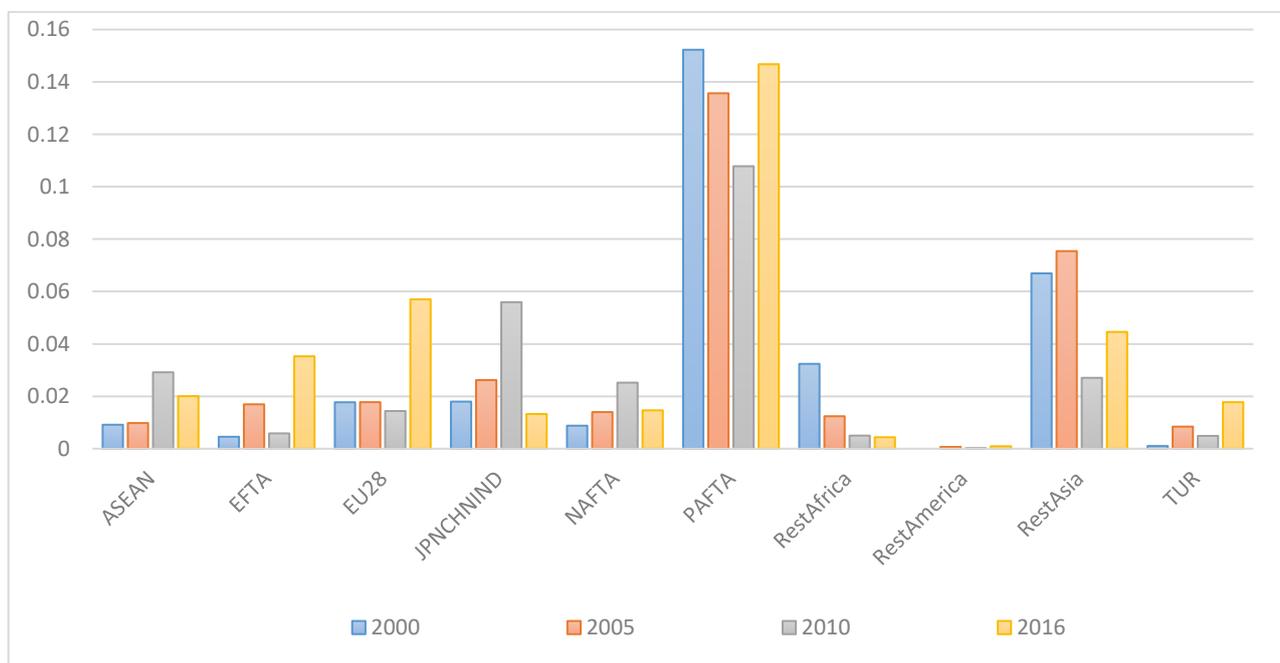
Figure 16: Hummels-Klenow intensive and extensive margins (market)



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

It is also of interest to see as to whether Bahrain exports larger amounts to its existing trade partners or expands into new markets. As a measure of the former, Bahrain's share in the total world exports to only those countries that Bahrain exports to, also referred to as the Hummels-Klenow intensive margin in markets, had been maintained in the 2000s but dropped sharply in the first half of the 2010s. Bahrain has managed to increase steadily its share in the world exports to only those countries that Bahrain exports to in total world exports of all goods, referred to as the Hummels-Klenow extensive margin in markets and captures the extent of expansion into new export markets.

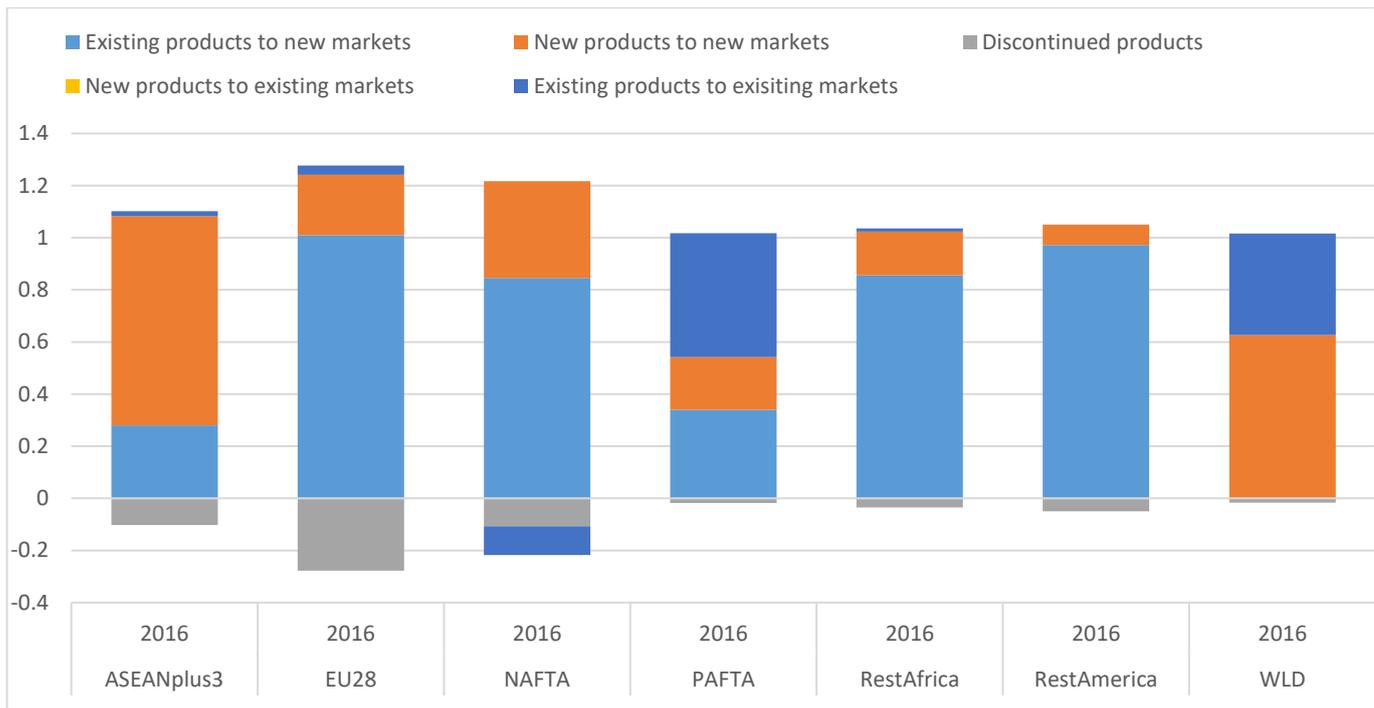
Figure 17: Intra-industry Trade Index



*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*

The intra-industry trade index measures the extent to which products that belong to the same industry were being traded between two countries, ranging between 0 and 1 and with values close to 1 corresponding to a high level of intra industry trade. Bahrain has engaged in intra-industry trade primarily with PAFTA countries.

Figure 18: The composition of the change in bilateral merchandise exports between 2000 and 2016 along intensive and extensive margins



*Source: ESCWA calculations using COMTRADE data.*

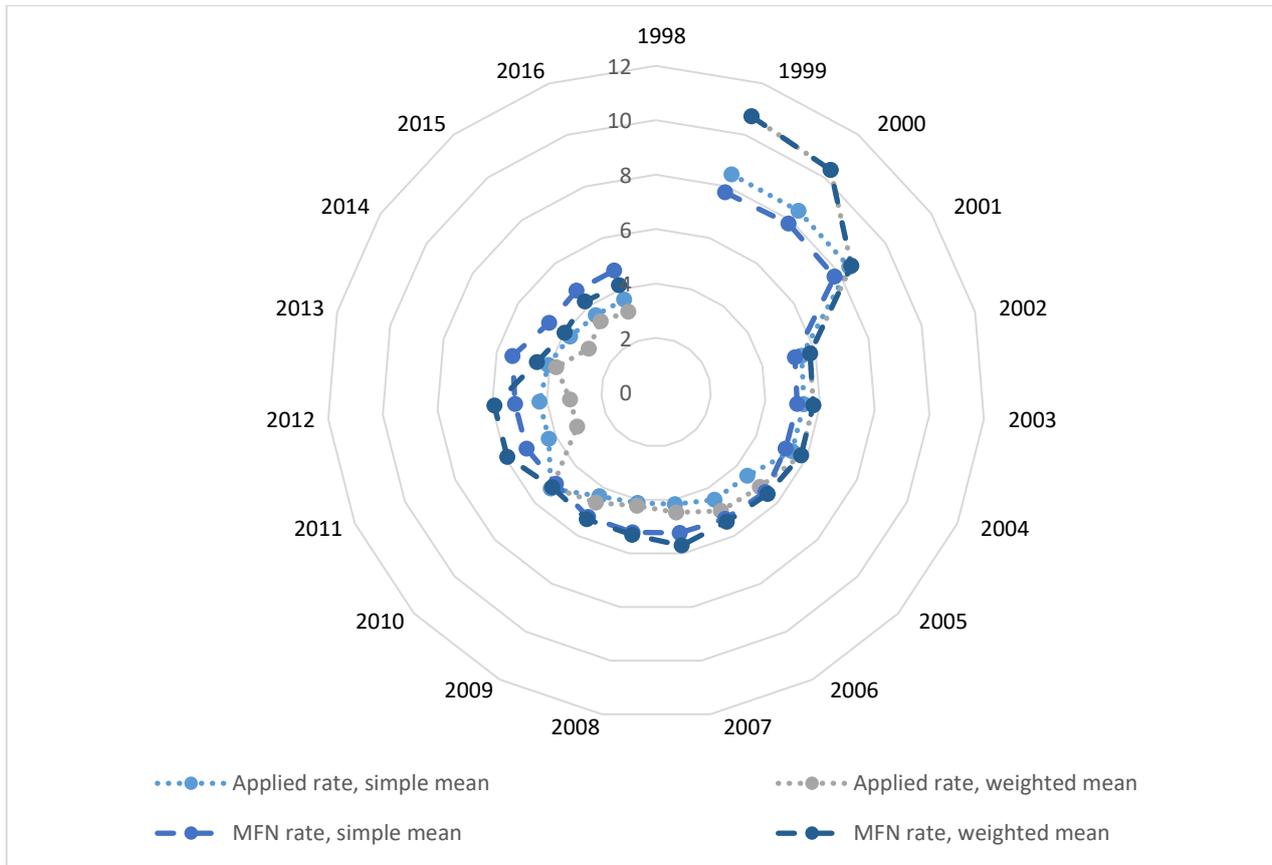
*Notes: The abbreviations and the list of the countries included in each group are as follows. The Association of Southeast Asian Nations (ASEAN) is created using Indonesia, Malaysia, Philippines, Thailand, and Vietnam, not including Brunei, Cambodia, Laos, Myanmar, and Singapore. [to be completed]*

Between 2000 and 2016, a relatively high share of the change in the exports of Bahrain has come from expanding into new products and/or markets. Across different destinations, the ASEAN stand out as the destination to which new products have a rather high share in Bahrain's exports. EU, American and sub-Saharan African countries have been dynamic markets for Bahrain's exports, with high value shares of new markets.

***PAFTA members are relatively stagnant export markets for Bahrain, with a relatively low value share of new products or markets.***

## II. Trade Policy

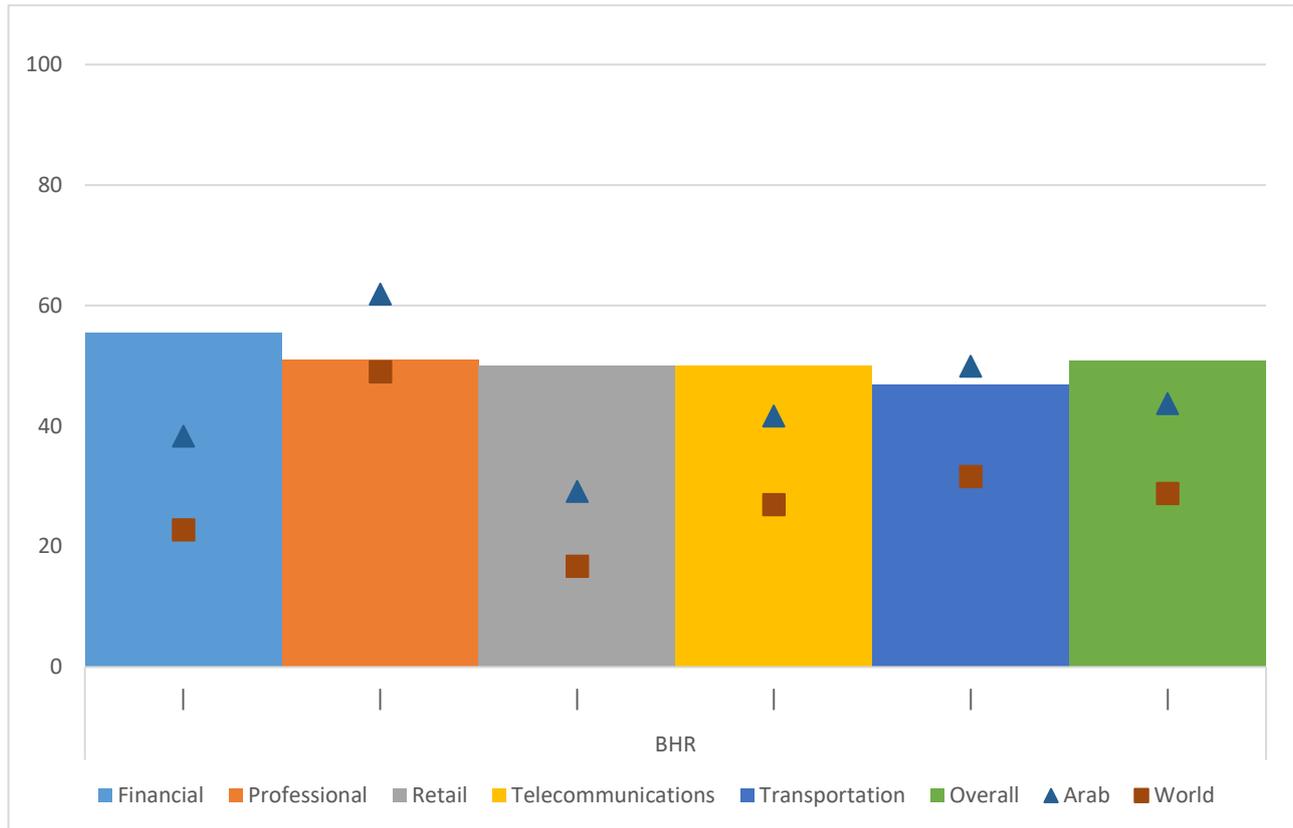
Figure 19: MFN and applied tariff rates for all products, simple and weighted means



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Bahrain has significantly removed tariff protection since 1999. Both MFN and applied rates are rather low.

Figure 20: Services Trade Restrictiveness Index, 2010



Source: Borchert, Gootiiz and Mattoo (2014).

Policies and regulations on Bahrain's services trade are restrictive, generally more stringent than the world and Arab averages. In particular, financial and telecommunications services and retail trade appear to have substantially more restrictive policies and regulations in place, as compared to the world and Arab region averages.

## END NOTE

Bahrain's mostly sub-par merchandise trade and investment performance in the past two decades appears to have been driven by limited gains it made in diversifying its export portfolio and in specializing in more sophisticated products. Although there has been a marked improvement in Bahrain's trade in services. Restrictive services trade policies and regulations are in place, suggesting an untapped potential. Going forward, addressing the performance gap in trade and investment would entail a broad and comprehensive policy response, including but not limited to undertaking reforms in the services sector and identifying and following up with opportunities to transform Bahrain's economy structurally.