

Rasheed Mohammed Al Maraj: Vigorous economic growth in Bahrain

Speech by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the Strategic Forum on the Bilateral Trade and Investment Opportunities in the Banking and Finance, London, 10 January 2008.

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In 2008, in a time of economic boom, it seems almost a fruitless exercise to embark on a discussion about the benefits of economic liberalization in the Gulf region. Why would we want to talk about the continuing need for economic liberalization when economic growth in recent years has exceeded all expectations? The large number of public and private investment projects currently underway have collectively achieved unprecedented record levels of growth, furthering the region's attractiveness to international investors. Some might even say that we don't need any more liberalization. We are doing quite well enough thanks to oil. Frankly, I would have to disagree.

Even in boom times, the key challenge to GCC Governments is to maintain the momentum of economic activities thereby creating additional job opportunities. This means encouraging economic diversity, and increasing the private sector's role in the economy. And hopefully, with increased diversity and a larger private sector, there will be less dependence on oil income as a catalyst for growth in the future. The way to achieve a more efficient and competitive private sector is not by protectionism but to increase competition and open up the domestic economies further.

Let me explain this perspective first by looking at the key factors that have contributed to the vigorous economic growth we are witnessing at the moment. The key growth factors are:

1. A large increase in oil revenues, which have permitted high government spending.
2. More flexible economic policies aimed at reducing red tape, and facilitating greater participation by the private sector; including trade liberalization and allowing foreign ownership of local companies.
3. A redefinition of the government's role from being purely an owner of nationalized industries and job provider into a more regulatory and supervisory capacity; allowing more room for the private sector to function effectively and efficiently.
4. The emergence of a highly qualified professional domestic private sector that is capable of engaging in entrepreneurial activities and adding value locally rather than engaging in the traditional role as merchant where frankly little if any economic value was added locally.

As an example of economic restructuring taking place in the Region, I would like to review briefly Bahrain's experience in economic reform and liberalization over the last 30 years and the benefits we have derived.

A key objective of Bahrain since the 70s was to work on diversifying the economy and reducing dependence on oil, and since then Bahrain adopted a number of significant initiatives to develop the financial sector which has made Bahrain the center of choice for many international and regional financial institutions.

These early initiatives proved successful by increasing the contribution of the financial sector to the economy and introducing competition to the local financial institutions. The financial sector provided additional benefits by way of training of large numbers of nationals and improving the quality and choice of services available to the public.

The arrival of foreign institutions also encouraged innovation in banking and prompted the authorities to continually improve the quality of banking regulations and supervision.

This open door policy attracted many leading regional financial institutions such as ABC, GIB, Investcorp and AUB to set up in Bahrain from the early 1980s onwards. Bahrain also played a pivotal role in developing the banking regulations and supervisory legislation to facilitate the growth of Islamic banking since the mid 1990s. This environment has helped in attracting a lot of interest from regional and international institutions to set up Islamic banks and Takaful companies. There are over 30 institutions in Bahrain specializing in Islamic finance.

Similarly, the Government of Bahrain undertook initiatives in other sectors focusing on trade liberalization and less restriction to foreign investment.

Such initiatives, which hold at their core the objective of an open economic policy, reiterate the fact that Bahrain and other countries in the region depend on additional integration with the global economy for their economic success and must take further measures to facilitate the flow of capital and trade into the region.

At present, the GCC region is observing a major economic boom, however, this time, unlike previous boom times, private investment currently is playing a significant role. Many projects in the services, industrial, and infrastructure sectors are currently being provided either in part or exclusively by the private sector.

Such changes in economic activity will provide a solid platform for a continued economic growth. Moreover, the establishment of a single market and additional economic integration among the GCC states will result in the creation of a large economic grouping with a tremendous potential. We are not only a major source of oil and oil derivatives, but we are increasingly perceived as a region with large investment opportunities.

Despite oil's dominance in the GCC economies, the major challenge for the region will be, ironically to reduce reliance on oil as a main source of income.

We should not rely exclusively on high oil prices to manage the economy of tomorrow. Increased oil revenue should work side by side with the increasing efficiency and improved professional and technical skills of the local workforce to generate wealth. The most visible and lasting benefit of economic liberalization will be that the citizens of the GCC shall no longer have to rely on the public sector to be the main driver of economic growth and provider of jobs.