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Business Competitiveness in Bahrain: A Synopsis

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Abstract

Unbridled freedom to private business sector is a harbinger of business collapse and eventually the economic landscapes of nations. We have had ample examples very recently. Hence, suitable rules and regulations are essential in conditioning favourable business environment. The ease of doing business can be understood by the availability of a cross section of factors such as clarity of property rights, low cost of resolving disputes, predictability of economic policies and situation, protection to investments, impartial redressal mechanism, the freedom and low cost retrenchment policy and exit, ease of resource mobilisation etc. This report reviews two annual reports on Doing Business pertaining to Kingdom of Bahrain vis-a-vis major counterparts in the Middle East and other noted economies.

Key Words: Business competitiveness, Doing business, Business environment, Kingdom of Bahrain

Understanding the business environment, in which the business is to be placed or flourished, is an indispensable element of successful business operations. The politico-legal environment, *inter alia*, plays a decisive role in conceiving, designing and nurturing business organisations. The world economies are on the race, irrespective of developed, developing or underdeveloped countries, to move on to the next higher plateau of economic position. And the role of successful business establishments in bringing positive net worth¹ to the country of its operation needs no overemphasis. Hence an inherent competition can apparently be seen, across the national borders, in facilitating conducive ambience for nestling new business partnership, despite overt efforts to borderless trade and uni-polar economic system.² Business organisations will turn up positively to mutually reinforcing business environment.

The global economic order³ in place not only offers boundless opportunities, but places formidable threats as well. The phenomenal growth of MNCs, both latitudinal and longitudinal, during the past two decades and the global financial meltdown and its ensuing economic recession are convincing evidences of having a relook behind the facade of euphoric festivities of globalisation mania. Though the global economies are affected generally⁴ due to the financial turmoil the magnitude and intensity of impact differs from country to country. Those countries with sound domestic policy, stable polity, reliance on domestic resources and good governance and regulative frame work were less affected in the recent global financial landslide. Research outcomes underscore

this phenomenon. A report by Gulf Talents Manpower consulting group (July, 2009) forecasts 3.1% growth rate for Bahrain during 2009. It is one of the three countries (Qatar 9.6% and Oman 1.9%), which are likely to have positive growth rates in the wake of global recession during 2009.

However the focus of this article is not to debate over the issues related to current global economic situation, rather to present an overview of the regulative framework for business operations in Bahrain. This review article is based on a few reports⁵ published by the World Bank under the series title 'Doing Business.' Doing business report provides quantitative measurement rules and regulations relevant to the life cycle of small and medium sized enterprises in a domestic economy. Suitable rules and regulations are essential in conditioning favourable business environment. The ease of doing business can be understood by the availability of a cross section of factors such as clarity of property rights, low cost of resolving disputes, predictability of economic policies and situation, protection to investments, impartial redressal mechanism, the freedom and low cost retrenchment policy and exit, ease of resource mobilisation etc. These are all the indicators of business competitiveness or business friendliness in a country. Transparent rules and regulations, efficient implementation and need-based modifications to suit to the changing situation will encourage any aspiring entrepreneurs.

Materials and methods

This article has been prepared mainly based on the report on Doing Business 2009: Country Profile of Bahrain. However, both consolidated and selected country perspective reports were used as inputs. The indicators of business competitiveness are discussed separately in this article to understand the relative rank of each indicator. In an effort to understand the comparative position of Bahrain among some of her counterparts, the ranking of business competitiveness, for the years 2008 and 2009, of the identified countries are also presented at the end of this report. Among the twenty countries in the Arab World,⁶ Bahrain has got second place in the ranking on the ease of doing business, followed by Qatar and UAE respectively. Saudi Arabia is the only country which is ahead of Bahrain, in the ranking on the ease of doing business in the Arab World 2009.

The other countries, whose ranks also presented (in a table at the end) along with Bahrain to understand its comparative position in business competitiveness, were identified based on certain criteria such as prominent GCC partners (Saudi Arabia, Qatar, Kuwait, UAE and Oman), the country to which Bahrain has the highest diasporic connection (India), the

country that got the highest rank in the ease of doing business (Singapore), a fast growing industrialised country (China) and two prominent leaders of free enterprise economy (Britain and America). Bahrain has a remarkable number of expatriate population, which constitutes more than 1/3 of the population of the Kingdom. Moreover, the entrepreneurs of Indian origin in Bahrain play a key role to the economic situation of the Kingdom. China has proved its potential for industrialisation through small and medium scale industries.

Implications of Business Competitiveness Indicators

This section delineates the implication of ten indicators used for measuring the business competitiveness of world economies by the Doing Business survey team. When the first Report published in 2003, it considered five indicators and covered 133 countries. Every year the series is getting benefitted through modifications and additions with resourceful reviews and feedbacks. This year it considered ten indicators, which provide a regulatory frame work for business establishments during the various stages of its life cycle operation, and covers 181 economies. The respective position of Bahrain in the ranking of international business competitiveness in each indicator is mentioned along with the highest and lowest ranking countries, when their implication is discussed.

1. ***Starting a business***: The first indicator of business competitiveness is related to the ease of starting a business. Entrepreneurs generally search for suitable place for launching their business. Ranking on starting a business is based on four sub indicators such as time taken for registration, cost incurred in the process, minimum paid-in capital and the number of procedures till the final document is received.⁷

The ranking of Bahrain on ease of starting a business is 49 out of 181 positions. New Zealand is identified as most favourable country to commence a business (being ranked first) and Guinea-Biassau is the least favourable (ranking 181)

2. ***Dealing with construction permits***: It implies the procedural steps and official fees associated with legally completing the procedure of obtaining a construction permit. As part of generalisation the indicator deals with the building of a warehouse. The business has to comply with all requisite inspections, licenses and safety regulations. Business competency based on this indicator is based on three sub indicators such as days to build warehouse in the main city, procedures completed⁸ when final document is received and legally minimum financial expenditure till the permit is obtained.

Rigorous yet expeditious and transparent permitting processes are essential. The building construction will be hazardous, posing threat to both life and property, for want of rigorous building permit procedures strictly adhering to safety standards and inspections. Similarly complicated procedural system may be a stimulus to by-pass legal set up or resorting to unauthorised construction frittering away all safety stipulations and moral responsibilities.

Bahrain has got 14th position in the international ranking in dealing with construction permits. St. Vincent and the Grenadines is in the first and Eritrea is in the last for having competitive construction permits regimes.

3. **Employing workers:** Employment regulations are essential for efficient contracting between employers and workers and to protect workers from discriminatory or unfair employment practices on the one hand and to support the business to select, retain and utilise their talent pool. Labour market in Bahrain is in the process of fast reforms to enable it to be suitable to an international centre of business. In early this year the country scrapped sponsorship regime for expatriate workers to infuse employment mobility in the kingdom. Employing workers' indicator is based on the following four factors such as fixed-term contracts and minimum wage stipulations, non-standard work schedules and paid vacation, notice period for termination and severance pay and legal protection against dismissal, indicating the requirements for dismissals

Bahrain's competitive position in employment relation is 26th among the 181 nations. The USA, undoubtedly, has the first position and Venezuela is the least labour friendly country.

4. **Registering property:** The consolidated report observes "formal property titles help promote the transfer of land, encourage investment and give entrepreneurs access to formal credit markets." Unnecessary encumbrances to registering and transferring property will discourage private investment. Private entrepreneurs are more interested to get the property of land and building transferred in its entirety. The indicator of registering property records the procedural steps necessary for the transfer of property title to the buyer's name, in its entirety. Then he, in turn, can use it as collateral for a bank loan.

The ease of registering property tends to have simple bureaucratic procedures, low transfer tax (as a percentage of property value), fixed registration fees, online registries and minimum time limit for administrative procedures.

With respect to the ranking of registering property, the country maintains consistency with its overall business competency (18th rank). Saudi Arabia excels all other countries in the efficiency of business property registration and Timor-Leste has the least efficient business property registration system.

5. **Getting Credit:** Finance breathes life into business. Credit requirement and its availability, easy and free access to credit information, protecting the legal rights of lenders and borrowers, stable and liberal monetary policies, low exposure to risky assets, affordable collateral regime, transparent credit practices and effective enforcement of rule of law are essential to realise the smooth functioning of credit market. This indicator measures the legal rights of borrowers and lenders and the scope and quality of credit information system. Availability of sufficient credit facility is easy terms and conditions with transparent repayment system will promote private investment. The lenders also to be protected from false bankruptcy of borrowers and unstable monetary policies. Accessibility of reliable credit market information will bridge the gap between supply and demand sides of credit market.

Bahrain stands at 84th position in the ranking of credit market competitiveness and Malaysia and Palau occupy first (rank 1) and last (rank 181) positions respectively.

6. **Protecting Investors:** Investors are very much sensitive to the capital they invest, and they have zero tolerance to its loss. The economy must ensure a vibrant stock market to raise equity capital and competent banking system to ensure bank loan. The govt has to protect the interests of investors by safeguarding their hard earned money. The govt must strengthen investor confidence to ensure a healthy and competitive growth; otherwise, it will debilitate industrial growth. This indicator is based on three sub indicators such as maintaining transparency about the proposed transactions, the ability of investors to hold board of directors liable for damages and the ability of shareholders to sue the director board, ability to examine the defendants and witnesses, access to internal documents, capacity to appointment an inspector to investigate the transaction.

Bahrain's competency in protecting the interests of investors is ranked as 53 out of 181 national economies analysed. New Zealand is identified as the country with unique system to protect investment and Afghanistan the least protected country.

7. **Paying Taxes:** Modern states are welfare oriented states committed to provide public amenities to ensure inclusive growth. Revenue generation becomes essential to every

govt. Taxes constitute the main source of public revenue and every govt is authorised to collect taxes to defray the expenses incurred on the provision of public amenities and utilities. The nature of corporate tax system plays a crucial role in the growth of business, and it adds wealth to the country. The prevalence of a simple (less complex) tax system tends to discourage tax evasion and, thereby, ensure sufficient public revenue. Less tax rates, with no cascading effect, less administrative cost, less and easy administrative procedures, transparency etc are the indicators of a good tax system.

The ease of taxpaying indicator is constructed based on three sub-indicators as follows; the frequency of payments per year and the number of agencies involved in the system, the time taken to prepare and file tax returns and to pay various corporate tax dues and the amount of taxes and other mandatory contributions payable by the company as a percentage of commercial profit, before tax.

Bahrain has somewhat business tax regime, as it is ranked 15 in the ease of taxpaying indicator. Maldives tax system is identified as easiest Belarus the most difficult in the world.

8. ***Trading Across Borders:*** This indicator measures the liberty of business to conduct trade across the borders (foreign trade). Export-import policy of a country conditions nature, extent and composition of foreign trade, subject to the economic surpluses and shortages of the domestic economy. Well-developed infrastructure, efficient customs, fewer document requirements, low bureaucratic procedural delays and no corruption are indicators of competitive foreign trade regime. In the absence of these, not only the legal trading system fails, but smuggling proliferates.

The ranking of ease of trade across borders is based on the following three indicators; the number of necessary documents required by customs, clearing house, banks etc., time taken for preparing document, customs clearance and technical control, ports and terminal handling, inland transport and handling and legal costs involved in the trade.

With respect to the ease of trading across borders, Bahrain's rank is 21 out of 181 countries. Not surprisingly Singapore provides the easiest trading across border facilities and Kyrgyz Republic is the most unfriendly trading across border country.

9. ***Enforcing contracts:*** In the absence of a powerful and efficient judiciary system business establishments will be reluctant to engage in transactions with unfamiliar clients, for fear of business failure. This indicator measures the efficiency of the

judicial system in resolving a commercial dispute. The indicator of enforcing contracts is based on three sub-indicators as follows; the number of days to resolve commercial sale dispute before courts, from filing a case to its final verdict, amount of cost in terms of Attorney fees, court fees and enforcement charges as a percentage of claim value and procedural steps to file claim, obtain and enforce judgement.

Bahrain is ranked 113 for its policies on enforcement and business dispute settlement system. The system of enforcing business contract is unique in Hong Cong (rank 1) and the most dubious in Timor-Leste (rank 181).

10. ***Closing Business:*** Business may face uncertain and unexpected failures. Efficient bankruptcy regulations helps in harmless liquidation and improves access to credit and confidence levels of creditors enhances. A good bankruptcy regime can help to rehabilitate viable business and liquidate unviable ones. This indicator measures the time, cost and outcome of bankruptcy proceedings applicable to domestic business.

Bahrain's competitiveness is numerically measured 25 in the international ranking. Japan offers the most favourable business liquidation system and Central African Republic is the most discouraging region.

Conclusion

A growing economy needs efficient business regulations capable of adapting to changing situations. At the same time there must have legal and efficient enforcement system to protect investor and property rights. Dynamic and growing economies continually reform and update their regulations and their way of implementing them. It is about working better to serve interests of the people better protection, lower costs, faster and more predictable regulatory process, less overlap and duplicate, more rapid alignment with global best practices and greater transparency and accountability.

Doing Business 2009 report is of paramount importance in the Kingdom of Bahrain due it its business friendly policies. The report provides ample confidence to policy makers, as it has excelled its counterparts, not only in the region but across the continents, certain indicators. At the same time offers a guideline to future areas of focus. An important limitation of this report is that it does not cover large establishments, nor does it focus on regulations specific to foreign investment.

Explanatory notes

1. National income of a country is the sum of the market value of all produced goods and services during an accounting year.
2. Leaders of the nation states are busy in signing treaties and agreements for uncompetitive collaboration and partnership in a win-win mode in the regional and global foray. At the same, back at home, they are engaged themselves in policy making to woo foreign direct investment in a competitive spirits.
3. Collectively indicates liberalisation, privatisation and globalisation
4. No individual economy cannot insulate itself from the repercussions of the affairs from the other side of the globe, in an integrated and net worked world order. Indisputably the system performance will be affected by individual components.
5. "Doing Business" is a series published by World Bank in every year starting from 2003. This informative series depicts how easy it is to conduct business in a particular country. Doing Business 2009 compares the regulative frame work of 181 economies. The business competitiveness of a particular country is gauged and compared using ten indicators. The historical trends of national economies are also presented to get an awareness on how each indicator changes with respect to time. Along with the consolidated report, country profiles are also available. The reports can be accessed in <http://www.doingbusiness.org/downloads/>
6. The twenty countries covered under the report of Doing Business in the Arab World 2009 are: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE, West Bank & Gaza and Yemen.
7. Refer Doing business 2009, complete report.
8. Permitting procedures include submitting project documents to authorities, obtaining all necessary licences and permits completing required notifications and inspections and obtaining utility connections like telephone, electricity, water, sewage etc.

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Table: Business Competitiveness ranks of Bahrain and selected other countries

S.No.	Indicators	Year ¹	Bahrain	Saudi Arabia	Qatar	Kuwait	UAE	Oman	Singapore	India	China	UK	USA
	Over all Business Competitiveness (Doing Business) ²	2008	17	24	38	49	54	57	1	120	90	6	3
		2009	18	16	37	52	46	57	1	122	83	6	3
		Change in rank³	-1	8	1	-3	8	0	0	-2	7	0	0
1	Starting a business	2008	45	38	47	125	105	120	9	114	140	6	4
		2009	49	28	57	134	113	76	10	121	151	8	6
			Change in rank	-4	10	-10	-9	-8	44	-1	-7	-11	-2
2	Dealing with construction permit	2008	15	48	27	84	43	130	5	131	178	54	26
		2009	14	50	27	82	41	133	2	136	176	61	26
			Change in rank	1	-2	0	2	2	-3	3	-5	2	-7
3	Employing workers	2008	30	44	87	41	45	25	1	89	91	22	1
		2009	26	45	88	43	47	24	1	89	111	28	1
			Change in rank	4	-1	-1	-2	-2	1	0	0	-20	-6
4	Registering property	2008	15	3	53	76	9	16	13	114	30	19	9
		2009	18	1	54	83	11	19	16	105	30	22	12
			Change in rank	-3	2	-1	-7	-2	-3	-3	9	0	-3
5	Getting credit	2008	79	51	126	79	116	116	5	25	79	2	5
		2009	84	59	131	84	68	123	5	28	59	2	5
			Change in rank	-5	-8	-5	-5	48	-7	0	-3	20	0
6	Protect investors	2008	49	49	84	19	110	84	2	33	84	9	5
		2009	53	24	88	24	113	88	2	38	88	9	5
			Change in rank	-4	25	-4	-5	-3	-4	0	-5	-4	0
7	Paying taxes	2008	14	6	2	9	4	7	3	167	172	15	79
		2009	15	7	2	9	4	8	5	169	132	16	46
			Change in rank	-1	-1	0	0	0	-1	-2	-2	40	-1
8	Trading across Borders	2008	20	33	36	99	11	109	1	91	43	27	15
		2009	21	16	36	104	14	119	1	90	48	28	15
			Change in rank	-1	17	0	-5	-3	-10	0	1	-5	-1
9	Enforcing contracts	2008	115	136	99	95	145	110	3	180	21	24	8
		2009	113	137	98	94	145	105	14	180	18	24	6
			Change in rank	2	-1	1	1	0	5	-11	0	3	0
10	Closing a business	2008	25	82	32	70	142	62	2	140	60	10	18
		2009	25	57	31	66	141	63	2	140	62	9	15
			Change in rank	0	25	1	4	1	-1	0	0	-2	1

Source: Doing Business 2009, consolidated and country profile reports, modified

Notes: ¹Ranks for 2008 and 2009 are given to facilitate the understanding how the respective countries change themselves as time passes by.

²Implies the overall business competitiveness of the respective countries out of 181 countries

³Estimates the trend and magnitude of changes, in overall and each indicator, in 2009 over the previous year. Positive signs imply favourable changes and negative signs unfavourable changes.