

**SITUATING BAHRAIN  
IN A FUTURE WORLD:  
OPPORTUNITIES FOR  
FOREIGN INVESTMENT**

Bahrain is well positioned to  
carve a sustainable, specialized  
niche within tech economy

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## EXECUTIVE SUMMARY

Bahrain, alongside other Gulf Cooperation Council (GCC) countries, has entered a paradigmatic shift. On the one hand, GCC economies are pivoting to becoming more sustainable and competitive by investing in future-defining and oil-proof sectors such as services, technology, and renewable energy. On the other hand, the COVID-19 pandemic has accelerated the uptake of innovation and digitalization across all economic sectors globally. In response, GCC countries have amplified their drives for economic diversification with a particular focus on foreign direct investments (FDI). In the context of these developments and its own particular setup, Bahrain may now want to consider specific emerging opportunities for FDI to carve a sustainable, specialized niche within an increasingly tech-oriented global economy.

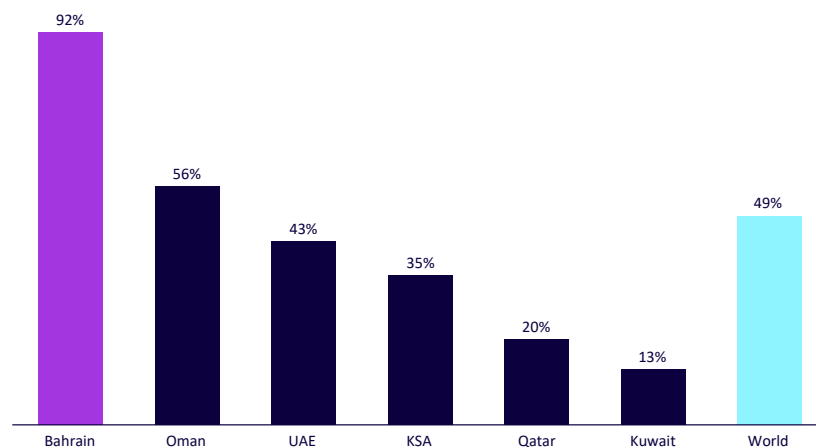
# 1. FDI IN BAHRAIN AND THE REGIONAL CLIMATE

Bahrain is the smallest economy in the GCC, according to International Monetary Fund (IMF) estimates, with a population of 1.5 million and GDP of US \$39 billion and has a long history of diversified economic activity. Through its Economic Vision 2030, Bahrain stressed the importance of economic diversification and sustainability in cultivating a post-oil economy. This has led to the country having the highest FDI inward stock per capita in the GCC (see Figure 1), although several neighbors have recently seen a surge in inward FDI flow (see Figure 2).

Bahrain recently announced an economic and fiscal plan that supports economic recovery post-pandemic and aims to balance the public budget by 2024. An important pillar is the Priority Sectors Plan, in which the Bahrain government targets creating substantial non-oil economy growth going forward by prioritizing six key sectors:

1. Oil and gas
2. Tourism
3. Logistics
4. Financial services
5. Telecom, IT, and digital economy
6. Manufacturing

**Figure 1. FDI inward stock (% of nominal GDP)**



Source: Bahrain EDB, OECD

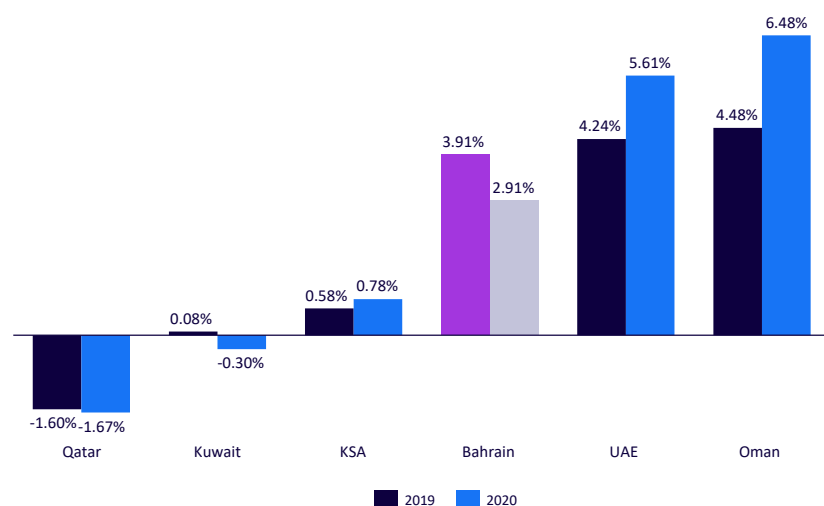
To achieve its targets, Bahrain should confront two considerations: what opportunities exist for FDI, given neighboring economic activity, and how the country can carve a specialized niche within an increasingly tech-oriented global economy. To provide insight into the regional context within which Bahrain operates, this Report takes into account the dynamics in the region's largest economies: the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE).

Like Bahrain, both KSA and UAE have set ambitious targets for FDI. KSA remains the region's economic powerhouse, with a GDP of \$843 billion growing at 2.8% per annum, according to the IMF. With close to half of its economy concentrated in oil, gas, and refining, KSA has prioritized economic diversification through its Vision 2030, focusing on sectors that include: industry, such as hydrocarbons, mining, and petrochemicals; services, such as finance, tourism, education, and healthcare; and sectors of the future, including fintech, biotech, agritech, and renewable energy. To materialize this objective, KSA has instituted a series of reforms that facilitate foreign investment and set a target to increase FDI contribution to GDP from 3.8% to 5.7% by 2030.

## LIKE BAHRAIN, BOTH KSA AND UAE HAVE SET AMBITIOUS TARGETS FOR FDI

UAE has set similarly ambitious targets to draw \$150 billion in foreign investments by 2030. As the second-largest economy in the GCC, UAE has a GDP of \$410 billion and is growing at 2.2% per annum, according to the IMF. In the UAE's recent industrial strategy, nicknamed Operation 300bn, UAE identifies three priority areas: stimulating growth through food and beverage, agritech, pharmaceuticals, and electronics; advanced manufacturing; and developing industries of the future, including hydrogen, medtech, and space, among others. Like KSA, UAE has instituted various programs and incentives to attract and retain foreign investment. As such, both economies are primed for FDI inflow in sectors of the future.

**Figure 2. FDI inward flow (% of nominal GDP)**



Source: Bahrain EDB, OECD

## 2. BAHRAIN'S STRATEGIC POSITIONING

### CHALLENGES

In recent years, Bahrain has confronted a sizable fiscal deficit owing to high public debt and trade deficits. The country's macroeconomic situation, like many others across the globe, has been further exacerbated by the COVID-19 pandemic, which triggered significant government spending to promote public safety and ease economic slowdowns. All of these factors have contributed to a challenging sovereign rating.<sup>1</sup>

At the same time, the country has a comparably small domestic market that is already very competitive in certain industries (e.g., financial services, telco operators). Therefore, foreign businesses need to look at Bahrain as an operating base for a broader catchment area, be that regional in the GCC and Middle East, or even global.

### OPPORTUNITIES

Despite the country's exacerbated macroeconomic situation, Bahrain does have several competitive advantages that make foreign investment attractive:

- Low cost of doing business, notably in manufacturing, financial services, and ICT, according to KPMG's annual cost studies.
- Full foreign ownership, with long-standing experience in being an open and competitive economy.
- High government responsiveness, with a public sector ready to innovate in response to population needs.
- Global trade agreements, which include free trade agreements with 22 countries, investment protection and promotion agreements with 34 countries, and double

taxation avoidance agreements with more than 40 countries.

- Skilled local workforce, with high rates of English fluency, academic achievement, and diversity.

### BAHRAIN CAN IDENTIFY NICHE AREAS AND EMERGING SECTORS TO ATTRACT FDI

As a smaller market with a favorable investment environment, Bahrain can identify niche areas and emerging sectors to attract FDI. Such untapped opportunities may be too small, or too specialized, for the country's larger neighbors to focus on. Moreover, being a smaller market may also make Bahrain more attractive as a partner for smaller players looking for a springboard into the Middle East or a complementary location to their existing operations to capture global niches. Such partnerships would benefit Bahrain in three major ways:

1. Promoting domestic economic activity.
2. Continuing to be a trusted regional economic partner.
3. Carving a niche in the global landscape for specialized economic activities.

In the longer term, Bahrain could build upon such a "microcosm experience" and export niche solutions that were developed in the country. In doing so, it cements itself as a specialist in markets that are set to play a pivotal role in a collective future. In the following section, we explore some of these opportunities across sectors.

<sup>1</sup> At the time of writing, Bahrain is rated B2 by Moody's, B+ by S&P, and B (short term)/B+ (long term) by Fitch.

### 3. OPPORTUNITIES FOR FDI

#### FINANCIAL SERVICES

Bahrain remains a key player in the regional financial services sector, with over \$210 billion in total assets. The financial services sector is the largest non-oil sector in Bahrain’s economy, contributing approximately 18% to GDP in 2020, according to the Bahrain Economic Development Board (EDB). Although financial services is a well-diversified and robust sector in UAE and KSA as well, the transparency of trade finance across the GCC could be improved. Bahrain could address this need by creating a company to provide ratings for trade financing transactions and extending these ratings globally. In constructing such a platform, Bahrain can leverage innovative technologies such as blockchain.

Bahrain can also continue to cultivate and leverage its fintech space, in which it is already seen as a regional leader. While UAE leads the region in funding for fintech startups (e.g., Aqeed and Beehive), Bahrain is recognized for its favorable regulatory environment and low cost of conducting business. The growing success

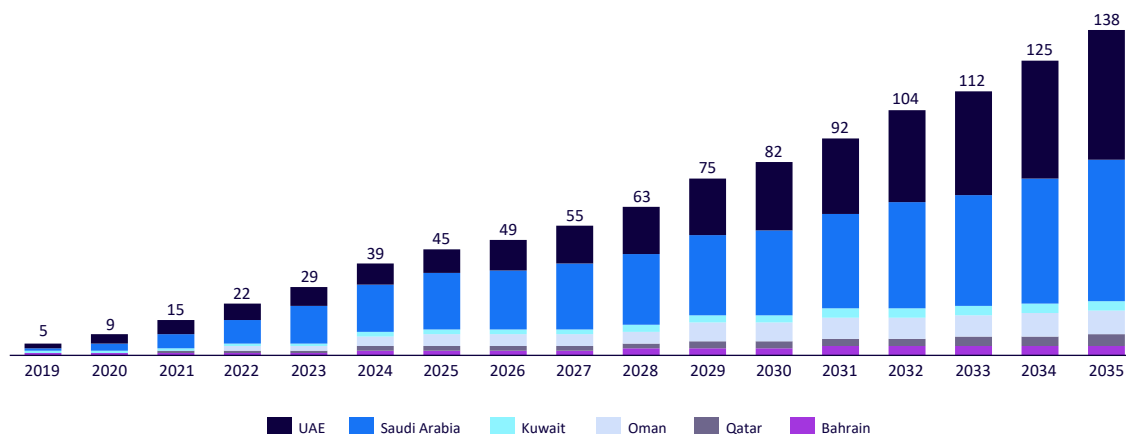
of Bahraini fintechs, such as cryptocurrency companies Rain and CoinMENA, is building Bahrain’s reputation on a global scale.

Finally, Bahrain can become a regional hub for insurance and reinsurance. For instance, it can transform into a captive industry domicile with the development of an inviting regulatory environment. It can also create a favorable environment and use its access to other markets to attract reinsurance companies, as well as cultivate the life insurance market, which currently is largely untapped in the region.

#### RENEWABLE ENERGY

Overall investment in the Middle East and North Africa (MENA) region’s renewables sector has risen in the past decade, and this trend is seen across GCC economies as they take on concerted efforts to meet their energy-efficiency targets. (As an example, Figure 3 illustrates the region’s installed and planned solar power capacity through 2035.) In addition, high levels of solar irradiation and access to

**Figure 3. Installed and planned solar power capacity in GCC (GW)**



Source: Ministry of Foreign Affairs

good coastal locations with optimal windspeeds make the MENA region well positioned to build significant renewable energy generation capacity. The outlook for regional renewables investment is highly positive, and both UAE and KSA have made strides to attract investments in the sector. Therefore, Bahrain might consider joint renewable energy projects with KSA, such as by installing solar energy panels across the KSA-Bahrain King Fahd Causeway. Moreover, Bahrain could position itself as an innovation hub for decentralized grid management at the national level.

## REAL ESTATE

Bahrain can create a favorable environment to become a center for real estate services. In doing so, it can partner with GCC neighbors and provide services for property management, digitalization, valuation and transaction advisory services, project management, and general funding. Bahrain is well positioned to do so, given its favorable regulatory environment and highly organized real estate sector management experience through national organizations including the Real Estate Regulatory Authority (RERA) and the Survey & Land Registration Bureau (SLRB).

# BAHRAIN COULD POSITION ITSELF AS AN INNOVATION HUB

## MANUFACTURING

Manufacturing is an important sector for all GCC economies, and as such KSA and UAE have made significant investments in the industrial space. For Bahrain, a key strategy is to build on existing and well-developed industrial sectors, notably aluminum. Bahrain remains one of the world's major aluminum smelters and the largest in the GCC. Accordingly, the country is taking active steps to capitalize on its scale by focusing on downstream aluminum end use, including automobile parts, packaging, renewable energy components (e.g., solar panel frames), building construction materials (e.g., window frames, panels, roofs), and consumer electronics. These efforts will also help cement Bahrain as a maker of the world's "future state," as aluminum parts are crucial component for any lightweight construction, such as in electric vehicles.

Bahrain may also wish to explore niche areas in product manufacturing that could serve the GCC and the larger global economy. One such niche area is generic drugs manufacturing, where Bahrain can focus on production facilities for chronic disease management or for rare and geographic-specific diseases that major markets have not specialized in. It can also look to participate in GCC-wide initiatives to set up cold storage facilities of medication, an area in which the COVID-19 pandemic highlighted shortages.

Another potential niche is in electronic component manufacturing. For example, Bahrain can explore the potential to set up small and automated plants to manufacture chips, which are estimated to face a shortage beyond 2023.



## POPULATION & HEALTH MANAGEMENT

Health expenditures in the GCC are primed for continued growth, driven by demand trends such as lifestyle diseases (see Figure 4) and an aging population. In Bahrain, the National Health Insurance Program Sehati is further encouraging growth in private healthcare.

The growth in health expenditure presents a number of opportunities for Bahrain. For example, it could focus on attracting healthcare centers for specialized care (e.g., for chronic diseases, thyroid disorders, oncological disorders, and other lifestyle-related illnesses). Given the high prevalence of both obesity and diabetes in the region, this could cement Bahrain as a hub for treating specific diseases. Bahrain could additionally leverage unique genome sequencing to become a hotbed for pharmaceutical companies to study medications.

An alternate, but complementary, approach is to explore various financing models for healthcare, which can be exported regionally and globally. Such financing models can include public-private partnership investments in healthcare facilities, systems digitization, delivery optimization, and payment and reimbursement solutions. Bahrain may also wish to leverage its existing assets, such as by commercializing and expanding functionality of the BeAware Bahrain COVID-19 application.

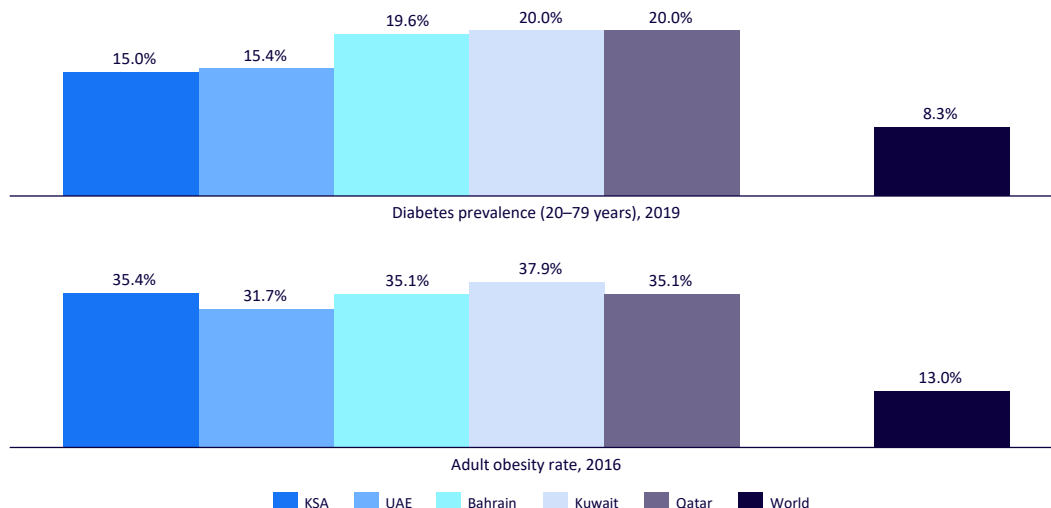
## EDUCATION

Across the GCC region, there is improvement potential for the quality of education that presents a significant opportunity for private investors. Bahrain can explore avenues for foreign investment that improve the quality of learning content and adapt it to the local culture. It can also focus on creating and curating localized digital and physical learning content to be exported to GCC schools. As a result, Bahrain could act as a pilot for international schools for high-quality education that is curated to a regional context.

In packaging and exporting localized digital content, Bahrain could incorporate localized massive open online courses and college lectures in future-oriented topics such as coding and data analytics to complement the region’s interest in sectors of the future. The digital content can also cater to industries particularly of interest to regional economies; for instance, it can offer vocational training for key sectors in KSA, such as hospitality, tourism, and culture, which would require the use of technology and augmented reality.

As a complement to exporting digital learning content, Bahrain could invest in developing existing education providers to provide services abroad, such as the Bahrain Institute of Banking and Finance.

**Figure 4. Prevalence of lifestyle diseases in the GCC (% of population)**



Source: Economist Intelligence Unit, International Diabetes Federation

## CLOUD COMPUTING & GAMING

The GCC IT services market remains in its growth stage, and Bahrain can aim to capture gaming. Bahrain has a strong track record in attracting investments in cloud services, most notably through AWS and, more recently, Tencent. However, general cloud computing is a popular segment; both KSA and UAE have active cloud computing sectors with promising investments. A subsegment of cloud computing is cloud gaming, a promising niche contingent on the local popularity of gaming, particularly the wildly popular use of mobile games. The GCC video game industry has shown high growth, with Bahrain’s video game sector showing the second fastest growth following KSA (see Figure 5). And the MENA region has seen numerous gaming startups flourish in the past few years. Cultural attitudes toward tech entertainment are also changing; gaming development is seen as a respectable profession in the region and local games are released yearly, mostly by small studios. Bahrain could consider investment in gaming software development, gaming studio development, and gaming equipment development.

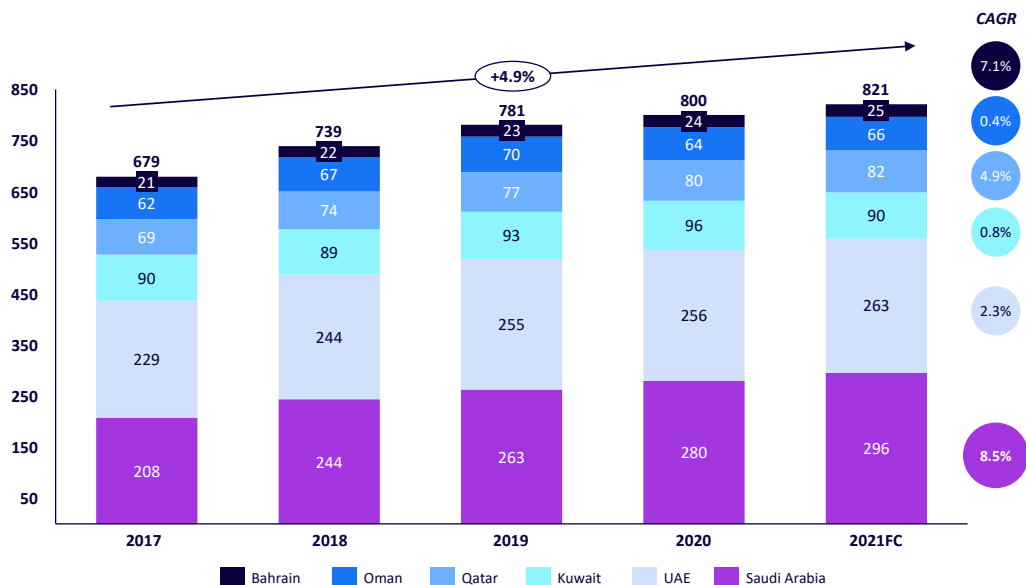
testing center. It could, for example, become a playground for nationwide 5G applications. Within this microcosm, Bahrain can develop 5G infrastructure and services across different sectors and serve as a robust example of technological applications on a national level. Similarly, Bahrain can become a testing ground for municipal services such as mobility, smart bins, and waste management. By acting as a “smart city” built across an entire nation, Bahrain can attract new innovative sectors and companies looking to create smart solutions for the urban landscape.

Bahrain is already making strides in this area. Tech startup INABLR’s upcoming launch of a blockchain-based investment platform in 2022 illustrates Bahrain’s potential role as a technology testing center. The startup intends to use the Tezos blockchain to enable bond and sukuk ownership for a \$1,000 initial investment on an online platform. The company aims to launch the product in Bahrain and then scale to other GCC markets, incorporating lessons learned from operating in Bahrain’s small but highly sophisticated market. A similar example is the expansion of Bahrain’s digital online bank ila, first in Jordan in 2021 and then in Egypt, with a final objective to roll its services out to the full MENA market. Similarly, electronic payments provider AFS is rolling out its services in Europe, Middle East, Africa, US, and UK markets after testing its products in Bahrain.

## TECHNOLOGY INCUBATION

At the highest level of ambition, and to prepare for the future, Bahrain may take advantage of its size to act as a technology incubator and

Figure 5. Video game revenue, 2017–2021 (\$US million)



## CONCLUSION

While disruptions will continue to create uncertainty in what a future state will look like, one thing is certain: technology will continue to evolve, and Bahrain should be an active participant in creating this future.

As current strategies dissolve into longer-term plans, technology will not be viewed as an independent sector but will be baked into the fabric of all economic activity. Fintech will be a core accelerator of the financial services industry, Healthtech will become a primary way to understand and manage population diseases, and urban renewal will be seen through the lens of smart cities and digitally interconnected infrastructure. As a small market with favorable regulation, skilled human capital, an innovative spirit, and a nimble government, Bahrain is well positioned to create this future state and play successfully at global scale.

Bahrain has already begun to see this play out. In 2021, Citi announced its plans to create a global technology hub in cooperation with Tamkeen and the Bahrain EDB. The hub aims to be one of the most developed in the region and targets hiring 1,000 coders within a decade. The new hub will allow the company to rapidly scale to meet global demands, and this perfectly captures the opportunity Bahrain presents for foreign investors: leveraging local talent, regulations, and government policies to service a wide global consumer appetite.

Citi is just one of many examples. The cryptocurrency trading platform Rain has succeeded in using Bahrain as a testing ground for the larger region, and in January 2022 announced it has raised \$110 million in a series B round — one of the largest investment deals for startups in MENA. Tarabut Gateway, the GCC's largest and first regulated open banking platform, raised the largest-ever seed round by a startup in the region after testing its product locally.

## BAHRAIN IS WELL POSITIONED TO CREATE ITS FUTURE STATE

By using Bahrain as a testing ground and incubator, Bahrain capitalizes on its competitive advantage: it uses size as strength, with its regulatory environment, human capital, and low cost of doing business as key enablers for economic growth. In short, Bahrain plays in the competitive markets, but on terms that benefit its position.

In the short run, exploring such opportunities sets the necessary preconditions for Bahrain to become a tech-enabled economy for the long term. For instance, developments in the financial services sectors can build the right tools for Bahrain to become a regional hub for fintechs focusing on crypto, insurance, and trade finance. To be successful, however, several conditions should be fulfilled:

- Consistency in execution from the first step and all subsequent steps.
- Monetization of a developer's dividend for the government from taking risk.
- Continuous promotion of human capital and skill building, using innovative methods.
- Frequent finetuning of the legal and regulatory environment for simplicity and robustness.
- Upgrading of physical and digital infrastructure to cater to tomorrow's needs.

Incubation of urban technology can set the groundwork for Bahrain to become a fully enabled smart country — an entire nation operating as a technology-powered, digitally enabled ecosystem with a population's mindset in identifying global niches and pursuing them.



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