

## BAHRAIN

# A smart, strong regional partner

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**A small island** in the Arabian Gulf with a population of just over a million, the Kingdom of Bahrain stands out among its neighbors for its free economy, steady growth, and one of the most progressive political cultures

An archipelago of 33 islands in the Arabian Gulf with a population of just over a million, the Kingdom of Bahrain stands out among its neighbors for its free economy, steady growth, and one of the most progressive political cultures in the Middle East.

While other Arab states struggle to adapt to the modern world, Bahrain is ready to make fundamental reforms. Innovative and progressive, its cosmopolitan, modern outlook can be dated back to the mid-19<sup>th</sup> century, when it emerged as the region's preeminent trading center.

Located just 14 miles from Saudi Arabia, Bahrain has easy access by air, sea, and rail to the other countries of the Gulf. Most of the population lives on the largest island in or near Manama, a capital city of wide tree-lined streets that is gradually being transformed into a 21<sup>st</sup> century metropolis.

The one-time British protectorate has been independent since 1971, becoming a constitutional monarchy in 2002. The last decade, in particular, has been characterized by economic, political, and social reform.

Prime Minister Prince Khalifa bin Salman Al Khalifa says it is an ongoing process focused on modernization and on realizing the potential of the Bahraini people. "For a long time, we have implemented an economic development strategy that takes into consideration the uniqueness of the Bahraini society, while at the same time maintaining a modern spirit and relying on individual initiative, economic freedom, private sector encouragement, foreign investment attraction, income resources diversification, and attention to human development," he says. "We view the Bahraini citizen as being the real and prevailing fortune of this country."

Historically welcoming to outsiders, Bahrain has an open and easy business environment. The government has steered the country onto a path of sustainable economic growth, laying the grounds for the emergence of a thriving private sector in industry and manufacturing, finance, construction, real estate, and many other areas of activity.



Khalifa bin Salman Al-Khalifa, Prime Minister of Bahrain

Bahrain's combination of business friendliness and access to regional markets is significantly enhanced by its well-tested regulatory regime, which is both non-invasive and market driven. Bahrain has the highest business-friendly ranking of any country in the Middle East, and the cost of living is very competitive internationally. Advantageously located at the heart of the Gulf, it enjoys excellent political relations with its neighbors.

Bahrain owes its present day wealth to oil – indeed it became the first producer in the Gulf, following the discovery of oil in the kingdom in 1932. But it has never had the same kind of oil and gas reserves as Saudi Arabia, Qatar, or the United Arab Emirates. Aware of the need to avoid long-term dependence on an ultimately unsustainable resource,

Bahrain was also the first Gulf country to start planning for a post-oil future and to implement a solid economic diversification strategy.

It has used its oil wealth wisely, investing in infrastructure, education, and social projects to maximize its potential for economic development and improve the quality of life for its citizens. It has a modern communications and transportation infrastructure, including the new state-of-the-art Khalifa Bin Salman Port, which is capable of receiving the largest container ships crossing the Arabian Gulf, and has a capacity four times above that of Mina Salman Port, Bahrain's main port for almost 50 years.

This year has seen the opening of the new Salman Industrial City, which includes the

Bahrain International Investment Park, Bahrain Investment Wharf, and Hidd Industrial Zone. Meanwhile, construction work continues on the mega Bahrain Financial Harbour project, which will consolidate Bahrain's position as a regional financial center.

A further consequence of Bahrain's move towards economic diversification is its strong focus on the human capital of the country, but its interest in developing the potential of its people goes back much further. It became the first country in the Gulf to have an official government educational system as long ago as 1919; it was also the first to establish a school for girls in the region. Today, high priority is given to providing high quality education and training, and the quality of its labor force is

KING HAMAD BIN ISA AL KHALIFA'S REIGN HAS BEEN CHARACTERIZED BY ECONOMIC, POLITICAL, AND SOCIAL REFORM

AFTER OIL WAS DISCOVERED HERE IN 1932, BAHRAIN BECAME THE FIRST OIL PRODUCER IN THE GULF. HOWEVER, THE COUNTRY HAS ALWAYS BEEN AWARE OF THE NEED TO MAINTAIN A DIVERSIFIED ECONOMIC BASE

BAHRAIN, DESPITE ITS SMALL GEOGRAPHIC SIZE, IS A MAJOR FINANCIAL HUB AND ITS CAPITAL, MANAMA, IS BECOMING A 21<sup>ST</sup> CENTURY METROPOLIS

THE FIRST COUNTRY TO ESTABLISH AN OFFICIAL GOVERNMENT EDUCATION SYSTEM, BAHRAIN STILL PUTS A STRONG EMPHASIS ON SCHOOLING

one of the main differentiating factors giving Bahrain a competitive edge over rival Gulf states seeking to attract foreign investment.

Education is just one element in Bahrain's plans to secure its economic future, which depends on it being able to maintain and secure its position as a global and regional investment hub. Vision 2030, which charts the way ahead, identifies three key challenges facing the kingdom: transforming the economy by developing the quality and number of jobs for Bahrainis and improving their skills; competing in an increasingly global market place by encouraging innovation and developing new sectors in the economy; and exploiting unprecedented growth opportunities as the region continues to develop.

### BAHRAIN-U.S. RELATIONS

Commercial ties between the United States and Bahrain received a big boost with the signing of a historical free trade agreement between the two countries four years ago. Since then, there has been a 24% increase in two-way trade, from \$782 million in 2005 to \$1.3 billion in 2008. There has also been a jump in foreign direct investment from the U.S. to Bahrain, which has doubled to \$6 billion.

"There are already a number of major businesses doing deals with the U.S. particularly in the petrochemical, energy, and manufacturing sectors thanks to the FTA," says Adam Ereli, the U.S. ambassador. "A lot of American investors come here because it is close to Saudi Arabia. Fifty percent of Saudi gross domestic product is within an hour's drive of Bahrain."

The implications of the FTA are huge, not only for companies based in Bahrain that are interested in doing business with the U.S., but also for businesses throughout the GCC region, given that Bahrain is one of the only countries with such an agreement. Efforts are being made to ensure that companies from both the U.S. and Bahrain make full use of the potential benefits.

While the signing of the FTA is an important milestone, ties between the two countries go back a long way. Bahrain has allowed the U.S. to station the U.S. Navy's Fifth Fleet in Bahrain since the early 1950s, providing a strategically located operational base in the Gulf.

Sheikh Mohammed Bin Abdulla Al Khalifa, Bahrain's Minister of State for Defense Affairs, says, "Relations have always been good. Most of our military equipment is supplied by the U.S., and there are many different levels to the cooperation between the two countries and between the two armies."



Adam Ereli, U.S. Ambassador to Bahrain

## Democracy, diplomacy and demand

**Judged the freest economy in the Middle East, Bahrain has proved resilient to the global economic downturn and continues to register an impressive rate of growth**

Over the past five years gross domestic product has increased by more than 6% per annum. For this year, the central bank forecasts a rise of 4%.

"As weaknesses in the economies and policies of some countries in the region have been heightened by the global financial crisis, Bahrain has emerged as an oasis of economic calm in turbulent times," says Dr. Hassan Abdullah Fakhro, Minister of Industry and Commerce.

The 2010 Index of Economic Freedom, produced by the Heritage Foundation and the *Wall Street Journal*, ranks the kingdom first out of 17 countries in the Middle East/North Africa region, with an economic freedom score



Dr. Hassan Abdullah Fakhro, Minister of Industry and Commerce

well above the world average. Its overall score is 1.5 points higher than last year, with improvements in trade freedom, investment freedom, labor freedom, and freedom from corruption.

Bahrain's economy is also one of the most advanced in the region. Petroleum production and refining account for more than 60% of export receipts, 70% of government revenues, and 11% of GDP, and there are plans to invest some

\$15 billion to more than treble current output in the coming years.

However, Bahrain is certainly not as oil dependent as other Gulf countries, thanks to the success of its drive to diversify. Manufacturing now accounts for almost 45% of GDP; aluminum is the second largest export and the kingdom boasts one of the largest aluminum smelters in the world. It has also successfully established itself as a regional hub for financial services, competing with Malaysia as a global center for Islamic banking. And its liberal lifestyle makes it an attractive destination for regional tourism; in 2004 it opened the first Formula One racetrack in the Middle East.

Bahrain is also reaping major economic benefits from the landmark free trade agreement it signed with the United States in 2006 – the first to be made by the U.S. with a Gulf state.

Having remained relatively

stable during the global financial crisis, Bahrain is well placed to be at the forefront of recovery, but regional competition for inward investment is likely to increase as other Gulf states step up diversification of their own economies. According to Dr. Fakhro, what differentiates Bahrain from its rivals are the three D's: democracy, diplomacy, and demand-led economics.

In addition to a strategic geographical position, fiscal incentives, and a well-qualified indigenous workforce, the kingdom offers a track record of democratic progress and rule of law. Investors encounter a business-friendly environment guaranteed by a strong financial regulatory framework, and the government is continuing to make improvements aimed at achieving faster start-up and better customer service.

"We are re-writing the whole suite of commercial laws, taking a fresh look at reg-

ulations, systems, processes, and requirements with a view to simplification and quality improvement," says the Minister. The coming years will also witness a concerted effort to enhance Bahrain's industrial infrastructure and to expand global markets through foreign trade negotiations.

Crucially, while its domestic market is small, Bahrain offers easy access to much larger markets. Saudi Arabia is just a 40-minute drive across the King Fahad causeway linking Bahrain to Saudi's eastern province, and work on the planned causeway linking Bahrain to Qatar is due to start soon.

According to Esam Abdullah Fakhro, Chairman of the Bahrain Chamber of Commerce and Industry, Bahrain has all the ingredients necessary for foreign firms to use it as a business base. "Bahrain is the ideal gateway, not only for the Gulf but for the entire Arab region," he says.

A UNITED WORLD SUPPLEMENT PRODUCED IN BAHRAIN BY: Katrin Oberin and Ignatius Roberts

This report is available at [www.unitedworld-usa.com](http://www.unitedworld-usa.com)

# Equipping Bahrainis with the tools to succeed in business

Preparing Bahrainis with the skills and knowledge they need to succeed in a diversified jobs market is an important part of the national plan

One of the big issues facing many countries in the Gulf region is a shortage of highly qualified and skilled people, and the presence of a disproportionate amount of expatriate workers. This is due in large part to their economies being insufficiently diversified.

Bahrain is ahead of most Gulf states in this respect: although a significant percentage of its work force is mostly comprised of foreign nationals, almost a quarter of its workers are Bahrainis.

The competitive advantage that the kingdom enjoys over its neighbors in terms of well-qualified human resources is in part a direct consequence of its history – from the early discovery of oil, when Bahrainis were among the first to benefit from foreign training, to the more recent diversification away from hydrocarbons.

High priority is being given to investment in training and education. Currently, around 4,000 Bahrainis a year enter the job market with at least a college degree.

Bahrainis are to be found in a variety of occupations and sectors, and many companies have

a high level of “Bahrainization”, with Bahraini nationals often holding the more qualified and managerial positions.

However, the kingdom faces a shortage of both quality employment and appropriate skills. Bahrain’s labor force is currently around 600,000. Over the next 10 years, it is expected to double in size and the quality and quantity of jobs available will be insufficient to satisfy the demand.

For a long time the authorities used the kingdom’s oil wealth to compensate for the lack of private sector jobs for Bahrainis by providing them in the public sector. Almost nine tenths of public sector workers are Bahrainis. However, in the private sector, only around one in five of the labor force are indigenous workers.

The authorities recognize the need to rebalance the economy by encouraging the development of a thriving private sector, in which productive businesses engaged in high-value-added activities are able to offer career opportunities to suitably skilled Bahrainis, and this is a key element of Vision 2030.



With a long history of education, today the government seeks to position the country as a regional center for higher education

## A STRONG START AT UNIVERSITY COLLEGE OF BAHRAIN

Universities have an important contribution to make if Bahrain is to maintain its reputation for having a highly qualified labor force, so ensuring high standards in tertiary education is crucial.

Founded 11 years ago, University College of Bahrain was among the first private universities to be established in the kingdom, and is renowned for the quality of its curriculum, teaching staff, and facilities.

Khalid Al Khalifa, its founder and president, believes that ensuring the highest standards in these key areas is fundamental to successful higher education. He says many of the country’s private universities were set up without due regard for the quality of education provided.

UCB’s curriculum has been carefully structured from the beginning in accordance with the standards to be found in North American universities. The university has worked in close collaboration with the McMaster University in Canada and the American University of Beirut. More recently, it has established links with Cambridge University in England and Hong Kong University of Science and Technology.

UCB’s enviable reputation attracts many students from Bahrain’s nearest neighbor. “Almost 50% of our students come from Saudi Arabia, and maybe 10% from Arab expatriates in Saudi as well,” says Dr. Khalifa.



Dr. Khalid Al Khalifa, Founder and President UCB

UCB’s teaching staff is made up exclusively of native English speakers, and students applying for places are required to take a strict English language test. The university has its own library on campus and state-of-the-art technology.

The quality of education is reflected in the number of UCB graduates admitted to some of the most prestigious U.S. and British universities for further studies, and in the number of job offers even before students finish their studies.

Dr. Khalifa would like to see much more input from U.S. institutions into the Bahraini educational system. “Without U.S. expertise on higher education, we will be going round in circles,” he says.

### LMRA

## Unemployment? Not a problem here

Reform of the labor market has been a central part of the government’s agenda since economic and political reforms were implemented in the early 2000s

“We had an issue with unemployment in 2003 and 2004, with around 16-17% unemployment at that time,” says Ali Ahmed Radhi, who heads the Labor Market Regulatory Authority (LMRA). “We wanted to reduce it, and we wanted Bahrainis to have opportunities in the labor market when we are bringing foreign workers over.”

Established four years ago, the LMRA’s mandate includes the issuing of work visas, and the regulation and control of manpower licenses, recruiting agencies, employment offices, and the business practices of expatriates. Since the LMRA start-



Ali Ahmed Radhi, CEO of LMRA

ed operating, the unemployment rate among Bahraini nationals has fallen to below 4%. Fees for work permits have

been used to narrow the cost gap between Bahraini workers and non-Bahraini workers, who tend to be cheaper to employ and therefore favored by employers. Despite the introduction of a \$26.50 fee for each expatriate worker employed, Bahrain remains the most affordable GCC country for business. Money raised by the LMRA is reinvested in training the national workforce.

Mr. Radhi stresses that the LMRA aims to help all parties involved. “We want to do something about problems before they happen, and people to know what their rights and obligations are,” he says.

### TAMKEEN

## Kick-starting innovation

A semi-autonomous agency, Tamkeen invests in capacity building in the private and public sectors of the labor market



Abdullellah Al-Qassimi, Former Chief Executive of Tamkeen

Bahrain’s interest in labor market reform, which it sees as an essential component of increasing the nation’s competitiveness, has been centralized in the creation of Tamkeen, an agency that fills skills gaps in order to add value to the economy.

Although the nation’s relatively low reliance on oil and gas as compared to its neighbors has historically produced a well-qualified workforce, Tamkeen goes beyond this, aiming to produce internationally-accredited workers.

Former chief executive Abdullellah Al-Qassimi says that the agency intends to establish a clear link between the nation’s qualified workforce and international recognition that will not only improve global job opportunities for Bahrainis, but also increase the nation’s attraction for international companies moving in.

“It is not good enough to have skilled people if their qualifications are not recognized elsewhere. If someone is a certified public accountant, this will be recognized even in the U.S. because it is an international qualification. We focus on how we can bring the best and most widely-recognized accreditations and qualifications to the country,” he comments.

Consequently, Tamkeen wields considerable influence over the direction of the labor market. It has strong political backing, currently generates up to \$170 million per year, and is involved in a number of high profile partnerships with the main companies operating in Bahrain. It is also active in the organization of conferences and events, evidenced by this spring’s Innovation Conference, the first of its kind to be held in the country.

Featuring speakers from all over the world, the conference was aimed at raising awareness of the importance of innovation. “We want people to understand what innovation is. We thought we had to kick off with a conference to identify the needs,” says Mr. Al-Qassimi. “We must instill a culture of innovation because a country can only develop if it can invent and innovate. If not, it remains dependent on others. This is a big challenge that I think we need to address.”

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## BAHRAIN FINANCIAL HARBOUR

# Strengthening Bahrain's position as a financial center

Bahrain Financial Harbour Holding Company is the mastermind company behind Manama's new landmark towers that are sure to lure yet more business to the kingdom

Rising high above the many skyscrapers of Bahrain's capital, a pair of 53-storey towers symbolizes Bahrain's drive to reinforce its position as the financial hub of the Middle East. Affording spectacular views of Manama and the seafront, the towers represent the completed first phase of Bahrain Financial Harbour, a world-class \$3 billion development project extending over 380,000 square meters of land reclaimed from the waters of the Arabian Gulf.

Intended to provide the kingdom with a financial center of excellence, the fully integrated, master-planned waterfront scheme will be a city within the city, a self-contained community with commercial, residential, and shopping components, served by state-of-the-art technology and high-end facilities and services. The overall planned development is intended to comprise 28 individual units offering more than 820,000 square meters of office, residential, retail, and leisure facilities.

The new financial center has already proven itself as a strategic asset for the national economy, strengthening Bahrain as a hub for financial services in the region and attracting major companies to set up their operational base in the kingdom.

Bahrain Financial Harbour Holding Company (BFHHC), the firm in charge of the scheme, has been finalizing high-profile tenancy agreements for office space in the two towers with companies such as Wall Street Organization, Bahrain Financial Exchange (the first multi-asset exchange in the Middle East), Bank of Tokyo, and Knight

Frank. The Bahrain Stock Exchange relocated there in the first half of this year.

"The facilities here are comparable to international standards anywhere in the world," says Dr. Omar Al Mardi, BFHHC's managing director. "We have bankers, insurance companies, and brokers. We have lawyers and audit firms coming in. We have advertising com-

**THE TWO TOWERS ARE PART OF THE \$3 BILLION BAHRAIN FINANCIAL HARBOUR DEVELOPMENT, WHICH WILL COMPRISE 28 INDIVIDUAL UNITS OFFERING OVER 820,000M<sup>2</sup> OF OFFICE, RESIDENTIAL, RETAIL AND LEISURE FACILITIES**

**BAHRAIN STOCK EXCHANGE, KNIGHT FRANK, WALL STREET ORGANIZATION, AND BANK OF TOKYO HAVE ALREADY SIGNED TENANCY AGREEMENTS**

**BAHRAIN'S PROPERTY LAWS ALLOW FOR FREEHOLD OWNERSHIP IN MANY CASES - YET ANOTHER INCENTIVE FOR FOREIGN COMPANIES AND INVESTORS EXPLORING THE POSSIBILITY OF ESTABLISHING THEMSELVES IN THE KINGDOM**

panies and embassies opening up to facilitate visas for businessmen and bankers."

So far, four of the proposed 28 units have been completed. Another four are due for completion shortly and, despite the credit crunch, none of the units has been cancelled altogether. Dr. Al Mardi hopes to see the development complete within five years.

"We are continuing to develop the rest of the units," he says. "We have not stopped because of the crisis. We have experienced some delay in some of the units, which were allocated to certain investors. They have rescheduled the launching to work on the problems they are currently facing with the tightening of liquidity exercised by most of the banks in the region. But, in spite of this, there are still banks willing to participate in joint ventures and finance certain projects. We are in the process of finalizing a lot of financing deals with a number of investment banks."

In August, BFHHC announced that it had fully repaid a \$134 million Islamic banking (sukuk) facility used to finance the construction of the scheme.

Meanwhile, work has been continuing, including construction of the \$33 million Commercial East car park, an 11-storey complex designed for 1,700 parking spaces, as well as an art gallery and a second electricity substation to make the area self-sufficient in power. The Harbour Mall, which links the two towers at their base, has also seen increased activity this year, with various international retailers starting operations.

Currently the tallest in Man-



Dr. Omar Al Mardi, Managing Director of Bahrain Financial Harbour Holding Company, hopes to see the development of the new financial center finished within the next five years

ama, the two towers of the new financial center will eventually be dwarfed by the proposed 200-storey Murjan Tower, and the three 70-storey towers of the proposed Uptown Project. Bahrain's real estate sector has generated considerable input to the national economy, with investments from abroad in high-level projects like Bahrain Financial Harbour, the Diyar Al Muharraq project, Bahrain Bay, Durrat Al Bahrain, and Bahrain Views.

The kingdom has been an offshore center for bankers and financial institutions since the 1970s, its rulers seeing development of the financial sector as a means of diversifying away from the petroleum sector. Foreigners have been encouraged to set up and operate from the kingdom into the other countries of the GCC.

Dr. Al Mardi is optimistic that Bahrain will retain its attractiveness as an investment destination, despite changed global

conditions. "Bahrain has always attracted foreign investment," he says. "Being a very neutral country among the GCC, and having the required skills and workforce, it is an attractive place to operate or to do business in. We have provided foreign investors with the unique opportunity of very good infrastructure and a very clear and transparent legislation to allow people to come in and operate without any ambiguity in what they are entitled to."

He cites the kingdom's solid property laws. "The Survey and Land Registration Bureau (SLRB) is unmatched by any other in the region, something which has given a great sense of stability and assurance to people in the real estate business."

Ownership has been allowed for foreign companies and other entities, and includes freehold ownership in most cases. "We have always encouraged foreign investors through very lucrative incentives. This is a

country in which you do not pay either corporate or personal income tax. There is a mixed-culture population of Asians, Europeans, Africans, and Arabs mixing together, each maintaining its own culture, schools, and religious practices, and this harmony has given Bahrain the peace it has needed to establish itself as an attractive center for financial institutions from different parts of the world."

According to Dr. Al Mardi, BFHHC maintains a clear strategy to continue not only the development of the financial center, but also further projects to create world-class financial services. "There are other projects similar to this one, or even more innovative. We are not confined to the BFH idea," he says. "We are looking into what more we can do to Bahrain and the region that will attract international investments and contribute more to the national economy of the country and the welfare of the people."



BAHRAIN FINANCIAL HARBOUR

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Manama's skyline is defined by high-rise office buildings, home to many international companies



Today, 42 airlines operate out of Bahrain International Airport

# Striking the right balance

The right balance in economic diversification led to Bahrain's transformation into a regional financial hub, and the proper equilibrium between regulation and innovation has helped the kingdom maintain its lead

Just as Bahrain was the first Gulf nation where oil was discovered back in the 1930s, it was also among the first to make a conscious decision to veer its economy away from oil dependence, a move that led directly to its prominence as a global financial hub today.

"The vision of diversifying away from dependence on hydrocarbons was implemented by Bahrain in the early 1970s. At that time there was quite a lot of civil unrest issues in Lebanon – Lebanon was the financial and banking capital, and the King at the time envisaged that we had the infrastructure and a lot of competitive advantages to develop Bahrain as a banking and financial sector," says Mayank Malik, CEO of Citibank Bahrain and chairman of the Bahrain Association of Banks (BAB).

This move allowed Bahrain to develop its infrastructure and build experience before other countries in the region. "A lot of other countries are doing the same, so it is not as if Bahrain is unique, but it figured it out maybe 25 years before many other people jumped onto the bandwagon, and as a result we have been able to develop a strong learning curve in terms of the experience and expertise that have been developed," explains Mr. Malik.

Today, Bahrain boasts 150 banks serving a population of just over a million people in addition to 420 financial institutions. The finance sector is by far the leading sector of the economy, comprising some 25% of GDP. "It is very much a banking and financial center.

It is not just for the domestic market but because of what they can do for an international context, whether it is offshore banking or being a hub for several countries and regions here," Mr. Malik adds.

Bahrain is also at the forefront of Islamic finance, and has emerged as a recognized global center with 27 national Islamic banks (more than any other country) managing \$27.5 billion in assets. It is also the location of the headquarters of



Dr. Mohamad Nedal Alchaar, Secretary General of AAOIFI

'BAHRAIN IS WELL POSITIONED TO ACCOMMODATE INITIATIVES AND DEVELOPMENTS IN THE BANKING AND FINANCE SECTOR'

-DR. NEDAL ALCHAAR

the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

Bahrain's experience and infrastructure are accompanied by a strong regulatory and legal framework guaranteed by the Central Bank of Bahrain (CBB), which strives to maintain the proper balance be-

tween regulation and business-friendly measures.

Shankar Sharma, CEO of Arab Financial Services Company (AFS), regional leader in the provision of electronic-payments and consumer-finance outsourcing services, says that CBB has found the right balance, something that is not easy to achieve.

"They do not just bring in laws blindly, they take into account the industry's reaction and response. They have a



Shankar Sharma, CEO of Arab Financial Services Company

'IN AFS, WE ARE MORE THAN 80% BAHRAINIS AND OUR ENTIRE WORKFORCE HAS A BAHRAINIZATION LEVEL OF 96%'

-SHANKAR SHARMA

healthy process in place. Banks do not feel suffocated, and they are informed about new regulation and its impact before it's implemented, so they have time to go through the process and adapt to the new requirements of the CBB. This is one of the key differentiators of Bahrain in the region," he states.

Another factor that has contributed to the country's success in establishing itself as a global finance center, setting it apart from regional competitors, is the presence of its large, well-qualified workforce. Bahrain has developed a reputation for its business and finance schools, and its educational system is one of the oldest in the region. Mr. Sharma says that the qualified pool of local talent available has made a big difference to his technology-dependent company.

"In AFS, we are more than 80% Bahrainis and our entire information technology has a Bahrainization level of 96%. That is something that is possible, and we are able to deliver value to our customers on an ongoing basis," he comments.

As CEO of Citibank Bahrain, Mr. Malik agrees. He believes that more and more financial institutions are seeing Bahrain as a cost-effective back-office and middle-office hub. "As regards technology, our entire regional team operates from Bahrain. So when we do anything technology-related for Egypt, Pakistan, the UAE or Jordan, it is done here by 50 plus people. We find that Bahrain has a lot of competitive advantages for building the back and middle-office functions," he states. Citibank Bahrain also has an e-commerce department that has designed the treasury systems for Citibank worldwide.

This sense of innovation has also paved the way for the growth of Bahrain as an Islamic finance hub. Dr. Mohamad Nedal Alchaar, AAOIFI's secretary general and one of the 100 most influential Arabs in the world, according to arabianbusiness.com, says the country is well positioned to accommodate initiatives and developments in the banking and finance sector, and was in an ideal position to take the lead in Islamic finance – a role that he feels it has successfully assumed.

AAOIFI's decision to base its headquarters in Bahrain is an indicator of the country's status within the world of Islamic finance. AAOIFI, which currently boasts over 200 members from more than 45 countries, is fast becoming the de facto regulator of the fast growing Islamic finance world. It has to date prepared 81 standards across five main areas: accounting, auditing, governance, ethics and Shari'a compliance, helping to homogenize Islamic finance across the globe and boost its credibility with investors.

# Bahrain's sunny and open skies

Bahrain adopted the open skies policy over a decade ago as a way to increase overall traffic and further position the country as a leading Middle Eastern financial and tourism hub

The proximity of main regional markets, such as Saudi Arabia and Qatar, have benefited Bahrain's transport sector, and investment in high profile projects, such as the airport expansion, the new super port, and the Qatar-Bahrain Friendship Bridge, has further strengthened its position as gateway to the GCC region.

Bahrain's aviation regulator, Civil Aviation Affairs (CAA), has been behind the impressive growth in aviation traffic witnessed by the country in recent years. Its 1998 open skies policy paved the way for the 42 international airlines now operating out of Bahrain, which serve 56 destinations and move over 9 million passengers through Bahrain International Airport (BIA) each year. In 2006 alone, the airport grew by 20%, reflecting an unprecedented rate of growth in the aviation industry in general throughout the Middle East. Expansion now under way (BIA has recently unveiled a new state-of-the-art control tower) will soon see it boost its capacity to 15 million passengers a year.

"We opted to go for the open skies policy because we believe that this is the way forward for Bahrain. As His Majesty and His Royal Highness the Prime Minister always says, we have to keep up with the others. You can't do that by closing up your skies. We adopted the policy in 1998, and it has kept going and built up Bahrain. It is an important reason why Bahrain has maintained continuous positive growth in passenger and cargo movement, because we provide that access," says Captain Abdulrahman M. Al Gaoud, CAA's undersecretary.

Bahrain now has agreements with 37 countries under the policy. This has allowed the country to establish itself as a leading financial and tourism center and positioned BIA as a key hub in the region.

The open skies policy has also meant compliance with the strictest international safety standards. CAA regularly works with international organizations such as IATA (the International Air Transport Association, which represents some 230 airlines comprising 93% of scheduled international air traffic), and the FAA and TSA of the U.S., with which

CAA works closely on security and safety issues.

Perhaps one of the clearest indicators of Bahrain's security is the number of airlines that have been blacklisted from the nation's airspace for non-compliance with inter-



Captain Abdulrahman M. Al Gaoud, Undersecretary of CAA

THE OPEN SKIES POLICY IS A MAIN REASON WHY BAHRAIN HAS MAINTAINED STEADY GROWTH IN PASSENGER AND PASSENGER TRANSIT

national regulations. CAA has listed 25 operators on its website that have failed to meet sector regulations – a move that was copied by France just six months later.

Captain Al Gaoud's passion for aviation (he was the first Bahraini national to become a captain) was also evident in CAA's organization of the first Bahrain International Air Show last January. Drawing industry participants from around the globe, the event allowed buyers and suppliers to meet with procurement personnel and high level delegations from around the Middle East, providing a much needed B2B forum, given the growth in the civil, defense and commercial aviation markets throughout the region. CAA is now organizing the next Air Show, to be held in January 2012.

During the event, CAA signed an MOU with the Gulf Center for Aviation Studies as a first step in offering training services and facilities to the aviation industry across the Middle East. It also signed a contract with leading air transport and IT solutions specialists SITA for a new air traffic safety system for BIA that will further enhance safety in the airspace under its control.

One of the most influential and prestigious aerospace hospitality events in the region, the Bahrain International Airshow 2012 will build on the resounding success of this year's inaugural event. Modelled by experts, the show brings together the civil, defence and business aviation markets in a unique setting that reflects Bahrain's status as a regional center for transport and trade.



GULF AIR

# Sky-high hospitality, innovation and quality

Samer Majali, CEO of Gulf Air, shares his strategy for turning Bahrain's flagship airline into a profitable business once again

**Could you give us an overview of the combination of innovation and customer care based on Arabian hospitality throughout Gulf Air's 60 years of service?**

Arabian hospitality has been an integral part of Gulf Air's service over the past 60 years; and we will continue to develop this tradition throughout the next 60.

Gulf Air has always been a pioneer in introducing innovative service concepts and products. The airline won international recognition in the 80s for its luxurious five-star Tristar services on board.

In recent times, the airline won a series of awards for its innovative products and services such as Sky Nanny, the Norland-trained cabin crew specially deployed to look after children on board; Sky Chef, the Michelin-rated internationally experienced chefs who prepare and serve signature cuisine to premium class passengers; and the fully flat Sky Bed, giving the 'total sleep experience,' among others.

Customers are always welcomed onboard with the traditional Arabic greeting 'Ahlan wa sahlan' and served dates and Arabic coffee, both symbolic of the rich Arab culture and heritage. Our cabin crews are trained to the highest standards of customer care. In a recent IATA customer service survey, customers voted our cabin crews as the best. The passion for innovation and high quality service delivery for which Gulf Air earned its reputation in the 80s continues today.

Recently we introduced a new premium class, Falcon Gold, combining the best of first class and business class features that not only offers bespoke cabin service but also better value for money to our premium customers. We



Samer Majali, CEO of Gulf Air

continue to develop our customer care services with the latest innovations so that our passengers will continue enjoying our hallmark Arabian hospitality.

**What are your impressions as CEO on the preliminary results of Gulf Air's strategic plan?**

The positive performance results so far indicate that our new strategy is working well and we are on the right track. In the first quarter of 2010, we cut our overall costs by 3%. We have been able to reduce overall cost due to careful forward planning, prudent cost-saving measures and efficient performance optimization. The airline flew 20,000 more passengers during January-March 2010 compared to the same period last year.

But it's not only about numbers; we've launched several initiatives to improve our entire value chain. We've introduced regional jets into our fleet, bringing a new dynamic to travel in the region; we're now able to offer more destinations to our customers while maintaining our leadership position as the best-connecting carrier across the region.

We've also embarked on a comprehensive revamping of



Gulf Air is an award-winning Middle Eastern airline, renowned for its friendly services and hospitable cabin crews

our products and services on-board. The introduction of the new premium class, 'Falcon Gold,' is the first step towards offering our customers a superior and more consistent product and enhanced travel experience across our entire wide and narrow body fleet.

Challenges are ahead but we have now laid a strong platform for the future, with a totally committed team. I strongly believe that successful organizations are those that use adverse times to their advantage, finding opportunities to excel and I am sure we will be able to succeed.

**Can you elaborate on the proposed expansion of the fleet and destinations? Which will be the priority markets?**

Our focus is to improve our network operational efficiency by investing in new aircraft that are optimized for the routes served. A smaller number

of wide-bodied aircraft will be dedicated to serve long-range operations or those that exhibit high demand. We will invest in upgrading the cabin interiors this year while awaiting the introduction of the new aircraft later this decade. We will also increase the number of narrow-bodied aircraft beyond the 15 new A320s currently being phased in by introducing a fleet of long-range A319s in 2011 to service our markets with long-haul services focusing on some of the world's financial centers.

We have also introduced regional jets with less than 100 seats to serve short-haul destinations. This will further reduce the costs of operation by optimally matching supply and demand while increasing frequency to better serve our customers' travel schedules. It will also allow us to initiate services to new destinations with the minimum risk and financial outlay.

We are committed to expanding into new commercially viable routes across three continents by leveraging Bahrain's position as the financial hub of the Gulf and connecting it with leading financial centers in Europe.

Our priority is to provide our customers with a reliable, convenient, professional and value-driven service. Our new-look international network will reflect our customers' needs and enable us to consolidate and expand our existing position as the carrier with the largest number of Middle East connections through our efficient Bahrain Airport hub.

Our new fleet gives us the flexibility to constantly seek and develop niche markets where we can establish a leadership position. We were the first Gulf carrier to begin services to Iraq with flights to Baghdad, Najaf and Erbil.

**What are Gulf Air's social and environmental commitments, as one of Bahrain's largest employers?**

As a pioneering airline in the Middle East, Gulf Air believes in the importance of its inter-relationships with the local community. We recognize that economic, social and environmental responsibilities are integral to its business. We also understand our responsibility to find ways of reconciling the increasing demand for air transport and the need to mitigate its environmental impact.

Last year we launched a comprehensive three-tiered CSR plan focusing on three key areas: climate change and clean air, waste management, and community outreach. This plan features a number of initiatives, including a bio-fuel development program, which is a carbon-offsetting plan that includes a series of comprehensive carbon-emission reduction measures designed to minimize environmental impact. The plan also serves the community by reinforcing our commitment towards the wellbeing of our customers, stakeholders and employees. Gulf Air is very much a pioneer in the region as it is one of the only two airlines in the region to have launched an integrated CSR program.

**How does your previous experience leading Royal Jordanian contribute to your leadership of Gulf Air?**

The issues facing Gulf Air were endemic in Royal Jordanian when I took over as CEO – considerable losses, legacy issues, a tired fleet, low efficiency, and an unsustainable route network.

It took three years to turn Royal Jordanian around, but this was not an easy process. Change is always difficult and creates a lot of uncertainty in the company. The key is not to lose focus.



Abu Dhabi	Baghdad	Chennai	Doha	Istanbul	Kochi	London	Muscat	Sanaa
Aleppo	Bahrain	Damascus	Dubai	Jeddah	Kuala Lumpur	Manila	Najaf	Shiraz
Alexandria	Bangkok	Dammam	Erbil	Karachi	Kuwait	Mashad	Paris	Tehran
Amman	Beirut	Delhi	Frankfurt	Kathmandu	Lahore	Medina	Peshawar	Trivandrum
Athens	Cairo	Dhaka	Islamabad	Khartoum	Larnaca	Mumbai	Riyadh	



Reasons to fly Gulf Air Reason # 1

## More flights to the Gulf and Middle East than any other airline around the globe

With over 10 years of codeshare partnership with American Airlines, Gulf Air and American Airlines provide you more flights to the Kingdom of Bahrain and beyond to various destinations in the Gulf, Middle East and Asia. Our premium team at the World Wide Call Centre is available 24/7 for any assistance you may need with travel inquiries, bookings or redeeming miles for tickets or upgrades.

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ALUMINIUM BAHRAIN

# Aluminium for the World



ALBA

## History in the smelting: Alba transforms the region

History was made in 1968 when Aluminium Bahrain was established to develop the country's resources and at the same time provide valuable export earnings

Aluminium Bahrain (Alba) was the first economic diversification initiative undertaken in the Gulf region – a pioneering venture that laid the groundwork for the growth of other industries in Bahrain and the Gulf.

Alba was the first aluminum smelter in the Middle East and has very much set the standard to follow in the industry. It was the country's first scheme to set up a non-oil industry. Alba is not only one of the largest aluminum smelters but also one of the most efficient and environmentally friendly smelters in the world.

"The birth and growth of Alba figure among the most notable industrial success stories of the Middle East. In 40 years we have expanded nine-fold; it is the biggest single industrial employer in the country," says Mahmood Hashim Al Kooheji, chairman of Aluminium Bahrain.

The company has become a national champion and a role model for the Gulf region. Aluminum is Bahrain's second biggest export after oil and the company leads an aluminum sector that forms around 12% of total GDP.

"When I talk about Alba, allow me to talk on behalf of the entire aluminum industry in Bahrain," says Mr. Al Kooheji.

Alba is the second largest and one of the lowest cost single location aluminum smelters in the world. Its technological strength, global competitiveness and innovative policies are its core values. Alba produces more than 870,000 metric tons per annum of the highest grade aluminum. Indeed, metal purity of up to 99.90% is consistently achieved, enabling the company to achieve ISO 9002 certification in 1994.

Alba's achievements are a matter of pride as it shows that a company with such a strong international reputation exists in Bahrain and remains one of the pillars of the economy. "Not surprisingly we are seen as a powerful brand in promoting Bahrain as an economic and industrial might," claims the chairman.

Speaking at the annual meeting at the Alba Club, Mr. Al Kooheji outlined plans to



When Alba was founded, annual production capacity was to be 56,000 mt, but right away this figure was raised to 120,000 mt. Today, it stands at over 870,000 mt

list Alba on the Bahrain Stock Exchange in the coming months. "After formal approval from the board of directors and the Cabinet, we had applied for the listing procedure, which usually takes about 60 days. We welcome the increased levels of transparency and good corporate



Mahmood Hashim Al Kooheji, Chairman of Alba

governance that will flow from being a public company."

The next challenge for Alba is major expansion. In five years when the new production line six is completed, the company aspires to be a 1.5 million metric ton producer. "Fifty percent of our production is exported. We will always want to be big on the international market from the Far East, to Europe and as far as America."

He added, "We have built a

name for ourselves, we have the logistics and raw materials as well as a skilled workforce and abundant energy; the industry needs a lot of know-how and technology. We will welcome American companies to come and invest in Bahrain. It will open up the entire GCC market to America. It is a launching ground for American companies and investors to come and service the region from Bahrain."

In 2006 a free trade agreement was signed between the United States and Bahrain. Without a doubt this is a seal of approval that laws, regulations and investment conditions in Bahrain are an acceptable standard for the U.S. and the world.

"This is not just a tariff that has been removed between the two countries – it is a message to everyone that Bahrain is a good investment opportunity," explains Alba's chairman.

"The FTA provides a multiplier effect and opens Bahrain to the world. It gives every investor the comfort that there are laws and regulations to protect their investment, it has opened up tremendous opportunities for our company as well as other industries in Bahrain."

## An environmentally conscious industrial giant

Not only is Alba an important money-earner for Bahrain, the company also strives to safeguard the environment

Over the past decade Alba has spent more than \$600 million towards various environmental improvement projects. Earlier this year the company invested a further \$63 million to ensure that the power station remains almost emission free.

But that's not all. It is remarkable to think that at the heart of one of the biggest aluminum smelters in the world lies the Princess Sabeeka Oasis, an area of 90,000 square meters that houses a marine section, a vegetable garden, a diverse flora garden, and lastly a fauna with migratory birds visiting each year.

"We take our environmental commitment very seriously. For example, in 2008 we organized one of the region's biggest environmental conferences with more than 300 leading experts from across the world," says Mahmood Hashim Al Kooheji, the chairman of Aluminium Bahrain.

Alba's continuous commitment to the environment and safety is phenomenal. It is one of the few smelters in the



Alba has the largest man-made green area in Bahrain

world to have its own calciner and in March of 2010 it set a major safety record in achieving 1.5 million work hours without a single hitch. Laurent Schmitt, the newly appointed CEO explains, "Safety is fundamental in our aim to transform Alba into a globally competitive smelter."

The company's international awards for safety and care include the UN Millennium Award for Environmental Protection, the GCC Environmental Award, the Bahrain Environment Award and the ISO 14001 Environmental Management System Award.

Mr. Schmitt adds, "Alba's safety records have been phe-

nomenal and have strengthened the company's reputation as having one of the safest working environments in the world."

It is still too early to confirm, but reports suggest that a further \$2 billion will be invested in modernization and further expansions. Today, as Alba implements its current five year plan, the company looks to the future with confidence as it seeks to become the world's largest producer of primary aluminum, whilst continuing to focus unwaveringly on safety, people, the environment, cost and productivity in an effort to ensure the sustainable development of Bahrain.

alba

ALUMINIUM BAHRAIN

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