

The Bahrain-US FTA: bringing new industries to Bahrain

Equipment leasing is a lucrative industry world-wide as well as a key player in capital formation and driving economic growth. Largely unused in the GCC before the establishment of Bahrain-based First Leasing Bank (FLB), **James Cracco**, CEO of FLB, explains the many opportunities offered by this industry from which the Kingdom of Bahrain, and particularly its private sector, can benefit.

Free trade with a market as large as the US opens doors to a virtually unlimited number of opportunities, especially in areas where Bahrain has a competitive advantage. In addition to the relatively low cost of living, Bahrain has low production costs, including labour and energy-related expenses. Bahrain has no corporate or personal income tax, property taxes, or value-added tax. The Kingdom also offers a well educated bilingual work force, including financial services and banking expertise and an abundance of engineers, medical doctors and educators. An added benefit is that the Bahraini people and government are welcoming and tolerant to the many national groups and religions that call Bahrain home.

All this makes Bahrain a very attractive place for US investment as a platform for exports back to the US as well as for regional and international expansion. In turn, these are the advantages that Bahrain can tout and capitalise upon. From Bahrain's perspective, free access to the world's largest market will present Bahraini firms with unprecedented

introduced to the region that are not currently being provided here on a wide scale. Bahrain could very easily be turned into a regional centre for sophisticated light manufacturing, support services or software development. This can be accomplished by direct investment or by introducing US firms and investors to the Kingdom through partnerships and joint ventures.

The presence of FLB is a direct result of such partnerships. Although FLB predates the Bahrain-US Free Trade Agreement (FTA), it serves as a good example of how US and Bahrain-based businesses can work together to achieve common objectives, create jobs and foment economic growth.

FLB was the result of a partnership between Overland Capital Group (a major US international investment firm) and the Bahrain-based Ithmaar Bank. The two parties already had a history of investing together in the US equipment leasing and real estate markets when they decided to further their mutual business interests by establishing a company to introduce and foster business-to-

growth opportunities. A flow of US investments and Bahraini-US ventures should help spur Bahrain's already healthy economy and create even more jobs.

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business equipment leasing throughout the Gulf. Bahrain was the obvious choice for the headquarters not only because Ithmaar Bank was headquartered here but also because of the international reputation of the Central Bank of Bahrain. FLB was set up as a general

equipment lessor to introduce two concepts that were unused in the GCC: the finance lease, in which the lessee pays instalments on a piece of equipment with the plan to eventually own it; and the operating lease, in which clients rent the equipment which is then returned at the end of the lease term.

Finance leases were previously only available in a limited way through some commercial banks; operating leases were virtually non-existent. Each, in its own way,

helps clients free up capital resources, which customers can then normally better invest in their core operations for more rapid growth at a higher economic return. Equipment leasing is an international US\$600 billion industry that is a key player in capital formation and driving economic growth. Ithmaar Bank and Overland Capital were correct in their assumption that equipment leasing could be transplanted if they pooled their talents and expertise and created a champion. This is just a small illustration of how Bahraini companies can import and adapt even an entire industry. Clearly, there are many similar opportunities for enterprising Bahraini and US companies.

The implementation of the FTA now makes it easier than ever for such partnerships to be formed, and indeed, FTA requirements and standards make Bahrain an even more attractive place for US companies. Take, for example, the stricter labour requirements. While there have apparently been complaints by some regarding these standards, most businesses are taking a longer term view and believe the short term labour cost increases will be more than offset by future improved efficiencies and higher dividends. The replacement of

unskilled labour with retrained and better skilled workers working sophisticated machinery and production equipment generally results in higher output, at a lower cost with improved quality. This potential, by itself, is a major comparative advantage that Bahraini businesses can use in their conversations with US firms.

Bahrain's first mover advantage in the GCC should not be underestimated or under-utilised. Simply being the first gives Bahrain a unique status. It tells US firms that Bahrain is a country where they can do business with the full support and backing of both the Bahrain and US Governments.

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It would be very unfortunate if other countries in the region that ratify the FTA after Bahrain surpass us in implementation. Now that the rules are in place and the Agreement ratified, Bahrain's private sector should stand ready to take the initiative and seize the opportunities that access to the world's biggest market can bring.

Local companies and entrepreneurs do not have to proceed alone, however. Strong support already exists and is available through the services provided by the Bahrain Economic Development Board, the US-Bahrain Business Council, and the American Chamber of Commerce in Bahrain.

All three organisations have a strong stake in helping put Bahrain at the forefront of US-GCC trade and can provide advice as well as a forum for potential business partners and relationships. ■