

# From hands off to hands on: the evolution of Bahrain's industrial policy during the 21st century

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## Abstract

**Purpose** – This paper aims to address two fundamental questions: (1) How has Bahrain's industrial policy evolved during the 21st century? and (2) what factors contribute to this evolution?

**Design/methodology/approach** – Utilizing secondary data, this paper identifies key decision-makers responsible for economic policy in Bahrain and delineates the evolution of Bahrain's industrial policy throughout the 21st century. Subsequently, it employs a series of interviews with elite civil servants engaged in the formulation and implementation of Bahrain's economic policies to understand the reasons behind the observed changes.

**Findings** – Since assuming the role of Crown Prince in 1999, Sh. Salman bin Hamad Al Khalifa has been the key economic decision-maker in Bahrain. During the 21st century, Bahrain has shifted away from decisions closely aligned with the Washington Consensus towards those more in line with classical industrial policy. Interviews reveal that the private sector's underperformance in job creation, coupled with fiscal pressures, has driven this departure from the Washington Consensus. Moreover, the early successes of the interventionist Saudi Vision 2030 and Bahrain's own success in technocratically managing the COVID-19 pandemic have accelerated this transition.

**Practical implications** – Insights into the determinants of Bahrain's industrial policy can guide policymakers in refining future strategies. Recognizing the positive role of intellectual developments in academic economics literature becomes crucial for informed decision-making.

**Originality/value** – This paper fills a gap in the existing literature by providing answers to its research questions, particularly considering the significant changes witnessed in Bahrain's industrial policy post-pandemic.

**Keywords** Bahrain, Industrial policy, Washington consensus

**Paper type** Research paper

## 1. Introduction

For most of the 20th century, Bahrain's economy exhibited a high degree of dependence on hydrocarbons compared to other high per capita income economies, while still maintaining a more diverse economy than the other Gulf economies (Naumann *et al.*, 2018). Nevertheless, in anticipation of the depletion of its oil reserves and considering the sustainability-motivated global energy transition, Bahrain's economic policy emphasized the need to diversify the economy further under the banner of Economic Vision 2030. Much of this change occurred during the 21st century, following King Hamad bin Isa Al Khalifa's accession to the throne in

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1999 and the appointment of his son, Crown Prince, Sh. Salman bin Hamad Al Khalifa, to key economic policy positions in the Kingdom.

The use of policy levers to nurture a vibrant industrial sector has been a central tenet of Bahrain's economic strategy (Al-Ubaydli, 2021), especially in light of the importance of a sound manufacturing sector for sustainable job creation and economic growth (Andreoni *et al.*, 2021). The fiscal challenges induced by the 2014 decline in oil prices have accentuated the need for Bahrain's industrial strategy to evolve (Waheed, 2016). A notable aspect of this evolution has been the transition from a laissez-faire format strongly grounded in the Washington Consensus during the early 2000s to a more interventionist version in 2021, perceiving the government as a strategic venture capitalist leading a supporting private sector. Understanding the genesis of its industrial policy contributes to Bahrain's efforts to achieve multiple sustainable development goals (SDGs), most notably SDG9 (industry, innovation, and infrastructure) and SDG8 (decent work and economic growth). Future evolutions of Bahrain's industrial policy are facilitated by grounding them in a sound knowledge of past versions.

This paper aims to answer two questions. First, how has Bahrain's industrial policy evolved during the 21st century? Second, what factors account for this evolution? Beyond the benefits related to policymaking and the Sustainability Agenda, answering these questions is of interest to the academic community due to the scarcity of academic research regarding Bahrain's economic policies. To the best of my knowledge, no previous work has provided an answer to these questions that also includes the significant changes witnessed in Bahrain's industrial policy following the conclusion of the COVID-19 pandemic.

To answer these questions, this paper uses a combination of official government sources and academic papers to gather descriptive data on Bahrain's industrial policy. Data is also collected from a series of semi-structured interviews with elite civil servants who have played a direct role in the formulation and implementation of Bahrain's economic policy during the 21st century.

The main finding is that Bahrain's industrial policy has evolved significantly from a hands-off to a hands-on approach in response to changes in Bahrain's internal and external circumstances. A driving force has been the observation that the private sector is not yet able to create jobs and grow the economy at the rate envisioned during the 2008 launch of Bahrain Vision 2030. Moreover, fiscal pressures have limited the private sector's ability to conduct strategic investments, shifting that responsibility back to the government.

The first-hand success of an interventionist, technocratic approach to managing the economy during the COVID-19 pandemic has reinforced the attractiveness of a more interventionist industrial policy. This appeal has been further reinforced by the early successes observed in Saudi Arabia as it implemented its own economic vision.

## 2. A brief history of global industrial policy paradigms

Classical industrial policy can be conceptualized as the principle of creating wealth through the structural upgrading of national productive sectors, with the government playing a central role in this upgrading process (Reinert, 2020). A prominent example involves the imposition of trade protections, such as tariffs aiming to foster domestic industries, commonly known as "infant industry" tariffs.

Despite the objections of classical liberal economists, governments have generally recognized the necessity of industrial policy (Reinert, 2020), with exceptions during the Washington Consensus era (see below), acknowledging the existence of market failures. Successful instances of industrial policy implementation include post-World War II Japan, South Korea, and Taiwan, as well as China since the late 1970s (Aiginger and Rodrik, 2020).

Since the 1960s, prominent economists began cautioning against industrial policy (Wade, 2015), arguing that the government lacked an informational advantage over other economic

actors. They contended that the government was ill-equipped to address market failures resulting from limited information among businesses and consumers (Stahl, 2021). Moreover, industrial policy was criticized due to potential flaws arising from the incompetence or corruption of the individuals managing it, such as politicians and civil servants. This critique explained instances of corrupt import substitution policies observed in Latin America and the Middle East during the 1970 and 1980s, where trade protections were wielded to benefit politically connected cronies (Irwin, 2021).

Following the collapse of the Soviet Union, these right-leaning ideas emerged as a coherent set of policies known as the “Washington Consensus”, institutionalized by the International Monetary Fund and the World Bank. The Consensus, closely associated with the Anglosphere, advocated for the privatization of state-owned assets, free trade, deregulation, and the absence of an industrial policy.

The Consensus began losing favor during the global financial crisis of 2007–2008 (Davies and Gane, 2021). In the aftermath of the COVID-19 pandemic, economic nationalism has gained popularity in many countries, advocating for a return to state interventionism (Mazzucato, 2013; Colantone and Stanig, 2019). The pandemic has also empowered civil servants favoring centralized economic management.

### 3. A descriptive exposition of Bahrain’s industrial policy

#### 3.1 Prologue: Bahrain’s 20th century industrial policy

Al-Burushayd (2016) offers a firsthand account of Bahrain’s economic and monetary policies after the British departure in 1971 when Bahrain joined the United Nations. These policies were motivated by the necessity to diversify the economy amidst depressed oil prices and the objective of creating desirable employment opportunities for nationals.

Over the next 30 years, Bahrain’s government pursued an economic strategy grounded in classical industrial policy. First, strategically important industries, such as Bahrain’s petroleum company (Bapco) and the local telecommunications company (Batelco), were nationalized, with Batelco later undergoing partial privatization (see below). The government also acquired substantial shares in leading local banks. Nationalization was driven by the belief that these companies played a vital role in the economy, had synergies with other sectors, and carried significant security considerations, thus necessitating government ownership and control.

Secondly, the government took on the role of the lead venture capitalist. Initiatives launched and developed between 1971 and 1999 included Aluminum Bahrain (Alba), a groundbreaking investment in the 1970s, being the first aluminum smelter in the Middle East region. Other examples of government venture capitalism in heavy industry encompassed the ship repair company (Asry), the petrochemicals company (GPIC), and the liquified petroleum gas company (Banagas). As part of its diversification strategy, the government also invested in civil aviation, with Gulf Air becoming a global airline and transforming Bahrain’s airport into a major transit hub, contributing to the development of the local tourism industry.

Finally, the government sought advice from foreign experts to transform Bahrain into an offshore banking center linking East to West. Capitalizing on Lebanon’s decline post the Lebanese Civil War, over one hundred foreign banks opened branches in Bahrain. Government leadership further facilitated expansion into Islamic banking. Additionally, the government established the Bahrain Development Bank to institutionalize its role as a venture capitalist.

Notably, Bahrain’s government refrained from employing trade protections under the banner of infant industry development, reflecting a more liberal stance compared to other Arab countries. However, in general, its policies remained consistent with the principles of classical industrial policy.

### 3.2 Phase 1: 1999–2019

This period, spanning the first two decades of the reign of King Hamad bin Isa Al Khalifa, is characterized by a notable departure from Bahrain's interventionist approach influenced by the classical industrial policy during the last 30 years of the 20th century (Naumann *et al.*, 2018). Instead, it embraced key elements of the Washington Consensus.

First, privatization was a significant focus. The telecommunications company Batelco underwent privatization, along with other traditional core government functions such as power generation and public transportation. Second, Bahrain's privatization efforts were coupled with liberalization, extending to the opening of the telecommunications market to domestic and foreign competitors, and even domestic liberalization in aviation.

Further, Bahrain has made substantial strides in deregulation beyond the mentioned liberalization reforms. Bahrain's commercial environment was rebranded as "Business Friendly Bahrain", with the government systematically reducing bureaucratic hurdles, exemplified by the introduction of virtual commercial licenses.

These policies were formalized under the Economic Vision 2030 strategy, initiated in 2008, with much of its language with the Washington Consensus. Examples include:

- (1) Opening Bahrain's markets more fully to expose local companies to process innovation and best practices.
- (2) Creating an environment highly conducive to entrepreneurship and innovation.
- (3) Establishing a platform for advancing innovations to market readiness, facilitating Bahrain's integration into the global knowledge economy.
- (4) Carefully selecting the [government] services for outsourcing and actively seeking partnerships with the private sector.
- (5) Implementing effective and efficient regulation before and rigorous supervision after privatization.
- (6) Reviewing and adjusting government organizations and processes to streamline them and increase transparency.
- (7) Upgrading the judicial system to ensure fair and speedy dispute resolution.
- (8) Reducing inefficient [government] spending.
- (9) Accelerating private-sector involvement in providing public infrastructure services.

For reasons to be explored further, the government viewed the private sector as a better judge of appropriate investments and relegated itself to the role of regulator and enabler, rather than a strategic venture capitalist. Notably, Economic Vision 2030 aligns with the values of the Sustainability Agenda (Al-Ubaydli, 2023).

### 3.3 Phase 2: 2020 onward

While officially designating 2020 as the commencement of the newest phase, the transition is notably more gradual, with origins traced back to the global financial crisis in 2008. A pivotal manifestation of the Bahraini government's shift in industrial policy is evident in the 2022–2026 industrial sector strategy, introduced by the Ministry of Industry and Commerce in late 2021 (Al-Ubaydli, 2021). This is in contrast to previous government action plans, such as the 2014–2018 plan (Naumann *et al.*, 2018), which broadly identified sectors for growth without specifying encouraged steps. For instance, the manufacturing sector was included in the list, but the plans never outlined specific steps or lines of business that would be actively encouraged. In contrast, the 2022–2026 industrial sector strategy (BNA, 2021c) highlighted six

specific sub-sectors: aluminum, renewable energy, food and pharmaceuticals, petrochemicals, green and blue hydrogen, and fine electronics. This was complemented by the 2021 economic recovery plan (BNA, 2021b), which emerged in the aftermath of the peak of the COVID-19 pandemic. The plan allocated \$30 billion for investments in the mentioned sectors and others, such as finance and telecommunications. The plan entails a departure from the core principles of the Washington Consensus, emphasizing the government's role in "picking winners".

For instance, in mid-2021, Bahrain's sovereign wealth fund, Mumtalakat, signed a memorandum of understanding with its Russian counterpart and the Russian pharmaceutical company Binnopharm to "explore the establishment of a vaccine production facility in the Kingdom to manufacture and distribute the Sputnik V COVID-19 vaccine across the GCC and MENA region" (BNA, 2021a). This shift is also evident in Bahrain's food security initiatives, where the government plans to increase local agricultural production in collaboration with the private sector (Faqeih, 2023).

This evolving approach does not signify an outright rejection of the Washington Consensus and a return to classical industrial policy. Instead, it maintains an underlying affinity for liberal economic policies. During the COVID-19 pandemic, for instance, the government initially centralized testing in government labs before liberalizing, allowing the private sector to conduct tests. Moreover, the economic recovery plan underscores the significance of public-private partnerships in the economic domain and emphasizes the importance of streamlining commercial environments, reminiscent of the Washington Consensus. Nevertheless, it constitutes an approach distinct from the one implemented during the period 1999–2019.

#### 4. Understanding the evolution of Bahrain's 21st-century industrial policy

##### 4.1 *The Crown Prince's role in economic policy*

The Crown Prince is a key figure in Bahrain's economic policy landscape. The Crown Prince's website (HRH Prince Salman bin Hamad Al Khalifa, 2023) outlines his extensive contributions to economic policy since assuming the role of Crown Prince in 1999. Some notable highlights include:

- (1) His appointment in 2001 as the Chairman of the Committee for Implementation of the National Charter in 2001, providing "a comprehensive blueprint for Bahrain's future development", including its economic aspect.
- (2) His 2002 appointment as Chairman of the Economic Development Board (EDB), "responsible for formulating and overseeing the Kingdom's economic development strategy and attracting foreign direct investment".
- (3) His leadership since 2006 of Bahrain's Labor Market Regulatory Authority (LMRA) and Labor Fund (Tamkeen), entities regulating Bahrain's labor market.
- (4) His 2013 appointment as First Deputy Prime Minister, wherein he "played a key role in promoting development within the Kingdom, supporting essential development in economic, education, and health services".
- (5) His 2013 appointment as Chairman of the Government's Executive Committee, "overseeing matters directly related to government priorities, . . . and [monitoring] the implementation of strategies and plans aimed at enhancing the government's output and the Kingdom's overall economic performance."
- (6) His 2018 appointment as Chairman of the Civil Service Council, wherein he "plays a key role in further improving public sector efficiency through effective resource allocation, including the appointment of directors across government departments and entities".
- (7) His 2020 appointment as Prime Minister.

In his capacity as Chairman of the EDB, the Crown Prince oversaw the launch of the National Strategy for Higher Education, the National Authority for Qualifications and Quality Assurance of Education and Training, and the Bahrain Teachers College, underscoring his central role in education policy.

In 2008, the EDB launched Bahrain's Economic Vision 2030, a comprehensive strategy for the Kingdom's economic development aiming to enhance the standard of living for all Bahrain's citizens. As Chairman of the Government's Executive Committee, the Crown Prince oversees the completion of significant housing, infrastructure, and social development projects conducted under the GCC Development Program. In his role as Chairman of the High Urban Planning Committee, he oversees legislation ensuring sustainable urban development.

In light of the above, it can be concluded that the Crown Prince is Bahrain's chief economic policymaker. He is the architect of the overall economic vision and monitors the realization of that vision in various oversight capacities, notably as Prime Minister. Moreover, the organizational heads in charge of the operational elements of Bahrain's economic policy, such as the Minister of Finance and National Economy and the Minister of Industry and Commerce, are de facto appointed by him and are frequently long-standing members of his personal corps. Consequently, to understand the evolution of Bahrain's economic policy, understanding the evolution of the Crown Prince's philosophy toward economic policy is an essential step.

#### 4.2 Method

The academic literature on Bahraini issues within the social sciences is relatively limited, necessitating the collection of primary data. In this paper, four face-to-face interviews with elite civil servants will be conducted, focusing on qualitative data. This path was chosen for two reasons (Knott *et al.*, 2022), beyond the human and financial resource limitations. First, the insights required for understanding Bahrain's industrial policy are concentrated among a select group of decision-makers and their staff, who are often too occupied with high-level responsibilities to engage in electronic surveys. Second, the goal of the data-gathering exercise was to generate novel hypotheses rather than test existing ones. Taken together, these factors explained the rationale for choosing semi-structured, face-to-face interviews with selected policy elites as the primary source of data, with thematic analysis planned for data analysis.

A total of four interviews were conducted, with all prospective participants personally known to the author, and agreeing to participate upon recruitment. The selection criteria included their direct and extensive experience working closely with the Crown Prince, actively involved in executing the policies favored during the new millennium. While a large number of interviews would have been ideal, the pool of suitable prospective participants willing to be interviewed was limited.

The participants consisted of two female and two male, spanning age categories of 25–34 years (1 participant), 35–44 years (2 participants), and 45–54 years (1 participant). All had worked in ministries and/or semi-governmental organizations associated with the government's economic policy. Following standard ethical research procedures, the interview began with an explanation of voluntary participation, the right to withdraw consent at any time, and the production of anonymized transcripts for citation. The questions posed were as follows.

**Question 1:** Upon assuming the role of Crown Prince in 1999, Sh. Salman bin Hamad Al Khalifa exhibited a strong inclination toward economic policies aligned with the Washington Consensus (deregulation, liberalization, privatization, and private sector-led growth). Given a list of the potential reasons, and for each, please provide your insights on its significance.

- (1) Ideology/conviction – an intellectual belief that these were the most effective economic policies independently of Bahrain’s unique circumstances.
- (2) A desire to give Bahrain a distinctive economic identity at the regional level.
- (3) A desire to build a strategic relationship with the Anglosphere.
- (4) A pragmatic desire to adopt the most effective economic policies possible, considering the constraints of his power.
- (5) Any other factors, including the success of the early policies.

**Question 2:** In recent years, the Crown Prince’s economic policies seem to be less aligned with the Washington Consensus, emphasizing more government leadership in investment and economic growth. Given a list of potential reasons, and for each, please comment on its importance in explaining this change.

- (1) Changes in intellectual paradigms, especially the success of work by Mariana Mazzucato and others that has led to the Washington Consensus framework falling out of favor.
- (2) The launch of Saudi Vision 2030, which has made Bahrain’s Vision 2030 appear less distinct.
- (3) The early success of Saudi Vision 2030, especially the state-led elements, such as investment in tourism and minerals.
- (4) The increase in the Crown Prince’s power and authority, allowing for a more centralized economic policy.
- (5) The success of Bahrain’s technocratic approach to the COVID-19 pandemic.
- (6) The apparent failure of the previous policies to generate jobs for Bahrainis at the rate envisaged by Bahrain’s Vision 2030.
- (7) Any other factors.

**Question 3:** Any final comments?

The first question aimed to determine the reasons behind the Crown Prince’s initial alignment with the Washington Consensus, exploring various potential factors. The reasons presented to the participants were based on the author’s own introspection regarding the most likely causes. The second question investigated the reasons for the observed shift in the Crown Prince’s affinity away from the Washington Consensus policy suite. A list of possibilities was presented to participants based on the author’s own intuition, and participants were also allowed to propose additional reasons. Interviews took approximately 30 min and were conducted via video conferencing software in March 2023.

#### *4.3 Results*

For each question, a thematic analysis is deployed by presenting either complete or partial quotations of the responses provided by the participants. The editing is done for parsimony and to ensure that the responses are anonymized, following ethical research guidelines. Bold text is used to highlight the elements of each response that are being used to inform the conclusion relating to the question.

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**How important was ideology/conviction in explaining the Crown Prince's inclination for Washington Consensus policies during the period 1999–2019?**

Participant 1: **Moderate.** *In the [institution I used to work in], they used consultants heavily, and [the consultants] were selling the same [policies] to all the GCC countries. **There was not an internal [ideological] position.** Over time, the Crown Prince surrounded himself with people who had different ideas and [he] became less reliant on the external advisors.*

Participant 2: **To some degree, yes.** *But I think the Bahrain context is equally important. Because of our economic structure, and our position in our growth story, the Washington Consensus principles were important to building resilience and sustainable growth in our economy [It was important to shift] the dynamics toward private sector-led growth. Fiscal discipline was also central.*

Participant 3: **[The Crown Prince] had a conviction and vision of what he wanted the country to be.** *Several different programs reflect this. Conviction is important for implementation. As a Western-educated person, he was also influenced intellectually. When you have too much regulation, things bottle up; deregulation was – in his opinion – a way of enabling him to maneuver.*

Participant 4: **I think it was a very important factor. His [academic] studies may have played a role.** *That was the way the wind was blowing. It was a consensus for a reason. After the collapse of the USSR, there was a perception that interventionist methods were terminally discredited [Subscribing to the Washington Consensus] also [meant] building on Bahrain's trading and openness ethos.*

**Finding 1a:** Ideology/conviction played a significant role in the Crown Prince's affinity for the Washington Consensus policies from 1999 to 2019. This was partially attributed to the Crown Prince's Western education and underscored the ideological primacy of the Washington Consensus in policy circles.

**How important was the desire to give Bahrain a distinctive regional identity in explaining the Crown Prince's inclination for Washington Consensus policies during the period 1999–2019?**

Participant 1: **We [Bahrainis] strategically positioned ourselves in contrast to other nations in the region;** *Despite our small size, we had access to their larger scale. Our business and societal culture are open, featuring British Schools and clubs. We [allow the consumption of alcohol] and more. **The development of Dubai [undermined the uniqueness of our identity, especially] around 2010.***

Participant 2: **I believe it was a significant factor, not merely in terms of economic identity, but also as a means to showcase Bahrain as a trailblazer in forward-thinking policies. It is an important message that needs to be delivered, domestically, highlighting inspirational targets that the entire country to strive toward. Our leadership possesses a novel and strategic form of thinking.**

Participant 3: **[The Crown Prince] has successfully pioneered in that space, expressing a clear desire to set Bahrain apart from its peers and neighbors.** *This distinction is reflected in his programs, such as the Crown Prince International*

*Scholarship Program. It is rare [in the Gulf] to have a Crown Prince engaging with 17 or 18-year-olds.*

Participant 4: *The ideas circulated without becoming the norm in the region. Bahrain emerged from a two-decade-long [period of limited economic growth], prompting a need for macroeconomic restructuring and fostering a desire for a more coherent policy framework. The goal was to establish a policy straitjacket that would thereafter force policymakers to follow suit. As the smallest regional economy, there was a desire to forge ahead.*

**Finding 1b:** The desire for a distinctive region for Bahrain significantly influenced the Crown Prince's preference for Washington Consensus policies from 1999 to 2019. The Crown Prince aimed to cultivate a reputation for effective and forward-looking policies.

### **How important was the desire to build a strategic relationship with the Anglosphere in explaining the Crown Prince's inclination for Washington Consensus policies during the period 1999–2019?**

Participant 1: *[I have] no idea.*

Participant 2: ***Maybe in terms of ensuring policy alignment;*** *it enhances our image in Bahrain as an investment-friendly and business-friendly environment, [demonstrating] that we have the right policies in place, [and] are aligned with best practices. We look to these countries when seeking best practices. It also creates clarity in our policies, comforting investors. Our landscape is not too different from theirs, placing us on par with global best practices.*

Participant 3: ***During that period, [the Crown Prince's] mindset, [as suggested by the question] naturally aligned with the idea of aligning oneself with the Western sphere. This alignment also creates synergies with the West and was influenced by [the Crown Prince's] Western education, fostering influence and connections*** *[To illustrate,] the Crown Prince International Scholarship Program was originally [restricted to] only UK or US [universities]. By receiving education there, individuals become part of that fabric, contributing to the building of bridges.*

Participant 4: ***[I don't think it was] to curry favor; but because of Bahrain's historic affinity with the UK and US, it was a logical place to look for ideas. Elites visiting Bahrain tend to still be UK and US consultants selling these ideas. These are countries [the Crown Prince] is comfortable with and familiar with. If you examine the marketplace of ideas at the time, there were not many attractive alternatives to the Washington Consensus, especially after two decades of belt-tightening.***

**Finding 1c:** The desire to build a strategic relationship with the Anglosphere played a limited role in the Crown Prince's affinity for Washington Consensus policies during the period 1999–2019. Bahrain's historical relationship with the UK and the US, along with the Crown Prince's own experience in both countries, naturally created ideological and structural synergies.

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How important was a pragmatic preference for non-interventionism, driven by limitations to his ability to shape policy, in explaining the Crown Prince's affinity for Washington Consensus policies during the period 1999–2019?

Participant 1: *[I] don't know. The Labor Market Regulatory Authority policy, involving [Bahrainization and imposing fees on hiring migrant workers], was [nominally inconsistent with] the Washington Consensus, [and it required significant government intervention], indicating [that a supposed lack of authority] was not a barrier.*

Participant 2: *No, I don't think so. When we look at the reforms, they have been centralized and broad-based, touching different aspects of national policy, so it was not really a hands-off approach.*

Participant 3: *Possibly. He is very active and visionary, and [being] the Crown Prince requires him to be involved in shaping the country for when [he] will become the King. He wanted to involve himself in the areas that would help him lead the country in the future.*

Participant 4: *Perhaps, but I rather suspect that it was more of a case of being able to say to potential naysayers: "Look at what the world is doing, at [what] works".*

**Finding 1d:** A pragmatic preference for non-interventionism, caused by limitations to his ability to shape policy, did not play a role in the Crown Prince's affinity for Washington Consensus policies during the period 1999–2019. He successfully implemented several policies that required high levels of authority and were distinct from the usual Washington Consensus suite, indicating that the chosen policies reflected the Crown Prince's unrestricted vision for Bahrain.

How important were other factors, such as the success of the early policies, in explaining the Crown Prince's affinity for Washington Consensus policies during the period 1999–2019?

Participant 1: ***Broadly speaking, I believe he feels that the right choices were made.** It has not been smooth sailing since 2008; in fact, some of those drivers have reversed, often due to external reasons. However, when examining the strategic decisions, the Economic Development Board has experienced its ups and downs, Yet, a competitive country must be attractive to foreign investors, necessitating openness and competition. These convictions persist. I don't think [the Crown Prince's] ideological position has changed; he has come to accept that knowing what you want to do is one thing, but doing it is another, given the reality of politics and culture. What we have probably observed (partly due to Bahrain's size) is that these choices alone are not enough; an institutional framework is needed to implement and monitor.*

Participant 2: *One of the reasons for creating the Economic Development Board is to attract investments, and ultimately, create jobs for Bahrainis. To achieve both objectives, numerous actions had to be set in motion, within the regulatory environment in Bahrain. Specific mobilized efforts were required to incentivize certain sectors to open up. **Encouraging Batelco to open up created competition and jobs, representing a highly positive step.** Bahrain has its constraints, but within the [investment promotion] sphere, they successfully created jobs for Bahrainis across different sectors, with (technology and finance) being particularly attractive. Had Bahrain not liberalized at that time, we would not be*

*witnessing the digital revolution we see today. So, overall, [the Crown Prince] will be [retrospectively] very pleased.*

Participant 3: *He consistently focuses on the next phase of growth, rather than reflecting. It is important to assess what worked well but only to plan better. **From my perspective, many reforms, such as telecommunications, have yielded highly positive outcomes. Looking back, it is clear that we are seeing the results. The liberalization was remarkably successful, especially on the regional level, where, in contrast, [we see other countries] where the government continues to dominate, and prices remain high.** This played a pivotal role in developing our infrastructure. While there were challenges in terms of competition between operators, looking back overall, it has been positive, along with foreign direct investment. **International companies have significantly contributed to job creation, especially in financial services, predominantly from regional capital.** We boast the highest average wages in this sector.*

Participant 4: *It was not a one-off decision. The initial appeal was probably driven by widespread international backing and perceived conceptual coherence. **What made it an easier sell over time was its apparent success.** We witnessed the takeoff of emerging markets, following the Latin American and Asian economic crises. This new prescription seemed to unlock new growth drivers. The rise of China favored commodity-producing economies, [as did] the third oil boom, creating a new golden era with seemingly unlimited opportunities to get rich quickly. **This allowed the Crown Prince to demonstrate quick success.***

**Finding 1e:** The original, natural preference for Washington Consensus policies was reinforced by the initial success of those policies. The liberalization of the telecommunications sector and private sector job creation, facilitated by attracting foreign direct investment, yielded positive outcomes. This increased the Crown Prince's conviction regarding the Washington Consensus approach.

**How important were changes in intellectual paradigms, notably the rehabilitation of traditional industrial policy, in explaining the Crown Prince's reduced alignment with Washington Consensus policies since 2020?**

Participant 1: *[It has a] moderate effect. He doesn't follow academic literature directly; the teams around him keep track of these things. He listens [to his advisors] based on [their] track record and credibility.*

Participant 2: *He is intelligent and well-researched, always thinking ten steps ahead, so plausibly this has had an impact.*

Participant 3: *He definitely reads and follows intellectual trends. But I don't know if this influenced him. He has his own personal vision, though. **He is probably more responsive to local economic conditions.***

Participant 4: ***During the Washington Consensus days, [perhaps], but today, there is much more confusion and cacophony surrounding these ideas.** Once [the] quick wins [associated with the Washington Consensus] had been exhausted, it became less clear how to sustain this narrative, and the global context became less helpful. The Crown Prince . . . does see a lot of value in keeping abreast of developments.*

**Finding 2a:** Changes in intellectual paradigms, notably the rehabilitation of traditional industrial policy, made a limited contribution to explaining the Crown Prince's reduced alignment with Washington Consensus policies since 2020. While he likes to stay updated on intellectual developments, the contribution was probably of second order compared to other emerging trends. Moreover, the new paradigms were much less consensual than their predecessor, making it less likely that they would coherently affect the Crown Prince's thinking.

### How important was the launch of Saudi Vision 2030, which undermined the distinctiveness of Bahrain Vision 2030, in explaining the Bahraini Crown Prince's reduced alignment with Washington Consensus policies since 2020?

Participant 1: *Over time, the clarity of what [Vision] 2030 truly represents has diminished. There used to be active discussions on realizing Vision 2030, but now these discussions have waned, as the Key Performance Indicators (KPIs) were not [well-grounded in thorough prior research] (such as doubling household income). Vision 2030 now serves as symbolic support for the Crown Prince rather than being a practical basis for policy.*

Participant 2: **[This was] not a significant factor.** *The proliferation of various Visions recently makes ours seem less unique, but I don't believe we have shifted our focus. Our vision has always been about aspirational targets that remain relevant today. It is high-level, by design, to ensure continued relevance.*

Participant 3: *The essence of these visions is very similar due to proximity and cultural homogeneity. The emergence of non-Bahraini visions created an incentive to make Bahrain's vision more distinct again. There was likely a drive to reexamine what was working and reinvent itself, including how the world perceives Bahrain.*

Participant 4: **No, I don't think so. If anything, Saudi Vision 2030 would be seen as a validation of the ideas in the Bahrain vision.** *What happened is that the historical context in which Bahrain started to implement its vision became much more unpredictable and volatile than expected . . . Partly due to the lack of institutional depth, [Bahrain] struggled to adapt to the developments and policymaking became more reactive. Other countries in the region became more strategic in their thinking. The whole region was impacted by the 2008 crisis, followed by the Dubai World crisis – an existential challenge for the Dubai model. Dubai defied the odds and cleaned up the mess quickly and visibly. That's when the Emiratis pulled away decisively, and the Saudis started to get in gear. Today, Bahrain has less capital, fewer resources, less confidence, and must work hard to convince skeptics. The shift was not by design but due to circumstances.*

**Finding 2b:** The launch of Saudi Vision 2030, which undermined the distinctiveness of Bahrain Vision 2030, did not contribute significantly to explaining the Crown Prince's reduced alignment with Washington Consensus policies since 2020. Arguably, it may have validated Bahrain's ideas. Moreover, Bahrain's Vision is formulated at a general level with few details, making it difficult for another Vision to overshadow it at the implementation stage.

### How important was the early success of state-led elements of Saudi Vision 2030 in explaining the Bahraini Crown Prince's reduced alignment with Washington Consensus policies since 2020?

Participant 1: **Yes, it was a significant factor. During my time in [an organization], when Saudi Arabia started a new initiative, there was considerable interest in Bahrain, with a belief that the government should play a strong role in the economy.** The success of China and the slower growth of free-market countries also contributed. Local businesses' complaints had an impact as well. The Crown Prince's team adopts a top-down approach with strong personalities, focusing on realizing the Crown Prince's vision and addressing problems important to him. The Crown Prince is extremely attentive to [public concerns voiced] in the papers, such as flooding or erroneous electricity bills, promptly addressing these issues. The Crown Prince values public opinion and government competence. There is a desire to hire [diligent overseers] who can get things done. The Crown Prince filters for people who have this mindset. His team lacks a specific economic ideology.

Participant 2: **Saudis are our biggest ally and a crucial partner for Bahrain. While what they do may not entirely influence Bahrain's actions due to the differences in their economies, we approach things in our own way. We are not replicating the Saudi model, we have a different perspective but acknowledge the importance of their initiatives.**

Participant 3: **That's a possibility. The Bahrain-Saudi relationship is strong and naturally so. Acknowledging successful cases when the government collaborated with the private sector in Saudi Arabia may have influenced the natural transition for the Bahraini government to take a leading role, given the investment environment in Bahrain. While the Saudi experience may have supported this shift, it may not have been the main factor.**

Participant 4: **Is this state-led approach intentional or a consequence of circumstances? Today, foreign direct investment is shrinking everywhere and is more volatile. A significant change in Bahrain was the shift in the central bank's posture post-2008. Previously enabling financial sector development and diversification, it became much more [interventionist] and adopted a very restrictive regulatory stance, stating: "We can no longer [allow unregulated investment]". As a result, the financial sector has [retreated as a source of] mobilizing capital. This reflects more realpolitik than ideological change, manifested in the preference for public-private partnerships.**

**Finding 2c:** The early success of state-led elements of Saudi Vision 2030 played a significant role in explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020. However, discerning whether this reflects an intrinsic preference for state-led investment or a forced preference due to challenges in procuring capital from the private sector is challenging.

**How important was the increase in his power and authority in explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020?**

Participant 1: **Yes, there's no need now [for the Crown Prince] to establish new entities (LMRA, Tamkeen) [to facilitate the implementation of his vision]. He can now simply change ministers and have his vision implemented.**

Participant 2: **I am not sure if it is solely about power, but I believe it is much more streamlined now that [the Crown Prince] is Prime Minister. It has made certain policies more efficient, though not necessarily more attractive.**

Participant 3: *With [the Crown Prince's] new role as Prime Minister, there is room for more centralized policies, even in representing the government. He now speaks on behalf of both the government and the private sector.*

Participant 4: *Probably not entirely, but to some extent, I suppose. What might have occurred is that with more policymaking responsibilities, he likely has a sense of wanting to accommodate a broader range of views and interests. He seeks a more consensual [method of government] . . . He is strongly inclined toward a free-market approach but also believes in constitutional politics . . . to accommodate and reflect different views. There is now a greater awareness of societal constraints and the need to proceed at a comfortable speed.*

**Finding 2d:** The increase in his power and authority significantly contributed to explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020. He is now able to implement decisions in a more streamlined manner, and his decisions are more likely to be affected by the perspectives of a broader selection of stakeholders who generally do not align with the Washington Consensus.

### How important was the success of Bahrain's technocratic approach to COVID-19 in explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020?

Participant 1: *I believe it was significant, more so in terms of the pandemic revealing our economic vulnerabilities. There was a substantial employment scare [The government] see[s] global events, recognizing that there are no right or wrong answers ideologically [There is a need to] just focus on solutions.*

Participant 2: *I think it played a role. The effectiveness of the technocratic approach inspired a new dynamic, fostering a more hands-on approach.*

Participant 3: *[The government] certainly learned a lot from the pandemic experience. Specific mechanisms were implemented to understand certain efficiencies. This was an experience in which we succeeded. For sure [we are] looking to apply those lessons in other areas.*

Participant 4: *No, I disagree. I view this as an emergency, and war is not fought through free markets. Even during the pandemic, there were echoes of the Washington Consensus, with belt-tightened despite rising medical expenses and privatization of testing, etc. So, in reality, it was more consistent with the Washington Consensus.*

**Finding 2e:** The success of Bahrain's technocratic approach to COVID-19 significantly contributed to explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020. This was partially due to demonstrating the effectiveness of a hands-on approach, and also because the pandemic highlighted low levels of resilience in the economy, necessitating a different economic policy approach. Nevertheless, despite the nominally centralized approach to managing the pandemic, elements of the Washington Consensus, such as the liberalization of COVID testing, were still present.

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**How important was the limited job-creating success of the previous policies in explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020?**

Participant 1: ***Job creation has been heterogeneous, and focusing on those with lower success is important for pivoting and trying different strategies. This reinforces the high-level nature of the Vision, providing implementing bodies with flexibility when plans do not go as expected.***

Participant 2: *There has been a shift in mindset. External factors, especially unforeseen economic downturns, prompt periodic **revisions of the focus areas in [Vision] 2030.** Every 5 years, there is a decision to focus on the sectors deemed most promising, and [we should assess] whether we have the necessary ingredients, such as human capital, to make it successful. **We have naturally transitioned to a more hands-on approach, placing a greater emphasis on ensuring that local and foreign investments work and deliver the intended results. There is a clear focus on the nature of jobs generated by the investments and the mechanisms that lead to the creation of the most desirable jobs.***

Participant 3: *That is a difficult question. In the past, there was a (wishful) view that unleashing market forces would lead to overall growth and job creation. It became clear that faster growth was not enough. Despite the government's best intentions, the private sector was not ready to lead. This was partly due to [post Basel III financial restrictions], impeding capital mobilization for big ventures ... Economic volatility also discouraged capital mobilization on a larger scale. The multiple crises (2008, 2011, 2014, 2018, 2020, 2022) also didn't help. **The view was that the original narrative needed to evolve to achieve the goals.***

**Finding 2f:** The limited success in creating jobs through previous policies significantly contributed to explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020. While there are conflicting views on how reflective policymaking is, the significant external tumult in the Bahrain economy over the last 15 years alone is enough to motivate experimentation with new approaches, including a more hands-on approach. There is a realization that the government's high hopes for the private sector were somewhat misplaced, as it has not demonstrated an ability to lead the economy.

**How significant were other factors in explaining the Crown Prince's reduced alignment with Washington Consensus policies since 2020?**

Participant 1: ***The advisors close to [the Crown Prince have changed] [The Crown Prince] is extremely action-oriented and wants to make up for lost time [The new advisors] are very different from the people who were advising him around 2005 [- they are much more action-oriented]. The emphasis now is on moving quickly, even if it means breaking things due to speed [The new team is] much more pragmatic and non-ideological.***

Participant 2: *I don't fully agree that the government has become more centralized. The investments cited at present are mostly in infrastructure. The government is taking a co-*

*investment approach. Also, the global context is important to factor in. Thinking ahead of the new phase of development is the most important factor.*

*Participant 3: To ensure a good balancing act between the public and private sector roles, maintaining a healthy business environment is crucial. Several projects have been sitting idle in the government, prompting an examination of the possibility of engaging the private sector in these projects. Also, the government must still have a stake in these projects. For the private sector to feel confident, they need to see use cases and feel that the government is partnering with them, rather than seeking investments outside. This also reinforces foreign direct investment, as investors observe where local capital is directed.*

*Participant 4: **The local political context has become much more contested . . . The macroeconomic environment is unclear – with people relying on credit ratings for guidance.** Policy decisions are contested and less consistent. Bahrain's business-friendly environment, which used to be effective, is now impeded by bureaucracy and fragmentation. There is also a broader discussion on what to do with migrants; the public debate is very simplistic, while the narrative in the UAE and Saudi has evolved favorably. All migrants get put in the same bucket by social influencers, and this rhetoric is unattractive to foreign investors.*

**Finding 2g:** Other factors have contributed to explaining the Crown Prince's decreased alignment with Washington Consensus policies since 2020. First, his core team has changed from being a more ideologically driven, less hands-on cadre to a more pragmatic, action-oriented group. This shift has naturally pushed policy away from the Washington Consensus. Beyond this, the local political context has become more contested than 15 years ago, leading to economic policies that are less predictable and less based on a formal ideology. Instead, they are more responsive to emerging domestic political forces.

## 5. Discussion

Bahrain's industrial policy has undergone significant evolution in the 21st century, influenced by the Crown Prince's evolving perception of its effectiveness on both local and international fronts. As he began to shape economic policy in the early 2000s, the prevailing economic ideology was the Anglo-American Washington Consensus, a mindset he naturally adopted due to his Anglo-American education. The economic challenges faced by Bahrain in the 1990s provided impetus for a new economic direction. The Crown Prince aimed to establish himself as a forward-thinking statesman, adopting policies to give Bahrain a unique regional identity to attract foreign capital. The vision was materialized in Economic Vision 2030, featuring a light-touch industrial policy emphasizing privatization and liberalization and delegating strategic investment decisions to the private sector. Initial successes reinforced the Crown Prince's belief in Bahrain's sound policy direction.

Bahrain underwent notable changes in its circumstances. Fiscal pressures emerged, compelling the government to adopt a more self-reliant approach to major investment decisions. Additionally, the Crown Prince's previous estimation of the private sector's capacity to stimulate economic growth and generate jobs for Bahraini nationals appeared overly optimistic. These internal pressures, coupled with the initial successes of Saudi Vision 2030, emphasizing state-led investment in line with classical industrial policy, contributed to a shift away from the Washington Consensus-based industrial policy.

Leading up to the COVID-19 pandemic, there was a notable increase in the Crown Prince's formal power and authority, laying the foundation for a more interventionist industrial policy. Moreover, his team transitioned from ideologically driven civil servants to pragmatic, action-oriented ones. The pandemic served as a comprehensive test for the Crown Prince's new powers and team, adopting a highly technocratic approach to crisis management. The success achieved, especially in the health domain, further highlighted the logical attractiveness of transitioning to neo-industrial policies.

Consequently, the 2021 economic recovery plan marks a significant departure from the language expressed almost 15 years earlier in Economic Vision 2030. The previous vision, where the private sector was envisioned as the leader and the government as a regulator, evolved into a partnership, with the state assuming the role of a strategic venture capitalist. Bahrain's 2022–2026 industrial strategy also designates a significant leadership role to the government, selecting specific sectors and sub-sectors as potentially “winning investments”, thereby solidifying Bahrain's shift away from the principles espoused by the Washington Consensus.

## 6. Conclusion

This paper aims to understand the evolution of Bahrain's industrial policy during the 21st century through an analysis of the government's selected policies, complemented by data gathered from a series of interviews with civil servants with direct experience with the development of Bahrain's economic policies.

Global support for classical industrial policy has fluctuated during the postwar era. The approximately two decades between the collapse of the Soviet Union and the global financial crisis witnessed the dominance of a laissez-faire economic paradigm known as the Washington Consensus. This meant an industrial policy characterized by government inaction. This period coincided with the ascent of Bahrain's Crown Prince and chief economic tsar, Sh. Salman bin Hamad Al Khalifa, who, given his Anglo-American education, was well-versed in the principles of the Washington Consensus. Bahrain's circumstances in the late 1990s and early 2000s made the adoption of such policies, including a laissez-faire industrial policy encapsulated in Economic Vision 2030, a logical endeavor.

However, Bahrain's circumstances have substantially changed, prompting the government to lean towards a more interventionist industrial policy. Moreover, Bahrain's private sector has demonstrated its inability to serve as the primary engine of economic growth or to create jobs for nationals at the desired rate. Saudi Arabia's early experience with Saudi Vision 2030 provided a model for a return to traditional industrial policy, while COVID-19 gave Bahrain direct experience with a highly technocratic economic policy.

Consequently, as the Kingdom emerged from the pandemic, its economic plans included an industrial policy that emphasized public-private partnership and perceived the government as a strategic venture capitalist. The less ideological, more pragmatic nature of the Crown Prince's core team means that these new plans will be constantly monitored and reviewed, allowing for rapid modifications if necessary.

Bahrain is committed to the Sustainability Agenda, embodied in the alignment between the SDGs and Economic Vision 2030; [Al-Ubaydli \(2023\)](#). From the perspective of policymakers and society at large, achieving SDGs related to industry and innovation (SDG 9) and employment and economic growth (SDG 8) is facilitated by acquiring a scientific understanding of the evolution of Bahrain's industrial policy. Stakeholders also gain from being informed about the progress in intellectual paradigms related to industrial policy. An important lesson emphasizes that civil servants must stay abreast of the latest scholarship on industrial policy, enabling a more scientific absorption of insights from other countries. This is especially important for comprehensively assessing the impact on society, including local

communities and the environment, as policymakers may tend to concentrate on a limited set of key performance indicators.

To the best of my knowledge, this is the first paper shedding light on Bahrain's industrial policy evolution during the 21st century, notably the significant changes post-pandemic. While interviews with individuals directly connected to the Crown Prince provided unique insights into the evolution of Bahrain's industrial policy, the study faced limitations. Only four such interviews were conducted. A notable limitation is the potential personal affinity interviewees may have for the Crown Prince and his policies due to their prolonged association, possibly leading to unconscious biases in questions involving tacit policy evaluation, and even self-serving reflections. Further research should broaden the number and scope of interviews and explore additional sources, such as formal statements made by the Crown Prince when addressing audiences inside and outside the Kingdom.

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