

Bahrain's Economic Evolution: A Journey from the Oil Era to Sector Diversification

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Abstract. As an island nation with limited oil reserves, Bahrain faces structural vulnerabilities rooted in its historical reliance on the hydrocarbon sector. This study analyses Bahrain's economic diversification strategy focusing on finance, tourism, information technology, and SMEs through a qualitative approach grounded in the theoretical framework of New Institutional Economics (NIE). It evaluates how institutional reforms, such as Bahrain Economic Vision 2030 and regulatory sandboxes, alongside fiscal incentives (VAT and corporate tax), have driven structural transformation. The contribution of the non-oil sector to GDP has increased from 50% in 2000 to over 80% in 2023. Key successes include the growth of Islamic finance (16–18% of GDP) and the expansion of SMEs (30% of GDP), supported by full foreign ownership policies and Tamkeen's training programs. These sectors have generated employment while enhancing macroeconomic stability and fostering an innovation-driven ecosystem. Nevertheless, persistent challenges such as dependence on foreign labour (70% of the workforce), regional competition with Dubai and Saudi Arabia, and land limitations (786.5 km²) demand adaptive solutions. Theoretically, this study applies Douglass North's concept of path dependence and Oliver Williamson's transaction cost theory to understand institutional transitions in Gulf rentier states. Practically, it offers insights for policymakers in middle-income, resource-constrained economies seeking long-term diversification. The findings underscore the need for a holistic approach combining regulatory reform, human capital development, and targeted investment incentives to achieve sustainable post-oil economic transformation.

Keywords; Bahrain, Economic, Diversification.

1. INTRODUCTION

Bahrain is a small island nation located in the Persian Gulf, a region of the Middle East. The country is made up of 33 islands with a total area of about 786.5 km², making it one of the smallest countries in the world. Although it does not have land borders with other countries, Bahrain has a 161-kilometer coastline that strengthens its position as a maritime country. Its rich history is imprinted by the influence of Dilmun, Persia, and Islamic civilizations, as well as the period of Portuguese and Persian colonization before the reign of the Al Khalifa dynasty began in 1783. After a period of British protectorate, Bahrain gained its independence in 1971. Bahrain's history is influenced by many cultures, including Islam, Dilmun, and Persia. Bahrain was first conquered by the Portuguese in 1521, and then taken over by the Persians in 1602.

The Al-Khalifa family took over power in the 18th century, in 1783 to be precise, and continues to rule to this day. In the late 19th century, the British made Bahrain a protectorate. On August 15, 1971, Bahrain gained its independence from Britain after years of being under British influence (Irene Amora, 2025). Since 1783, the Al-Khalifa family has ruled Bahrain as a constitutional monarchy. After his father, Emir Isa bin Salman Al Khalifa, died in 1999, King Hamad bin Isa Al Khalifa ascended the throne as head of state. In 2002, Bahrain went

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from emirate to kingdom, and Hamad bin Isa Al Khalifa changed his title from Emir to King. The Bahraini Dinar (BHD), the official currency of Bahrain, is one of the currencies with the highest exchange rate in the world with a range of 2.65 USD. Since the discovery of oil in the Persian Gulf in 1932, Bahrain became the first country to discover oil fields in the Persian Gulf.

The field is capable of producing about 50,000 barrels per day, which is about 80% of the country's national income. However, awareness of the limitations of oil reserves prompted Bahrain to adopt a future-oriented strategy of economic diversification. The development of the financial sector has made the country a leading banking and finance center in the Middle East. A prominent example of Bahrain's financial sector expansion is the establishment of the Bahrain Financial Harbour (BFH), which serves as a flagship case of the nation's institutional effort to implement economic diversification through strategic infrastructure. Located in the heart of Manama, BFH was designed to position Bahrain as a regional hub for international finance and investment services. It provides high-quality office space, integrated financial facilities, and streamlined regulatory frameworks aimed at attracting multinational banking institutions, fintech startups, and Islamic finance ventures.

The development of BFH reflects Bahrain's strategy to combine physical infrastructure with legal and economic reforms to enhance its competitiveness. As a niche center in Islamic finance and emerging fintech regulation, BFH allows Bahrain to distinguish itself from larger regional competitors like Dubai and Riyadh. Its integration with broader national policies such as regulatory sandboxes and full foreign ownership incentives further exemplifies how Bahrain links long-term planning with practical execution. Thus, BFH stands not only as a physical asset but also as a policy instrument that embodies Bahrain's aspirations for post-oil economic resilience. The aluminum industry, particularly through the Bahrain Aluminum company (Alba), has played a significant role in economic growth, placing Bahrain as one of the world's largest aluminum producers outside of China.

This diversification demonstrates Bahrain's commitment to achieving resilience and sustainable economic growth. Bahrain's economic diversification efforts are characterized by strategic investments in infrastructure development and non-hydrocarbon sectors. The development of the tourism sector, facilitated by increased regional connectivity including the construction of connecting bridges to neighboring countries aims to attract foreign investment and increase state revenue. Along with that, efforts to attract tech companies and *startups* through the provision of a conducive business environment and regulations that support innovation, reflect Bahrain's commitment to building a knowledge-based economy. The strategy as a whole demonstrates forward-looking economic planning, aiming to ensure

sustainable economic growth and long-term economic resilience amid a changing global landscape. These investments are also aligned with regional efforts to enhance economic integration and reduce dependence on limited natural resources.

In the face of global economic challenges and limited oil resources, Bahrain has taken strategic steps to diversify its economy. The urgency of examining Bahrain's economic diversification lies in the country's critical juncture amidst global energy transitions, regional economic competition, and structural resource limitations. As the world shifts toward renewable energy and reduced fossil fuel dependency, rentier states like Bahrain face mounting pressure to ensure long-term sustainability beyond oil revenues. Meanwhile, Gulf neighbours such as Saudi Arabia and the UAE are aggressively implementing diversification policies, raising the stakes for Bahrain's competitiveness and regional standing. Coupled with land constraints and demographic challenges, Bahrain's policy decisions over the next decade will likely define its socio-economic resilience.

Therefore, understanding the effectiveness and sustainability of Bahrain's diversification strategy is not only vital for national economic stability, but also for broader policy learning among small, resource-constrained states facing similar transformation pressures. What factors prompted Bahrain to reduce its dependence on the oil sector and shift to economic diversification? How effective are the policies and strategies implemented by the Bahraini government in encouraging the growth of the non-oil sector, and what are the impacts on the country's economic growth and social stability? This study aims to analyze the main drivers of Bahrain's economic diversification, evaluate the government's policies in supporting the non-oil sector, and assess its impact on economic growth and social stability. The results of this study are expected to make an academic contribution to the economic transformation literature, offer practical insights for policymakers on the implementation of diversification strategies, and increase public understanding of the importance of economic diversification for long-term well-being.

2. LITERATURE REVIEW

Research by Zayani et al. (2023) highlights the important role of Micro, Small and Medium Enterprises (MSMEs) in Bahrain's economic diversification efforts towards the 2030 vision. The study used a quantitative descriptive approach to evaluate the contributions and challenges of MSMEs amid the transition from oil dependence to an innovation-based economy. The results show that the main challenges faced by MSMEs are financing, marketing, productivity and innovation. Nevertheless, MSMEs remain a key driver of

economic growth through job creation and innovation. The study underscores the importance of business incubators as a strategic instrument in supporting startups and promoting business sustainability. The role of the state through financial incentives, marketing, and training is key in supporting Bahrain's economic transformation. With increasing global pressures, the researchers emphasise the need for smart institution building capable of nurturing local innovation. This research is relevant in the context of Bahrain's economic evolution as it illustrates the shift from an oil economy towards a more diversified base through empowering MSMEs as the backbone of the future economy.

3. METHODOLOGY

This study applies a qualitative research approach to explore the factors driving Bahrain to reduce dependence on the oil sector and shift to economic diversification, as well as evaluate the effectiveness of government policies in driving the growth of the non-oil sector and its impact on the country's economic growth and social stability. The selection of qualitative methods is based on the goal of obtaining an in-depth understanding of the phenomenon being studied through empirical data, without being bound by the limitations of quantitative analysis. The inductive approach allows researchers to find patterns of economic diversification in Bahrain on an emergent basis, based on data obtained without being preceded by pre-conception hypotheses.

Data collection was carried out through a comprehensive literature study, covering a variety of secondary sources such as official Bahraini government documents, reports of international institutions, and academic publications. Official documents of the Bahraini government, including economic policies, annual reports, and strategic plans related to economic diversification, will be analysed to understand the steps the government has taken to reduce dependence on the oil sector. Reports from international institutions will be used to gain an external perspective on Bahrain's economic transformation.

In addition, academic publications such as journal articles, books, and previous research discussing economic diversification in Bahrain and other Gulf countries will be reviewed for relevant theoretical and empirical insights. Data analysis was carried out with a thematic interpretive approach to identify patterns in Bahrain's economic diversification. Thematic analysis involves identifying, analysing, and reporting recurring patterns or themes within the collected data. It is suitable for examining both manifest and latent content, enabling an understanding of how national policies, global economic pressures, and identity construction interact in shaping Bahrain's economic strategy.

This approach allows researchers to understand how the policies and strategies implemented by the Bahraini government affect the growth of the non-oil sector and its impact on the country's economy and social stability. By identifying the main themes of the data collected, researchers can evaluate the effectiveness of the economic diversification policies that have been implemented. The use of qualitative and thematic methods is justified by the exploratory nature of this study. Bahrain's economic transformation is not solely driven by material factors but is also shaped by identity, global norms, and geopolitical pressures dimensions best captured through interpretive approaches

The aim of this study is to thoroughly analyze both the advantages and difficulties faced by Bahrain during its economic diversification process, as well as how this has impacted the country's economic policies. This research intends to make a significant contribution to better policy development, discover untapped potential synergies, and create strategies to address existing challenges. It is hoped that the results of this study will not only provide an accurate picture of current conditions, but also provide relevant policy recommendations for the future.

Theoretical Framework

In this study, the author employs the theoretical framework of New Institutional Economics (NIE) developed by Douglass North, particularly his seminal work *Institutions, Institutional Change and Economic Performance* (1990). North's approach emphasizes the role of formal and informal institutions in shaping economic behaviour, which is critical to understanding Bahrain's diversification strategies, such as regulatory reforms and investment incentives under its Economic Vision 2030. NIE provides an appropriate lens to evaluate how institutional arrangements guide economic outcomes beyond market mechanisms.

This study adopts the theoretical perspective of New Institutional Economics (NIE) to analyse Bahrain's economic transformation from an oil-dependent structure to a diversified and institutionally-driven economy. NIE, which emerged as a refinement of classical institutionalism, was principally developed by economists such as Douglass C. North, Ronald Coase, and Oliver E. Williamson. These scholars emphasized that economic performance is not solely driven by market forces but is deeply embedded in the quality and evolution of institutions both formal and informal. NIE focuses on how institutional frameworks such as property rights, legal systems, regulatory agencies, and governance mechanisms shape incentives, reduce transaction costs, and determine the efficiency of resource allocation.

Unlike neoclassical economics, which assumes frictionless markets, NIE highlights the realities of asymmetric information, bounded rationality, and coordination problems. In the

context of Bahrain, economic diversification has required not only sectoral shifts but also substantial reforms in institutional structures that support entrepreneurship, innovation, and investment. Key institutions such as Bahrain Economic Vision 2030, regulatory sandboxes for fintech, Islamic finance mechanisms, and public-private collaboration platforms represent deliberate institutional engineering to transition from a rent-based economy to a more productive and competitive one. Furthermore, Douglass North's concept of path dependency is useful in explaining Bahrain's gradual shift from a rentier model to a diversified economy.

The state's historical reliance on oil revenues shaped its early institutional arrangements; however, the diversification agenda has necessitated reconfiguring those institutions toward productivity, sustainability, and resilience. For example, Bahrain Financial Harbour (BFH) exemplifies how physical infrastructure and institutional frameworks work together to attract foreign investment, reduce transaction costs, and ensure regulatory efficiency. NIE also highlights the importance of institutional quality including regulatory transparency, enforcement, and incentive structures in enabling economic transformation. Bahrain's initiatives to enhance investor protections, simplify business regulations, and empower SMEs through legal mechanisms illustrate an institutional approach to competitiveness in the face of rising regional pressures.

By applying NIE, this study aims to demonstrate that Bahrain's economic diversification is not merely a market adaptation but an institutional evolution. This approach allows for a more grounded assessment of Bahrain's policy outcomes and offers insights into how institutional reforms can enable post-oil development in rentier economies. The analysis is further grounded in Douglass North's (1990) concept of path dependence and Oliver Williamson's (1985) theory of transaction costs. These frameworks help explain how Bahrain's institutional reforms such as the establishment of special economic zones and the FinTech regulatory sandbox have facilitated its transition from an oil-dependent economy to a diversified hub for finance and logistics. By reducing uncertainty, aligning incentives, and lowering the cost of doing business, these institutional mechanisms support Bahrain's broader post-oil economic vision.

4. DISCUSSION AND RESULTS

Case study of Bahrain Financial Harbour

Success of Economic Diversification

At the turn of the 20th century, the discovery of oil fields in Bahrain marked the beginning of an oil era in the country's economy, making Bahrain the first oil producer in the

Persian Gulf. Revenue from the oil sector dominates the economy and is the main source of national income. However, global oil price volatility and awareness of natural resource limitations are prompting Bahrain to explore a sustainable economic diversification strategy. Bahrain's economic evolution marks a significant shift from a single dependence on oil to a comprehensive diversification of the sector. Strategic steps are being taken to develop the non-oil sector, including finance, tourism, information technology, and manufacturing. This diversification aims to create more stable and sustainable incomes, reducing vulnerability to global oil price fluctuations.

Bahrain's economic transformation shows the success of diversification, with the contribution of the non-oil sector to GDP increasing dramatically from around 50% (2000) to more than 80% (Bahrain, 2023). This success was driven by the rapid development of the financial sector, making Manama a regional financial central massive investment in tourism through projects such as Bahrain Bay and Formula 1; as well as non-oil-based industrialization, especially the aluminium industry and manufacturing. The financial sector contributes 16-18% of GDP (2023), tourism around 6%, and non-oil industries 14%. This strategy demonstrates Bahrain's commitment to creating a sustainable economy that is resistant to fluctuations in commodity prices. Strategic projects such as the Bahrain Financial Harbour (BFH) have fueled Bahrain's rapid growth in the financial sector, which presently accounts for 16-18% of GDP by 2023.

As a major financial hub, BFH houses over 100 international banks and financial institutions, including fintech companies Rain and Tarabut Gateway, which strengthens Bahrain's position as a regional financial central. The BFH's success indicates how infrastructure investment, combined with business-friendly regulations (for example, 100% foreign ownership and tax breaks), may expedite sectoral diversification. Notably, BFH supports Bahrain's SME-driven digital economy by incubating innovative financial services, lowering dependency on oil earnings. The financial sector, with its international financial centers, has become an important pillar in a diverse economy. Tourism, with its cultural and coastal appeal, contributes significantly to GDP. Information technology and manufacturing are also experiencing rapid development, creating jobs and driving innovation.

Small and Medium Enterprises (SMEs) play a crucial role in diversifying Bahrain's economy by contributing to the growth of the non-oil sector. Through Bahrain Economic Vision 2030, the government is actively encouraging the development of SMEs which now account for 30% of GDP and absorb 45% of the local workforce. Sectors such as FinTech, e-commerce, and creative industries are growing rapidly thanks to innovations from SMEs, such

as startups Rain (sharia crypto) and Tarabut Gateway (open banking), which strengthen Bahrain's position as a digital financial hub. In addition, SMEs support economic resilience by reducing dependence on oil, as evidenced by the steady growth of the manufacturing and ICT sectors of 3.3% per year (Ashraf Nakibullah, 2018).

The government supports SMEs through policies such as the Regulatory Sandbox for financial product trials, sharia financing via the Bahrain Development Bank (BDB), and 100% foreign ownership incentives.

Challenges such as access to funding and regional competition are addressed with training programs by Tamkeen and collaborations with major industries, such as the supply of components for Alba's aluminium plant. Thus, SMEs not only complement economic diversification, but also become the backbone of Bahrain's transformation towards a sustainable knowledge-based economy. This strategy not only enhances Bahrain's economic resilience, but also opens up opportunities for foreign investment and long-term economic growth. Continuous efforts in human resource and infrastructure development support this economic transition. Bahrain is attractive as a financial hub with more than 100 offshore banks and representative offices, including 65 U.S. companies. International financial institutions have been interested in operating in Bahrain due to its good business environment, supportive regulations, and strong financial infrastructure.

In recent years, Bahrain has introduced tax reforms such as the Value-Added Tax (VAT) and proposed corporate tax frameworks aimed at broadening government revenue sources beyond hydrocarbons. While these measures strengthen fiscal sustainability, they also serve as a regulatory signal to investors about Bahrain's shift toward a mature, rules-based economy. The VAT introduction, although initially met with resistance, has incentivized firms to improve accounting practices and transparency, aligning with global economic standards and enhancing the business climate. This reflects a broader institutional shift consistent with the goals of Economic Vision 2030. Parallel to fiscal reform, the government has prioritized investments in higher education and vocational training to build a skilled workforce for emerging sectors.

Institutions such as the University of Bahrain and Bahrain Polytechnic have tailored curricula toward market-relevant disciplines, particularly in information technology, logistics, and financial services. Vocational programs, often in partnership with private industry and agencies like Tamkeen, aim to reduce youth unemployment and ensure labour market readiness. These efforts are integral to diversifying Bahrain's economic base, reducing dependency on foreign labour, and supporting knowledge-based sectors. Together, fiscal

policy and human capital development act as complementary levers, reinforcing Bahrain's structural transformation toward long-term economic resilience.

Challenges faced

Despite demonstrations of success in economic diversification, Bahrain still faces structural challenges. Economic dependence on the oil sector, although it has decreased, remains a risk factor with a 20% contribution to GDP and 70% of government revenues from oil. Increasing local labour participation in the non-oil sector is also crucial for inclusive growth. Finally, regional economic competition requires an adaptive and competitive strategy. This makes the economy vulnerable to global oil price volatility, such as what happened during the COVID-19 pandemic or geopolitical conflicts. On the other hand, regional competition from Dubai (UAE) and Riyadh (Saudi Arabia) in the financial and tourism sectors is getting tighter. Dubai has become a global financial hub, while the Saudis are developing Vision 2030 with massive investments in entertainment and tourism, such as NEOM and the Red Sea Project.

However, Bahrain faces increasingly intense competition from Dubai's Dubai International Financial Centre (DIFC) and Saudi Arabia's emerging financial and entertainment megaprojects, including Vision 2030 and Qiddiya. While Bahrain Financial Harbour (BFH) provides competitive cost advantages such as lower operational and regulatory expenses compared to DIFC its limited physical scale and relatively modest global brand recognition present substantial limitations in attracting top-tier international financial institutions. To address these constraints, Bahrain has sought to capitalize on its niche strength in Islamic finance and financial technology despite progress in economic diversification, Bahrain continues to face multifaceted structural and institutional challenges. The introduction of Value-Added Tax (VAT) and anticipated corporate tax frameworks, though crucial for fiscal stability, have raised concerns among SMEs regarding compliance burdens and cost structures.

Many smaller enterprises struggle with adapting to formal accounting systems and regulatory reporting, which can hinder their competitiveness. While these fiscal tools enhance transparency and align Bahrain with international standards, their effectiveness depends on complementary support mechanisms for enterprise capacity-building. Moreover, the national labour market continues to exhibit skills mismatches, particularly in sectors such as digital finance, logistics, and information technology. Although higher education institutions have begun aligning curricula with market needs, the pace of integration remains uneven. Vocational training initiatives are promising but often limited in scale or concentrated in urban areas,

leaving gaps in regional labour development.

Bahrain's heavy reliance on foreign labour further complicates its diversification strategy, creating socioeconomic tension and limiting opportunities for local workforce absorption. Simultaneously, geopolitical dynamics in the Gulf region especially competition from UAE and Saudi Arabia necessitate rapid innovation and agility. Bahrain's limited landmass and environmental vulnerabilities, particularly regarding water scarcity and urban density, add further constraints to sustainable expansion. These challenges highlight the need for cohesive policy implementation that balances reform ambition with social and institutional adaptability. Nevertheless, the country's restricted land availability and demographic limitations necessitate further innovation, particularly in urban planning, infrastructure optimization, and digital financial services.

Without continual policy flexibility and strategic regional positioning, Bahrain risks being outpaced by larger Gulf economies that possess more diversified portfolios and aggressive development agendas. As such, Bahrain's ability to maintain competitiveness hinges on how effectively it leverages its comparative advantages in specialized sectors and its agility in regulatory adaptation. In addition, Bahrain's geographical limitations of only 786.5 km² hinder the expansion of infrastructure and the resilience of natural resources, including water and fertile land. This forces Bahrain to rely on imports and technological innovations to optimize its limited resources. Potential solutions include accelerating the green energy transition and strengthening regional collaboration to improve competitiveness. However, with sustainable government policies and proper strategic planning, Bahrain has the potential to achieve sustainable economic growth and long-term social stability. This success depends on the country's ability to address existing challenges and capitalize on emerging opportunities in global markets.

Implemented steps

In response to fiscal pressures and evolving development priorities, the Bahraini government has adopted comprehensive policy measures to support diversification and address systemic constraints. The implementation of VAT and potential corporate tax frameworks has been accompanied by training programs and digital infrastructure support, particularly for SMEs, through partnerships with institutions such as Tamkeen and the Bahrain Chamber of Commerce. These initiatives aim to mitigate compliance barriers and ensure that fiscal reforms do not disproportionately burden small businesses, which are essential for economic resilience. Human capital development remains central to the government's diversification agenda. Educational reforms have focused on aligning university curricula with

labour market demands, particularly in finance, ICT, and logistics.

Bahrain Polytechnic, for instance, collaborates with industry stakeholders to provide applied learning modules, while vocational programs funded by Tamkeen and the Ministry of Labour have expanded to include digital literacy, coding, and fintech certifications. These programs are designed to reduce youth unemployment, equip locals with market-relevant skills, and gradually decrease reliance on expatriate labour. Moreover, Bahrain continues to strengthen regulatory transparency and investor incentives, offering full foreign ownership in key sectors and streamlining business registration processes. These steps not only enhance Bahrain's attractiveness as a regional hub but also ensure that diversification is embedded within robust institutional frameworks. The combined focus on fiscal balance, education, and regulatory reform signifies a holistic approach toward long-term economic transformation. The policies implemented by Bahrain in the context of the economic transition towards sectoral diversification are driving the economic transition.

Bahrain's Economic Vision 2030 emphasizes human resource development, innovation, and sustainability as the main pillars of its economic transformation (Bahrain Economic Vision, 2020). This initiative aims to allocate resources to improve the quality of education and training, especially in the field of applied sciences, to create a competent workforce that is ready to face global challenges. In addition, Vision 2030 encourages entrepreneurship and innovation to ensure the sustainability of a vibrant private sector. In an effort to attract foreign direct investment (FDI), the Bahraini government offers a variety of incentives, including the provision of industrial land at low rental rates and import duty exemptions for certain sectors and zones of the economy. Although Bahrain does not have a traditional free trade zone, the country has a special economic area that provides strategic incentives such as tax exemption and full foreign ownership, making it an attractive destination for businesses looking to reduce costs and access regional markets (Bahrain Free Zones, 2025).

This approach differs from other GCC jurisdictions, as many commercial activities in Bahrain are not subject to ownership restrictions, allowing onshore businesses to operate with greater flexibility. Through a combination of human resource development, innovation promotion, and competitive investment incentives, Bahrain seeks to achieve sustainable economic growth and strengthen its position as a regional business hub. In alignment with Bahrain Economic Vision 2030, the development of Bahrain Financial Harbour (BFH) represents one of the country's most ambitious and tangible policy implementations aimed at economic diversification. Strategically located in Manama, BFH is envisioned as a financial

hub that offers advanced infrastructure, competitive operational costs, and a business-friendly regulatory environment to attract both regional and international financial institutions.

This initiative reflects the government's commitment to reducing oil dependency by fostering high-value service sectors, particularly Islamic finance, investment banking, asset management, and financial technology (fintech). BFH is further supported by policy tools such as full foreign ownership allowances, regulatory sandboxes for fintech experimentation, and partnerships with venture capital networks to cultivate innovation. Additionally, the integration of BFH into national entrepreneurship programs and SME support schemes enhances its role not only as a financial central, but also as a driver of employment and private sector growth. Although it faces stiff competition from larger hubs like Dubai's DIFC, Bahrain capitalizes on its agility and niche positioning in Islamic finance to sustain relevance and competitiveness in the evolving Gulf financial landscape.

5. CONCLUSION

This study concludes that Bahrain's economic transformation from an oil-dependent economy to a more diversified structure has been largely driven by institutional reforms and strategic policy innovation. Leveraging instruments such as the Bahrain Economic Vision 2030, regulatory sandboxes, Islamic finance, and SME empowerment initiatives, the country has successfully increased the share of non-oil sectors to over 80% of its GDP. These sectors have strengthened macroeconomic resilience and laid the foundation for sustainable development. However, persistent structural challenges namely, dependence on foreign labour, limited land area, and intensifying regional competition continue to constrain growth.

Theoretically, the application of New Institutional Economics provides a useful lens to understand how institutional quality, path dependency, and transaction costs shape policy effectiveness in rentier economies. Practically, Bahrain's experience offers relevant lessons for other resource-constrained countries undergoing economic transitions. Moving forward, a holistic approach that integrates regulatory reforms, targeted investment incentives, and human capital development is essential. Emphasis should also be placed on improving institutional capacity, enhancing private–public collaboration, and deepening alignment between education and labor market demands. Bahrain's case underscores the critical role of adaptive institutions in driving post-oil economic resilience in the Gulf and beyond.

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