

BTI 2014 | Bahrain Country Report

Status Index	1-10	5.34	# 75 of 129	
Political Transformation	1-10	3.65	# 106 of 129	↘
Economic Transformation	1-10	7.04	# 30 of 129	→
Management Index	1-10	3.94	# 102 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	1.3	HDI	0.796	GDP p.c.	\$ 24996.1
Pop. growth ¹	% p.a.	1.9	HDI rank of 187	48	Gini Index	-
Life expectancy	years	76.4	UN Education Index	0.748	Poverty ³	% -
Urban population	%	88.8	Gender inequality ²	0.258	Aid per capita	\$ -

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The weeklong protests Bahrain experienced in early 2011, inspired by the Arab Spring and eventually brutally suppressed by national and international security forces, were only the peak of a phase of deterioration lasting over five years. Although there have been great improvements in the political climate since 1999, the reform process undertaken since that time can be viewed as a failure. Realizing their limited scope for action, opposition groups which had initially endorsed the reform process have gradually changed their strategies. Likewise, the government has readopted an illiberal stance with regard to freedom of speech and human rights. This has led to a general deterioration of already strained relations between government and civil society relations, with the terrible consequences seen in March 2011. Since then, protests and confrontations, often violent, have continued. Despite efforts to restore dialogue and break the political stalemate, confrontation has continued and there is currently little prospect of improvement.

In spite of several liberalization measures the reform process falls short of a genuinely democratic transformation process, and Bahrain has never truly departed from authoritarianism. Although it presents itself as “democratic” and a “constitutional monarchy,” the regime only borrows a few elements from democracy and (democratic) constitutional monarchies. Indeed, pluralism is more simulated than exercised, and elections, while competitive, are flawed.

Bahrain struggles with the negative fallout of sectarianism. While there is a clear Shi'i majority (reportedly 70% of citizens), the ruling Al Khalifa family is Sunni, creating potential for sectarian conflict. The rise of Islamism, Sunni and Shi'i alike, has diminished the basis for cross-sectarian movements, although they continue to exist. While it would be simplistic to reduce the ongoing conflict to sectarianism, the Sunni-Shi'i divide is certainly one of the defining cleavages in the country. Both the government and the opposition deny the sectarian roots of their conflicts while covertly fueling distrust each other's religious base. There have been (credible) rumors that the

government has attempted to alter the sectarian balance through a massive campaign of “political naturalization” of foreign Sunnis.

Political conflict notwithstanding, Bahrain’s overall economic performance has been positive. The country has successfully diversified its economy, although the national budget still heavily relies on oil revenues. The country is in a curious position; although it has exhausted its major oil reserves, it remains a rentier state.

This economic performance is widely based on the presence of expatriate workers. In the private sector, they account for more than 80% of the workforce. This inevitably brings problems such as unemployment and resentment against foreigners. The government’s efforts to increase the share of Bahrainis among the private sector’s workforce have largely failed so far.

In spite of such problems, Bahrain’s high degree of economic freedom, low taxes and the presence of a strong financial sector make it a highly attractive place for investors, which in turn promises further prosperity. Yet ongoing political unrest may eventually jeopardize economic and social success.

History and Characteristics of Transformation

After a prolonged period of unrest peaking in the 1994 – 1999 uprising, which put serious strains on the country’s political, social and economic development, Bahrain’s new ruler Hamad bin Isa Al Khalifa initiated a comprehensive process aimed at easing tensions and restoring peace in the country. He started a new dialogue with the opposition and proposed substantial changes to the country’s political system laid out in the so-called National Action Charter in 2001. That text, presenting the vision of a constitutional monarchy, received widespread support from all strands of society and was endorsed in a referendum by 98.4% of voters.

Strengthened and legitimated by these figures, Hamad went ahead with constitutional changes. Besides the cosmetic change of proclaiming himself king (previously the country had been an emirate), he reinstated parliament (after a short-lived parliamentary experiment from 1973 to 1975) but changed its competencies and the way its members are chosen. Most importantly, he created a bicameral structure, with an appointed upper chamber (Shura council) on equal footing with, or even superior to, the elected Council of Representatives. Furthermore, the system preserved the executive’s precedence over the legislative branch, as the government could neither be selected by, nor held accountable to, parliament. While widely hailed as a positive step by Western allies, the constitutional reforms were met with widespread criticism by the groups which had previously fought the regime. However, while the constitutional basis remained autocratic, the margins for legal political activism were considerably widened. This meant, among other things, that political societies (i.e., the Bahraini equivalent to political parties) can field candidates and organize and campaign rather freely, though they do so without full legal certainty.

As a reaction to the constitution, and in spite of pressure applied to the opposition, the first parliamentary elections in fall 2002 were boycotted by an alliance of four opposition groups, including the most important, al-Wifaq, a Shi'i Islamist group, and the most prominent non-Islamist, non-sectarian opposition association, Wa'd. During the first term, parliamentary work therefore suffered from a legitimacy deficit, as the boycotters refused to enter into dialogue with elected deputies (let alone the appointed members of the Shura council). As a result of the government's intransigence, however, the alliance split in 2006 – al-Wifaq's decision to field candidates for the election spurred the creation of the competing Haqq Movement, which decided to keep out of parliamentary politics. Al-Wifaq was successful on paper, securing 62% of votes, but the electoral system ensured that they only won 18 out of the 40 seats. With their allies from Wa'd defeated, the opposition failed to gain a majority in the lower chamber, a scenario which recurred in 2010.

At the same time, Haqq and allied movements have become increasingly vocal on the streets. Refusing to engage with the system without constitutional reform, and disillusioned by al-Wifaq's failure to deliver in parliament, they have increased their actions, with a negative impact on the overall political climate in the country. Encouraged by the events of the "Arab Spring" elsewhere in the Arab world, protests escalated into mass demonstrations, riots and the occupation of Pearl Square. The government reacted with massive (and excessive) use of force, leaving several dozens dead or injured. This in turn prompted al-Wifaq to withdraw from parliament. At the time of writing, the parliament is controlled by a majority of regime loyalists, and dialogue between government and opposition is reduced to the bare minimum or even silence; violent clashes occur regularly.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force, though generally accepted, is increasingly questioned. Security forces are regularly engaged by rioters.

There is a widespread resentment against the state, mostly among the Shi'i population and in specifically Shi'i areas. Over the past two years, challenges to the state's monopoly on the use of force have increased. Such challenges take on different forms: the most frequent one is the organization of demonstrations and rallies despite official bans. Challenge to the state's monopoly on the use of force also materializes in the form of clashes with security personnel (police and anti-riot police) and include the burning of tires and trash bins or stone-throwing when security forces engage in activities against demonstrators. On more limited occasions, security forces are directly attacked when they patrol Shi'i districts.

The security forces' legitimacy among the Shi'i population suffers from allegedly biased recruitment of security personnel, which are almost exclusively Sunni Bahrainis and Sunni mercenaries from other countries.

Instead of a single, unified identity, Bahrain features at least two major national narratives: a Sunni narrative reaching back to the Al Khalifa's conquest of Bahrain in 1783, and a Shi'i Baharna (native inhabitants) narrative.

In general, all citizens of Bahrain, Sunnis and Shi'ites alike, have strong, positive feelings toward their homeland. It is not the state itself and statehood which are called into question; major disputes revolve around the question of legitimate rule. Discourse is widely influenced by competing narratives: the term "conquest" is still in use among Sunnis (though it seems to have declined over the past decades), while the Shi'a use terms such as "the Al Khalifa dictatorship." There are many other examples of different perceptions and usages, such as the fact that the Shi'i (opposition) bloc has proclaimed an alternative holiday to the national "Accession

Question
Score

Monopoly on the
use of force

7

State identity

6

Day” on December 16; instead opposition activists celebrate “Martyrs’ Day” on the following day. After the violent clashes of 2011, the group of international jurists investigating the causes at King Hamad’s invitation, headed by Egyptian-American Mahmoud Cherif Bassiouni, was greeted with skepticism, although the group’s report didn’t spare the government from criticism.

The Bahraini government revoked the citizenship of 31 Shi’ites (Arabic-speaking Baharna and Persian-speaking ‘Ajam alike) in November 2012, some of them former parliamentarians.

While the constitution guarantees freedom of belief, it also establishes Islam as the state religion and the Shari’ah as a source of law (although not the sole source). In reality, however, most legislation is not directly derived from religious sources but rather follows Western examples. Also, it is worth noting that unlike neighboring Saudi Arabia, Bahrain’s regime does not use religion to legitimize its rule, which might explain the limited interference of religion.

Non-Muslims, especially Jews and Christians, are free to practice their faiths.

A noteworthy exception to all of this are personal status matters, which is dealt with by separate Sunni and Shi’i religious courts (which adhere to the Maliki and Ja’fari schools, respectively). Religious scholars of both sects (more emphatically on the Shi’i side) have long resisted government attempts to create a unified personal status law. After a failed attempt to push such a law through parliament, the government submitted a modified version in 2009, which was passed in both chambers. That version introduces a codified personal status for Sunnis that does not apply to the Shi’a. As a consequence, that latter group’s personal status questions remain non-codified.

The state does not make any official distinction among its citizens on religious or sectarian grounds; religious or sectarian affiliation is not listed on birth certificates or identity cards. Yet Bahrainis can often determine a person’s affiliation based on his or her name or other characteristics. In reality, the sectarian divide is very much present in society and politics and one of the most significant fault lines in the country. Although the long-lasting conflict between incumbents and opposition cannot be solely reduced to the sectarian split, a majority of opposition activists are Shi’i, while the incumbents are mostly Sunni. Even if the conflict is not religious in nature, offending the religious sensibilities of others can be a political tool, as seen in the alleged destruction of Shi’i mosques during the turmoil of early 2011.

Bahrain’s overall performance in providing basic services has continuously improved over past decades. Overall Bahrain offers its inhabitants a reasonably good level of services in the areas of health, education, infrastructure and telecommunications.

No interference of religious dogmas

6

Basic administration

8

However the quality of services varies throughout the country. Many largely or exclusively Shi'i neighborhoods and villages have poorer roads than elsewhere, unequal treatment seen as sectarian discrimination.

While it remains largely centralized, Bahrain is divided into five governorates. In each, there is an elected municipal council with limited responsibilities with most issues still addressed at the national level.

2 | Political Participation

Since the reintroduction of elections following the 2001 National Action Charter referendum, Bahrain has held three parliamentary elections (2002, 2006 and 2010). The electoral system remains flawed and does not ensure free and fair elections, due to gerrymandering, carousel voting (i.e., multiple voting in favor of pro-government candidates), governmental interference in the campaigns, harassment of opposition campaigners, and other breaches. Currently, Bahrain's elected chamber does not reflect the real political landscape, especially after the 18 elected al-Wifaq deputies all resigned in protest at the violent repression of the Arab Spring movement in February-March 2011; the September 2011 by-elections distributed those seats to nominally independent candidates who were nonetheless considered pro-government. Hence no opposition representation in parliament can be expected before the end of the term in 2014.

Free and fair
elections

3

Bahrain's government is neither elected by, nor really accountable before, parliament. Notwithstanding, both chambers can question ministers and may even declare their inability to cooperate with the prime minister. The constitutional changes in 2012 slightly improved conditions here: while a two-thirds majority of both chambers (voting together) was previously required, it is now only the Council of representatives (the elected body) that can bring a no-confidence vote in this way. Still, this does not automatically result in the dismissal of the prime minister, since the king can either follow the council's recommendation or dissolve the assembly.

Effective power to
govern

1

The power of elected representatives' power to legislate effectively remains limited. While the chambers of parliament can put forward legislative proposals, drafting is reserved for a government body (although deputies can amend texts before the final vote). More importantly, any law has to be approved by both chambers in identical versions. Since the Shura Council is widely viewed as loyal to the incumbents, it is very unlikely parliament will pass legislation that runs contrary to government policies. The king and the government frequently make use of certain processes for circumventing parliament: for instance, when parliament is in recess, the king can legislate by decree. Although such legislation must later be approved by parliament,

this puts considerable limits on lawmakers' freedom of action, as decrees can only be approved or rejected, and not amended.

In comparison to neighboring countries, Bahrain boasts a highly active civil society. The constitution guarantees basic freedoms such as freedom of expression, association and assembly. Article 27 establishes the right to establish or join associations (and unions), with some restrictions such as the interdiction of associations or unions that threaten Islam or public order. Further limitations are laid down by specific laws. The government can outlaw and close associations that do not comply with the rules.

Explicitly outlawed until 2005, political associations act as de facto parties in Bahrain. Parties are not explicitly outlawed – this misconception appears frequently in analyses of political activism in Bahrain – but there is no legal framework for them. While political associations had existed prior to law 26/2005, they were dealt with as NGOs, thus their legal basis was questionable. They had to rely on a government policy of tolerance rather than legal rights. As a warning, the Bahrain Center for Human Rights (BCHR) was officially dissolved in 2004 – hence silencing one of the hitherto most active elements in Bahrain's civil society.

The political associations law, while clarifying the status of political groups, is restrictive. The Ministry of Justice and Islamic Affairs (MOJ) can withhold licenses or close a group if it does not respect all provisions laid out in the law. Associations based on sectarian, ethnic or class affiliations are illegal per se, as is funding from abroad. There is enough elasticity in the clauses for MOJ and public prosecutor to fight uncomfortable political challengers. In July 2012, a Bahraini court ordered the dissolution of the Islamic Action Society (IAS), the smaller of the two main Shi'i Islamist political societies.

Other groups, such as Haqq or al-Wafa, do not seek licensing under the political associations law, rejecting the system outright. This makes them highly vulnerable, as they can be targeted on the simple grounds of unlicensed political activity.

The constitution allows union activities but here, too, restrictions apply. For instance, while strikes are allowed in the private sector, they are banned in sectors defined as vital, such as security or public transport. Although dismissal on the basis of union activity is unlawful, it has been known to occur in both the public and the private sectors.

The law on assembly rights (originally passed in 1973, revised in 2006) also offers multiple means of governmental control of gatherings and demonstrations. Outlawing opposition demonstrations has become a common pattern, as has the forced dissolution of unauthorized demonstrations. Numerous clashes between security forces and opposition activists occur at the margins of such demonstrations. Since late 2010, the government has banned most opposition demonstrations, pushing

organizers into illegality. In October 2012, the Ministry of the Interior officially announced a blanket ban on all demonstrations.

While the constitution officially guarantees freedom of expression (Article 23), it imposes explicit limits where Islamic sensibilities might be offended or the unity of the people threatened. The relevant article also explicitly forbids the misuse of the freedom of expression for sectarian statements.

Freedom of
expression
3

To codify the legal framework for basic freedoms, Bahrain disposes of explicit legislation in each relevant field. The press law (1965, with several amendments since) lists possible offenses such as defamation, criticism of Islam or the king, or advocating a change of regime. It still provides for imprisonment as one sanction for offenders, in addition to a variety of fines. Public prosecutors are quick to press charges against opposition activists and authors. The Information Affairs Authority monitors the national media which it can (and does) censor. The government sometimes applies pressure to independent media, as witnessed in April 2011 when they forced the editor-in-chief of major opposition newspaper al-Wasat to resign (although he was reinstated several months later).

The media landscape in Bahrain is largely dominated by the government. Licenses to found newspapers are restricted, and since al-Waqt closed in 2010 due to lack of funds, al-Wasat is the only major opposition newspaper is currently active. Other papers are not necessarily all pro-government, and individual journalists may occasionally write critical articles, but their editorial approach is less confrontational than al-Wasat's. This keeps them out of trouble as the government is quick to suspend publication licenses and discreetly discourage advertisers.

National radio and TV, meanwhile, are entirely government-controlled. As people increasingly turn to alternative sources of information, such as Al Jazeera, it becomes more difficult for the government to control the flow of information. It can, however, put pressure on correspondents on the ground. This is what happened in May 2010, when authorities closed Al Jazeera's Bahrain bureau for several days after the channel broadcast a report about poverty in Bahrain. In March 2011, the GCC countries' military assistance operation (described by opposition sources as an "invasion") received only very limited coverage in Al Jazeera's Arabic-language programs (Al Jazeera English reported on the event, though less thoroughly than they did during other Arab uprisings). It is unclear whether this was due to Bahraini pressure, or guidelines from the government of Qatar (where Al Jazeera is based).

Internet access is subject to restrictions and a number of websites remain inaccessible within Bahrain, including those of confrontational anti-government groups (whose approach might better be termed resistance rather than opposition), such as the Haqq Movement or the London-based Bahrain Freedom Movement. Bahrain's blogging scene is very active and diverse, though under permanent scrutiny of the authorities;

popular bloggers have been persecuted on charges of defamation or incitement to hatred. There have been several crackdowns, most of them in periods of high tension. In the aftermath of the events in and around Pearl Square in early 2011, for instance, blogger and Haqq Movement spokesman Abduljalil al-Singace was arrested for a second time and sentenced to life in prison.

3 | Rule of Law

Separation of powers is a constitutional principle (article 32). There are several deficiencies, however, mostly linked to the disequilibrium between the executive, legislative and judicial branches. The executive remains the main player in political life, with competencies outweighing those of the other branches. Government accountability before parliament is limited. In terms of legislation, the government disposes of prerogatives that allows it to interfere in legislative affairs: while parliament has the right to propose legislation, drafting is to the sole preserve of the Legislation and Legal Opinion Commission, a government body. More importantly, the 40-member Shura Council, the upper chamber of the National Assembly, is appointed by the king.

Separation of powers

4

The king also appoints judges. Public prosecutors are not independent and often manipulated for political purposes, such as pressing charges against opposition activists.

It is worth noting, however, that the executive branch is not entirely unified: the king's directives often conflict with the prime minister's and vice versa.

The judicial system is not a fully operational and independent branch, and its ability to control the government and enforce the rule of law are limited. Despite some recent, modest indications of autonomy, the judiciary remains heavily influenced if not controlled by the government. The king, for example, appoints judges, while the Ministry of Justice and Islamic Affairs directly influences public prosecutors, who are often used in the suppression of opposition activities, with only occasional resistance. In one recent case, a policeman was sentenced to seven years' prison in September 2012 for killing a demonstrator during the early 2011 clashes. Other – largely low-ranking – police officers have also been indicted on torture charges.

Independent judiciary

4

There was a state of emergency from March to June 2011. Trials against opposition activists in 2011 and 2012 were clearly influenced by the executive branch, and were likely based on fabricated evidence, forced confessions and other illegal practices. Some activists' lawyers were severely obstructed in their work.

Office abuse has rarely been prosecuted in the past. While a process of professionalizing the state administration and introduction of an increasing number of norms standardized processes have reduced opportunities for corruption in high-

Prosecution of office abuse

4

level positions, the problem persists. The Ministry of the Interior reported 97 corruption-related cases in 2012, including 15 cases related to exploitation of post or power, 72 embezzlement cases and 11 bribery cases. However the prevailing impression is that abuses, either by ministers or high-ranking officials in ministries and executive agencies, are not prosecuted adequately or efficiently, much less those committed by members of the ruling family.

A corruption case involving a minister of state in 2010 prompted the government to introduce asset declaration obligations for senior officials from the executive, legislative and judiciary branches; at this point, however, there is no data on effects of that measure.

The Bahraini constitution guarantees civil rights and implicitly recognizes the concept of rule of law (article 20). Furthermore, Bahrain is a signatory to the International Covenant on Civil and Political Rights.

Civil rights
4

The constitutional principle of equality before the law is, however, flawed. Firstly, because members of the royal family enjoy de facto impunity. Secondly, because there is discrimination both in public policies (such as discrimination against Shi'ites seeking public employment) and in the judiciary (which some opposition activists have attempted to challenge).

Due to the Shari'ah-based family law which applies to for all religious groups, women do not enjoy equal rights in matters of personal status.

The crackdown on the uprising from 2011 to the present, has seen torture once again become endemic in Bahraini prisons.

Riot police often entered private homes at will. Property and physical integrity of citizens has not been safeguarded. Citizens effectively have no recourse if attacked by riot police or other members of the security forces.

Non-Bahrainis are subject to particularly flagrant systematic violation of civil rights. Recent figures (Bahrain Census 2010) indicate that non-Bahrainis account for 54% of Bahrain's population who clearly dominate the labor market, especially the private sector. In spite of a 2009 labor law reform which scrapped the sponsorship ("Kefala") system which made expatriate workers dependent on Bahraini nationals, foreign – in particularly unskilled – workers (who mostly come from South and East Asia) still suffer discrimination. Salary differences are only one aspect; more importantly, there is no functioning system of protection against abuse.

Since a substantial number of the riot police are expatriates, general attitudes toward expatriates have deteriorated. A number of Asian expatriate workers have been attacked.

4 | Stability of Democratic Institutions

In spite of a constitutional commitment to democracy (Article 1, d: “The system of government in the Kingdom of Bahrain is democratic, sovereignty being in the hands of the people, the source of all powers.”) and the staging of elections, Bahrain clearly falls short of the minimum requirements for democracy, let alone liberal democracy. Bahrain can be decisively labeled as an authoritarian regime, or more precisely an electoral authoritarian regime in which elections are flawed and elected representatives largely powerless.

While pluralism exists in the country, it is far from being effective. There is no effective government accountability before parliament, and the elected chamber’s influence is clearly tempered and counterbalanced by the existence of a second, non-elected chamber whose members are handpicked by the king (Shura council members are nominated after election results are announced). King Hamad has previously named a majority of non-Islamists (and even representatives of the Christian and Jewish minorities) to the Shura council, apparently to both outweigh the influence of Islamists in the elected chamber and ensure representation of all strands of society. He may also have hoped to tighten bonds between the royal family and those parts of society.

The imbalance between the executive on the one hand and the legislative and judicial branches on the other is also seen in the king’s right to appoint and dismiss ministers from the government, dissolve parliament without specific grounds, draft legislation and rule by decree, even in the legislative field. As well as these institutional shortcomings, the government is not at all representative of the population, with a variety of ministries, in particular those designated as “ministries of sovereignty” (wizarat al-siyada, i.e., defense, interior, justice, finance and foreign affairs), are in the hands of the Al Khalifa or their close allies. Shi’ites are generally confined to secondary portfolios.

In essence, Bahrain has no democratic institutions to measure. While it may have some proto-democratic mechanisms which might serve as the basis for authentically democratic governance in the event of regime change, there seems little prospect of that in the near future.

The population has no strong commitment to the country’s institutions. Even if they don’t state it explicitly, Bahrainis are well aware of the authoritarian nature of the regime.

There are regular calls for reform of varying intensity. There is a range of motivation among advocates for democracy: for Shi’ites, for example, democracy implies

Performance of
democratic
institutions

1

Commitment to
democratic
institutions

1

majority rule, which further implies Shi'i majority rule, to replace the current Sunni leadership.

All political forces – particularly opposition groups and movements – are nominally pro-democracy. This should not be interpreted as widespread, unconditional support for democracy. The rhetoric often changes to suit the audience. All opposition activists, for example, stress the need for democratization when talking to Western journalists, researchers or politicians. The message is often different for domestic audiences, who may be more responsive to other demands.

Opposition groups can be differentiated by their views and strategies toward democracy: the more moderate groups such as al-Wifaq have traditionally advocated reform without openly challenging the leadership's authority. They generally favor the establishment of a Western-style constitutional monarchy in which the king becomes a figurehead. The more radical elements of the opposition (or resistance) call for regime change. They describe Al Khalifa rule as a “dictatorship” which must be swept away. Escalating conflicts in the period since 2010 have radicalized many who are convinced that the conciliatory approach has failed.

The incumbents' commitment to democracy is largely lip service. While some members of the ruling family and their allies may favor further liberalization (which they might label democratization), past actions by the ruling family and the government indicate that they will not tolerate any step which might jeopardize Al Khalifa's position.

5 | Political and Social Integration

The law provides no space for political parties, but most functions of political parties are assumed by political associations. They have a specific legal status.

Party system
3

The panorama of political associations is relatively stable and generally reflects pre-2002 divisions. Some of these associations consequently have deep roots in society. They can generally be categorized as Shi'i Islamist, Sunni Islamist and non-Islamist. They are further differentiated by their attitudes to the regime, ranging from loyalism to opposition and even resistance.

The two main loyalist groups are the Sunni Islamist associations al-Minbar al-Islami (“Islamic Pulpit”) and al-Asala (“Authenticity”). Their stance is generally pro-government, although they occasionally side with their Shi'i counterparts on social issues such as alleged un-Islamic practices.

Opposition forces generally operate from within the system. The most prominent group is al-Wifaq (Jam'iyyat al-Wifaq al-Watani al-Islamiyya, “Islamic National Accord Society”), which has links to the region-wide Da'wa movement and the

mainstream Shi'i clergy in Bahrain; its secretary-general, Ali Salman, is himself a Shi'i cleric. Al-Wifaq ran for parliament in 2006 and 2010, winning 18 seats in both cases. In February 2011, the group withdrew from parliament in protest at the government's iron-fisted response to Arab Spring demonstrations. Two former deputies were arrested in May 2011 and released several months later.

The second Shi'i Islamist group, the Islamic Action Society, is much smaller, catering to a specific religious sub-group. Its radicalism has sometimes drifted into resistance, and it was formally disbanded by the government in 2012.

Shi'i Islamists have also courted non-sectarian groups with Arab Nationalist or Marxist foundations. The rationale behind this is clear: by allying with non-sectarian actors, the Shi'i Islamists can present their actions as part of a larger, pro-democracy campaign. There is no doubt, however, that Shi'i activists far outnumber Sunnis, and non-sectarian groups are generally small. Wa'd, often described as the "intellectual leader" of the opposition, is al-Wifaq's traditional ally, though it has never gained a seat in parliament. It has become increasingly radicalized, siding with groups which orchestrated the early 2011 protests. This strategy is costly, however: Wa'd's Sunni secretary-general, Ibrahim Sharif, is currently serving a five-year prison sentence for conspiracy to overthrow the government.

There are also groups that have decided to remain outside the recognized political spectrum, including the Haqq Movement was formed by former al-Wifaq members who refused to take the electoral avenue in 2006. Al-Wafa is closely associated with Abd al-Wahhab al-Husayn, whose background was in the Shi'i Islamist resistance movements ("al-Mubadara") of the 1990s. When most former rebels decided to work from inside the system, he withdrew and prominently reappeared in 2009. Despite official harassment, both Haqq and al-Wafa have presented a serious challenge to al-Wifaq. Haqq also maintains informal ties with the London-based Bahrain Freedom Movement (BFM), which is very active in anti-government lobbying outside Bahrain.

There is a multitude of different civil society actors and interest groups, of different sizes and degrees of organization, stretching from small committees to large lobby groups. Non-political groups are governed by the law on associations (21/1989), which imposes such restrictions as a ban on foreign funding and political activism. Some associations overstep these limits.

The different types of associations include advocacy groups for human rights, women's rights, expatriate workers' rights and transparency; business associations (or both entrepreneurs and workers); cultural and religious groups; and charitable funds.

Though some organizations are identified with the government (government-owned NGOs, GONGOs), the majority of associations and interest groups remain outside

Interest groups

6

government control. The government attempts to control them, however, through both legal measures and funding policies.

Human rights organizations, including the openly anti-government Bahrain Center for Human Rights (BCHR), as well as women's and expatriate laborers' rights organizations are highly politicized. This political positioning makes cooperation difficult even when goals are shared. The BCHR and the other large human rights group, the Bahrain Human Rights Society, for instance, are in constant competition, with no consistent pattern of cooperation. Other groups include the Bahrain Youth Society for Human Rights and so-called youth committees representing specific groups such as the unemployed, victims of torture etc. Their high degree of politicization and their involvement in protests before, during and after the Arab Spring make them an integral part of the opposition/resistance landscape; many NGOs openly identify with a specific confession and/or political society.

The term "democracy" is often used in public by both incumbents and opposition activists, particular when addressing Western audiences. However it has different meanings depending on the speaker and the context. When used by the government, "democracy" can be interpreted as "the use of democratic elements such as elections." Opposition activists, particularly Shi'i Islamists, endorse democracy because it implies majority rule – which would mean, if one were to apply sectarian criteria – a shift from the Sunni Al Khalifa and their allies to Shi'i majority rule.

Approval of
democracy
n/a

In most cases, opposition calls for more democracy are combined with other demands: an end to "political naturalization," – the awarding of citizenship on a sectarian basis – employment, social benefits, etc. When assessing approval of democracy, it is difficult to delineate between the unconditional endorsement and primary support for other issues.

The degree of trust and solidarity between the different strands of society is relatively low. Solidarity is often limited to different levels of kinship or sectarian and/or tribal identity. There is substantial mistrust toward between different groups of the national population as well as toward expatriates, the often poor immigrant workers essential to Bahraini households and the economy.

Social capital
3

Organizations catering to fellow citizens are either religion- or issue-based. If they are religious, they are generally sectarian. The most visible is the Shi'i ma'tam ("mourning houses", which serve as community centers), often but not always attached to mosques. Other activities are funded by religious endowments (virtually every village or urban district has its religious charity fund). Many of the religion-based groups cooperate across the country, for example, during Ashura (the day when Shi'ites commemorate their self-perceived failure in leaving Imam Hussein alone in the battle of Kerbala in 680), thus widening solidarity networks. Shi'ite networks tend to cooperate well and generate substantial social trust; Sunni groups are more

fragmented (tribal or non-tribal, secular or non-secular, Salafi or Muslim Brotherhood).

Issue-based solidarity activity is generally outwardly non-sectarian but local, including sports clubs, youth centers, arts projects. Since many, but not all, residential areas and villages are inhabited by distinct sectarian groups, local associations often cater to certain religious groups by default. On the national level, philanthropic organizations cater to migrant workers, abused women, victims of torture and people in need of healthcare.

II. Economic Transformation

6 | Level of Socioeconomic Development

Though Bahrain's socioeconomic development has increased over the past decades, some parts of society still experience hardship. The Bahrain Economic Development Board (EDB) – not an independent institution – calculates the relative percentage of poverty (“percentage of households earning below 50% of median income”), following OECD methodology, at 21.9% (compared to 5.4% for Finland, but 17.0% for the U.S.).

The official Gini index, also calculated by EDB, is 44.6 for 1995 and 39 for 2006.

The 2012 Human Development Index by UNDP scores Bahrain at 0.758, putting it at 48th out of 169 countries. Social inequalities based on religion, ethnicity and gender persist. Though the UNDP's Gender Inequality Index (GDI) findings suggest some improvement, (from 0.477 in 2010 to 0.288 in 2011), gender inequality can be found in occupational ratios, wages and representation in senior positions. Women face discrimination in the law and the judicial system, in particular Shari'ah courts which deal with personal status issues.

Though there are no official figures, some reports (mostly from the opposition) speak of near-systemic discrimination against Shi'i Bahrainis, who remain underrepresented in senior bureaucratic positions. There are almost no Shi'ites in areas such as national defense and the Ministry of the Interior. In addition, poverty and poor living conditions (roads, sewage etc.) are mainly to be found in majority Shi'i suburbs of Manama and adjacent villages.

Foreign workers, the majority of private sector employees suffer even worse socioeconomic conditions. Their social protection lags behind that enjoyed by Bahraini nationals, and there is a widening gap in salaries. As economic performance

Question
Score

Socioeconomic
barriers

6

of Bahrain – like other Gulf countries –relies heavily on cheap labor, government efforts to “Bahrainize” the private sector workforce have largely failed.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	19318.8	25713.6	29044.5	-
GDP growth	%	3.1	4.3	2.1	3.4
Inflation (CPI)	%	2.8	2.0	-0.4	2.8
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.3	0.6	2.7	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	560.0	770.1	3247.3	-
Public debt	% of GDP	25.4	35.5	36.5	33.7
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	15.5	12.9	13.7	14.6
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.3	3.1	2.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.0	3.0	3.0	3.1

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Enterprise is free, and obstacles to business minimal: taxes are low, with other positive factors including the GCC free trade area and bilateral free trade agreements (FTA), in particular that with the U.S., and investment opportunities.

Market-based
competition
8

As in neighboring GCC countries, the state was formerly a major player in the economy, and several sectors were state-dominated, including ports, air transport, telecommunications and other services. In recent years, some of these sectors have been privatized but, just as in neighboring countries, control has tended to shift to members of the royal family rather than independent actors, a process known as “khalfana.”

GCC citizens have the same ownership rights as Bahrain nationals, but non-GCC citizens’ access to assets is still limited in some sectors, such as the 50 companies listed on the Bahrain Bourse.

On another level, Bahrain still maintains its subsidization of primary goods such as food and gas. It is unlikely the Bahraini government will reform this system in the near future, as Bahrainis are used to low prices. Changing the system could further increase the government’s unpopularity. The trend seems to be going in the opposite direction: after the Arab Spring events of early 2011, Bahrain – along with Oman – became a beneficiary of a GCC “Marshall Plan” worth \$10 billion, with money channeled to citizens via subsidies.

Positive steps include the reform of the labor market in 2008 and the scrapping of the sponsorship system for foreign workers in 2009. While informal work relations do not pose a serious problem to Bahrainis, many blue-collar guest workers are still highly affected by poor working conditions.

Bahrain does not have a specific competition or anti-monopoly law. The constitution provides a loose guideline: “Any monopoly shall only be awarded by law and for a limited time” (Article 117). While commercial law (7/1987) outlaws unfair competitive practices (and upholds the bona fide principle) there is no specific provision on the abuse of dominant market positions, and there is no authority supervising economic actors which is capable of censuring abuses. There are supervising authorities in specific sectors, such as the capital market and telecommunications, which might de facto act as regulating authorities. For instance, in August 2011 the Telecommunications Regulatory Authority (TRA) warned two operators that their pricing policy could be considered an abuse of a dominant market position. In another case, the TRA ordered former state monopolist Batelco to review fees charged to competitors taking over phone landlines.

Anti-monopoly
policy
5

However there is no overarching, comprehensive anti-monopoly, and anti-trust policy is still missing.

It should be noted that Bahrain is a very small market and as such of limited appeal for certain investments.

Bahrain is a founding member of the GCC and of the GCC's customs union (2003), yet its foreign trade policies have been inconsistent in the past. Its signing of a bilateral Free Trade Agreement (FTA) with the U.S. in 2004 delayed the establishment of the GCC common market for several years, until 2008.

Liberalization of
foreign trade
8

Bahrain has been a member of the WTO since 1995. The WTO secretariat's trade policy review of 2007 – the second one after 2000 – recognizes a good degree of implementation of WTO rules.

As a member of the GCC customs union, Bahrain has adopted the GCC common external tariff, which has yielded an overall decrease of duty rates. According to the World Bank, the average tariff rate was 3.6% in 2009. There are no major trade barriers, except for some goods subjected to import limitations, such as alcohol (subject to a 125% tariff but not the outright ban observed by neighboring Saudi Arabia). There are no specific export limitations.

Bahrain, a traditional financial hub in the region, has been a party to the Basel Accords since 1989 (effective after ratification in 1992). Even in periods of political turmoil, the country has been able to maintain this position, although neighboring countries such as Qatar and the UAE have emerged as competitors.

Banking system
10

As per the Basel Accords, Bahrain complies with international banking standards set out by the Basel II requirements. Adaptation to Basel III requirements are under way. The banking sector is supervised by the Central Bank of Bahrain (CBB), which has established a rulebook and is the only body allowed to license banks, both in the retail, wholesale and Islamic banking sectors. Supervision, while not excessive, is considered efficient and strengthens Bahrain's position as a financial hub.

The World Economic Forum's Financial Development Report 2011 points to Bahrain's high degree of finance sector liberalization and the overall strong performance of the sector, the global financial crisis notwithstanding. The report even hails the stability of the banking system as exemplary, a category where Bahrain ranks first *ex aequo*.

In 2012, Moody's regarded the global outlook for Bahrain's banking system as "negative"; not for reasons of system or regulatory framework but because of the economic environment and other framework conditions.

8 | Currency and Price Stability

Inflation has been successfully contained within accepted limits and the government has even had to deal with deflation. National statistics provided by the Central Informatics Organization indicate a moderate 2.8% rise of the consumer price index from 2011 to 2012. In the previous period, Bahrain witnessed its first deflation for

Anti-inflation /
forex policy
8

years, with a change of -0.4% from 2010 to 2011. This could be indirectly linked to the political situation in the country, as the early 2011 revolt triggered a series of government measures, inter alia an increase in subsidies, which consequently had an impact on prices.

The Bahraini dinar (BHD) has been pegged to the U.S. dollar since 2001, with a static, non-reevaluated rate of \$1 = BHD 0.376. While this guarantees reasonable currency stability, fluctuations in the U.S. dollar also impact Bahrain. Pending the establishment of the GCC monetary union and a single currency (a project initially scheduled for implementation in 2010, now delayed to 2015 at the earliest, without Oman and the UAE), this situation is likely to remain unchanged in the near future.

Bahrain offers a business- and investment-friendly environment. Positive factors include low taxes within a consistent taxation framework and limited barriers to trade.

Macrostability
8

While Bahrain's economy is already quite diversified, particularly in comparison to its neighbors, the 2012 state budget still relies the state-owned oil sector (mostly refined products) for up to 85% of its revenue, or revenues from the Bahraini-Saudi Abu Sa'fa oilfield exploited by the Saudi ARAMCO. This has an undeniable impact on the state budget's stability and brings with it the typical risks facing oil rentier states, as state revenues remain heavily dependent on world oil prices. The government has undertaken considerable efforts to diversify state revenues (introducing a 1% property sales tax in 2009, for example). Yet the overall low tax rates, while providing a business-friendly environment, are simply unable to contribute more substantially to the state budget.

After five years of budget surpluses (2004 – 2008 period), the government had to incur debts in 2009 and subsequent years. Public debt stood at 24.8% of GDP in 2009. IMF estimates point to a further increase of the debt level in the years to come (32.9% in 2016). While the 2009 negative account balance is certainly linked to the global economic slowdown, later developments can be attributed to short-term policy changes, with the government increasing expenditure in response to the 2011 Arab Spring uprising.

9 | Private Property

There is a consistent framework of property rights, which generally guarantees legal security. Within the Heritage Foundation's 2013 Index of Economic Freedom, the property rights subindex stands at 55 points; of Bahrain's neighbors, only Qatar scores better, while the UAE are on an equal footing.

Property rights
8

Private property is generally secure, although there have been disturbing developments in recent years. Firstly, the overall impression that the Al Khalifa family is above the law is also felt with regard to property rights. Members of the

family occasionally transgress laws and development plans, instance by turning arable land into built-up areas without permission, for instance. There is a perception that such offenses are ignored by the judiciary.

While there is a policy of non-discrimination toward GCC citizens (who dispose of all property rights enjoyed by Bahrain nationals), non-GCC citizens' access to assets is still limited in some sectors, for instance the 50 companies listed on the Bahrain Bourse.

Other kinds of property rights abuses occasionally occur. For instance, the village of Malkiyya gained prominence in 2005 because of an ongoing conflict between a local landowner and villagers, after the former fenced the latter off from the sea. Shoreline access is generally a contentious issue, particularly because of ongoing land reclamation, which jeopardizes ancestral access rights. This kind of practice is all the more controversial as reclaimed land is de facto the ruling family's private property, bringing them huge profits.

Intellectual property rights are generally well protected, and Bahrain ranked fifth out of 18 states in the MENA region in 2012, according to the Property Rights Alliance's Intellectual Property Rights Index. This score has increased slightly over recent years. Bahrain became a party to the World Intellectual Property Organization's Patent Cooperation Treaty in 2007, and is a member of the GCC's Patent Office based in Riyadh, Saudi Arabia.

Private entrepreneurship is a key element in Bahrain's economic diversification strategy, although the state still weighs heavy as an economic actor. The number of Bahrainis working in private sector jobs has declined from roughly 30% in 2000 to 19.5% in 2011, as jobs in the public administration are more lucrative. There has been privatization and market liberalization in the telecommunications sector, while other sectors are still dominated by huge state-owned companies and conglomerates such as ALBA, Bahrain's aluminum manufacturer, and state-owned oil refineries.

According to the governmental Central Informatics Organization (CIO), small- and medium-sized enterprises (SMEs) accounted for nearly 73% of private sector jobs and contributed 28% of GDP in 2010. SMEs are mainly active in trading, manufacturing and construction.

The government is endeavoring to strengthen the private sector, as set out in the Bahrain Economic Vision 2030, published in 2006. It created a semi-autonomous body, Tamkeen, which provides financial assistance to businesses, with a particular focus on SMEs. By September 2012, more than 4,000 SMEs had received funding, which represents roughly 10% of the total number of SMEs in the country.

According to the World Bank's 2012 Doing Business report, starting a business is relatively easy and quick. With an average of nine days and seven procedures to be

Private enterprise

7

accomplished to establish the survey's model business, Bahrain finds itself on a comparable footing with Oman, the UAE and Qatar, while the process takes more than twice as long in Saudi Arabia and three times as long in Kuwait.

10 | Welfare Regime

Bahrain has a relatively elaborate social security system. Services provided include healthcare, unemployment coverage, housing subsidies and retirement payments, but only healthcare and unemployment benefits are also accessible to non-Bahrainis. Non-state actors, mostly in the form of local Islamic charity funds, compensate for shortcomings of the system.

The social security system is public and unitary (applicable to private and public sectors alike), with the main actor being the Social Insurance Organization (SIO). Organized as a fund, the SIO is financed by contributions levied on both employers and employees. At the time of writing, employees' contributions stood at 19% and 4%, respectively, depending on whether the employee was a Bahraini or not. The higher taxation of Bahrainis is explained by the fact that expatriates are not entitled to services such as housing benefits or retirement payments. For 2009, the SIO's annual report states that the sum of contributions accounted for roughly half of the organization's revenues (BHD 161.1 million out of BHD 324.1 million, equal to \$424.8 million out of \$854.6 million), the rest being returns on investment and, to a lesser extent, transfers from the state budget (BHD 13.4 million, or \$35.3 million).

The SIO grants benefits in the form of cash and conditional cash transfers. Further services and benefits are provided by different actors and can take different forms, such as food and fuel subsidies. Bahrain – like its GCC neighbor states – has maintained this system in spite of criticism. Although the government announced its intention to review the program in 2010, this has not been followed by implementation. One major reason is the Arab Spring which shook the country and prompted the government to take the opposite direction to at least alleviate economically- and socially-based discontent. There seems to be consensus that the subsidy system cannot be scrapped immediately; rather, as the crown prince suggested in a speech in March 2011, reform could limit subsidies to the needy.

Despite constitutional provisions stressing equality of men and women and the prohibition of sectarianism, equality of opportunity remains unsatisfactory. The most obvious inequality concerns Shi'i citizens. Opposition activists frequently point to the near-total absence of Shi'ites in the public security sector, an allegation that can neither be proven nor refuted as figures are unavailable. There are Shi'ites in non-security related positions in the administration, but they tend to occupy lower ranks than their Sunni counterparts. There is also an overrepresentation of (Sunni) Al Khalifa family members in the higher ranks. A glance at the government confirms

Social safety nets

8

Equal opportunity

4

this pattern: not only are Shi'ites underrepresented, but Shi'i ministers generally occupy secondary portfolios. Anti-Shi'ite discrimination is only the tip of the iceberg, however: opportunities are generally contingent on shared origin, kinship or sect.

Gender inequalities persist as well. While access to education seems less likely to be influenced by gender – the female-to-male tertiary enrollment ratio was 253.14% in 2006 – employment opportunities are not equally distributed. This is seen in the overall occupation rate (among Bahraini nationals, women constituted 27% of the entire workforce in 2008, according to numbers released by the Labor Market Regulation Authority) but even more so in average wages by sex (in 2011, Bahraini women's average salary was 65.6% of a men's, according to figures from the SIO). The Bahraini state has made efforts to increase male/female equal opportunities but patterns of discrimination remain, often linked to tradition. The partial introduction of the personal status in 2009 law (limited to non-Shi'i citizens) has enhanced rights for Sunni women with regard to inheritance or divorce. But discriminatory rules remain in effect for Sunni as well as for Shi'i women, with no codified family law.

Equal opportunity is achieved distant dream for non-Bahrainis with no discernible effort to reduce discrimination.

11 | Economic Performance

Prior to the global financial crisis, Bahrain registered impressive growth rates (peaking at 8.3% annual GDP growth in 2007, according to World Bank data). The downturn of the global economy also affected Bahrain, with annual GDP growth down to 3.1% in 2009. In 2010, it rose once more to 4.5%.

Output strength
8

Bahrain domestic data released by the EDB demonstrates a significant recession in direct relation to the Arab Spring events of early 2011: in the first quarter of 2011, quarter-to-quarter GDP growth was negative at -1.4%; yet in the remaining three quarters of the year, positive growth returned, eventually yielding a smaller yet still positive annual rate of 2.2%. The EDB issued optimistic forecasts for 2012, predicting growth rates of 4-5% (other analyses were more cautious, with the IMF predicting 2%). While overall data are not available at time of writing, the EDB's vision was most likely overly optimistic, as the Bahraini economy witnessed at least one more quarter of recession (second quarter: -1.3%) in 2012.

Arab Spring events had a particularly negative impact in the hotel and restaurants sector (-13.2% in 2011). Other sectors were less affected (with slight recessions in real estate, construction and agriculture), and some sectors (oil extraction and refining, manufacturing and government services) even experienced growth. As the EDB points out, manufacturing is relatively immune to social and political unrest, as production sites are usually remote and mostly employ non-Bahrainis. Indirectly the

Arab Spring, in spite of detrimental effects on some sectors, also had a positive impact on GDP growth as it prompted the government to increase government spending.

In absolute figures, Bahrain's GDP (2010: \$22.9 billion) is modest in regional comparison (Bahrain's is the smallest economy of the six GCC states). GDP per capita (2010: \$23,700) is comparable to that of Saudi Arabia (\$22,800 in 2010); it is worth noting, however, that since 2005, Bahrain's GDP per capita has steadily decreased (2005: \$28,100), with demographic growth outpacing GDP growth.

Foreign direct investment stood at 8.2% of GDP (2008) before the global financial crisis and dropped sharply to 1.3% in 2009 and 0.8% in 2010. With no recent data available it is impossible to tell whether the downturn has continued or reversed.

Bahrain's projected budget deficit for 2013 is BHD 662 million (\$1.7 billion), which amounts to 6.1% of GDP. Since revenues are calculated on an estimated average oil price of \$90 per barrel, a rather conservative calculation, and with oil revenues accounting for more than 85% of total state revenues, any fluctuation in oil prices has a significant impact on the deficit. (For the budget to balance, the oil price per barrel would have to reach \$122.) Total government spending in 2013 is projected at BHD 3.45 billion (\$9.1 billion). The increase is modest in comparison to 2012, when expenditure was up by 19% – a clear effect of the Arab Spring, which spurred state generosity to buy off discontent.

12 | Sustainability

Bahrain has enacted legislation aimed at protecting nature and wildlife, both on- and off-shore. While the first regulations date back to 1980 (a law on the use of underground water), the most comprehensive law on environmental protection is from 1995 (2/1995). There is rising awareness of the need to protect the environment, secure sustainable development and use resources efficiently. These issues are all the more relevant (and attract ever greater awareness) as Bahrain's surface is limited and the population is developing rapidly. For instance, arable land is scarce (2.82% of the total surface, with a further 5.63% of the country's surface dedicated to the cultivation of permanent crops) and there is growing awareness that these spaces must be protected, but this often clashes with other interests (business opportunities as well as development policies). The same kind of conflict arises between the growing population's freshwater needs and the protection of aquifers, or local fisheries' economic constraints and the protection of fishing stock. When such issues are at stake, the environment often loses out, both in administrative decisions and court rulings. In order to improve current practices and coordinate the government actions,

Environmental
policy
5

the Supreme Environment Council was established in 2012. This is essentially an inter-ministerial coordination body which has so far produced no concrete results.

Bahrain has the 8th highest CO2 per-capita emission globally, with 20.7 metric tons in 2009 (though it is only number 4 in the Gulf region, after Qatar, Kuwait, and the UAE), hence its poor performance in Yale University's Environmental Performance Index (EPI). In 2010, when the country was analyzed for the first time (and only time to date), it ranked 145 out of 163 countries; in the Gulf, only the UAE scored worse.

Bahrain's investment in education totaled 2.9% of GDP in 2008 (with no more recent figures available). Among the Gulf countries, only the UAE spends less of its GDP on education. These figures need to be considered in light of differences in GDP, which further emphasizes the idea that government spending on education is not a priority. For instance, in the draft budget for 2013, the Ministry of Education's budget accounts for 9.2% of the entire budget, while the Ministry of Defense's allocation is 14.6% (with additional security spending on the Ministry of Interior and the National Guard).

Though there are no statistics on R&D spend, observers confirm Bahrain's low financial investment in academic research.

Despite the modest education spend, literacy is high (91.4% according to 2012 World Bank data), with no significant discrepancies between men (90.2%) and women (92.2%). The enrollment ratios in education have reached 107.3% for primary education and 103.1% for the secondary level (World Bank data).

Bahrain does not have a longstanding tradition of tertiary education. Before 1986 there was only a handful of colleges, leading many to study abroad (many older Bahrainis have studied in Iraq, Saudi Arabia, Syria, Lebanon or Egypt, or outside the Arab world). Since the establishment of the University of Bahrain in 1986, other higher education institutions and branches of foreign institutions have opened, although on a much smaller scale than in most of its neighbors. Rather than importing higher education the state still sends successful students abroad and runs a large stipend program. Tertiary enrollment was 32.8% in 2010, which is the highest level in the GCC (average ratio: 24%), with a strong upward trend predicted for the near future. There have been reports of quality problems, however, as not all institutions do use accredited curricula. Another critical point frequently raised is that the education system is insufficiently adapted to the needs of the labor market.

Transformation Management

I. Level of Difficulty

It is not so much the institutional setting that limits the government's room for maneuver. The authoritarian architecture of the system gives the government enough leeway to implement policies, although they must also take popular opinion into account. An oft-used (but not always successful) strategy is to "buy off", or minimize political demands through public spending. The 2011 GCC-funded "Marshall Plan" is but one example of this policy.

Structural
constraints

4

Two other constraints are possibly even more significant: the geopolitical situation and budgetary limits.

In geopolitical terms, Saudi Arabia is the most important actor. Land access to Bahrain is only possible via the King Fahd Causeway linking the two countries, pending the completion of the Qatar-Bahrain Friendship Bridge project. Saudi Arabia has a vested interest in controlling events in Bahrain; it apparently views Bahrain as a laboratory for its own political liberalization policies. Yet there are potential spillover effects: any empowerment of Shi'ites in Bahrain could encourage its own Shi'i population in the Eastern province to seek increased participation. The heavy-handed reaction to the uprising of 2011 was also the result of Saudi pressure; the GCC's military intervention in March 2011 was mainly formed of Saudi troops. Other significant actors are the U.S. and, to a lesser extent, the United Kingdom as the former suzerain. Bahrain has hosted the headquarters of the U.S. Navy's Fifth Fleet since 1971; this presence has considerably impacted Bahraini domestic politics in the past.

Budgetary constraints also limit the government's latitude. Bahrain has been relying on external budget assistance for decades: it receives free oil and revenues from the joint Abu Sa'fa oilfield exploited by the Saudi ARAMCO, for example. Since Bahrain's exclusive oil resources are depleted, Abu Sa'fa revenues account for the major part of Bahrain's oil revenues, which in turn represent more than 85% of the state's revenues. This further increases Saudi influence on Bahraini decision-making.

Bahrain boasts one of the Gulf's most vocal civil societies. Even before the discovery and extraction of oil (beginning 1932), advocacy groups voiced demands for political participation. From the start of the 20th century onwards Shi'ite clerics have acted as spokespersons for political concerns, and the network of Shi'i associations has remained dense to this day. Often these associations have voiced religious, social and political concerns. By the mid-1930s, a workers' movement had emerged on a mostly cross-sectarian basis. While union activism was the most important element of civil society activities, other elements emerged, such as cultural and political groups. Political activities, although illegal, were inspired by Arab nationalism (Nasserism or Ba'thism) or Marxism in the 1950s and 1960s, then increasingly by Shi'i and Sunni Islamism after the 1970s.

Civil society traditions

5

The number of civic groups of all shades is high, at both local and national levels.

The degree of social trust is nonetheless hard to measure. On the one hand, there is a high degree of competition between the different associations. On the other, the small size of the country facilitates direct contacts and most actors of a given sector (such as political associations) know each other personally and interact directly, with some noteworthy exceptions (such as the absence of dialogue between Sunni and Shi'i Islamists). Trust is generally low between civil society actors and the government.

There is a tradition of conflict, including violent clashes. A first major uprising of the Baharna (the native Shi'i population) occurred in 1922. Since then, there have been uprisings almost every ten years. While the end of the 1994 – 1999 uprising and the ensuing reform course of Emir Hamad (who proclaimed himself king in 2002) led to widespread hope for reduction in conflict, recent events suggest that the potential for violent conflict remains high.

Conflict intensity

8

Conflicts between the government and its allies on the one side and the opposition on the other widely follow the sectarian cleavage, latter is not the only fault line in Bahraini society but it does have the greatest impact. This is also linked to the rise of political Islam since the 1970s (encouraged by the Islamic Revolution in Iran and attempts to export this revolution to the Gulf), which has reinforced the significance of religious and sectarian affiliation.

However, the conflict, in its core, is about resources, not about religious convictions. Religious stereotyping is more or less absent among the economic elite. Even though some protagonists of the conflict have resorted to religious slander, the sort of religious prejudice prevalent in Saudi Arabia, for example, is not deeply ingrained in Bahrain.

Although neither side openly advocates sectarianism (instead generally imputing it to the opposing side), both sides resort to sectarian methods. With the exception of the non-sectarian, non-Islamist groups such as Wa'd, many opposition groups frequently use sectarian messages when addressing their respective publics. Sectarian

rhetoric is much stronger with the Shi'i opposition beyond al-Wifaq. Pro-government Sunni groups often use a dose of anti-Shi'i prejudice to increase mistrust toward the opposition. Here, too, Salafi groups use more negative stereotyping than other Sunni groups.

More often than not, conflicts descend into violence, and since 2011, both Shi'ites and Sunnis know that they can mobilize tens of thousands of protesters; some recent protests have included around 100,000 participants. Measured against its population size, Bahrain is therefore the country most quantitatively affected by the Arab Spring protests.

There seems to be a certain level of restraint, however: acts of sabotage carried out by resistance groups rarely target human lives, focusing instead on infrastructure or symbols of the government. This is not to say that violence is rejected outright. There is an implicit acceptance, or even desire for, potential for violent escalation at political rallies. The events of early 2011, with both sides taking highly adversarial positions, suggests a drop in self-restraint among all conflict parties. Security forces have increasingly resorted to torture of captured rioters and even non-violent opposition activists. During the uprising of 2011, the government generally played up the religious aspects of the conflict, including the destruction of Shi'i religious sites in 2011, or the uncovering of conspiracies allegedly fomented by Iran. The government has also revoked the citizenship of 31 Shi'ite Bahraini opposition activists.

The intensity of the conflict should not be dismissed: the death toll of events since 2011 (for the regular violent clashes that have continued since) was 80 at the time of writing.

II. Management Performance

14 | Steering Capability

Question
Score

Prioritization
4

The incumbents' priorities oscillate between maintaining power and sound development of the country. Bahrain's ruler, Emir (now King) Hamad has gained respect from international observers (and to a lesser degree at home) after he initiated a reform process widely hailed as a first step toward democratization. Bahrain is clearly still not a democracy, and reforms have generally proved to be window-dressing. This has become particularly clear since 2010, with the government clamping down on the opposition. In 2011, the government almost went as far as disbanding al-Wifaq; but although some al-Wifaq members were arrested it refrained from such a step which would have annihilated the potential for future dialogue both with the group and its Shi'i clerical mentors.

The only master plan presented in recent decades with regard to political development is the National Action Charter (NAC), which presented the (vague) idea of a constitutional monarchy and was endorsed by a referendum in 2001 (by an impressive 98.4% of voters). Implementation in 2002 fell short of the stated goals, however, and the opposition saw the 2002 constitutional changes as a betrayal.

The government set out its program for economic development in 2008 in the "Economic Vision 2030." This master development plan remains limited to economic issues; it aims at further diversifying the economy in order to reduce dependence on hydrocarbon revenues and create a more sustainable economic base. The financial sector is at the core of the strategy (the government intends to build on Bahrain's leading role in the region here, in spite of growing competition from Qatar and the UAE). Other promising sectors are tourism and manufacturing. The government has generally stuck to these priorities.

The government is able to pursue long-term policies but the incumbents sometimes revert to short-term strategies to reduce popular discontent. The policies implemented in the wake of the Arab Spring revolts (including a massive spending campaign) are the clearest indicator of this.

The executive also seems to be divided over the future course. Although the inner workings of the Al Khalifa are inaccessible it seems reasonable to assume that the king and the crown prince still see limited and measured liberalization (both political and economic) as the way ahead. At the same time a more hardline group seems to be gaining control, including the prime minister, and possibly the "Khawalid," a group centered on the Minister of the Royal Court. The king often appears unable to

assert his policy decisions. This competition among the elite clearly hampers the government's capability to prioritize.

The incumbents' political reform intentions outlined by the NAC in 2001 have remained largely unfulfilled. There is clearly no readiness to engage in further liberalization. The rationale could be that giving in to opposition demands would open a Pandora's box, making the country uncontrollable and jeopardizing the survival of Al Khalifa rule. Resistance to the reform process is unevenly distributed among different factions within the ruling dynasty and government. Prime Minister Khalifa bin Salman is widely viewed as one of the leading hardliners opposed to reform, while Crown Prince Salman bin Hamad is considered a reformer. The king's stance is unclear.

Competition among the elite has become pronounced since 2011, with the king's directives repeatedly ignored, and the crown prince evidently stripped of his mandate to engage with the opposition early in 2011.

This competition has also damaged the economic reform program initiated by the crown prince. After major labor market reforms in 2008 and 2009, including a revision of the sponsorship system, the uprising has seen the government reversing these reforms. In March 2011, the government announced another extension of the suspension of fees levied on business owners for foreign workers and a reduction in the minimum quota for local workers. Even prior to this the government struggled to reduce the proportion of expatriates in the private sector. Despite incentives, the number of Bahrainis in private sector jobs has declined from roughly 30% in 2000 to 19.5% in 2011. Moreover, since March 2011 economic and labor market reforms have also been hampered by personnel changes among those charged with implementing them. It is believed that some figures have been replaced by successors more sympathetic to the prime minister's government rather than to the crown prince's reformist agenda.

The government's willingness or ability to engage in policy learning is limited. While some reforms are direct responses to popular demands, the incumbents have demonstrated a refusal to embark on reforms that could eventually jeopardize the survival of the current system. The constitutional changes of early 2012 are but one example: while they look like an acknowledgement that reform is inevitable, they lag behind both popular demands and the steps required to establish a true constitutional monarchy. As continuing protests show, incumbents are not willing to learn from policy errors committed over the past decade. Another interpretation is that the reformers are unable to impose their will on hardliners.

The picture is slightly different when it comes to economic reforms. Here there is a readiness to engage in reform policies and to change past practices. The economic diversification strategy has responded to manifest needs to ensure sustainable

Implementation

4

Policy learning

3

development and eventually reduce dependence on oil. The government has also carried out privatization reforms to reduce state influence in economic matters. The government has, however, back-tracked on its economic and labor market reforms. This is partly a reaction to the business community's rejection of reforms, but also a result of elite infighting.

15 | Resource Efficiency

Bahrain is no exception in a region where state bureaucracy is traditionally one of the best employers in terms of status and benefits granted to public sector employees. Public employment therefore remains an attractive option for Bahraini citizens. The numbers are clear: only about 19.5% of private sector employees are Bahrainis. The artificially inflated state bureaucracy lacks efficiency, and human resource costs constitute a major part of government expenditure.

Efficient use of
assets

4

The state provides few incentives for young graduates to assert themselves in the private sector. For employers, employing Bahraini citizens is more expensive than hiring expatriates (and it is harder to dismiss them). Besides, unemployed Bahrainis benefit from the unemployment scheme even if they have never worked before. Such policies, while possibly contributing to social calm, are economically questionable.

While the state budget was sometimes balanced before 2009 thanks to high oil prices, all budgets since then have been in deficit. For the 2013 – 2014 fiscal period, the draft budget projects a BHD 662 million deficit (6.1% of GDP or 19.2% of the annual budget). Owing to the structure of revenues, particularly the dominance of oil revenues (85%) that balance is still likely to evolve. At the time of writing world oil prices were slightly above those used for calculation of the state budget; this means the final deficit will actually be lower than foreseen. The government has increased its projected spending by 19% in 2012, mostly as a result of a politically motivated rise in subsidies.

Parliamentary control of the budget, although constitutionally guaranteed, remains limited in reality, as the draft laws submitted to parliament and committees are vague – only references the sums to be allotted to different ministries and other government agencies, with no opportunity for deputies to check details.

Municipal councils introduced with the reform process do not represent an effective decentralization of state resources (and debates on how to use them), but have instead decreased transparency.

In recent years Bahrain has witnessed an increase in inter-ministerial committees intended to coordinate government policies. In spite of these steps, the government does not always pursue consistent policies, as some competencies are not delineated. On some occasions, especially when senior members of Al Khalifa are involved,

Policy
coordination

5

government agencies or boards take precedence over ministers, as in the case of the Economic Development Board (EDB) chaired by Crown Prince Salman bin Hamad that acts as the leading player in economic planning (instead of the Ministry of Industry and Commerce).

There are divergent political power circles at work, following different visions; these conflicts cannot be solved by inter-ministerial committees.

Reports on corruption among members of the royal family, including the prime minister and ministers, surface periodically, but are rarely followed by lawsuits. After the establishment of the General Directorate of Anti-Corruption and Economic and Electronic Security in 2011, 97 corruption-related cases were reported in 2012, including 15 cases of office abuse, 72 embezzlement cases and 11 bribery cases. Only on one occasion have public prosecutors initiated proceedings against a sitting government minister: in March 2010, Minister of State Mansur bin Rajab was arrested on charges of corruption and subsequently dismissed from government (although he was soon released without indictment).

Anti-corruption
policy
5

The opposition regularly cites widespread corruption in Bahrain but generally avoids attacking specific persons, fearing retaliatory measures by the government (often charges of defamation). Every now and then, corruption is picked up as a central issue by the government. The Bahrain Center for Human Rights (BCHR) has accused the government of using double standards: while smaller cases are tackled with severity and prominently covered by the media, senior officials continue to enjoy de facto impunity.

Parliament's control mechanisms remain insufficient. While the control of government spending is explicitly part of parliament's mandate, the two chambers lack expertise and manpower for exercising this power efficiently. Only once has the Council of Representatives managed to successfully investigate a case of irregular behavior, namely in the case of the financial crash of the two predecessor organizations of the Social Insurance Organization (SIO) in 2004. Then too, the government tried to cover up the case.

There has been some progress: legislation passed in 2002 increased the transparency of procurement processes. Yet rumors of irregularities in tendering processes persist.

16 | Consensus-Building

Consensus on democracy and other "noble" objectives such as transparency, equal opportunity and social justice is largely a matter of rhetoric. All major actors use these terms, but even where they are not simply paying lip service their interpretations of these concepts differ widely.

Consensus on goals
5

Democracy is a good example: for incumbents, democracy is generally limited to the use of some democratic instruments such as elections. Officially, Bahrain is presented as a constitutional monarchy, but in reality it remains an authoritarian regime. Incumbents have not demonstrated any intention to substantially alter that system.

Opposition activists also use the word “democracy,” but rarely in the sense of liberal democracy, especially when it comes to personal freedoms. This is true of many Shi’i Islamists, who represent themselves as Islamic liberals but strongly oppose any attempt to establish civil personal status as it could reduce the influence of religion and the Shi’i clergy. The representation and protection of religious minorities is another issue which could cause conflict between democracy and Islamist convictions.

Moreover there is fundamental conflict on the future of the political system as such: while few were (openly) in favor of a republican system before 2011, this has now changed. For a growing number of Bahrainis the monarchical system is no longer desirable. This, of course, is unacceptable to Al Khalifa and its allies.

The ever-growing sectarian divide in Bahraini politics also makes compromise harder to achieve. Those advocating a more secular outlook are becoming increasingly marginalized on both sides of the divide.

There are several factions in government opposed to democratization which can effectively block transition toward democracy. Even those generally viewed as reformers are often more concerned with liberalization than democratization. More hardline members of the ruling elite are increasingly opposed to any form of liberalization, and the repression of protests from 2011 onwards was an illustration of their strength. Efforts at dialogue announced by the king and the crown prince have faltered. Bahrain’s Independent Commission of Inquiry (BICI, headed by the Egyptian-American Mahmoud Cherif Bassiouni), mandated to research the regime violence in spring 2011, is a case in point. While the king’s establishment of the commission was an unprecedented step, as was the transparent publication of its report, the prime minister’s government has obstructed implementation of its recommendations.

There are powerful actors in civil society, in particular among the Shi’i clergy, whose attempts to limit civil liberties (for women in particular) undermine democratization efforts. The same is true of some Sunni Islamists who present Bahraini bills to Saudi religious scholars for approval, while Sunni Islamists generally have stronger reservations toward liberalization than their Shi’ite counterparts, as they fear losing their privileged position. Salafis are often very adverse toward civil liberties on principle.

Anti-democratic
actors

3

Sincere pro-democracy activists can be found among the non-sectarian groups such as Wa'd. Under the institutional settings, however, they are not able to impose their will on the government.

During the 1994 – 1999 uprising the government exploited sectarian differences, portraying the opposition as an exclusively Shi'i force. It implicitly hinted at the danger of a Shi'a-dominated Bahrain and the prospect of becoming an Iranian satellite. This strategy was successful both among Bahrain's Sunni population and with Arab and Western governments.

Cleavage /
conflict
management
2

Reconciliation efforts initiated by Hamad bin Isa Al Khalifa after 1999 rendered such strategies redundant, although the conflation of Shi'a and Iran still surfaced occasionally. As the failure of the reform became apparent and tensions increased (partly because of an increasingly vocal opposition), the cleavage rationale reappeared. Rather than reacting to demands of the Shi'ite opposition (such as investigation of former human rights abuses), the executive branch responded with repression. In August 2010, the government launched a press campaign against several senior members of the Shi'i opposition (mostly members of unauthorized groups such as Haqq and the Bahrain Center of Human Rights), allegedly members of a network that had plotted to overthrow the government. While the term "Shi'a" was not used the campaign carried a clear sectarian association. The frequency of such campaigns has increased, particularly since the events of early 2011.

Since March 2011, the executive branch has used a number of repressive strategies to increase sectarian tensions, including dismissal of Shi'i state employees, including doctors, the demolition of Shi'i congregational houses and mosques, the revocation of citizenship of Shi'i activists, and the overall repression of the Shi'i-dominated protests. Most victims of state violence are Shi'ites.

At the same time rhetoric defaming Shi'ites is neither all-pervasive nor based on religion: rather, government functionaries responsible point to alleged ties to Iran or Hezbollah. Saudi-style religious defamation of Shi'ites is not widespread.

Certain policies exacerbate rather than alleviate cleavages and sectarian conflict. Not only has the government been unable or unwilling to reduce inequality between Sunnis and Shi'ites, the ongoing naturalization of Sunnis (as alleged by the opposition) does not contribute to reconciliation.

Government officials occasionally enter into dialogue with civil society actors, but the government usually ignores civil society organizations. There are no institutionalized mechanisms allowing civil society a say on agenda-setting, let alone decision-making.

Civil society
participation
4

In July 2011, King Hamad called a forum termed "Bahrain National Dialogue" with the participation of 300 organizations, among them al-Wifaq, but also non-political

associations (with groups such as Haqq or al-Wafa abstaining). The outcome was disappointing and the dialogue did little to ease tensions. Talks resumed in February 2013 but at the time of writing they have not resulted in a significant outcome.

Although national reconciliation was an objective after the end of the 1994 – 1999 uprising, there has never been a genuine national dialogue. Former resistance and opposition activists were supposedly involved in drawing up the 2001 National Action Charter (NAC), but in reality the process remained largely at the discretion of the government which, the opposition alleges, presented its charter as a *fait accompli*.

The government has always taken a top-down approach. Rather than following the opposition's call for a forum of transitional justice (comparable to the Truth and Reconciliation Commission in post-Apartheid South Africa), the king announced a general amnesty law applicable to all crimes committed in relation to the unrest, basically granting former torturers impunity.

Despite opposition pressure, the government has never formally acknowledged its role in the abuses of the 1990s. It has similarly failed to introduce a formal process for compensation of past injustices. Victims of torture and former exiles have occasionally received compensation, but only at the governments' discretion.

Human rights abuses have never been discussed openly, let alone investigated.

Recent attempts of national reconciliation, such as the Bahrain National Dialogue of 2011, have followed a similar approach, with the outcome widely dictated by the government.

Reconciliation
3

17 | International Cooperation

Bahrain receives a modest degree of international assistance, mostly from the World Bank and the UNDP. The World Bank has run a number of projects for decades, assisting the country in its modernization efforts (fiscal restructuring, privatization, review of the social security system). Some major international projects, such as the GCC-Africa power grid network, are likely to receive financial support from the World Bank.

In terms of political assistance, Bahrain invited the National Democratic Institute (NDI) to Manama in the early 2000s, but then terminated its directors' residence permit. Participation of Bahraini politicians in some programs outside the country is tolerated, but at the discernment of the government.

UNDP programs cover different areas such as water, education, social development, the environment and health (mostly HIV/AIDS prevention). The UNDP has a local office in Bahrain, which is financed by the Bahraini government, and cooperation is

Effective use of
support
5

stable. In May 2011, however, the UNDP's Executive Board deferred deliberations on the Country Program for the 2012 – 2016 period due to the ongoing domestic conflict (as it also did in Yemen and Syria).

In spite of these activities, there is no master plan for social development which would ensure a clear role for international actors. Differences remain between the UNDP goal of democratic governance and the Bahraini government's interpretation of democracy.

Bahrain generally enjoys a high degree of confidence from international actors, but conditions vary between economic and political realms.

Credibility
6

Bahrain is seen as a strong economic performer and there is high confidence in its future prospects, although the country's credit ratings recently suffered a downturn. To date, two out of the three major rating agencies (Standard & Poor's and Moody's) rate Bahrain's outlook as "negative," with ratings between Baa1 and BBB. Only Fitch considers its outlook as "stable." These changes are recent (March and May 2011) and are linked to the political turmoil of the first quarter of 2011.

It remains to be seen how the reversal of labor reforms affects trust in Bahrain's policies.

Some Western countries point to Bahrain's democratic achievements while unofficially acknowledging the real character of the regime. Outside opinions of the regime have deteriorated due to its handling of the protests but unlike protesters in Tunisia, Egypt, Syria or Libya, Bahraini demonstrators have not received official backing from any Western government. Some EU countries and the European External Action Service voiced concerns about the escalation of violence, yet there was no open criticism of the Bahraini government, nor was its legitimacy called into question. The Western approach toward the Gulf region often appears to be a quest for reliable partners rather than promotion of democracy.

Rumors in August 2012 suggested Russia would put the situation in Bahrain on the U.N. Security Council's agenda, but this did not materialize. Human Rights Watch, the International Crisis Group and Amnesty International are among the few international bodies which regularly voice criticism of the Bahraini regime.

Bahrain appear eager to maintain good and friendly relations with its Arab neighbors in the Gulf. Unlike other GCC member states, it has had no unresolved border dispute since 2001. The country's attitude toward regional integration in the framework of the GCC is positive and it relies on the GCC's support, as demonstrated by the alliance's military intervention in 2011. Even after the withdrawal of Qatar and Oman it remains committed to the GCC's monetary union.

Regional
cooperation
8

The closest relationship is with Saudi Arabia. Unlike the UAE and Qatar, Bahrain has never pursued foreign policies counter to Saudi Arabia's interests. In May 2012, plans for a Saudi-Bahraini political union were made public, to be met with immediate protest from Bahrain's opposition.

Despite the settlement of a territorial dispute with Qatar by the International Court of Justice in 2011, relations remain frosty. One bone of contention is the role of Al Jazeera, which is based in Qatar. In August 2011, a report on the Bahraini Arab Spring aired by Al Jazeera was heavily criticized by Bahraini officials, sparking rumors of a downgrade of bilateral relations (officially denied). However, Al Jazeera was largely reluctant to report on the Bahraini uprising, indicating a bottom-line solidarity between both regimes. Other areas of dispute persist, such as Qatar's refusal to deliver gas to Bahrain, although this may be a simple disagreement in price negotiations. In 2012 it was announced that completion of the Qatar-Bahrain Friendship Bridge project, scheduled for 2015, will be delayed by some seven years.

Bahrain's relations with Iran are complicated. There is will on the Bahraini side to maintain a working relationship, but that does not restrain either side from verbal attacks. Bahrain occasionally accuses Iran of intervening in Bahrain's domestic affairs and portrays Shi'i groups as Iranian agents. Yet Bahrain does not support the idea of a U.S. military strike against Iran, as it is likely to be a primary target of Iranian retaliation.

Strategic Outlook

Bahrain has been witnessing an unprecedented level of confrontation involving large sections of the population. The violent repression of the protest movement in 2011 has not managed to restore calm, and violent clashes occur regularly. Forces like al-Wifaq (relatively non-violent), Haqq, al-Wafa and the different youth committees (more intransigent) struggle to find the right path, and some see escalation as a viable option.

The events of 2011 and ongoing conflicts have further deepened distrust between the country's Shi'ites and Sunnis. While the sectarian dimension had long been present (with a major increase in the 1990s, when Islamism – Sunni and Shi'i alike – was on the rise), recent events have further jeopardized the potential for national reconciliation.

In spite of swift economic recovery, the continuation or further escalation of conflict over years could have a devastating impact on the economy if investors or banks become convinced that the government is unable to maintain security. So far, foreigners and the central financial districts where foreigners work have been largely spared; but should the more radical element of the opposition change its strategy, investors could quickly transfer their assets to Qatar or the UAE.

Therefore it is crucial that the government engage in new dialogue with major opposition actors, the outcome of which should be open-ended and not dictated as in previous attempts. Such dialogue will only be successful if the government acts honestly, which has not been the case so far. The government must also show real readiness to accede to substantial demands such as constitutional reform which results in a more powerful elected chamber. This would also imply government accountability before parliament or even the possibility of parliament electing the prime minister and cabinet. Likewise, the government must be ready to tackle the issues of discrimination and "political naturalization," and engage in a process of transitional justice in which human rights abusers can be tried.

In institutional terms, this would require the surrender of absolute power; in the long run, Al Khalifa rulers must be willing to agree to transform Bahrain into a constitutional monarchy. The royal family would then retain its (rather abstract) ruling position but leave concrete governing power in the hands of a distinct government. It is clear that this requires visionaries within the Al Khalifa family who are powerful enough to implement such directional change; in more concrete terms, it means confronting factions which are likely to lose some of their power and influence, among them Prime Minister Khalifa, who is one of the key targets of the opposition.

In economic terms, Bahrain must undertake reforms in order to reduce its dependence on oil prices and Saudi Arabia's benevolence. It therefore needs to review its tax system and raise overall rates of taxation. Likewise, government subsidies must be thoroughly reviewed and perhaps replaced by needs-based system. All this, however, is unlikely to happen if there is no dialogue between government and opposition; deciding on and implementing unpopular measures can happen on the basis of shared political responsibilities.

