

# BTI 2016 | Bahrain Country Report

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This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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	1.4	HDI	0.815	GDP p.c., PPP \$	45478.9
Pop. growth <sup>1</sup>	% p.a.	0.9	HDI rank of 187	44	Gini Index	-
Life expectancy	years	76.7	UN Education Index	0.714	Poverty <sup>3</sup>	% -
Urban population	%	88.7	Gender inequality <sup>2</sup>	0.253	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

At the start of 2015, Bahrain's government was heading toward a new level of state repression, with growing acquiescence among political opponents. In the period under review, political reform remained cosmetic, failing to disguise the authoritarian structure of the ruling system. Bahrain's economy profited from these stable conditions; it recovered both from the global financial crisis of 2008 and the disruptions caused by the political turmoil that the country experienced in the wake of the Arab Spring in early 2011.

In the period under review, most of the leaders of the opposition have been in detention. Amendments passed in 2013 and 2014 to the country's anti-terrorism legislation have been used to keep political opponents in detention either without charge, or with accusations of inciting violence and jeopardizing the stability of the country. A further red line has been crossed with the detention of Ali Salman, leader of al-Wifaq, the moderate Shi'ite opposition group that arguably forms the largest political bloc in the country. The government has successfully played on the sectarian dimension of the opposition movement with the result that sectarian tension in the country has grown exponentially. Examples of these mutually enforcing dynamics in the period under review include the dissolution of Bahrain's highest religious (Shi'a) council and a raid on the house of a supreme Shi'a spiritual leader, Sheikh Issa Qassem. Numerous Shi'ite political activists were detained during nighttime home raids conducted by security forces, while demonstrations have repeatedly been banned from the capital and the surrounding villages. Local and international human rights groups have documented the way that torture has become endemic in Bahrain's prisons.

The political dialogue between the government and opponents, even in the form of a National Dialogue initiative relaunched in 2014 by the reform-oriented crown prince, Salman bin Hamad, has come to a standstill. The parliamentary elections of November 2014 were largely boycotted by the opposition, who alleged that the election process discriminated against the Shi'a through gerrymandering and outright flaws, as well as the generally impotent state of the parliament.

The decision to boycott the political process altogether is indicative of the heightened polarization of anti-government activists. The pro-democracy movement, which called peacefully for civil rights and liberties in early 2011, mobilizing tens of thousands of citizens from all sectarian groups and socioeconomic strata of the country, has largely been turned into an underground resistance movement calling for the end of the existing political system and the abdication of the ruling family. When protesters gathered in the streets in the period under review, they clashed with security forces on a regular basis; they burned cars and tires, and threw bottles and stones. Attacks on police patrols and stations killed three officers. Anonymous social media activists vehemently document Bahrain's struggle, although some have sought asylum abroad. Opponents of the government have increasingly become frightened to reveal their identity.

As the riot police force is largely composed of Sunni mercenaries, xenophobic tension and discrimination against expatriates have risen. Asian migrant workers, who – despite government efforts toward a “Bahrainization” of the economy – constitute about 80% of the workforce in the private sector, suffer from discrimination, social exclusion and human rights abuses.

The government has been accompanying its repressive political strategy with large investments in the state's infrastructure and welfare program. The economy has recovered from a 2012 delay in production at the Abu Safah oil field, from which Bahrain derives more than half of its net revenues. Despite low oil prices, Bahrain's overall economic picture in the period under review was strong, exhibiting a solid growth of 5.3% of real GDP in 2013 and 4.2% in 2014. The government has been eagerly trying to reclaim the country's international reputation as a stable and investor-friendly financial hub, despite the tense political situation.

## History and Characteristics of Transformation

Since their conquest of the archipelago in 1783, the al-Khalifa family has established dynastic and absolutist rule in Bahrain. From the outset, this provoked a strong antagonism between the Sunni ruling family and their Sunni supporters on the one hand, and the large majority of the population, who see themselves as native Shi'a, on the other. In the twentieth century in particular, conflict between Sunni and Shi'a became pronounced and was articulated in political terms, either in waves of strikes and petitions (1938, 1956), or in social unrest (during the 1990s).

The British played a significant role in institutionalizing and ensuring the survival of the minority Sunni rule headed by the pro-British al-Khalifa monarchy. In 1820, Bahrain became a protectorate of the British Empire. During Bahrain's time as a British protectorate, police were recruited from British India. The strategy of importing foreign mercenaries to control local dissent continues today. After the British forces withdrew from the Gulf in 1971, the monarchy's dependence on external support to defend itself against internal uprisings and larger neighbors translated into a close alliance with the United States, whose Fifth Fleet is stationed in Bahrain. In 2014, Bahrain joined the U.S.-led raids against the so-called “Islamic State” (IS) in Syria and Iraq.

The monarchy's dependency on external support is strengthened by Bahrain's geopolitical location. The country's population is small (a 2011 census counted fewer than 1.3 million inhabitants, of which 60% were migrant workers). The country's natural resources (oil, aluminum, natural gas) are equally limited. Bahrain shares its only oil field, Abu Safah, with Saudi Arabia, whose ARAMCO heads the extraction. Rents derived from Bahrain's natural wealth have been heavily invested in the modern infrastructure of the state and welfare measures, such as free education and free medical treatment for its citizens. Despite the government's pronounced interest in diversification, Bahrain still derives nearly 80% of its total revenues from the extraction and further processing of oil. Bahrain's dependency on Saudi Arabia is reinforced because the only land access to Bahrain, the King Fahd bridge, begins in the neighboring kingdom. The Bahraini and Saudi monarchies share a Sunni hegemonic interest that has become more pronounced since the 1979 Iranian Revolution given Iran's equally hegemonic Shi'a ambitions. In 2011, Gulf Cooperation Council (GCC) troops, largely composed of Saudi military, entered Bahrain to help the Bahraini monarchy end large pro-democracy demonstrations in the capital.

The sectarian Gulf, which has come to dominate Bahrain's transformation process in the period under review, is closely linked to the political economy of the country, which maintains a system of privileges, favoring certain ethnic and sectarian groups over others. While Shi'ites make up around 70% of Bahrain's native population, their rulers, the majority of the government, military and business leaders are Sunni. This is coupled with a governance approach that reinforces identity politics, thus maintaining a separation between Bahrain's communal groups (for instance, Baharna versus Huwala and Ajam, tribal Arabs versus Asians and Westerners). This divide-and-rule strategy successfully undermines any civic and political interests of a national scope.

When the current king, Hamad bin Isa al-Khalifa, came to power in 1999, he announced an economic and political reform process and issued a general amnesty for political prisoners, inviting exiled political activists to return. A National Action Charter that appeared to promise significant political reforms was approved in a general referendum in 2001 (98.4% yes votes). The country was then proclaimed to be a constitutional kingdom. One year later, the king issued an amended constitution. Since then, however, the reform process has increasingly turned into a masquerade. The electoral process has continuously suffered from discriminatory practices, gerrymandering and a de facto impotent parliament have motivated government opponents to boycott the mechanisms of the established political system, which cannot disguise the authoritarian nature and absolute power in decision-making of the king.

While Bahrain's democratic reform process has never really taken off, economic reforms have proven more successful. King Hamad's government has implemented policies to ensure greater accountability and transparency, as well as a gradual liberalization of state monopolies. Privatization has been eagerly pursued, although the economy remains state-dominated. In 2008, a long-term "Economic Vision 2030" was launched, promising more structural reform.

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

Question  
Score

The state's monopoly on the use of force is being seriously challenged. Since 2011, Emirati and Saudi security and military forces have been stationed in Bahrain, as both symptom and cause of the state's deteriorating monopoly on the use of force. Bomb attacks on police stations killed three police officers in 2013 and 2014. At the same time, confrontations between protesters burning tires and police armed with tear gas have become routine. In periods of heightened political tension, such as the 2014 parliamentary elections and at funerals, police patrols have been attacked at night in the villages and towns around the capital.

Monopoly on the  
use of force

6

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

The widespread resentment of the police, and particularly the riot police, has been strengthened by the Bahrain Independent Commission of Inquiry (BICI). Their report documents how security forces were responsible for killings and systematic torture during and after the uprisings in 2011.

Despite major disputes surrounding the legitimacy of the royal family's rule, the nation-state itself and the principle of statehood are not questioned. Rioters accuse the monarchy of being a "dictatorship" and "autocracy" that denies Bahrain's citizens of political and human rights. The ruling elite see their sovereignty, which they equate with the stability of the state, as under threat from "terrorists" and rioters fueled by "foreign powers."

State identity

6

Bahrain features at least two competing national narratives: a Sunni narrative reaching back to the al-Khalifas' conquest of Bahrain in 1783, and a Shi'i Baharna (native inhabitants) narrative.

The Bahraini government revoked the citizenship of 31 Shi'ites (Arabic-speaking Baharna and Persian-speaking 'Ajam alike) in November 2012, and the citizenship of nine convicts from each group in August and September 2014 respectively. Amendments of the anti-terrorism laws, which passed in July 2013, include stripping people convicted of "dangerous terror crimes," such as "criticizing the king," of their citizenship. The government has been accused of political naturalization or conferring Bahraini citizenship illegitimately on Sunnis for largely political motives. The state has incorporated Syrian, Yemeni and Baluchi Sunnis into its security and police forces. A royal decree issued in 2002 allows other GCC citizens to hold dual-Bahraini citizenship, a constitutional amendment interpreted as an effort to win over Sunni Saudis who live in the border regions and vote in favor of the Bahraini government.

The constitution of Bahrain establishes Islam as the religion of the state and the Shariah as one source of law, albeit not the sole one. Most legislation is not derived directly from religious sources but rather follows Western examples. One noteworthy exception is personal status matters, which are dealt with by separate Sunni and Shi'i religious courts (which adhere to the Maliki and Ja'fari schools, respectively). Family law in particular serves as a symbol of Islamic identity. Religious scholars have long resisted government attempts to create a unified personal status law because codification is seen as an intrusion on religious authority. However, in 2009, the government passed a personal status law for Sunnis that does not apply to Shi'ites. In Bahraini Shi'a Shariah courts, personal status matters are still decided on a case-by-case basis by judges, who use their own discretion and Islamic sources to interpret tradition.

The constitution of Bahrain guarantees freedom of conscience and the inviolability of worship and religious rites. Indeed, non-Muslims, especially Christians and Jews, are free to practice their faith.

The state does not make an official distinction among its citizens on religious or sectarian grounds; religious or sectarian affiliation is not listed on birth certificates or identity cards. Yet in reality, the sectarian divide is very much present in society and politics. Most Bahrainis can determine a person's affiliation from his or her name and other characteristics. A "self-imposed sectarian differentiation" has led scholars to compare Bahraini society to "an almost apartheid-like system of voluntary segregation." In the wake of the 2011 uprisings, sectarian tension has become one of the most significant fault lines in the country. In January 2014, the government dissolved the Shi'a Council of Islamic Scholars, the highest religious institution in the country, thus pressuring the political opposition through sectarian targeting.

No interference of religious dogmas

6

Overall, basic administrative structures are well-established. On the basis of its natural resources, Bahrain has developed into a modern welfare state that offers its citizens infrastructure, school-level education and basic health services without claiming taxes.

Basic  
administration  
8

The quality of services varies greatly throughout the country. Many largely or exclusively Shi'a neighborhoods and villages have a poorer infrastructure than the national average. Rural–urban differences replicate to a certain extent the sectarian divide in the country. In both rural and urban Bahrain, the latest telecommunication technology is pervasive.

Bahrain is largely centralized. Most issues are addressed on the national level. Until September 2014, when a royal decree dissolved the Central Governorate for reasons of national electoral reform, Bahrain consisted of five governorates. The dissolution of the Central Governorate, without prior notification and against the voices of those involved in its administration, is indicative of the limited power and responsibility of governorates. Often there is no clear distinction between the responsibilities of governorates and municipalities.

## 2 | Political Participation

Since the reintroduction of elections following the 2001 National Action Charter referendum, Bahrain has held four parliamentary elections (2002, 2006, 2010 and 2014). 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 election campaigns, harassment of opposition groups, and other breaches. Two months before elections were held in November 2014, electoral reforms led to redistricting. The new constituencies severely hindered the chances of Sunni Islamist and populist candidates in favor of tribal independents, but did not appease the accusations raised by the political opposition.

Free and fair  
elections  
2

The opposition group al-Wifaq, which claimed 64% of the popular vote in 2010, was banned for three months only weeks before the 2014 elections after they announced their intention to boycott. Three more opposition groups boycotted the elections, claiming that major flaws in the voting process would affect the electoral outcome. The Bahraini parliament is furthermore seen as impotent due to its bicameral nature, with only 40 members of the lower house (the Council of Representatives) elected, while the other 40 members of the upper house (the Consultative Council) are appointed by the king.

While the government claimed a voter turnout of 51% in the first round of elections, the opposition spoke of 30% only, and claimed that 80% of voters were government-paid. The government had introduced 13 new polling stations, mostly at the borders of the country. Although an international election observation team was allowed into

the country, such remote stations could hardly be monitored, raising suspicions that pro-government dual-citizenship holders of Saudi origin as well as military and police personnel were being bussed in to voting stations.

Bahrain's government is neither democratically elected nor accountable to any democratic institution. The head of the government is the unelected prime minister, Khalifa bin Salman al-Khalifa, the uncle of the current king, and has served in this position since 1970. The king formally wields uncontested power, though his decision-making is subject to royal factionalism and inter-family negotiation.

Effective power to govern

1

The constitution guarantees basic freedoms such as freedom of expression, association and assembly. Article 27 postulates the right to establish or join associations (and unions). An additional Law of Associations dated to 1989 specifies that NGOs must obtain a permit from the Social Development Ministry and are not permitted to engage in politics. Amended in 2002, the law prohibits activities that could affect "the foundations of the Islamic faith or the unity of the people or stir a discord or sectarianism."

Association / assembly rights

2

The activities of civil society are severely hindered by the authorities: registration applications are arbitrarily rejected and the supervision is intrusive. Organizations whose leaders have criticized government officials or their policies have been taken over or dissolved. An even more restrictive Draft Law on Civil Organizations was approved by the government in August 2012 and sent to parliament in January 2013, where it has remained pending since. The draft law has been internationally criticized for, for instance, allowing authorities to reject an organization if they determine that Bahraini "society does not need its services" or if there are "other associations that fulfill ... society's need."

A Law of Assembly originally passed in 1973 and frequently revised since, stipulates that a citizen must obtain a license to hold a demonstration, although the government regularly denies permission. As a consequence of ongoing protests since 2011 and rising levels of violence, the king decreed additions to the country's anti-terrorism legislation in July 2013. These include heavy penalties for unlawful demonstrators, such as large fines and the stripping of citizenship. Another amendment is under revision in parliament, and would further restrict the right to assembly and require organizers of demonstrations, for instance, to provide BHD 20,000 (more than \$50,000) as a security deposit. In the period under review, several protesters were killed in illegal demonstrations. Since all demonstrations have basically been banned, funeral gatherings have often turned political, with reform slogans shouted in mourning. Riot police have regularly dissolved such marches using tear gas. Numerous clashes between security forces and opposition activists occur at the margins of gatherings. An emergency law issued by the king in August 2014 banned all protest and public gatherings from the capital Manama, a measure which further pushes organizers and peaceful protesters into illegality.

The constitution officially guarantees freedom of expression (Article 23), but it imposes explicit limits when 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. Although Bahrain has a legal framework for basic freedoms of expression with explicit legislation in each relevant field, severe restrictions on the freedom of expression have continued in the period under review. Legislation such as amendments to the anti-terrorism law passed in July 2013 has been instrumentalized to this end.

Freedom of  
expression  
2

The press law (issued in 1965, with several amendments since) explicitly restricts coverage of topics that might harm the ruling system. Criticism of the king or advocacy of a change of regime is punished with up to five years of imprisonment. Yet the law remains vague and invites the authorities' interpretation, as well as self-censorship, given that the "disturbance of public decency" is an imprisonable offense. Several well-known journalists are currently imprisoned despite international solidarity claims and letter writing appeals to the royal family. The law prohibits the distribution of any publication without written approval from authorities. The Information Affairs Authority monitors national media, which it can (and does) censor. Although the owners of the country's three main newspapers are private individuals, they all maintain intimate ties to the state. Licenses to found new newspapers are restricted. National radio and TV are entirely government-controlled. In August 2013, the government declared an "emergency media strategy" to counter what it deemed to be false reporting on the country's political crisis. The new legislation, which according to state officials follows a "zero tolerance" approach, means on the one hand increased monitoring and the Information Affairs Authority's presence in social media, while on the other hand the state-run Bahrain News Agency has been promoted as "the main source of information to local and international media outlets." Internet access is subject to restrictions and a number of websites remain inaccessible within Bahrain. Bahrain's blogging scene is very active and diverse, though under permanent scrutiny from authorities. Popular bloggers have been persecuted on charges of defamation or incitement to hatred. Numerous cases of authorities intimidating and torturing internet activists have been reported. Prominent internet activists operate from underground or have left the country, like "blogfather" Ali Abdel Imam, who sought asylum in the United Kingdom.

### 3 | Rule of Law

Separation of powers is a constitutional principle (Article 32). In reality, however, there are few checks and balances on executive authority. The king appoints all ministers of the government. In December 2014, the fourth cabinet reshuffle decreed by the king saw 11 new ministers, yet the most important posts remained occupied by al-Khalifa family members (prime and deputy prime minister, ministers of foreign affairs, of interior, of finance, of Islamic affairs).

Separation of  
powers  
3

Government accountability to parliament is limited. The king appoints the president of parliament, as well as half of its members (all 40 deputies of the Consultative Council; the 40 deputies of the Council of Representatives are elected by the people). The National Assembly may propose legislation but only the Legislation and Legal Opinion Commission, a government body, eventually drafts laws (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 Consultative Council is widely viewed as loyal to the incumbents, it is very unlikely parliament will pass legislation that runs contrary to government policies.

Parliament can question ministers and the chambers 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 that can bring a no-confidence vote in this way. Yet the king can either follow the council's recommendation or dissolve the assembly.

The power of the elected representatives to legislate effectively remains limited. Royal decrees, for instance, can only be approved or rejected, and not amended.

The judiciary does not act independently of the executive authority. The judicial system is headed by members of the ruling family. The king appoints judges. The Ministry of Justice and Islamic Affairs directly influences prosecutors. Public prosecutors are often manipulated for political purposes, such as pressing charges against opposition activists and politicians. In January 2014, for instance, Khalil al-Marzooq, the assistant secretary-general of al-Wifaq, the main legal opposition group, was held for 30 days in jail after calling for regime change and peaceful protest. Once imprisoned, opposition activists repeatedly report that they have been denied legal assistance. Lawyers report serious obstacles when they represent the political opposition.

Independent  
judiciary  
3

In 2002, the king created a National Audit Court independent of the executive, which annually documents financial misconduct and maladministration on the part of ministries, public agencies and state-owned enterprises (but not the royal family itself). Although theoretically the National Audit Court has the power to transfer cases to the judiciary, in practice the enforcement of anti-corruption measures is weak. High-ranking officials have rarely been punished. In early 2014, eight government officials were suspended in connection with 25 corruption cases drawn from 426 violations then under investigation by the National Audit Court. The most prominent case during the period under review involved Aluminium Bahrain (Alba) and Alcoa, both of which were implicated in alleged bribes worth several million dollars that were presumably proffered with the full knowledge of the prime minister, who might even have been involved. The case had an impact in several countries, including Switzerland, the United States and the United Kingdom, where a former CEO of Alba was served in July 2014 a \$5.1 million fine and a 16-month jail sentence for corruption.

Prosecution of  
office abuse

4

In June 2011, the king ordered an Independent Commission of Inquiry (BICI) into the incidents that occurred during the popular unrest earlier that year. BICI reported widespread abuse of office by police and security personnel during the uprisings. As of 2014, however, only low-ranking officers have received sentences, and these are relatively light compared to the convictions for demonstrators. A police officer who shot the unarmed protester Hani Abd al-Aziz at close range was sentenced to seven years in prison, which an appellate court reduced to a six-month term. Several protesters received life-long sentences. According to Human Rights Watch, the judiciary has not (yet) held any senior official responsible for serious human rights violations, including torture-related deaths in detention that were documented in the BICI report.

Bahrain's constitution guarantees civil rights and implicitly recognizes the concept of rule of law (Article 20). 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. First, because members of the royal family enjoy de facto impunity. Second, because there is discrimination both in public policies and in the judiciary. This affects Muslim women, as personal status matters are subject to religious courts, in this case Shariah-based family law. Furthermore, there is systematic discrimination against Shi'ites, when seeking public employment, for instance. Non-Bahrainis are subject to particularly flagrant systematic violation of civil rights. In spite of a 2009 labor law reform, which scrapped the sponsorship system (kafala), foreign workers suffer from systematic discrimination. Salary differences are only one aspect; more importantly, there is no functioning system of protection against abuse.

The crackdown from 2011 to the present led to endemic torture in Bahrain's prisons. In the period under review, many incidents of riot police entering private homes at will have been publicized on social media. The property and physical integrity of citizens who openly speak out for political alternatives have not been safeguarded. Effectively citizens have no recourse if attacked by riot police or other members of the security forces.

#### 4 | Stability of Democratic Institutions

Bahrain is neither a "constitutional monarchy" nor is its system democratic, with "sovereignty being in the hands of the people, the source of all powers," as the 2002 constitution claims. The lack of democratic institutions and the extensive powers of the king qualify Bahrain as an authoritarian regime, or more precisely, an electoral authoritarian regime in which elections are flawed and elected representatives largely powerless.

King Hamad appoints and dismisses the prime minister and the cabinet. The government is not at all representative of the population, as key ministers belong to the family of the king. The king appoints all 40 members of the Consultative Council, including their president. He is chairman of the Higher Judicial Council and appoints all judges. He can rule by decree and dissolve the parliament. He has a veto right to laws passed in the National Assembly. He has the power to amend the constitution and to propose or promulgate laws.

The parliament is largely impotent; elections to the lower house (Council of Representatives) in November 2014 were boycotted by major opposition groups. The upper house ("Shura" or Consultative Council) is hand-picked by the king. Since parliament can only pass legislation that has been approved in both chambers, the effective influence of the elected representatives is counterbalanced, and ultimate decision-making remains with the king and his supporters.

Regional and local political institutions have little sovereignty in the national political system. This was demonstrated once more by the king's move to abolish – via royal decree – the Central Governorate in September 2014 against the will of the municipality.

Performance of  
democratic  
institutions  
2

Bahrain's authoritarian regime does not allow for genuinely democratic institutions. Even when institutions are ostensibly democratic, such as the de facto impotent parliament, they can be circumvented by the king. The king and the government frequently make use of certain processes for bypassing parliament, for instance, when parliament is in recess, the king can legislate by decree. Thus, in essence all relevant actors in Bahrain only acknowledge the central role of the king and his royal aides.

Commitment to  
democratic  
institutions  
2

The bicameral nature of the parliament, with one chamber hand-picked by the king, led major Shi'ite opposition parties to boycott the 2014 parliamentary elections. However, they emphasize their wish to achieve political change through an empowered parliament and have participated in parliamentary elections throughout the 2000s. Critics suggest that relevant Shi'ite actors emphasize such democratic reform only because it implies Shi'ite majority rule replacing the current Sunni leadership.

## 5 | Political and Social Integration

Bahrain's legal system does not allow for political parties. Political groups organize as NGOs under the Law for Political Societies, which the king decreed in 2005. Although the law prohibits the formation of associations on the basis of sectarian ideology, ethnic or geographic identity, in reality these political societies can easily be grouped along these criteria. The spectrum of registered political societies ranges from Sunni Islamist (al-Asalah and al-Menbar Islamic Society), leftist or secular (Wa'ad National Democratic Action Society and the Democratic Progressive Forum) to Shi'ite opposition (al-Wifaq). Religious, sectarian and ethnic orientation combine with a long history of institutionalized political discussion in Bahrain, where political clubs were institutionalized in the 1950s and 1960s, meaning that today's political groups are deeply rooted in society.

Party system  
2

Political societies are required to register with the Ministry of Justice and Islamic Affairs. There is enough elasticity in the clauses for the Ministry and public prosecutors to ban any uncomfortable political challengers. In July 2012, a Bahraini court ordered the dissolution of the Islamic Action Society. Wa'ad and al-Wifaq's legal bases have been challenged. At the time of writing, the government has imprisoned and sentenced key leaders of political societies from al-Wifaq, Haq and the Democratic Action Society.

In the last parliamentary elections in November 2014, only four of the 40 elected representatives belonged to registered political societies. Four of the major opposition parties boycotted the elections. The scarce representation of political societies in the political system reflects strategic gerrymandering. The low voter turnout (below 30%

according to the opposition) suggests a general societal frustration with the political system.

Several actors operating from outside the established political system have become increasingly popular, albeit radical, in the period under review. They refuse to register with the Ministry of Justice and Islamic Affairs and boycott parliament. They accuse the political opposition that is in dialogue with the ruling family of compromising and participating in meaningless and fake politics. Instead, this radical opposition, or rather resistance, demands the “fall of the regime” and addresses issues such as the end of sectarian discrimination, the release of political prisoners and of those held in jail without charges.

These new actors include the al-Haq Movement for Liberty and Democracy, founded in 2009 by a former al-Wifaq member and the Shi’ite movement al-Wafa. The February 14 Youth Coalition is a conglomerate named after the date of the beginning of Bahrain’s uprisings in 2011 and composed of youth initiatives and anonymous activists who organize demonstrations and political rallies via social media.

Given that there are only 585,000 Bahraini citizens (2011), the country boasts a vivid scene of social actors and interest groups. The different associations include advocacy groups for human rights, women’s rights, expatriate workers’ rights and transparency; business associations (for both entrepreneurs and workers); cultural and religious groups; and charitable funds. Interest groups are governed by the law on associations (adopted in 1989). They must register with the Ministry of Social Development, which can repressively monitor and interfere with their activities. The law imposes restrictions, such as a ban on foreign funding and political activism.

Non-Bahraini citizens are generally free to form interest groups, too. These organizations tend to be cultural clubs, because expatriate laborers are prevented from forming interest groups that voice political demands.

Bahrain has had a strong history of unionization since the mid-twentieth century. Under the Workers Trade Union Law (2002), private sector workers and employees can establish trade unions simply by notifying authorities without prior official approval. Public sector trade unions are not permitted but public sector workers can join private sector unions. While migrant workers can join them officially, too, in practice many are fearful of doing so. Strikes must be announced with a two-week notice and are forbidden in what the state deems “vital sectors” (including transportation and health care). Although private sector workers cannot be dismissed from union activities, there is reportedly continued harassment of unionized workers.

As neither the government nor the legislature solicit input in an institutionalized way, civil society actors try to make their voices heard through lobbying, petitions, and informal talks with government staff and demonstrations.

Interest groups

6

In the past, interest groups have only shown limited cooperation. Many civil society organizations (CSOs) are cross-sectarian and operate on a national level. On a local level, there are also communal organizations that – given Bahrain’s faith-segregated communities – tend to cater to the needs of their confessional group. As many NGOs are closely affiliated with certain sects and/or political societies, cooperation on common goals is often complicated and dominated by competition. The government’s stalemated attitude toward their demands, however, seems to bring different actors increasingly together. There have been co-orchestrated initiatives such as the “Stop Tear Gas Shipment to Bahrain” campaign in 2013.

This campaign illustrates how the counter-revolutionary strategy of the regime motivates Bahraini activists and campaigns to increasingly reach out to the global civil society for help and cooperation.

There is very little statistical data available on attitudes toward democracy in Bahrain; what is available, as anywhere in the Gulf region, should be read with caution. The Arab Democracy Barometer gives Bahrain the lowest score among the countries surveyed in its Arab Democracy Index. However, the index does not reveal individuals’ normative political opinions and attitudes toward democracy, which in the context of Bahrain’s political crisis have become highly sensitive questions.

Approval of  
democracy  
n/a

A substantial part of Bahrain’s political scene – that is, Shi’ite Islamists and most leftists – reject the current constitution and demand more democracy. However, it is impossible to estimate how profound their and their supporters’ understanding of democratic norms is in reality.

While the 2011 uprising in Bahrain and the subsequent government crackdown were socially divisive, many Bahrainis are capable of seeing the political conflict from multiple perspectives. They have friends and family across the political and sectarian divide, although these connections are now less diverse. There are substantial numbers of self-organized groups that tend to be communal and thus sect-based, and appear to be fairly powerful actors in providing assistance to the families of the “martyrs” caused by the uprisings.

Social capital  
3

While the degree of social trust remains hard to measure, certain developments indicate a decline. The loss of societal trust is manifest in the way regime supporters fully cover their faces during night raids, in military convoys and at checkpoints, presumably fearing retaliation measures. While the small size of the country facilitates direct contact between different actors, it also facilitates acts of revenge. The tense political climate has politicized and highly polarized civic actors. The violent reaction of the government toward political dissent has led many oppositional activists to hide their identity.

There have been rising resentments against non-Arabs – mostly low-waged expatriate workers from South Asia – which relates to their prominent employment in the riot

police and its regular clashes with demonstrators. When filmed and posted on YouTube, Asian expatriates claim to be targeted and tracked by angry Shi'ite raiders. An already prevalent and substantial mistrust in Gulf societies toward expatriates, the often poor immigrant workers essential to many Gulf families' households and the economy, has deepened.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Bahrain's HDI rose by 0.9% annually between 1980 and 2010. In recent years, the UNDP has regularly given Bahrain high scores (0.815 in 2013, 0.813 in 2012), which situates the country at the top end of countries with comparable data. Also, when compared to its neighbors, Bahrain's economy shows a high degree of diversification. However, when it comes to the distribution of wealth and levels of income inequality, Bahrain faces severe disparity, which has decisively contributed to the 2011 uprisings.

There is a strong dynamic of sectarian exclusion; inequality appears structurally engrained and partly based on gender, sectarian and ethnic affiliation.

There is no independent source of data on the poverty rate and Gini coefficient for Bahrain. In 2011, the Bahrain Economic Development Board (EDB) – a state-funded institution – calculated 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 United States). The study has since been deleted and cannot be found online today. Poverty and unemployment are concentrated among the Shi'ites of Bahrain, who inhabit the poorest neighborhoods of Manama. The Shi'a villages in the surrounding countryside suffer from poverty and poor living conditions with unpaved roads, battered houses and dysfunctional sewage systems.

Low-skilled foreign workers endure even worse socioeconomic conditions. In October 2012, Human Rights Watch estimated that 77% of the total work force in Bahrain are low-skilled, low-waged immigrants from South and South East Asia. Yet migrant workers have been largely excluded from recent labor market reforms. Labor reforms mainly aim to qualify Bahraini nationals to eventually replace the more skilled segment of the expatriate workforce in the private sector, a process referred to as “Bahrainization.” While Bahrainis can rely on a minimum wage of BHD 300 since January 2010, non-Bahrainis are excluded from the minimum wage rule. Their average wage is estimated at BHD 196 a month. According to official numbers from

Question  
Score

Socioeconomic  
barriers

5

the EDB, in the period 2011 – 2012, average wage growth of Bahraini income was 9%, while non-Bahraini wages declined at -0.5%. Despite various labor reforms, at the end of 2013 the Bahraini Central Informatics Organization announced that expatriates accounted for 73% of the Bahraini workforce.

Women form only 30% of the active Bahraini workforce, and a decline in the UNDP's Gender Inequality Index (GDI) (from 0.336 in 2005 to 0.253 in 2013) suggests setbacks. 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 in front of Shariah courts.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	15968.7	25713.3	32897.6	<b>33869.0</b>
GDP growth	%	6.8	4.3	5.3	<b>4.5</b>
Inflation (CPI)	%	2.6	2.0	3.2	<b>2.8</b>
Unemployment	%	8.8	7.4	7.4	-
Foreign direct investment	% of GDP	6.6	0.6	3.0	-
Export growth	%	-	2.6	-	-
Import growth	%	-	17.3	-	-
Current account balance	\$ M	1474.2	770.1	2560.1	-
Public debt	% of GDP	24.2	29.7	43.5	<b>43.8</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-	-4.8	-	-
Tax revenue	% of GDP	-	1.2	-	-
Government consumption	% of GDP	14.1	12.9	-	-
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.6	3.0	3.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.2	3.3	4.1	<b>4.2</b>

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

Bahrain is a very small market and as such of limited appeal for certain investments. The government has strategically invested in branding itself “Business Friendly Bahrain.” Indeed, due to high levels of economic freedom, low taxation, openness to global trade and financial market development, Bahrain’s economy has repeatedly been evaluated as competitive. There have been no limitations on currency convertibility since 1973.

Market-based  
competition  
8

International surveys have identified the kingdom’s open and conducive investment environment as a key competitive advantage. Yet recent political unrest leaves the country struggling against the more attractive – meaning “more stable” – political environments and market opportunities in Dubai, Qatar and Saudi Arabia.

The 2014 Index of Economic Freedom of the Heritage Foundation ranked Bahrain as the freest economy in the Middle East and among the top 20 globally, decreasing its score only minimally and still ranking it 13th out of 178 countries. The closest Arab runner-up was Qatar at 30th. According to the World Bank’s Doing Business 2015 report, Bahrain ranked fourth among GCC states (and 53rd out of 189 economies), behind the United Arab Emirates (22nd), Saudi Arabia (49th) and Qatar (50th). All six GCC states score low due to an underdeveloped legal climate, weak investor protection, low mechanisms for enforcing contracts and, to a lesser extent, resolving insolvencies.

In general, the market sets prices and there is no substantial black market. The government still enjoys a monopoly on the distribution of certain key goods and services, such as the water supply. Privatization is moving forward, but the ruling elite and other economic elites reap most of the benefits. The wide-reaching powers of senior royals together with large-scale corruption cases suggest potential risk for foreign investment.

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 (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. Therefore, the positive appraisal of Bahrain’s “effectiveness in ... anti-monopoly policy” in the 2014 – 2015 Global Competitive Report of the World Economic Forum comes a bit as a surprise: Bahrain is ranked 31st of 144 countries.

Anti-monopoly  
policy  
5

To a certain extent, the dominant state assumes a near-monopolistic position in the economy. In the manufacturing sector, which grew by 3.2% in 2013, refining and petrochemical products as well as aluminum, iron and steel accounted for about 60% of Bahrain's industrial production. Four state-controlled companies supply about 50% of industrial production: Aluminium Bahrain (Alba), Gulf Industrial Investment (metals), Bahrain Petroleum (refinery) and Gulf Petrochemical. Several merchant families such as the Kanoo and al-Zayani, who have historically been loyal to the al-Khalifa family, hold "licenses" of an oligopolistic nature. These licenses permit the sale of particular brands and products on the local market, position the merchants as local agents for foreign companies and thus allow price manipulation.

Bahrain's reputation as a safe and stable financial hub has been severely damaged by the political unrest since 2011. Nonetheless, in 2013, total FDI inflows reached \$989 million, up by 9% on 2012, according to U.N. figures. Although this is still far less than the \$1.8 billion in FDI that the kingdom attracted before the global financial crisis in 2008, it suggests that the low cost of doing business in Bahrain continues to make it a relatively attractive proposition for investors, in spite of the political risk.

Bahrain is a founding member of the GCC and of the GCC's customs union (agreed upon in 2003, effective since 1 January 2015), 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 until 2008. 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 for the period 2010 – 2014 was 3.9%. 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).

Bahrain has been a member of the WTO since 1995. In 2014, the third WTO trade policy review recognized a good degree of implementation of WTO rules by the government and welcomed the economic strategy embedded in its Vision Bahrain 2030.

There are no specific export limitations other than the trade embargo on Israel.

Bahrain has become a recognized and well-established financial center. An IMF mission visited Manama in May 2014 and announced that the "banking sector is in good health," as "Bahrain has not been affected by the most recent bout of volatility in global financial markets." This assessment invites skepticism, since the 2011 turmoil and subsequent potential for mass unrest has caused a massive capital flight. While Bahraini banks recovered with the help of Gulf deposits (mainly from Saudi Arabia), international financial institutions moved to the more stable neighboring countries.

Liberalization of  
foreign trade

8

Banking system

9

Bahrain scores highly due to the good reputation of the central bank of Bahrain – the successor to the Bahrain Monetary Agency (BMA) – Bahrain’s infrastructure and the absence of tax and exchange controls. Yet, at the end of 2014, the Economist Intelligence Unit suggested that the more sophisticated onshore financial regulation in Saudi Arabia and Dubai meant that Bahrain would increasingly play the role of a financial “back office” for its neighbors, providing legal and accounting services, as well as niche financial services, such as Shariah-compliant products and fund management.

The central bank, in addition to being the currency issuing authority, regulates the activities of banks and other financial institutions. Despite a series of mergers in 2013 and 2014 aimed at strengthening the banking sector, it remains highly fragmented, with more than 400 banks and financial institutions, which can be grouped in three areas: retail, wholesale and Islamic banking.

Since 1989, Bahrain has been a party to the Basel Accords (effective after ratification in 1992). As per the Basel Accords, Bahrain complies with international banking standards set out by the Basel II requirements. In May 2014, Bahrain became the second country in the region, after Saudi Arabia, to clarify its interpretation of some of the Basel III requirements. It is up to each national regulator to decide how to interpret the rules, which were developed as a voluntary regulatory standard in response to the global financial crisis. The central bank has drafted separate rule books for conventional and Islamic banks, proposing they both come into effect in January 2015.

## 8 | Currency and Price Stability

Inflation has been volatile from month to month in the period under review: from negative inflation -0.4% in 2011 to 3.6% in January 2013, dipping in February 2013 to 2.3%, rising again in March 2013. Overall, the EDB suggested a rising tendency, with an average inflation (CPI) value of 8.6% in 2013 and a predicted 6.6% for 2014.

Anti-inflation /  
forex policy

8

The rising consumer price index (CPI) seems to reflect the global volatility in the housing, water, electricity and fuels markets. In reality, however, water, electricity and fuel are largely subsidized in Bahrain. Furthermore, in 2008 the government introduced an “anti-inflation” subsidy at the request of members of parliament to help families cope with the rise in international food prices in the first months of that year. The rising CPI relates to a large extent to the rising housing cost triggered by land prices and a social housing crisis. It is worth noting that, aside from housing costs (and an uptick in alcohol and tobacco prices), according to the General Information Organization, prices appear relatively subdued, with the year-on-year rates of increase in food, clothing, transport and restaurants all below 1.5%.

The Bahraini dinar 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, this situation is likely to remain unchanged in the near future. The GCC union plans (initially scheduled for 2010, then 2015, first including all GCC states, now excluding Oman and the UAE) currently have no clear perspective.

The IMF recorded public debt at 43.9% of Bahrain's GDP in 2013. It predicted public debt would approach the symbolic level of 50% of GDP in 2014. The central bank, IMF and the EDB have repeatedly identified Bahrain's extensive subsidy system as a key factor in public debt. Yet it is highly unlikely to change given the current volatile political situation of the country. According to Moody's, Bahrain's "unsettled politics" were the biggest constraint on creditworthiness. In September 2013, the ratings company lowered Bahrain to Baa2, the second-lowest investment grade, citing budget constraints and a weaker economic outlook.

Bahrain's subsidy system does not jeopardize overall macroeconomic stability, but subsidies weigh heavily on public finances: data from the Ministry of Finance shows that total spending on subsidies and social support programs have increased remarkably from BHD 1 million to BHD 306 million between 2001 and 2011. This includes food and fuel subsidies, inequality and inflation targeting transfers, and royal gestures. Food subsidies alone soared from BHD 1.5 million in 2002 to BHD 67 million in 2012. Given the upward demographic trend, the government will have to continuously increase subsidy spending in order to maintain the current subsidy system. The overall low tax rates are unable to contribute substantially to the state budget. In January 2015, Prime Minister Khalifa bin Salman presented a four-year plan to the Council of Representatives with significant investments in social welfare, housing and governance.

While the government has been fairly successfully pushing for the diversification of Bahrain's economy when compared with its neighbors, in January 2015 the rating agency Fitch estimated non-oil state revenues to account for 14% only. The country remains an oil rentier state dependent on revenues from its major oil field Abu Safah, which it shares with Saudi Arabia, and even more affected by the current low world oil prices. At the time of writing, the 2015 budget plan had been postponed to March 2015 in reaction to political tensions, which arose around the parliamentary elections in November 2014.

## 9 | Private Property

Although there is a consistent framework for property rights that generally guarantees legal security, property rights abuses occasionally occur. The ruling al-Khalifa family in particular has been repeatedly criticized for showing an attitude of being above the law.

Property rights  
8

Members of the ruling family occasionally transgress laws and development plans, for instance, by turning arable land into built-up areas without permission. There is a perception that such offenses are ignored by the judiciary. In the initial phase of the 2011 uprisings, protesters waved one-Bahraini-dinar notes in front of the Bahrain Financial Harbor site after the opposition leader, Ali Salman, presented a purchase agreement showing that the prime minister had bought the land the development was built on for one dinar.

In August 2014, Bahrain's National Assembly approved some new real-estate legislation designed to protect investors and to restore confidence in the property market. The new law attempts to prevent rogue developers from charging fees for properties that are not yet built. The real-estate market has proven to be particularly sensitive to the housing crisis and social unrest that Bahrain has experienced since 2011. As a result of security concerns, for instance, in May 2014, the Bahrain Real Estate Society announced that land prices and rental rates in the Northwest Governorate had fallen by between 40% and 60%.

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

Although Bahrain acceded to the World Intellectual Property Organization's Patent Cooperation Treaty in 2007, the enforcement and protection of intellectual property rights is inadequately institutionalized. The WTO encouraged Bahrain to improve protection of intellectual property rights and to strengthen their institutional frameworks after a WTO delegation visit to Bahrain in April 2014.

The state was formerly a major player in the economy. Several sectors were state-dominated, including ports, air transport and telecommunications. Despite the creation of a Supreme Privatization Council in 2001, Bahrain's primary industry is dominated by government-owned and -operated enterprises. The government owns, either partially or wholly, businesses related to oil and gas (overseen by the National Oil and Gas Authority), aluminum smelting and, to a certain extent, related downstream businesses. Where these industries have been privatized, control has tended to shift to members of the royal family rather than independent actors.

Private enterprise  
6

The state still weighs heavily 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. According to the Bahrain Labor Market Regulatory Authority, in 2014 the median wage of Bahraini workers in the private sector was BHD 371 while the median wage of Bahraini workers in the public sector was BHD 662.

Private entrepreneurship has been a key element in Bahrain's economic diversification strategy for at least a decade. According to the Ministry of Industry and Commerce, Bahraini small- to medium-sized enterprises (SMEs) contributed nearly 30% of nominal GDP and provided jobs for almost 73% of private sector employees in 2013. 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.

According to the World Bank's Doing Business 2015 report, the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm are relatively low; the time it takes to register a private enterprise is estimated at nine days (which is far below the international average of 23 days), with an average of seven procedures. Particularly vulnerable SMEs, however, suffer from the endemic corruption in the economy.

## 10 | Welfare Regime

Thanks to its systematic extraction of natural resources, Bahrain has developed an extensive welfare regime. It qualifies as a classic example of a "rentier state," in so far as the revenues of the state largely derive from external rents generated by its natural resources. This allows the state to offer its citizens an extensive state-funded security system, while asking for only minimal taxation in return. Thus, the state can instrumentalize welfare to "punish" political activists, who have been stripped off their social safety assistance, or who do not dare to attend public hospitals for fear of persecution or arrest.

Bahrainis are entitled to free education and free state assistance, including medical services and treatment, unemployment benefits and disability benefits. Employees and civil servants pay into pension funds. Expatriate workers are excluded from most of the benefits offered to Bahraini citizens but do receive free health care. Since the public health sector, however, can only cover the needs of the large expatriate population with difficulty, a plan for a compulsory private health insurance scheme for expatriates was approved in June 2014 by the government.

Social safety nets

7

Given the rather limited oil producing capacity of Bahrain, the current welfare system is unlikely to be sustainable. In 2011, the IMF criticized Bahrain and other GCC countries of offering generalized subsidies instead of targeted social protection. Yet Bahrain's current political climate prompted the government to repeatedly emphasize the continuation of subsidies. In January 2015, the prime minister presented a four-year plan to parliament with significant investments in social welfare, housing and governance.

Among the key socioeconomic drivers of the 2011 mass demonstrations was the country's housing crisis. There are currently more than 50,000 people on a waiting list for the government's social housing program. The government provides heavily subsidized housing to low-income families. However, the backlog of social housing applications is expected to take 15 years to clear. In October 2013, a new scheme – a joint venture between the Ministry of Housing and several banks – began, with Bahrain's Ithmaar Bank becoming the first bank to provide financing for the government's affordable housing initiative. However, given the high cost of land (prices have soared by up to 400% in the past ten years), this public-private partnership model only appears feasible if social housing is built on heavily discounted government land.

Despite constitutional provisions stressing equality of men and women and the prohibition of sectarianism, equality of opportunity has not been achieved. Low-skilled workers from South and South East Asia in particular face racial discrimination and are socially excluded from participating in society. As many riot police officers are expatriates or nationalized Asians, and thus involved in regular clashes with opposition (resistance) forces, there has been heightened discrimination and tension between Shi'ites and expatriates in the period under review.

Since the beginning of popular pro-democracy demonstrations in 2011, sectarian discrimination has become one of the major issues raised in episodes of social unrest and political debates. Shi'ite opposition activists point to the near-total absence of Shi'ites in the public security sector. There are Shi'ites in non-security positions in the administration, but they tend to occupy lower ranks than their Sunni counterparts. Shi'ites are underrepresented in the government, which is largely dominated by the ruling al-Khalifa family. Shi'ite ministers tend to occupy only secondary portfolios. In the public sector, where opportunities are largely contingent on shared origin, kinship and sect, Shi'ites are underrepresented in senior positions.

Gender inequalities persist despite government initiatives to empower women. In 2001, the Supreme Council for Women (SCW), headed by Princess Sabeeka bint Ibrahim al-Khalifa, was established to promote the status of women. Women are represented in parliament in both the Shura Council and the Council of Representatives. There are female ministers. Already today, women exceed men in Bahrain when it comes to the literacy rate (female: 96.1%, male: 91.6%, according to

Equal opportunity

3

the World Bank's Development Indicators 2014), and represent 72% of students in Bahrain. Yet the female labor force constitutes only 19.6% of the total labor market in 2014 according to the World Bank. What is more, there appears to be a slow, but steady declining tendency for women's participation in the work force. In 2004, they still accounted for just 20.7%. While wages in the public sector appear relatively gender neutral, there is an enormous gender pay gap in the private sector. According to the General Organization for Social Insurance, in 2013 the average wage of women in the private sector was BHD 477 while in the same year men earned on average BHD 716. Despite state efforts to increase equal opportunities, patterns of discrimination remain often linked to tradition. The partial introduction of the personal status law (limited to non-Shi'ite citizens) in 2009 has enhanced rights for Sunni women with regard to inheritance or divorce.

## 11 | Economic Performance

Despite the detrimental effects of political unrest in recent years, Bahrain exceeded GDP growth expectations in 2013 and 2014. A solid performance from the non-oil sector and increased state spending have driven economic growth in Bahrain above both regional and global averages in the period under review, though falling oil prices and rising debt levels could impact expansion in 2015.

Output strength  
8

According to the Bahrain EDB, real GDP grew in 2013 by 5.3% and in 2014 by 4.2%. Much of this strong growth, particularly in 2013, is a result of the resumption of work at the Abu Safah offshore field. An increasingly confident financial sector together with a busy infrastructure agenda have further contributed to Bahrain's strong performance. In absolute figures, Bahrain's GDP (2013: \$32.8 billion) is modest in regional comparison (Bahrain's is the smallest economy of the six GCC states); GDP per capita (2013: \$43,824) is comparable to its neighbors Oman (2013: \$44,052) and Saudi Arabia (2013: \$53,780).

Similarly to other Gulf countries, high unemployment – especially among Bahraini youth – has remained a chronic problem despite a state-led Bahrainization strategy that aims to replace expatriate workers, who form more than 70% of the workforce, with nationals. No independent unemployment figures are available. Official government statistics and the EDB give an unemployment rate of 3.5% to 4% in 2014. The International Labor Organization estimates unemployment in Bahrain at 7.5%. The World Bank estimates differentiate: for male youth between 15 and 24 (2009 – 2013) the unemployment rate is 25.4%, for female youth between 15 and 24, 32.3% in the same period, and an average unemployment rate of 7.4%.

The political unrest of 2011 weighed heavily on the economy, fostering fears that FDI would come to a halt. The hotel and restaurant industry was hit particularly hard by these developments. In the long run, however, the appeasement strategy of the

state led to an increase in government spending to secure an overall positive GDP growth. To counterbalance the Arab Spring developments, the GCC Development Fund issued an aid package worth \$10 billion to Bahrain for housing and infrastructure projects over ten years. In 2014, the Bahraini cabinet stated that projects worth \$2 billion had already been awarded from the GCC Fund.

The state's existing debt stock has grown in recent years against government plans to boost capital works spending. According to the IMF, debt levels rose to \$13.2 billion, representing 44% of GDP at the end of 2013, up from 36% in 2012. With further debt-funded spending the government is expected to push the debt level close to 50% of GDP in 2014. Higher spending across the 2013 fiscal year left Bahrain with a \$1.1 billion budgetary deficit.

FDI stood at 8.2% of GDP (2007) before the global financial crisis and dropped sharply to 1.1% in 2009 and 0.6% in 2010. Despite political unrest, according to the World Bank's latest figures, FDI steadily grew thereafter (from 2.7% in 2011 to 3.0% in 2013).

## 12 | Sustainability

The environmental challenges facing Bahrain are colossal. The government has articulated its concerns and acknowledged environmental efforts in its Vision 2030. Bahrain has also committed to the U.N. Millennium Development Goals. However, in a 2010 review, the United Nations reported that "the national strategies and government policies have not succeeded in controlling economic activities, [...] within a manageable and sustainable level consistent with Bahrain's environmental capacity." The practice of land reclamation together with oil exploration has led to a deterioration of living conditions, has poisoned soils, depleted fish stocks near the coastal areas, and led to falling ground water levels.

The Supreme Environment Council was established in 2012 to improve current practices and coordinate government actions. This is essentially an inter-ministerial coordination body which has so far produced no concrete results. Given the political crisis in the period under review, environmental concerns seem to have been subordinated to growth and vast infrastructure programs directed at appeasing social unrest.

Bahrain has the ninth highest CO<sub>2</sub> per capita emission globally, at 19.3 metric tons (World Bank estimate) for the period 2010 – 2014 (though it is only fifth in the Gulf region, after Qatar, Kuwait, Oman and the UAE).

Environmental  
policy  
4

Bahrain is known for having the oldest public education system on the Arabian Peninsula (with the first public school established in 1919). Public education is free for all Bahraini citizens and thus readily accessible for all strata of society. Public education institutions are considered of good quality in regional comparison, but are mediocre by international standards – particularly when it comes to higher education and research facilities. Even though there are no formal restrictions on academic freedom, it appears that teachers and professors are likely to avoid politically sensitive issues for fear of dismissal.

Education policy /  
R&D

7

As elsewhere in the region, education is not sufficiently matched to the demands of the labor market. The government is trying to address this shortage and to restore its status as a regional leader in the field of education with its National Education Reform Initiative, the educational component of its Vision 2030 economic strategy. The initiative is overseen by the EDB in cooperation with the Ministry of Education and the Higher Education Council, and is meant to introduce international standards to the country's schools and universities and to eventually match skills with the needs of the market.

According to the World Bank's 2014 figures, basic school education was prevalent in Bahrain with a 95.5% rate for secondary school enrollment. Tertiary enrollment is given at 33.5%, which again is above the global average (31.2%). Consequently the literacy rate in Bahrain is high (94.6%).

There are more than 50 private schools, and many Bahraini university students are also enrolled in private institutions, receiving funding from the government labor fund Tamkeen. Private schools have been accused of only aiming to generate profits.

The latest available figures suggested that in 2012 investment in education and training averaged around 3% of Bahrain's GDP. This is far less than government spending on other areas, such as defense and security (which in 2009 accounted for almost one-third of total expenditure) and less than Bahrain spent in previous years on education (2008: 2.9% of GDP, 2006: 3.4% of GDP). Bahrain's research institutions are seen as weak and unproductive, a gap that was also identified in the country's first National Research Strategy 2014 – 2014.

# Transformation Management

## I. Level of Difficulty

Structural constraints on governance in Bahrain are fairly moderate. Given the state's relatively recent formation/independence, from a regulatory perspective the degree of the state's penetration into society is considerable. Bahrain has not experienced pandemics, natural disasters or war for many decades. The authoritarian architecture of the system gives the government enough leeway to implement policies, although it must take popular opinion into account. In classic rentier manner, an often-used (but not always successful) strategy is to minimize political demands through public spending. One example is the generous four-year welfare plan announced by the prime minister in January 2015 to counterbalance the tumultuous parliamentary elections of November 2014 despite a rather unfavorable budget deficit. At the same time, the state suffers from this rentier mentality, which many of its bureaucrats express, and from its own penetration by clientelistic networks.

Structural  
constraints

3

There are two major, to a certain extent interrelated, constraints on governance: In geopolitical terms, Saudi Arabia is a crucial factor determining Bahrain's governance strategy. 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 is often accused of considering Bahrain its “backyard” or even a “laboratory” for its own political liberalization policies. There are potential spillover effects: any empowerment of Shi'ites in Bahrain could encourage the Saudi Shi'ite population in the Eastern Province to seek increased participation. The heavy-handed reaction to the 2011 uprising was also the result of Saudi pressure; the GCC's military intervention in March 2011 was mainly formed from Saudi troops. Other significant geopolitical actors are the United States 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. In December 2014, Britain announced that it would considerably extend its military base located at the port Mina Salman in Bahrain. This naval installation oversees the strategically (and commercially) important sea lanes of the Persian Gulf. Together with these Western partners, Bahrain has taken military action against IS.

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 Safah oilfield exploited by the Saudi firm ARAMCO, for example. Since Bahrain's exclusive oil resources are depleted, Abu Safah 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 used to have one of the most vivid civil societies in the Gulf, with deep historical and social roots. However, decades of state repression and dissociation between rulers and population have reduced popular involvement while motivating civic groups that were historically in competition to work together.

Civil society  
traditions

6

From the start of the 20th century, Shi'ite clerics have acted as spokespersons for political concerns, and the network of Shi'a 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. Today, there is a wide array of professional, social and cultural associations, religious and philanthropic societies, and clubs.

There is a tradition of conflict, including violent clashes. A first major uprising of the Baharna (the native Shi'ite 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 King Hamad led to widespread hope for a reduction in conflict, recent events suggest that the potential for violent conflict remains high.

Conflict intensity

7

Conflicts between the government and its allies on the one side and the opposition on the other widely follow the sectarian cleavage; this 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.

The conflict, at its core, is about the distribution of resources, wealth and political power, 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 ingrained in Bahrain.

Although neither side openly advocates sectarianism (instead generally imputing it to the opposing side), both sides resort to sectarian methods. Since the uprising of 2011, the government has played up the religious aspects of the conflict, including the destruction of Shi'a religious sites in 2011, or the uncovering of conspiracies allegedly fomented by Iran. 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'a opposition beyond al-Wifaq. Pro-government Sunni groups often use a dose of anti-Shi'a 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 early protests in 2011 have included around 100,000 participants. Measured against its population size, Bahrain has therefore been the country most quantitatively affected by the Arab Spring protests.

However, there seems to be a certain level of restraint, 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 was an implicit acceptance, or even desire, for violent escalation at political rallies, which led to their outright banning under emergency law in 2011, and again repeatedly since then. Funeral marches have become a substitute; they often gather large groups who chant political slogans. The events of early 2011, with both sides taking highly adversarial positions, suggest a drop in self-restraint among all conflict parties. Security forces have increasingly resorted to the torture of captured rioters and even non-violent opposition activists. In the period under review, several bombs have targeted police stations and patrols in retaliation, killing police officers.

The conflict appears to have shifted to yet another level in 2014. In January, the government dissolved the highest Shi'a religious authority in the country, the Higher Council of religious scholars. Security forces raided the house of one of the most influential Shi'ite clerics in Bahrain, Sheikh Issa Qassim, in November. In December, Ali Salman, leader of the moderate opposition group al-Wifaq, arguably the largest political bloc in Bahrain, was detained. The four major political associations in the opposition boycotted parliamentary elections in November 2014. Questions about political prisoners and human rights abuses by security forces have become more pressing for a large part of society than issues of the constitution and parliamentary reform. Radical resistance movements and youth groups, such as the February 14 Coalition, have seen their support increase, while moderate groups, such as those that participated in the National Dialogue initiative relaunched by the crown prince in 2014, have found themselves accused of being traitors. Perhaps ironically, al-Wifaq's boycott and the repression it now suffers have made it more legitimate again in the eyes of many Shi'ites.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Prioritization

4

The only master plan presented in recent decades with regard to political development is the National Action Charter, 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. Manufacturing and, above all, the financial sector are at the core of the strategy (in spite of growing competition from Qatar and the UAE). The government has generally stuck to these priorities, though one prominent sector of the strategic vision, tourism, has been severely negatively affected by the political unrest since 2011 and a restrictive visa policy.

The government is in general 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 (including a massive spending campaign) are an outstanding symbol of this approach. In other instances the government symbolically adapts a strategy or vision when it is expected to do so, but the actual implementation is not traceable – for instance, in its adoption of the U.N. Millennium Development Goals. Since there is often a general lack of transparency when it comes to the decisions of the ruling elite, it is not clear how far the government makes evidence-based decisions, or is able to prioritize and organize its policy measures.

The executive seems to be divided over Bahrain's future. The inner workings of the al-Khalifa are inaccessible, but from the outside it appears that there are more liberal and reform-minded members in the ruling family headed by the crown prince, Salman bin Hamad, while the prime minister, Khalifa bin Salman, is a hardliner often accused of standing behind security forces and the interior ministry, and possibly the Khawalid brothers. The king often appears unable to assert his policy decisions. This competition among the elite clearly hampers the government's capability to prioritize.

While the government has not been successful in implementing a political reform process, to a certain extent it has been successful in implementing economic reform.

Implementation  
4

The political reforms outlined by the National Action Charter in 2001 have remained largely unfulfilled. The recommendations of the BICI, which investigated cases of severe torture and human rights abuses by government officials, were mostly neither targeted, nor implemented. Cases of fraud mentioned by the National Audit Court have barely been followed up.

At the time of writing, there is no readiness to engage in democratization and political reform. Instead, the regime has backtracked on many of its original reform goals. Since 2011, the level of state repression of political opponents has risen sharply. Several controversial laws have been drafted, from media regulations to new legislation governing associations; these are currently in parliament for revision or with the king for final signature. An anti-terrorism law signed in 2006 and then drastically tightened in July 2013 and December 2014 further limits political freedom by criminalizing acts that “damage national unity.” The law allows for extended periods of detention without charge and without judicial review, as well as for the revocation of citizenship. These developments suggest that the actual priority here is regime survival rather than democratization and political reform.

Resistance to the political reform process is unevenly distributed among different factions within the ruling family and government; competition among the elite has become pronounced since 2011. Prime Minister Khalifa bin Salman, together with the Khawalid brothers, 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.

Although the economic reform process has suffered from the ongoing political tension, the government has succeeded in implementing policies more effectively here. Privatization is under way. In order to achieve more transparency, as well as the Economic Vision 2030, the government together with the EDB established the National Economic Strategy (NES), which sets out short-term goals to be achieved in two-year budget cycles in order to reach the long-term target.

After a significant initial phase that saw the abolition of the sponsorship (kafala) system in 2009, labor reform has become cautious. Yet a monthly levy of BHD 10 per non-Bahraini imposed on companies that hire foreign workers, temporarily suspended in April 2011 due to the political unrest, was reintroduced in September 2013. A plan to move from the existing quantitative to a qualitative quota system had been articulated earlier that year.

The government demonstrates little willingness or ability in policy learning. The crown prince, whom some observers perceive as more innovative and flexible than the old guard decision-makers, remains part of a regime that has resorted to repression and torture in recent years, despite its dismal experiences in the 1990s with repressive policies.

Policy learning  
3

The incumbents have demonstrated a refusal to embark on political 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.

Again, the picture is slightly different when it comes to economic reform. Here there is a readiness to engage in reform policies and to change past practices, as long as this does not touch the assets or privileges of the ruling elite. An example of this is the cautious approach taken in labor market reform. Although there is substantial unemployment among young nationals, the business community so far successfully prevented serious reforms that would replace those much cheaper and less demanding foreign workers with nationals.

## 15 | Resource Efficiency

Bahrain's artificially inflated state bureaucracy lacks efficiency, and human resource costs constitute a major part of government expenditure. Bahrain is therefore 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 the most attractive option for Bahraini citizens. The numbers are clear.

Efficient use of  
assets  
4

According to the Labor Market Regulatory Authority, the median wage of a Bahraini working in the public sector in 2014 was BHD 662, versus only BHD 372 in the private sector. Consequently, Bahrainis are proportionately less likely to work in the private sector, where they constitute less than 20% of employees. While the public sector counted 57,000 Bahraini employees in a total workforce of 67,000, the private sector of more than 500,000 employees included only 80,000 Bahrainis. During the 2014 parliamentary elections, the government forced all government employees to vote by having their passports stamped. Since then, these stamps need to be shown in interactions with state apparatuses and, for instance, when applying for jobs. The state thus instrumentalized fears of being excluded from public sector employment to achieve a high voter turnout in the elections boycotted by Bahrain's major opposition parties.

In the period under review, the state budget has suffered from low oil prices, while the government increased its spending in welfare measures and infrastructure in order to appease public opinion. Parliamentary control of the state budget, although constitutionally guaranteed, remains limited in reality, as the draft laws submitted to parliament and committees are vague – there are references to sums to be allotted to different ministries and other government agencies, with no opportunity for deputies to check details.

To ensure the effective and efficient operation of public institutions, the Public Sector Administrative and Finances Monitoring Committee was created in January 2002. The impact of this committee cannot be assessed. Through the establishment of inter-ministerial working committees, such as the Housing Committee and the EDB, both of which are headed by the crown prince, public administration has improved. Often, however, newly created committees duplicate ministries already in place and serve to accrue additional decision-making power to the crown prince without confronting the incumbent minister openly. The introduction of municipalities in 2002 has further duplicated the administration, and there is no clear division between the competencies of the municipalities and of the governorates.

The government has limited success in coordinating conflicting objectives. The duplication of governmental functions, the unclear division of powers between the king and the prime minister, as well as between municipalities and governorates, limit the development of coordinated and comprehensive policies. Occasionally there are divergent political power circles at work, following different visions that are most pronounced between the crown prince and the prime minister and their respective followers; these conflicts cannot be solved by inter-ministerial committees.

Policy  
coordination  
5

While “corporate clientelism” practices appear to a large extent to be socially accepted, endemic public sector corruption and several bribery scandals like the multi-million-dollar Alba corruption affair have made corruption a burning societal and political issue.

Anti-corruption  
policy  
5

The opposition regularly cites widespread corruption in Bahrain but generally avoids attacking individuals, fearing retaliatory measures by the government (often charges of defamation). The BCHR has accused the government of double standards: while smaller cases are tackled with severity and prominently covered by the media, senior officials continue to enjoy de facto impunity. Reports on corruption among members of the royal family, including the prime minister and ministers, surface periodically, but are rarely followed by lawsuits.

Occasionally, corruption is picked up as a central issue by the government. In 2002, the king created an independent National Audit Court, which annually documents instances of financial and administrative violations committed by ministries, public agencies and state-owned enterprises. In 2011, another General Directorate of Anti-

Corruption and Economic and Electronic Security was established. Both entities have – so far – failed to make any meaningful use of their power to transfer cases to the judiciary for prosecution, and the scope of their findings is generally considered relatively narrow. For instance, in October 2011 a multi-million-dollar bribery scandal involving Aluminium Bahrain and the prime minister surfaced. It captured public opinion in Bahrain, as well as international media attention, yet it was not mentioned in the yearly report of the National Audit Court (exposing its inability to investigate retrospectively).

In December 2013, the crown prince ordered the referral of a number of cases mentioned in the annual National Audit Court report to the public prosecution for criminal investigation on suspicion of corruption, singling out cases related to the state-owned Bahrain Flour Mills Company and the Bahrain Chamber for Dispute Resolution for special mention. In January 2014, he visited the General Directorate of Anti-Corruption and Economic and Electronic Security, whom he reminded to cooperate with the National Audit Court in these cases. It remains to be seen whether these unprecedented announcements point toward a new direction in the fight against corruption, or whether they were merely an individual royal gesture intended to strengthen the position of the crown prince in society.

## 16 | Consensus-Building

All major political actors agree rhetorically on establishing democracy and market economics as strategic, long-term goals of transformation. Yet, even when political actors are not merely paying lip service, their interpretations of these concepts and their related objectives, like equality and personal freedom, differ widely. For the ruling elite, democracy is generally limited to the use of seemingly democratic instruments such as elections. Thus, Bahrain can be presented as a constitutional monarchy, while in reality it remains an authoritarian regime, with the king and some members of the ruling family who occupy major positions in the government enjoying unlimited powers rather than being elected representatives of the people. As expressed in its latest anti-terrorism legislation, the government values goals such as “national unity” and “social cohesion” more highly than democracy and its related characteristics, freedom of speech and pluralism. For an increasingly large part of the population, democracy has come to mean replacing the existing Sunni minority rule with Shi’a political power. Some Shi’a and Sunni Islamist actors express support for democracy, but harbor very particular views regarding the limits of personal freedom and gender equality within a democratic system. But even less fundamentalist clerics may disagree about the establishment of certain democratic practices when they are perceived as encroachments on the sphere of religious authority, as exemplified in the opposition to a codified personal status law.

Consensus on goals  
5

All actors agree on the necessity of reforming the national economy, but there are differences between the old guard and the younger elite about the pace of privatization and the role of the state. Also, different views on economic reform prevail between leftist, liberal, and Islamist groups. Neither leftists nor (mostly) Shi'ite Islamists prioritize privatization.

While the reformers in government – the king, the crown prince and their allies – are powerful actors capable of successfully persuading or co-opting others, they often appear more concerned with liberalization than democratization. Above all one must bear in mind that their concept of reform involves the consolidation of their authoritarian rule while, at the same time, promoting good governance. More hardline members of the ruling elite, headed by the prime minister and the Khawalid brothers, are increasingly opposed to any form of liberalization, and the repression of protests from 2011 onward was an illustration of their strength. Another has become Bahrain's Independent Commission of Inquiry, mandated by the king to research the regime's violence during protests. The prime minister's government has obstructed implementation of the Commission's recommendations and the prosecution of senior officials.

Anti-democratic  
actors

3

Genuine democratization activists are found in the leftist and liberal groups, and to some extent within Shi'ite Islamist circles. They are not, however, in positions of power.

In true divide-and-rule style, the political leadership has been exacerbating Bahrain's existing Sunni–Shi'a divide in order to counterbalance the popular call for democratic reform, which in 2011 motivated large parts of society to demonstrate peacefully in cross-sectarian unity.

Cleavage /  
conflict  
management

1

Since March 2011, the executive has used a number of repressive strategies to increase sectarian tensions, including dismissal of Shi'ite state employees, including doctors, the demolition of Shi'a congregational houses and mosques, the dissolution of the highest Shi'a religious council in Bahrain, raids on the homes of prominent Shi'ite clergy, the revocation of citizenship from Shi'ite activists, the imprisonment of major Shi'ite political leaders, and an overall repression of Shi'a-dominated protests. Most victims of state violence have been Shi'ites.

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

Government officials occasionally enter into dialogue with civil society actors, but the government usually ignores CSOs. There are no institutionalized mechanisms allowing civil society a say on agenda setting, let alone decision-making. Instead, it can be assumed that the latest amendments to the anti-terrorism legislation passed in December 2014, will further silence civil society actors critical of the regime by threatening them with prolonged pre-charge and pre-trial detention.

Civil society participation  
3

In June 2011, in an unprecedented gesture, the king ordered that the BICI headed by the Egyptian-American Mahmoud Cherif Bassiouni should investigate the acts of regime violence that occurred in the wake of the pro-democracy demonstrations earlier that year. The transparent publication of BICI's findings, documenting government office abuse and severe human rights abuses by security forces, was widely welcomed as a reconciliatory step. Since the prime minister's government prevented the implementation of BICI's recommendations and (at the time of writing) only few, low-ranking government employees have been prosecuted, BICI has turned into a symbol of the system's failures and atrocities.

Reconciliation  
5

Other efforts at dialogue announced by the king and the crown prince have faltered. In 2014, the crown prince's initiative to relaunch the National Dialogue forum was warmly welcomed by the international community – despite no significant outcome. Opposition figures who have participated in such initiatives are increasingly accused of hypocrisy. A growing radical opposition calls for the end of the monarchy and the establishment of a republic.

## 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.

Effective use of support  
5

Bahrain signed a basic assistance agreement with the UNDP in 1978. 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 stable. Bahrain has embraced the challenge of meeting the Millennium Development Goals by 2015. 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.

In terms of political assistance, Bahrain invited the National Democratic Institute to Manama in the early 2000s, but then terminated its directors' residence permit. With rising internal political tension in the period under review, the government has become increasingly suspicious of international cooperation. For instance, after an independent commission (BICI) investigated incidents of torture during the 2011 popular uprising, the government canceled the visit of the U.N. Special Rapporteur on torture in May 2013. In September 2013, the minister of justice issued an order stipulating that political societies in Bahrain should coordinate their contact with foreign diplomatic or consular missions, foreign governmental organizations, or representatives of foreign governments with the Ministry of Foreign Affairs, which can elect to send a representative to the meeting. In the same period, the country's visa policy has become more restrictive, denying dozens of international experts and even high-ranking politicians entry. The U.S. assistant secretary of state for democracy, human rights and labor, Tom Malinowski, was expelled from Bahrain for five months after meeting leaders of the Shi'a group al-Wifaq in 2014.

Bahrain generally enjoys a high degree of confidence from international actors. It takes part, for instance, in the international military anti-IS coalition, but conditions vary between economic and political realms.

Credibility  
5

Contrary to most economic forecasts, Bahrain has proven to be a relatively strong performer, exhibiting consistent growth. Notwithstanding, the country's credit ratings recently suffered a downturn. After Fitch revised its outlook in December 2014 to "negative," at the time of writing all three major rating agencies (Standard & Poor's and Moody's) rate Bahrain's outlook as "negative," with ratings between Baa2 and BBB. These negative outlooks are linked not just to the political situation, but also to the falling oil prices, which exacerbated an already challenging fiscal situation.

Some Western countries point to Bahrain's democratic achievements while unofficially acknowledging the real character of the regime. Outside opinions of the al-Khalifa monarchy have deteriorated due to its handling of the opposition, as well as human and civil rights in general, but unlike the Arab Spring movements in Tunis and Egypt, neither Bahrain's demonstrators, nor the opposition have received official backing from any Western government. In January 2013, the European Parliament "condemned the ongoing human rights violations by the Bahraini authorities and security forces."

The political leadership of Bahrain is openly criticized only by international NGOs such as Amnesty International, Human Rights Watch and the International Crisis Group.

Unlike other GCC member states, Bahrain has had no unresolved border disputes since 2001. Bahrain's ruling family appears eager to maintain good and friendly relations with its Arab neighbors in the Gulf. It relies on the GCC's support, as demonstrated by the alliance's military intervention in 2011. Since 2011, Bahrain received \$2 billion of a \$10 billion structural aid package from the GCC. 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.

Relations with Qatar have recently suffered from disputes. The first concerns Qatar's channel al-Jazeera, whose reporting on Bahrain's Arab Spring movement in early 2011 was strongly criticized by Bahraini officials. A Qatar-Bahraini Friendship Bridge project remains delayed. In 2014, Bahrain withdrew its ambassador (as did the UAE and Saudi Arabia) from Qatar for several months, accusing the Qatari government of undermining their domestic security through its support of the Muslim Brotherhood.

Bahrain's relations with Iran are complicated, too. There is will on the Bahraini side to maintain a working relationship, but that does not restrain either side from verbal attacks. Bahrain accuses Iran of intervening in Bahrain's domestic affairs and portrays domestic Shi'a groups as Iranian agents. Following his election in 2013, the new Iranian president Rouhani emphasized the importance of improving relations with the United States and Saudi Arabia. Thus, he is unlikely to change Iran's official hands-off approach toward Bahrain, in order not to provoke either party.

## Strategic Outlook

The impetus that started in 2011 with peaceful pro-democracy demonstrations in the capital Manama has brought Bahrain to the edge of civil war. Only urgently needed political reform can prevent a protracted struggle that will undermine the economy and may lead to armed confrontation.

The atrocities and human rights abuses caused by a repressive state-strategy (including the use of force against peaceful demonstrators, night raids on the private homes of political activists, systematic torture and a lack of judicial assistance in prisons, acute censorship and misleading information campaigns in the state-controlled media) have delegitimized the current political system. The least that the ruling elite should do is allow serious political reform that transforms the system into the constitutional monarchy, which the state's constitution already upholds. This would require the surrender of absolute power by the al-Khalifa. In this way, the royal family could save face and maintain the ruling tradition of the country; it would retain its (rather abstract) ruling position but leave concrete governing power in the hands of an accountable government. There are basic democratic mechanisms and civil society structures in place, such as a political party system, election processes, and administration, which all need revision and anti-discrimination enforcement, but nevertheless would allow for this step. Political reform should involve a redistricting of electoral districts. Members of the ruling family, who currently occupy key ministries, should resign. The parliament should be allowed to elect the prime minister; this would mean that Prime Minister Khalifa bin Salman al-Khalifa, who has held this position for more than 40 years, has to resign.

It is doubtful, whether an already radicalized and increasingly polarized opposition would accept any reforms that uphold al-Khalifa supremacy. In a reconciliatory gesture, the recommendations of the Bahrain Independent Commission (BICI) should be implemented and the senior officials responsible for torture and human rights abuses sentenced. Similarly, findings of the National Audit Court should be followed up seriously and investigations allowed to consider evidence dating back at least 20 years.

While some members the al-Khalifa family have been attracting high levels of frustration, there remains minimal hope for a truly constitutional monarchy, as the king might stand in the eyes of the people for national stability despite radical change (preventing a Libyan or Iraqi civil war scenario). The crown prince presents himself as willing to accept reform. Still, it is doubtful whether senior royal figures would let go of their powers without substantial pressure from the international community – which is unlikely given the backing the al-Khalifas receive from the Saudi monarchy, which does not want to see Shi'a empowerment in Bahrain.

While the general direction taken in the economic transformation process is promising, emphasis must be put on an end to systematic discrimination. Labor law reform should include migrants and migrant rights, such as an equal right to the minimum wage. Having to pay the same wages to foreigners and nationals alike would encourage employers to hire nationals, thus tackling the high unemployment rate among Bahrain's nationals. Next, the government needs to review its tax system and raise overall rates of taxation. Likewise, government subsidies must be thoroughly reviewed and perhaps replaced by a needs-based system. With additional funding opportunities at hand, the government should invest and raise the standard of the public education (which currently receives less than 3% of GDP) in order for national students to match the requirements of the labor market. Equal opportunities and rights – where necessary enforced by legislation and quotas – should be given to women, migrants and Shi'a. Where necessary this could be supported by a strategic investment in labor unions. Special attention should be paid to privatization practices in order to prevent their exploitation by the ruling elite.