

Bahrain

Status Index (Democracy: 4.92 / Market economy: 7.50)	6.21	Management Index	4.86
HDI	0.846	Population	0.7 mn
GDP per capita (\$, PPP)	17,479	Population growth¹	3.4 %
Unemployment rate	15 % ³	Women in Parliament	7.5 %
UN Education Index	0.86	Poverty²	-
		Gini Index	-

Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹Annual growth between 1975 and 2003. ²Population living below \$1 a day (1990- 2003). ³Officially endorsed estimate by McKinsey for 2002.

A. Executive summary

Shortly after Sheikh Hamad b. Isa Al Khalifa came to power, following the death of his father in 1999, Bahrain initiated an ambitious reform process that introduced policies for political and economic liberalization. The reform process helped to end years of civil unrest that had plagued the island state in the 1990s. The speed of reforms was impressive, exiled political activists were invited to return and political prisoners released. The “National Action Charter,” a document outlining the re-institution of constitutional and parliamentary life, was submitted to a general referendum in 2001. The vote included women for the first time. Political societies were permitted as party substitutes and civil society was allowed to flourish.

In February 2002, the king promulgated an amended constitution that provided for a bi-cameral Parliament and transformed the “State of Bahrain” into the “Kingdom of Bahrain.” Municipal elections followed in March 2002, parliamentary elections in October 2002. A substantial part of the political opposition, however, boycotted the parliamentary elections mainly because they objected to the powers granted to the appointed second chamber of parliament, the Advisory Council. The ensuing conflict between the boycotters and participants constitutes one of the obstacles the reform process has yet to overcome.

The government itself poses another major hindrance, as change among the ruling elite proceeds only at a gradual pace. Indeed, Bahrain has been governed for decades by the same ministers. Bahrainis accurately perceive sections of their government as obstructionist. A third major problem can be identified in the lack of institutional and legal backing for parliamentarians and politicians. The financial and institutional framework for political societies remains largely undefined. Moreover, political movements must mature and develop full-fledged programs, thereby transcending their history, which was often spent underground or in exile. The parliament's record has not been as successful as many Bahrainis had hoped. Public discontent is voiced with regard to legislative initiatives that

often concentrate on issues related to Islamic moral guidelines. Parliament's ineffectiveness and anti-reform attitudes in parts of the government have delayed revision of certain laws regarding, for example, the media and political organizations.

Economic reforms proceed somewhat more smoothly: Bahrain has a long record of diversification and liberalization. Policies to provide more transparency and supervision as well as to fight corruption have been adopted with some success, although changes in the old elite would be instrumental to achieving comprehensive reform.

A far-reaching initiative for a comprehensive and integrated restructuring of the economy was launched by Crown Prince Sheikh Salman b. Hamad Al Khalifa in 2004. It proposes thorough legal and administrative restructuring in three fields: first, in labor market reform, focusing on Bahraini nationals' competitiveness versus expatriate labor; second, in economic reform, which includes land and judicial reforms and promotion of small scale private business; and third, in educational reform. Since these proposals will have to be approved by Parliament, the crown prince is currently committed to consensus building by having the program discussed in public and during confidential workshops with political, economic and civil society actors.

Although the reform process has lost its initial speed and momentum, it nonetheless continues. The fact that all actors (apart from the old elite) agree on most basic aims – pluralism, participation, rule of law, good governance, transparency and accountability – allows for cautiously optimistic predictions. Although the system will clearly not evolve into a democracy anytime in the near future, it is still difficult to see how and by whom the process toward greater political participation and good governance could be stopped.

B. History and characteristics of transformation

Since Sheikh Hamad b. Isa Al Khalifa came to power in 1999, Bahrain has pursued an ambitious economic and political reform process. With the country's oil supplies almost spent, the problem of restructuring the economy has become ever more pressing. Notwithstanding its substantial diversification efforts over the past thirty years, Bahrain is still dependant on oil, mostly donated from its neighbor, Saudi Arabia. Other than oil, Bahrain's national income stems primarily from its offshore banking and insurance sectors, but also from weekend tourism from neighboring Gulf states and industrial production (mostly aluminum, petrochemicals and ship repairing).

These sources of income have proven vulnerable to political unrest, which was a prominent feature of Bahraini politics in the 1990s. The opposition fought to limit the autocratic regime of the ruling family, the Al Khalifa, and struggled for the

resumption of parliamentary life, which Bahrain had experienced for two years from 1973-1975 following its independence from the UK. While the government sought to strictly and often violently suppress the opposition, the conflict became laden with religious connotations and was increasingly understood in sectarian terms. It was depicted as a problem between a deprived Shi'i majority and the dominant Sunni ruling family with its clientele network.

To overcome the entangled problems of economic crisis and social and political conflicts, the ruling elite opted for a gradual top-down process of liberalization. It could anticipate the opposition's support since both sides had realized that they could not successfully sustain their coercive policies. The first steps of the reform process went smoothly and they were received with popular enthusiasm. Shortly after coming to power, Sheikh Hamad issued a general amnesty for political prisoners and invited exiled political activists to return. A National Action Charter was subjected to a general referendum. It promised the resumption of constitutional rule and parliamentary life.

The charter also proposed amendments to the original constitution of 1973, including the introduction of a second appointed parliamentary chamber, the Advisory Council (*majlis ash-shura*) (though no exact definition of its role was given) and the transformation of the "State of Bahrain" into the "Kingdom of Bahrain." The public overwhelmingly endorsed the National Charter in February 2001 with 98.4% of voters in favor. When the king issued the amended constitution one year later, reactions were not as unanimously enthusiastic. It became clear that the Advisory Council had the same legislative powers as the elected Chamber of Deputies (*majlis an-nuwwab*). Nonetheless, a large number of political societies (the equivalent to parties) had been registered. While all political societies participated in the municipal elections of March 2002, four societies, among them the moderately Islamist Shi'i al-Wifaq, decided to boycott the parliamentary elections of October 2002 because of their rejection of the amendments. Although gerrymandering of constituencies to the benefit of the Sunnis has occurred, elections have generally been regarded as free and fair. Women stood as candidates, but did not win any seats. The voter turnout of roughly 53%, however, shows substantial reservations in parts of the population. Because of the partial boycott by Shi'ites, the chamber of deputies is dominated by Sunni religious societies.

Generally, civil society has thrived, political debates are freely conducted and reported in the press, and demonstrations occur on a regular basis.

While the liberal atmosphere and the very existence of a parliament and constitutional court should lead to favorable assessments of the Bahraini reform process, a closer look at the legal basis of the reforms and political practice calls for a more cautious assessment:

- The executive remains completely outside of political competition;
- The most important ministries are held by members of the ruling family;

- The Advisory Council gives the government an indirect final say in legislation;
- A number of restrictive laws predating the reforms are still in force. Political and civil freedoms guaranteed by the constitution are limited by law and can be restricted by ill-defined references to national cohesion.

Nevertheless, there have been some positive developments. Within a short period, political societies have matured. To name but one example, in 2004 all political societies – from boycotters to parliamentarians, from Sunni Islamists to socialists of Shi'i origin – worked on a common proposal for a new liberal law on political parties. Much to the government's surprise and probably dismay, political societies have quickly learned the rules of the game regarding consensus and coalition building.

On the economic side, political reforms included policies to ensure greater accountability and transparency and the liberalization of state monopolies. In 2004, the telecommunications sector was privatized and the first private power project was publicly tendered and awarded. The entangled problems of unjust distribution of wealth and the predominance of the public sector have been discussed frankly in public. A debate over comprehensive long-term economic restructuring, based on a McKinsey study, was launched by the crown prince in 2004. The envisioned program marks a decisive departure from previous rentier policies. The crown prince's efforts in 2005 concentrate on consensus-building for economic reforms because passage of these reforms by Parliament will be a touchstone for the effectiveness of parliamentarianism.

C. Assessment

1. Democracy

The Bahraini reform process does not aim to establish a democratic system, in spite of the rhetoric on "democratization." The executive is not subject to political competition, nor will he be in the near future. Instead, the reforms focus on good governance: rule of law, accountability, transparency, pluralism and participation.

1.1. Stateness

Bahrain maintains a functioning administrative structure throughout the country. Its stateness is not questioned by any group, nor is the state's monopoly on the use of force contested. The concept of Bahraini citizenship, however, still causes political controversy. Parliamentarians and civil society actors raise complaints about the granting of citizenship to nationals of Arab and Asian countries who have served in the armed forces. Since those in question are Sunnis, and the majority of the population is Shi'i, there is a perception that this policy is a

government strategy to shift Bahrain's demographics, increasing the Sunni minority to which the leadership belongs. An investigation into the issue by a parliamentary committee in 2004 could not substantiate evidence of this practice on a large scale after 2002, although the practice was widespread before 2002. The process of legalizing the so-called "bedoon," or stateless residents, by granting them citizenship was largely completed by 2004.

Although their respective qualification as Bahraini nationals is not disputed, the status of Sunnis and Shi'ites is not equal. The Sunni minority of approximately 30% is privileged over the Shi'i majority of around 70%, especially with regard to service in the armed forces. However, no legal discrimination exists. Shi'ites constitute approximately half the members within the Advisory Council and the non-Al Khalifa members of cabinet.

According to Bahrain's constitution, Islam is the state religion. The Shariah is identified as a source of law but not the exclusive one. Bahrain's laws are overwhelmingly secularized, with the exception of family and inheritance laws. A codified family law has not been elaborated, but remains a priority for many political actors, including the king and women's rights advocacy groups.

Religious communities other than Muslims, including polytheistic ones, are free to practice and maintain places of worship – an exception in the region. The king has appointed a Jewish and a Christian Bahraini to the Advisory Council. Islamic political movements demanding a stronger role of Islam in the country's policies exist in Sunni and Shi'i communities. Within the Shi'i political societies, clerics play a more prominent role. Bahrain's highest Shi'i cleric is not an official member of any political society, but is informally associated with the main Shi'i party, al-Wifaq, and often interferes with their policy decisions.

1.2. Political participation

In February 2002, municipal elections were held, followed by elections to the Chamber of Deputies in October 2002. Despite gerrymandering which privileged Sunni constituencies, both elections can be considered free and fair. Women had equal rights and ran in the elections, but none won a seat.

Participation, however, is structurally limited. Since Parliament consists of an elected and an appointed chamber that are equal in numbers, elections are only partial. More importantly, election results do not determine the composition of government. The king as head of state appoints the ministers and the prime minister, his uncle, who has had the post since independence. The central ministries such as oil, defense, foreign affairs, and interior are allocated exclusively to members of the ruling family. Thus, the executive remains completely outside of political competition.

Political parties as such are illegal, but political societies function like parties in everything but name. They field candidates for elections and act as parliamentary blocs. They are free to hold seminars and to publish political magazines. Legally, though, they are treated as any other civil organization and have to register with the relevant ministry. Registrations for political societies have been required at the Ministry of Social Affairs since January 2005. While the law on civil societies forbids organizations on a sectarian or political basis, these kinds of organizations obviously have been registered. The lack of legal certainty is evident. Various drafts for a new law on political societies are currently being discussed in Parliament. The government's draft, based on the very restrictive Egyptian law of 1977, is in the second round for reconsideration. At the time of this writing, it seems that it will be passed in a thoroughly amended version by the second term of 2005.

Civil societies regularly obtain the requisite ministerial permission even if they are critical of government policies. The formation of trade unions is allowed even without prior permission, which is exceptional for the region.

Notwithstanding the constitutional guarantees of freedom of opinion and expression, a restrictive press law is in place but rarely enacted. A more liberal press law proposed by the Advisory Council is being currently debated. Privately owned print media publish a range of opinions; television and radio is state owned and reflects official views only. There are no restrictions on satellite dishes. Political societies and other NGOs are free to publish newsletters critical of governmental performance. Resulting from self-censorship as much as from the press law, direct personal criticism of the king or members of the ruling family's inner circle is not practiced. Slandering of so-called "symbols of the nation" is punishable under penal law.

1.3. Rule of Law

Even though the constitution states a commitment to the separation of powers, it results in privileging the executive. In the bi-cameral Parliament, the elected deputies share their legislative powers with the Advisory Council's appointed members, a set-up that effectively guarantees a royal veto to unwanted legislation. Moreover, the Parliament's by-laws assign the drafting of bills to the government. Members of the two chambers may only write proposals.

Government supervision is more effective and is exclusively in the hands of the elected council. However, it has carried out a number of investigations, including two regarding the mismanagement of the pension funds and extra-legal granting of Bahraini nationality. Concluding reports were widely discussed in the press and public. Supervision is limited to the time after the chamber's establishment by decree, but exceptions are granted where deemed fit by the king. The Parliament has to approve of the government's budget. Deputies themselves generally place

priority on the government's supervision, arguing that accountability and transparency are a priority within the gradual reform process.

The judiciary is independent in principle. The king, however, appoints higher judges. Courts are occasionally subject to government pressure. As members of the royal family are well represented in the judicial bodies, including the Attorney General, a pro-government bias is to be expected in politically sensitive cases. Lawyers are independent, both in principle and in practice. Court decisions can be appealed. As part of the reform process, a constitutional court has been established and the former state security courts have been abolished.

Petty corruption within the bureaucracy is not a prevalent problem in Bahrain. There is, however, corruption at high levels that is not dealt with effectively. The higher the position of an officeholder is, the less likely they are to be prosecuted. Abusive officeholders tend to be re-posted rather than tried.

There has since been a massive improvement in civil rights abuses since the endemic abuses in the 1990s. The constitution guarantees basic civil and economic rights. Amnesty International was invited to inspect Bahraini prisons. Local and international human rights NGOs organize conferences and workshops, and some are involved in training parts of the bureaucracy. Since the reform process began, no prisoners of conscience have been arrested. Other prisoners, however, often have to remain in custody for lengthy periods before being presented to court. The protection of foreign workers' civil rights is insufficient, but awareness of this problem is increasing.

In 2004, two cases raised concerns about the situation of civil rights. In April, the police used excessive force and injured several peaceful demonstrators with rubber bullets during a demonstration organized by the Shi'ite opposition al-Wifaq. The king dismissed the responsible Minister of the Interior who had been part of the "old guard" and replaced him with a pro-reform candidate. The second incident occurred following a speech of a human rights activist at a seminar on poverty in October 2004. The activist blamed the prime minister for poverty in Bahrain, allegedly using insulting language, which prompted his arrest on charges of inciting unrest and defaming national symbols. The Board of the Human Rights Center, whose executive director was the activist in question, refused to apologize and subsequently the Center's license was withdrawn. Legally, this was possible because the center had been registered for human rights purposes only and not as a political society. After being convicted to a one-year term of imprisonment, the activist was pardoned by the king. These incidents have sparked heated debates about the limits of freedom of expression. The government subsequently presented a draft for a new restrictive law on public rallies, which was then rejected in Parliament.

The government's unwillingness to deal with past human rights abuses is an ongoing problem. Maltreated, imprisoned or formerly exiled persons have been

offered compensation on an individual basis but no comprehensive political approach has been taken; the same is true regarding public acknowledgment of past atrocities. On the contrary, a royal amnesty (decrees 10/2001 and 56/2002) effectively grants impunity to alleged torturers.

1.4. Stability of democratic institutions

The executive remains protected from democratic competition, but is subject to supervision by the Chamber of Deputies. It has to be taken into account, though, that most deputies lack experience in financial control and do not have institutional backing, such as research assistants.

While there is no controversy on the desirability of democratic institutions in principle, the actual Parliament is not unanimously accepted. Four political societies, potentially representing a substantial part of the population, had boycotted the parliamentary elections because they did not support the constitution of 2002, especially the provision regarding the Advisory Council. However, some groups of the boycotting societies seem to be willing to reach a compromise. Since some prominent Shi'i clerics have started to publicly favor participation in the reform project, it seems possible that the al-Wifaq will participate in the 2006 elections. On the other hand, the royal court's rejection of a petition launched by the four boycotting societies has again created conflict.

The government is generally believed to be internally divided into a pro-reform and an anti-reform bloc. It is thought that the prime minister and a number of other long-serving officials are somewhat reluctant concerning the reforms. Their grip on the administration is still quite firm, but is slowly diminishing since the king has been gradually transferring their authority to both newly appointed ministers and established regulative and administrative bodies.

1.5. Political and social integration

The work of political societies in Bahrain needs to be expanded. Some societies have a long legacy as former underground movements, such as the leftists and the Shi'i Islamic movement, and some have evolved from Islamist philanthropic societies such as the Sunni Islamic societies. Others have been set up specifically to participate in the reform project, such as the National Action Charter Society. All need to adjust to more transparent political work. An illustrative example is the major Shi'i Islamist society al-Wifaq; made up of former exiled political activists from England, Denmark, and Iran, who try to find common ground with those who emerged as community leaders in the unrest of the 1990s. Since their respective viewpoints are rather different, future splits are to be expected. Leftists and liberals are already fragmented into competing societies.

Interest and professional groups, clubs, and associations are common. Some are split along sectarian lines, but many others cut across these lines. Associations are common for all strata of society, including the poor. Neither the government nor the legislature seek their opinions in an institutionalized way, but civil society groups generally make an effort to make their voices heard through lobbying, petitions, public demonstrations, and informal talks with government staff. In order to make their demands heard, interests groups often utilize the weekly *jours fixes* that governmental and oppositional figures hold in their private homes.

A dense web of philanthropic organizations deals with a wide variety of problems, ranging from youth centers, parks, sporting facilities and art projects to providing assistance to the needy. There are also organizations for former victims of torture and families of "martyrs," or activists killed during the 1990s. Among the Shi'ites, religious gathering houses, called *ma'tem*, or "funeral house," play a prominent role. Apart from planning religious processions and festivities, *ma'tems* serve as community-based social centers. Religious organizations, though important, do not have inordinate influence.

Although there is no survey data available on attitudes toward democracy, it is noteworthy that all political movements call for constitutionalism and democratic participation within the framework of a monarchy. These demands for constitutionalism actually have their roots in the 1920s. Bahraini Islamic political societies of both sects have incorporated their notions of democracy into their programs. Perhaps surprisingly, the growing criticism of American foreign policy has no negative impact on the perception of democracy. Democratic rhetoric aside, political culture in Bahrain is also shaped by the authoritarian and patriarchal values prevalent in society.

2. Market economy

The framework for a functioning capitalist market economy has already been established. The financial sector is competitive and up-to-date. However, Bahrain has to deal with various constraints that are not easily overcome. Its small size cannot generate an attractive domestic market. Bahrain is still dependant on imported oil and its industry relies on cheap energy. The public sector is still too dominant. The creation of jobs in the private sector to counter unemployment is another policy priority that is not easily achieved.

2.1. Level of socioeconomic development

Neither subsistence production nor the informal sector plays a decisive role in Bahraini economy. Bahrain's educational level is high and illiteracy is almost non-existent. Still, Bahraini education is not matched well with the requirements of the job market, as too many graduates leave the university specializing in the

humanities. The UNDP's Human Development Report rated Bahrain the best overall performer in the Arab world in 2004, as well as the best performer regarding building capacities for women. Bahraini women comprise roughly 26% of the total Bahraini workforce and work mainly in the public and financial sectors. At the top government level, women remain underrepresented; six women were appointed to the Advisory Council, and in 2004 and 2005, two female ministers were appointed.

The Gini coefficient is not known for Bahrain, but substantial differences in wealth are obvious. Poverty is mainly found in Shi'i rural areas, where unemployment is disproportionately high. Bahrain's overall unemployment rate of 13-16% includes an estimate of women supposedly interested in working but not registered as jobless. In 2004, a program that explicitly targets Shi'i youth came into being. Its goal was the recruitment for a new community police force. Though this does not add substantially to the employment openings for Shi'ites, it has high symbolic significance as it officially ends Shi'i exclusion from the security forces. However, higher-level jobs in the military remain off limits to Shi'ites.

Generally, the public sector has offered most employment opportunities for Bahrainis. Due to past "Bahrainization", Bahrainis hold 90% of civil service posts. The bureaucracy being already too large, future jobs have to be generated by private sector growth. However, here Bahrainis are not competitive with cheap expatriate labor. As a first step of the economic reform program launched in 2004, Bahraini and expatriate wage costs will be equaled, thus offering Bahraini workers job opportunities in the private sector. The distribution of higher-level government posts follows political reasoning. Members of the ruling family are highly over-represented in senior government posts.

2.2. Organization of the market and competition

The US Heritage Foundation's Index of Economic Freedom has ranked Bahrain the freest economy in the MENA (Middle East and North Africa) region for several years. Attracting foreign investment is a top priority. Since 2001, the Economic Development Board (EDP) has been working toward transparency in and facilitation of investment processes. Foreigners can own 100% of new industrial businesses and foreign companies can set up local branches without a local sponsor.

As a leading Arab financial center, Bahrain's legal, regulatory, and accounting systems are aligned with international standards. Foreigners and Bahrainis alike have ready access to credit on market terms. Efforts are being made to increase the liquidity of the Bahrain Stock Exchange; Gulf Cooperation Council (GCC) nationals are now allowed to own up to 100% of a listed firm (previously 49%) and other foreigners may own up to 49% (previously 24%). Bahrain's process for establishing a business is straightforward. Despite the existence of anticorruption

laws, there is occasional high-level corruption in contract bidding and in the management of successful investments.

In general, the market sets prices. However, the government still enjoys a monopoly in the distribution of certain key goods and services such as water provision. Legislation to enhance the transparency of privatization procedures was passed in 2003. In 2004, the first private power project was established. Structural reforms continue to be implemented; the government has privatized the country's small public bus network and liberalized telecommunications. While there is no informal market in goods of any significance, a black market in expatriate labor exists since past "Bahrainization" policies have created "ghost workers." "Bahrainization" goals are planned to be eliminated in 2006.

The GCC countries have committed themselves to establish a common market by 2007. As a first step, common tariffs have been introduced in 2003, granting GCC countries a most-favored-nation status at 5%. In addition, Bahrain signed a bilateral Free Trade Agreement with the United States late in 2004. The agreement, which needs to be ratified by Parliament, will eliminate tariffs on all consumer and industrial products trade. This agreement has engendered severe criticism from Saudi Arabia.

2.3. Currency and price stability

The Bahraini dinar has been pegged to the U.S. dollar since 1980. Monetary cooperation and harmonization within the GCC countries is increasing, with the objective being the achievement of a GCC monetary union by 2010. Inflation has been continuously low at around 1%. Government economic policies are aimed at maintaining stability. Macroeconomic performance has been favorable, with real GDP growth at 5.7% in 2003 and non-oil growth at 6.5%. Reflecting growing confidence in the economy, the stock market grew by 28% in 2003. The Bahrain Monetary Agency, which acts as a central bank, is regarded as the Gulf's most advanced regulator.

2.4. Private property

Property rights are well defined and respected. Private sector growth is a stated goal of Bahrain's economic policies. Accordingly, legislation enhancing the transparency of privatization procedures was passed in 2003. The government has privatized state companies, but some public utilities such as water remain state monopolies.

2.5. Welfare regime

Bahrain supplies its citizens with an extensive welfare system with regard to education and health care. While the state provides citizens with cheap state loans and runs extensive housing programs, demand for cheap housing still exceeds supply. Employees and civil servants pay toward pension funds. Civil servants enjoy among the highest wages and benefits in the region. For the unemployed, however, a social security system is lacking. The estimated 15% of the Bahraini workforce that is unemployed has to rely on kinship networks and charity granted by the numerous philanthropic associations. The poor can appeal to the king with personal grievances. Legislation to establish a social security system is currently discussed in Parliament.

Opportunities for well-paid jobs are influenced by kinship networks. Formal restrictions for Shi'ites exist only with regard to the security forces. Funding programs enabling poorer strata to pursue university education are extensive. Women's participation is supported. Females have the same access to higher education and they are gradually gaining more importance in economic and political life. In 2004, the UNDP rated Bahrain the best performer in the Arab world regarding building capacities for women.

2.6. Economic performance

Recent macroeconomic performance has been strong. Real GDP growth in 2003 reached 5.7%, and growth in non-oil performance was even higher at 6.5%. Inflation was low at approximately 1%. While the share of total expenditures relative to GDP has varied significantly in recent years, capital spending has increased in 2002-2003. The increase in crude oil imports was offset by higher exports of refined products. Non-oil exports were relatively flat, but service receipts were strong, mostly because of additional tourism revenues. The financial sector remains one of the most vibrant in the region. The trade balance in 2003 has been positive: exports exceeding imports by \$1,204,573, the positive trade balance being 12.6% of the GDP. Public domestic debts were at 16.4% of the GDP. Since the budget is planned on anticipated oil prices below their actual development, the predicted deficits are as a rule not real.

2.7. Sustainability

Ecological concerns are subordinated to growth efforts. Public awareness of ecological problems is rising; one of the king's sons promotes these issues as chairman of the Bahrain Sustainability and Ecology Board. However, there is no institutional framework. The extensive land reclamation has adverse effects on the environment, especially on the ground water. Population growth has lead to a high settlement density. On the other hand, environmental reports have been made

mandatory for the licensing of new construction projects. At the micro-level, small enterprises offering ecological tourism, such as dolphin watching, receive government support.

Public education institutions of good quality from primary to university level are readily accessible for all strata of society. Like elsewhere in the region, education is not sufficiently matched to the demands of the labor market. The state operates two public universities and it has licensed seven private ones. In 2002, public spending for education was 17.2% of total public expenditure and 14.5% without university financing.

3. Management

3.1. Level of difficulty

While Bahrain's government is not substantially constrained by internal structures, its economy is partially dependant on neighboring Saudi Arabia as the latter grants Bahrain 140,000 barrels of oil per day. Bahrain itself produces only 40,000 per day. For political reasons, it had stopped this donation for several months in 2004 in order to make its advantage felt. On the other hand, Saudi Arabia is strongly interested in the stability of the Al Khalifa's rule because it fears the spillover effect of potential Shi'i unrest on the substantial Shi'i population of the Saudi Eastern Province.

Civil society traditions in Bahrain are much more deeply engrained than in its neighboring countries. Contrary to its neighbors, Bahrain also has an active worker's movement, recently organized in legal unions. There is a wide array of professional, social and cultural associations, religious and philanthropic societies, and various clubs. Several NGOs work in the political arena, among them the human rights association, Transparency International, which is an association pressing for punishment of former state officials involved in torture. Societies organize a plethora of public events, ranging from seminars to fund-raising marathons to demonstrations. Most civil associations enjoy a high level of trust. Co-option of associations and NGOs by the government is less prevalent in Bahrain than elsewhere in the region. As a rule, critique of the government can be expressed openly, as long as it does not involve direct personal criticism of the inner circle of the royal family. Another feature of Bahraini civil society is the semi-private weekly journs fixes (majlis), many wealthier people hold. Some of these meetings provide forums for debate that can be used on a more ad-hoc basis than associations, which often demand long-term commitment.

As a small country with a high intensity of face-to-face interaction, social trust is generally high. Trust in the government is another question, though; most Bahrainis perceive the government to be split into a camp around the king and crown prince, who are in favor of reforms, and a camp opposed to reform centered

on the prime minister. Thus, persons harboring deep mistrust of the prime minister are probably disposed to have more trust in the crown prince.

In relation to its size, Bahraini society is very complex and heterogeneous; most Shi'ites are Arab, but there is also a substantial group of Persian speakers. Traditionally, the majority of Arab Shi'ites have been farmers but there have also been urban merchants and landowners. Sunnis originating from inner Arabia who came during the 18th century as allies of the ruling family are tribally organized. Other Sunnis have been living as urban merchants on both sides of the gulf until the early 20th century. Primordial self-identification along origins is still important for most Bahrainis.

The Shi'a-Sunna distinction is dominant in public discourse, with some ethnic overtones. Within Shi'i discourse, Sunnis are generally described as both privileged but culturally inferior ("Beduins") and contrasted with their own group as the islands' autochthonous population. Pejorative rhetoric are also found within Sunni discourse on Shi'ites. Still, all actors stress the historic development of the Sunni-Shi'a conflict. In line with a general trend toward Islamization, the conflict has increased markedly since the early 1980s and it has been exacerbated by oppressive government policies in the 1990s. At the same time, significant professional and cultural societies, liberal to left-wing political societies and the business community are not split along sectarian lines; however, the majority of politically inactive people are. Since a substantial part of Shi'i community life is organized by religious houses, the cultural boundaries between both denominations are constantly enforced. Since a number of settlements are also predominantly inhabited by one sect only, primary schools are quite often exclusively Shi'i or Sunni.

In the past 20 years, distrust between Islamist actors of both sects was prevalent. One of the positive effects of parliamentary life is, however, that both sides have engaged in debates over questions of general interest. Moreover, even actors in sectarian-religious associations generally emphasize moderation and dialogue.

Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	3
System of government:	<i>Monarchy</i>	Latest parliamentary election:	24.10.2002
1. Head of State:	<i>King Shaykh Hamad idn 'Isa Al Khalifah</i>		
Head of Government:	<i>Shaykh Khalifa b. Salman Al Khalifa</i>		
Type of government:	<i>unified government</i>	Number of ministries:	19
		Number of ministers:	20

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Number of ministries/ ministers denotes the situation on 1 January 2005.

3.2. Steering capability

The political leadership is pursuing a program of democratization in principle, but their understanding of democratization seems to differ somewhat from general usage. In fact, the reform process aims at allowing for a higher level of pluralism and participation, modernizing state institutions' effectiveness, enhancing the rule of law, accountability and transparency. In short, it deals with issues of good governance.

Even within that broad framework, a lack of consensus within the ruling family limits the leadership's steering capability. Members of the political elite occasionally embark on contradictory policies, which sometimes end in stalemate. This problem is pronounced when it comes to civil liberties. The "old guard" has attempted to use opportunities to further curb civil liberties, as proven by the government campaign against a human rights activist in 2004. In this case, the prime minister tried in vain to curtail the rights to public demonstrations. The king stepped in indirectly; he ordered the release of detained activists from custody and he has dismissed some anti-reformists. A way of circumventing the prime minister-led government has been the tool of the "National Dialogue" on contentious questions. The king has delegated the economic policy largely to the crown prince who acts as his deputy in the national dialogue on economic reforms. The crown prince also heads the EDB, an institution that has increasingly gained authority on all economic development issues. The last change in the make-up of the EDB was by royal decree in May 2005. In 2004, the Minister of Labor and Social Affairs, a former opposition activist who had been exiled, and the boycotting political societies conducted a dialogue on the question of constitutional amendments but could not reach a consensus. As a rule, the limits of the national dialogues are defined by the king and the contesting parties are compelled to adjust.

Political actors outside the government – deputies and activists – are currently in a learning process. Most have gained more flexibility and skill in coalition building in the past two years. There are marked differences, however, between the skill levels of different groups. Political societies that have evolved from a long history of underground and exile activism have more adjustment problems than newly established ones. Boycotting societies have a tendency to revert to political means of the past, such as popular petitions, without realizing that these have lost substantial leverage in relation to the parliamentary process. Overall, a willingness to adjust to new political strategies can be seen in most areas of the government and political societies alike. The emphasis given by all actors to deliberation and consensus-building is an asset for the learning process.

3.3. Resource efficiency

The government has identified the need to fight corruption and enhance cooperation between ministries and directorates. Genuine steps toward more transparency in tender processes and the financial auditing of ministries and state institutions have been taken. Deputies involved in investigations of budget irregularities are assured that there is royal support for their activities. To fight nepotism the introduction of general exams for all government jobs was announced in late 2004. Inefficient government staff is rarely dismissed, though. At higher levels, top officials too closely associated with former repression tend to get face-saving well-paid posts that have no political influence.

As is common in the region, Bahrain's bureaucracy is inflated. This is due to political reasons; the provision of administrative jobs has been traditionally used to confer legitimacy to the government. A cautious debate on rationalization began in 2004. To improve coordination between ministries and directorates, some inter-ministerial working committees have been set up, such as a housing committee and the EDB, both headed by the crown prince. The EDB is, moreover, the first body in the region whose board is made up of CEOs of private companies and government officials alike.

While some decentralization projects began with the introduction of municipalities in 2002, the results have not lived up to expectations. This is due less to the municipal law than to the lack of experience and commitment of some of the persons involved. Most societies did not file their best candidates for the municipal elections, figuring municipalities would only deal "in garbage". Due to its small size, the effectiveness of decentralization processes are not crucial for the efficiency of Bahrain's administration.

Corruption – especially petty corruption – is not endemic in Bahrain. Its corruption index by Transparency International is 5.8, compared with a value of 3.4 in the Kingdom of Saudi Arabia. Corruption within elite circles is not being dealt with. However, Bahraini business people perceive corruption within the ruling family as declining. Parliament is authorized to supervise government spending. It is limited in this capacity by a decree allowing investigations to take place only in the time following the establishment of Parliament in 2002. Exceptions to this rule are granted arbitrarily, such as the investigation into the pension fund's mismanagement.

3.4. Consensus-building

A core of "old guard" government officials occasionally try to obstruct certain processes, but do not block reforms as a whole. Virtually all actors want to establish a market-based democracy in principle. A closer look at their respective concepts of democracy and market economy, however, reveals major differences.

While government actors tend to define democracy as equivalent to “allowing limited popular participation and control,” Islamist actors – all of them are supportive of democracy vocally – have rather particular views on the limits of personal freedoms within a democratic system.

Political societies are split into those that participate in the Parliament and those who boycotted because they reject the constitutional amendments of 2002 and the institutions that were created. The boycotters are demanding reinstatement of the 1973 constitution. However, they have announced their willingness to compromise on the constitutional question. A national dialogue between boycotting societies and the minister of labor and social affairs trying to carve out some common ground stalled in autumn 2004. The boycotters have allegedly collected 75,000 signatures to a petition to solve the “constitutional crisis,” but its acceptance was refused by the royal court in February 2005. Activists organizing major rallies during 2005 also demanded constitutional changes. Should the government not succeed in persuading the boycotters to participate in the upcoming elections of 2006, the long-term success of the reform process will be negatively affected. To achieve their participation, the king will need to make some concessions.

Whereas the government of the pre-reform era followed a strategy of divide and rule that deepened the Sunna – Shi'a divide, the government in the reform era has revised its policies and has tried to counter its perceived bias, at times by using symbolic gestures. The government has allowed the establishment of a large institute of Shi'i scholarship, initiated projects to incorporate Shi'i concepts in school books and lifted restrictions on Shi'i Ashura processions – in fact, members of the royal family now visit the processions. The king has also appointed the first Shi'i minister of Persian origin, Abdulhussain Ali Mirza, Minister for Cabinet Affairs. Also, a proposal to draft Shi'i youth into a community police has been set up. While these policies clearly mark a departure from earlier outright oppression, they are not sufficient in dealing with the conflict.

Bahraini civil society is vibrant. Generally, it is not restricted by the government. On the other hand, consultation and cooperation between governmental agencies and civil society actors are not systematic. The same can be said of efforts to co-operate with civil societies. Officials often participate in workshops organized by civil societies and some ministries seek to cooperate with NGOs that mostly deal with human and women's rights. While the whole range of civil societies participates in public debates, the government does not pay the same attention to all actors. Generally speaking, opinions of the business community, voiced through the chamber of commerce, the rotary club and professional associations, receive most governmental attention.

The lack of reconciliation between victims of past oppression and the ruling elite is an unsolved problem. Arguing for a new start, the king has issued two decrees, 10/2001 and 56/2002, that grant amnesty to all actors who were involved in the

unrest of the 1990s—victims and oppressive security staff alike. Demands to repeal these decrees are frequent. Demonstrations and protests to that effect are not restricted by the government, but there is no sign of a revision of the decree either. Some victims of torture and former forced exiles have been compensated on an individual basis, but the government has never issued a formal excuse, nor has there been a systematic approach to reconciliation.

3.5. International cooperation

Bahrain is not a classical recipient of international aid programs, but it receives assistance from most of its GCC neighbors. However, the World Bank has been assisting Bahrain within the framework of its Technical Cooperation Program (TCP) for years and the country conducts regular consultations with the IMF. It was a founding member of the WTO and is a full active member of the United Nations, the Organization of Arab Petroleum Exporting Countries (OAPEC), the Organization of the Islamic Conference (OIC), the Arab League, the World Bank, IMF, the International Bank for Reconstruction and Development (IBRD), Islamic Development Bank (IDB) and the Geneva Convention.

As a rule, Bahrain tries to implement GCC resolutions quickly. It has allowed GCC nationals residing in Bahrain to vote in its elections, a move that has been criticized by Bahrain's Shi'i population. It actively promotes regional integration and seeks to expand bilateral relations at the same time. Following the settlement of its dispute with Qatar on the Hawar islands in 2001 by the International Court of Justice, its relations with this emirate have steadily improved. In 2004, the route for the projected causeway linking both countries was agreed. Bahrain has signed bilateral trade and economic agreements with Australia, Bangladesh, China, Egypt, France, Greece, India, Iraq, Jordan, Malaysia, Russia, Singapore, South Korea, Syria, Tunisia, Turkey, the United Kingdom and, most recently and as the first Gulf state to do so, a free trade agreement with the United States. The latter move has caused Saudi irritation and prompted a temporary suspension of Saudi oil donations.

Bahrain enjoys close bilateral relations with the United Kingdom and even closer ones with the United States: It is base to the U.S. Fifth Fleet, has been declared "a major non-NATO ally," and Sheikh Hamad was the first Arab head of state to visit President Bush after his re-election. It participates actively in the U.S.-launched B-MENA initiative. Like its neighboring states, it has not accredited any foreign political foundations. Even so, a National Democratic Institute (NDI) representative works without constraints in democracy-building assistance as a guest to the Royal Court.

4. Trend of development

The reform process began in 2001 and 2002 when new political structures were established and elections held. In 2003 and 2004, the process lost some of its initial momentum. The process is ongoing but is proceeding at a less spectacular pace. The new institutions, Parliament, and political societies need to mature. Consensus-building on complicated legislative issues is difficult and slow and government and the formerly illegal opposition have to adjust to new political processes. This entails setbacks and uncertainties. As public expectations were very high and perhaps unrealistic at the beginning of the process, disillusionment is growing.

4.1. Democratic development

The years 2001-2004 have clearly witnessed pronounced improvements in the rule of law and political participation. The National Action Charter was put to a general referendum in 2001 and municipal and parliamentary elections were held in 2002. These were the first elections since 1973 and for the first time, women had equal rights to participation. The state security law and special courts have been abolished.

4.2. Market economy development

Bahrain's macro-economic performance and socio-economic development have been favorable and its Human Development Index (HDI) has improved slightly. Moreover, its economic growth has mainly been generated by the non-oil sector. In addition to its traditional role as a banking center, it has successfully attracted Islamic banking, for which it has provided the institutional and legal framework, such as the Liquidity Management Center for Islamic Banks 2001, International Islamic Rating Agency 2002 and Islamic International Financial Market 2002. Bahrain has substantially invested in tourism by developing artificial islands resorts in public-private partnership and sponsoring the Formula One Grand Prix 2004. Legislation to facilitate foreign investment has been thoroughly revised with the Commercial Companies Law of 2002.

Bahrain's economy, however, remains dependent on oil and gas. The marked population growth has lead to high unemployment of about 15% among Bahrainis. A comprehensive restructuring of the labor market has been announced, but the legislation has yet to be adopted by Parliament. The integrated approach to economic restructuring developed by order of the crown prince will far exceed any economic reform programs envisioned in the region if realized and mark a thorough departure from the rentier state model.

Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in % ¹	5.3	4.5	5.1	5.7	5.5
Export growth in % ²	42.0	-10	3.9 4 (non-oil)	13.9 2 (non-oil)	
Import growth in % ³	25.3	-7.1	16.4 20 (non-oil)	7.6 8 (non-oil)	
Inflation in % (CPI) ⁴	-0.7	-1.8			1.0
Investment in % of GDP ⁵	13.5	13.3	17.3	19.4 (prov.)	
Tax Revenue in % of GDP ⁶	34.9	32.9	32.3	31.7	
Unemployment in % ⁷			13-16		
Budget deficit in % of GDP ⁸	0,2	0,1	0,1	0,4	
Current account balance in billion \$ ⁹	0.8	0.2	-0.5	-0.5	

Source: ^{1,9} IMF. ^{2,3} Ministry of Commerce. ⁴ 2000, 2001: Bahrain Economic Development Board, 2004: IMF. ⁵ Bahrain Monetary Agency (BMA). ^{6,8} Calculated on the basis of data from the BMA. ⁷ McKinsey report on Bahrain's Labor Market, commissioned by crown prince.

D. Strategic perspective

While Bahrain has made impressive developments toward better governance in the past several years, the limitations of its reform process have also become clear. The country's rulers do not actually intend for democratization to include the ability for Bahraini citizens to change their government. Political reforms will increase public participation in decision-making, budget and government control, in accountability and rule of law. However, the ruling family is determined to keep its final say in legislation by appointing their political allies (business people, liberals) into the Advisory Council. They can argue with some justification that they need to counter Islamic movements inexperienced with and uninterested in economic policy. A Parliament dominated by Islamists, government officials claim, would ruin the country's economic future. As known admirers of the Singapore model, the ruling family argues that some independence from elections for the executive is necessary to pursue economic reforms.

In fact, economic reforms to enhance the rule of law, transparency and accountability have come quite a way. More noteworthy, the Bahraini government is willing to take a comprehensive and integrated approach to tackle uncomfortable issues. Launched by the crown prince in 2004, an extensive economic reform program will mark a departure from long-held rentier practices: Reform of the labor market will equate the costs of Bahraini and expatriate labor, which should then provide job opportunities for Bahraini low-skilled labor. It has been announced that a thorough revision of land and commercial laws will be phased in later, parallel to education reform. The initiative aims at massively reducing the public sector's share in the labor market and at fostering job growth

in the private sector, primarily in small and medium enterprises. Quite revolutionary for a Gulf state, the government will no longer be able to claim its legitimacy from the provision of job offerings in the bureaucracy. Moreover, the government's main allies, businesspeople and the upper middle class, will be the first to be confronted with economic losses.

The main factor influencing the success of the reform process will be whether the majority of the Bahraini public can be persuaded to favor stability over participation that is more effective. Hopes were certainly higher within wide strata of society at the reform's outset and have since been partly frustrated, especially among the poorer classes. It is the poor, however, who will benefit from the labor market reforms. Should they experience improvements in the not too distant future, chances are that they might support the government program.

Bahrain's economic reforms probably need less outside support than the political reforms. Still, economic reforms can be bolstered in multiple ways. At the government level, the stalled negotiations for a free trade agreement between the GCC and the European Union should be reanimated. On a smaller scale, assistance with the reform of the education system could be offered. The German system of "dual education" is likely to generate interest.

Like other Gulf States, Bahrain has so far not formally registered any foreign agency working on the promotion of democracy -- with the exception of the NDI. As long as the government is not convinced that assistance in this sense serves its own interest and does not undermine its authority, the possibilities for democracy promotion by foreign actors in Bahrain remain limited.

However, where possible, assistance should be offered to non-governmental actors to maximize their possibilities. Support strategies can target three groups: NGOs and political societies; elected representatives; and officials in state institutions.

Civil and political societies alike need to strengthen their own accountability and effectiveness and can profit from the experience of established parties and NGOs. Moreover, the elected deputies of the Bahraini parliament as well as the elected municipal councilors could benefit from exchange with their counterparts from other countries to increase their knowledge about electoral campaigning, strategic planning, voter outreach and the like. Programs to enhance accountability and the rule of law with the judiciary or capacity building within the Parliament's administration could be offered.

Bahrain's reform efforts, both on the political and the economic level, are much more profound than the reform processes of its neighbors (Qatar, Oman, and the United Arab Emirates). Yet, for example, when it comes to Germany's activities within the Gulf region, this fact is not commonly acknowledged. This could lead to the perception of German commitment to reforms as a hollow promise.