

BTI 2008 | Bahrain Country Report

Status Index	1-10	6.01	# 56 of 125	
Democracy	1-10	4.63	# 77 of 125	➔
Market Economy	1-10	7.39	# 21 of 125	➔
Management Index	1-10	4.66	# 78 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	0.7	HDI	0.86	GDP p.c.	\$	19,112
Pop. growth ¹	% p.a.	1.5	HDI rank of 177	39	Gini Index		-
Life expectancy	years	75	UN Education Index	0.86	Poverty ³	%	-
Urban population	%	96.5	Gender equality ²	-	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

While the years 2001 and 2002 witnessed tremendous change, the reform process has stalled since 2004. Throughout 2005, 2006 and early 2007, political conflict has re-emerged and the government has resumed its repressive strategies. Earlier progress toward political liberalization has not been consolidated. Basic problems associated with the reforms, most notably resistance among substantial parts of the population to the constitution proclaimed by the ruler in 2002, and the continuing discrimination experienced by the Shi'ite population, have not been tackled. Instead, the state has increasingly resorted to repression to counter opposition. In 2005, thousands of Bahrainis demonstrated for constitutional change that would put legislative competencies solely in the hands of elected representatives. To date, reforms to that effect have not been implemented, and neither the king nor the government has sought any other line of compromise. Nevertheless, all major political forces – including those that boycotted the parliamentary elections of 2002 – participated in the latest elections in November 2006, thus considerably increasing parliament's representativeness. Nevertheless, several elements of the Bahraini political system are contradictory to democratic transformation.

The executive is not elected, the cabinet is appointed by the king, the legislative power of elected parliamentarians is countered by the appointed members of the consultative chamber (Majlis ash-Shura), as the two bodies have an equal amount of legislative power. Civil liberties are guaranteed by the constitution but limited by law. The separation of powers is inadequate as the king dominates all three branches: although formally independent, the judiciary is subjected to government pressure. Moreover, the actions of certain confessional groups have negatively impacted parliamentary work in the first legislative term 2002 – 2006. The boycott by Shi'ite political societies in the 2002 elections resulted in a dominance of Sunni Islamists in parliament. These,

however, generally have been interested in keeping the political dominance of the Sunni minority, (which compose roughly 30% of the Bahraini population) over the Shi'ite majority (70%). As a result, major problems were not addressed by the last parliament, among them a necessary reform of the electoral law, which retains a significant bias against the Shi'ites. Moreover, parliament has passed legislation not compatible with liberalization, like a vaguely defined anti-terror law (July 2006), a restrictive law on demonstrations (July 2006), and restrictive amendments to the law on political societies (August 2005).

Generally, the political situation has become increasingly tense. Both state violence and violent oppositional behavior have re-emerged. Since 2004, riot police have repeatedly resorted to undue violence to disperse protesters. Moreover, political opposition activists credibly claim to be harassed by state authorities. Particularly since 2006, there have been blatantly politically motivated court rulings issued, such as the "Bandargate" press gag in October 2006, and the sentencing of activists for possession of oppositional leaflets in January 2007. At the same time, expatriate workers and policemen have been attacked, sometimes by arson (December 2006).

Nonetheless, some positive developments have taken place; the government agreed to provide basic funding for political societies in June 2006, parliament passed legislation the following month that will gradually lower the voting age, from 21 in 2002 to 18 in 2014. Attention for human rights is growing, as Bahrain was elected to the United Nations Human Rights Council for the year 2007. Domestically, authorities have met some of the demands of human rights activists. An independent NGO (Bahrain Human Rights Society) was allowed to conduct a series of prison inspections. In addition, the government has entered into a new round of serious discussions on compensation issues with political activists returning from exile. Economic reforms have progressed, although labor, education and land reforms proceeded slower than expected. Legislation for financial services and privatization policies have been expanded, and the Bahrain Monetary Agency has been transformed into to Bahrain's central bank.

History and Characteristics of Transformation

Since Sheikh Hamad bin Isa al-Khalifa came to power in 1999, Bahrain has pursued economic and political reform. Due to the marginal nature of its oil supplies, Bahrain has undertaken serious economic diversification efforts for the past thirty years. However, the country remains dependant on oil, mostly donated from Saudi Arabia. Another important income factor is financial services. Next in line are weekend tourism from neighboring Gulf States and industrial production in aluminum, petrochemicals, ship repairs and manufacturing. These sources of income have proven volatile to political unrest, which formed a prominent feature of Bahraini politics in the

1990s. The opposition fought to limit the autocratic regime of the ruling al-Khalifa family, and re-introduce parliamentary politics, which Bahrain experienced between 1973 and 1975, following its independence from the United Kingdom. Government suppression was rigid and often violent; the conflict increasingly came to be understood in sectarian terms, as a problem between a deprived Shi'ite majority and the dominant Sunni ruling family and its clientele.

To overcome the inter-related problems of economic crisis, social and political conflicts, the ruling elite opted for a gradual process of top-down liberalization. The first steps of the reform process were received with much enthusiasm from the population. Shortly after coming to power, Sheikh Hamad issued a general amnesty for political prisoners and invited exiled political activists to return. He introduced a "National Action Charter" promising the resumption of constitutional rule and parliamentary politics. The charter further proposed the introduction of a second appointed parliamentary chamber, the consultative chamber (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 charter was subjected to a general referendum in February 2001 and was overwhelmingly endorsed, with 98.4% of Bahrainis voting in approval. When the king issued the amended constitution one year later, reactions were not as unanimously enthusiastic, as the Majlis ash-Shura was granted the same legislative powers as the elected chamber of deputies (Majlis an-Nuwwab). Nonetheless, a large number of political societies, as the equivalent to parties, were registered. While all political societies participated in the municipal elections of March 2002, four societies, including the largest, the moderately Shi'ite Islamist al-Wefaq National Islamic Society boycotted the parliamentary elections of October 2002 in protest of the amendments.

Although gerrymandered districts privileged Sunnis votes, elections have generally been regarded as free and fair. Women have run as candidates, but have not won any seats. As a result of the partial Shi'ite boycott, the Majlis an-Nuwwab was dominated by Sunni religious societies in the first legislative term from 2002 to 2006. In November 2006, all major political societies participated in the parliamentary elections. Due to district gerrymandering, the Shi'ite opposition failed to secure an absolute majority but holds a comfortable contingent of 17 out of 40 seats. A close look at the legal basis of the reforms and at political practice reveals that the ruling elite has retained most decision-making powers. The executive branch remains completely outside of political competition, while the most important ministries are held by members of the ruling family. The structuring of the shura council gives the king an indirect final say in legislation, and while political and civil freedoms are guaranteed by the constitution, they are limited by law and further restricted by ill-defined references to national cohesion. The reform process has stalled increasingly since 2004. As it became obvious that the reforms were not intended to establish a democracy in the sense of competitive elections for all levels of government and the elite was not

ready for further compromise, parts of the opposition were radicalized. At the same time, the state resorted to oppression to control opposition, ranging from legalistic harassment of activists, to undue police violence and media censorship.

Economic reforms included policies to ensure greater accountability and transparency, and the liberalization of state monopolies, such as privatizing the telecommunications sector in 2004. The inter-related problems of unjust distribution of wealth and the predominance of the public sector have been discussed frankly in public, while a debate on a comprehensive long-term economic restructuring was launched by the crown prince in 2004. The envisioned program marks a decisive departure from previous rentier policies.

Transformation Status

I. Democracy

1 | Stateness

Although the state's monopoly on the use of force is established, demonstrations that resulted in violent clashes have resurfaced since 2004. Riot police resorted to undue violence in response to a series of demonstrations staged by the Bahrain Center for Human Rights, which is led by human rights activist Abdulhadi al-Khawaja in June and July 2005, at the "airport protest" in December 2005, and at rallies in support of the airport detainees in March 2006. Protesting youth occasionally resorted to burning tires in 2005 and 2006, and in May and December 2006, police patrols were attacked with Molotov cocktails. From fall 2006 onwards, expatriate workers have increasingly become subject to violence from Bahraini youths. While these incidents show the increasing political tensions, they do not threaten the state's monopoly on the use of force.

Monopoly on the use of force

The status of Sunnis and Shi'ites lacks equality, although their respective qualification as Bahraini nationals is not disputed. The Sunni minority, which constitutes approximately 30% of Bahrain's population, is privileged, while Shi'ite villages and city quarters are generally underdeveloped, and poverty and unemployment concentrate within the Shi'ite communities. While Shi'ites are almost completely barred from entering the security forces in practice, there is no formal legal discrimination on the basis of sect. Within the shura council and the members of cabinet that do not belong to the al-Khalifa family, Shi'ites constitute approximately half the members. Complaints have been raised by parliamentarians and civil society actors about granting citizenship to non-Bahraini Arabs and South Asians who have served in the armed forces. Since they are Sunnis, this is perceived as a government policy to shift Bahrain's demographic set-up. An investigation into the issue by a parliamentary committee in 2004 could not substantiate this evidence of this practice, but in January 2007 another parliamentary motion has been initiated by the Shi'ite opposition to answer this question.

State identity

According to Bahrain's constitution, Islam is the state religion, and the Shari'ah is stated to be "a" (not "the") source of law. In practice, Bahrain's laws are secularized with the exception of family and inheritance laws, which are not codified in formal structures. Non-Muslims, including Hindus, are free to practice and maintain places of worship – in this regard, Bahrain is exceptional in the region. The king appointed a Jewish Bahraini to the Majlis ash-Shura in 2002, and a female Jewish human rights activist in 2006. There are Islamic political movements in both Sunni and Shi'ite communities demanding a stronger role for Islam in the country's policies. Bahrain's highest Shi'ite cleric is informally associated with the main Shi'ite party, al-Wefaq, and interferes occasionally with their policy decisions.

No interference of religious dogmas

Bahrain maintains a functioning administrative structure throughout the country.

Basic administration

2 | Political Participation

Political participation is structurally limited, as the parliament consists both of elected and appointed chambers, which are equal in numbers and power. Election results do not determine the composition of government, as the sheikh (king) remains head of state and appoints the prime minister and the cabinet ministers. The central ministries (including oil, defense, foreign affairs and interior) are allocated to members of the ruling family. Gerrymandering and other regime efforts to influence the outcome of parliamentary elections increased considerably between 2002 and 2006. While the first elections of 2002 could generally be considered free and fair, outright fraud is likely to have occurred in at least three out of 40 total constituencies in 2006.

Free and fair elections

Government functionaries are not elected and nominations to military ranks are not subject to parliamentary control.

Effective power to govern

Political parties as such are illegal, but political societies (which are legal) function like parties in every aspect, fielding candidates for elections and acting as parliamentary blocs. Furthermore, they are free to hold seminars and to publish political magazines. Since summer 2006, they have received monthly state funding, with a higher rate being allocated to societies represented in parliament. State funding had been a major demand of the opposition. Since August 2005, a new law on political societies has been enforced that clarifies the legal framework for political work, but it also contains problematic provisions, requiring political societies to accept the constitution of 2002 (many do not) and forbidding them from promoting sectarian agendas, a provision which could easily be leveraged against existing Islamist societies. Moreover, external funding and assistance is outlawed. Civil society organizations are granted the right to operate in most cases, even those critical of government policy. However, some civil society

Association / assembly rights

activists are constantly harassed by the regime, such as human rights activists Abdulhadi al-Khawaja and Abdulra'uf ash-Shayib. While political and civic groups were able to assemble freely during the first years of reform, restraints have been placed on certain activists groups during the period under review.

Notwithstanding the constitutional guarantees of freedom of opinion and expression, a restrictive press law (promulgated by decree prior to the constitution of a parliament in 2002) is in place, though it is rarely enacted. A range of opinions are articulated, particularly by the privately-owned printing press. In addition to the three existing Arabic newspapers (one pro-government, one leftist/Ba'thist and one close to the Shi'ite opposition) and two English papers, three more Arabic newspapers have been founded since 2005: a liberal daily, a Salafi daily, and a mainstream weekly. State-run television and radio reflect official views only. There are, however, no restrictions on satellite dishes. Political societies and other NGOs publish newsletters critical of governmental performance. 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. While until 2006 Internet sites were rarely blocked, this has changed. By November 2006, 18 sites have been blocked, mainly those serving as local Shi'ite community platforms.

Freedom of
expression

3 | Rule of Law

The constitution stipulates a commitment to the separation of powers, and privileges the executive at the same time. Elected deputies in the bicameral parliament share their legislative powers with the Majlis ash-Shura's appointed members – a set-up that guarantees a royal veto – and the parliament's by-laws also assign the drafting of bills to the government; members of both chambers may only write proposals. Government supervision is more effective than the separation of powers, as it is carried out by the elected council only, and a number of investigations have been carried out. Parliament has to approve of the government's budget, but the government's draft is very general. Moreover, the executive dominates politics informally: in September 2006, a report ("Bandargate") credibly detailed illegal government actions to influencing decision-making through establishing and funding loyal NGOs, awarding benefits to converts from Shi'a to Sunni, gerrymandering, supporting Sunni Islamists, etc.

Separation of
powers

Though the judiciary is formally independent, it is often subjected to government pressure: In February 2005, three moderators of an online discussion forum (www.bahrainonline.org) were arrested because users had allegedly insulted the royal family. The moderators were detained for 15 days without charges having been announced. Detainees arrested at a demonstration at the airport in December 2005 have been held in lengthy custody. Political activist Abdulraouf ash-Shayib

Independent
judiciary

was arrested a day prior to a demonstration for an alleged “illegal affair.” Political activist Abbas Abdali was sentenced to two months of imprisonment for false statement after reporting that plainclothes policemen attacked him. In many of these cases, detention periods are lengthy and access to family is often barred. However, detainees have access to their lawyers who are independent. The king appoints higher judges and members of the royal family are overrepresented as judges (the Attorney General also is a member of the ruling family). Court decisions can be appealed and a constitutional court was established and the former state security courts abolished.

Petty corruption within the bureaucracy is not a prevalent problem. Corruption at high levels is not efficiently dealt with. Officeholders are rarely prosecuted for abuse of office and are generally transferred rather than tried. The minister implicated most by the country’s biggest-ever corruption scandal (“Bandargate,” September 2006), Sheikh Ahmed bin Ateyatalla al-Khalifa, has not even been urged to clarify matters publicly. Instead, he was confirmed in his position as head of the Central Informatics Organisation and even promoted to Minister of Cabinet Affairs.

Prosecution of
office abuse

Although Bahrain is not yet a signatory to the International Covenant on Civil and Political Rights, the constitution guarantees the civil rights codified in this document, although they are subject to legal limitations. The law on associations (1989) gives the Minister of Social Affairs the right to reject the registration of any society. Freedom of assembly and freedom of media is generally characterized by tolerance, though restrictions are at times imposed arbitrarily, a practice that is motivated by a set of considerations, such as setting examples and negotiating the limits of freedoms, as well as by infighting within the ruling elite. Excessive police violence can be observed in some instances, such as the “Unemployment Committee” demonstrations in June and July 2005, where police violence resulted in injuries of more than 30 persons. In December 2005, a protest at Bahrain airport was violently dissolved and protesters arrested. This resulted in further demonstrations in support of the “airport detainees,” leading to more violent clashes and arrests. Political activists also claim to be subjected to more everyday forms of harassment. Although the constitution grants privacy in matters of communication, circumstantial evidence suggests that telephones are occasionally tapped. In May 2005 the UN Committee Against Torture discussed a report on the matter by the Bahraini government. While the committee took note of positive developments since 2001, it criticized the general amnesty that gives impunity to torturers of the pre-reform era, and the lack of institutionalized compensation for previous victims of torture. The power of the executive to curb civil rights has been cemented by parliamentary legislation. A new law on political societies was passed in August 2005, a new law on rallies and demonstrations in July 2006, as well as an anti-terror law that allows restrictions

Civil rights

of political activism the same month. On a positive note, the Ministry of the Interior has allowed prison inspections by the independent Bahrain Human Rights Society and has cooperated with this NGO in schooling police staff. Equality before the law is guaranteed by the constitution, but legislation is often limited in practice as members of the royal family are difficult to prosecute. While the Bahraini state has made strides in its efforts to empower women – the king has appointed 10 women to the shura council in 2006 and two female cabinet ministers – women are subjected to non-equal treatment especially with respect to their personal status. Because Bahrain has no codified personal status, both Sunni and Shi'ite Shari'ah (Islamic law) judges rule according to their discretion. Shi'ites are discriminated with regard to the electoral law and also with regard to recruitment into the security forces.

4 | Stability of Democratic Institutions

The executive is appointed by the king. The bicameral parliament, partially elected, must approve all government bills. Elected deputies supervise government action and spending, though it must taken into account that most deputies lack experience in financial control.

Performance of
democratic
institutions

Since the “democratic” institutions are part of the authoritarian regime, they are thoroughly criticized by a substantial part of the population. The first legislative term (2002 – 2006) was characterized by a boycott of the elections and of parliament by significant actors. The parliament elected in November 2006 is more inclusive, as those who had boycotted in the past participated once again. Constitutional reform that would entail a change of the parliamentary framework is a priority of almost half of the elected deputies. The government is generally believed to be internally divided into a pro-reform and an anti-reform bloc. The prime minister is seen as opposed to reform, while the king and crown prince are seen as advancing reform.

Commitment to
democratic
institutions

5 | Political and Social Integration

Political societies do not yet represent decisive actors in Bahraini politics, as they are still in the process of defining their role. Some societies have a legacy as former underground movements (leftists, Shi'ite Islamist movement), some have developed from Islamist philanthropic societies (e.g., Sunni Islamic societies), others have been set up specifically to participate in the reform project (e.g., National Action Charter Society). All have needed to adjust to open political work. While in the first legislative term, sixteen out of forty deputies were members of a political society, the ratio has increased in 2006, when this was true for 29 out of 40 members.

Party system

Interest and professional groups, clubs and associations are common. Some are split along sectarian lines, but many others include members of various confessional backgrounds. Participation in associations is 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 organizations generally try to make their voices heard through lobbying, petitions, informal talks with government staff and demonstrations. However, many NGOs are in fact closely affiliated to certain political societies, a fact which complicates cooperation on common goals. NGOs are monitored by the Ministry of Social Affairs, which occasionally interferes with the societies' activities.

Interest groups

No survey data is available on attitudes toward democracy. However, most political movements call for constitutionalism and democratic participation within the framework of a monarchy. Bahraini Islamic political societies of both sects have incorporated their notions of democracy into their programs. A substantial part of the political scene – that is Shi'ite Islamists and most leftists – reject the current constitution and demand more democracy. From March to June 2005, these groups mobilized thousands of protest marchers who demanded constitutional changes that would result in a fully elected parliament.

Consent to democratic norms

A dense web of philanthropic organizations deals with a wide variety of issues, ranging from creating youth and sport centers, to art projects and providing assistance to the needy. There are also organizations for former victims of torture and families of “martyrs” (activists killed during the 1990s). Among the Shi'ites, religious gathering houses (ma'tem, lit. “funeral house”) play a prominent role. Apart from planning religious festivities, ma'tems serve as community centers. Religious organizations, though important, are not hegemonic. Liberal organizations maintain a shelter for abused women and a center in which former victims of torture are treated. Migrant communities have established numerous charitable and social clubs.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

The GINI coefficient is not known for Bahrain, but substantial differences in wealth are obvious. Poverty is concentrated in rural Shi'ite areas, where unemployment is disproportionately high. Bahrain's overall unemployment rate of 13-16% includes an estimate of women supposedly interested in working but

Socioeconomic barriers

not registered as jobless. A program explicitly targeting Shi'ite youth for recruitment to a new community police was begun in 2004. Though this does not add substantially to the employment opportunities for Shi'ites, it is symbolically important, officially ending Shi'ite exclusion from the security forces. High-level jobs in the military remain off-limits to Shi'ites, however. The public sector is the largest employer. Due to past "Bahrainization," that is, the process of obtaining citizenship through naturalization, Bahrainis hold more than 90% of civil service posts. As the bureaucracy is too large, future jobs have to be generated by the private sector. However, Bahrainis are not competitive with expatriate labor in the private sector. A labor market reform launched in 2004 planned to equal Bahraini and expatriate wage costs, however, the fees on expatriate labor to that effect have been delayed. High-level government posts are distributed according to political convenience. Members of the ruling family are heavily over-represented in senior government posts. Bahrain's GDI value is 98.8% of its HDI (human development report 2006). While this is not exceptional on a global scale, (out of the 136 countries with both HDI and GDI values, 92 countries have a better ratio), Bahrain's HDI is high in comparison with other countries in the region: it places 39th in the 2006 human development report. 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 university with specializations in the humanities. Bahraini women comprise roughly 26% of the total Bahraini workforce, working mainly in the public and financial sectors.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	8,448	9,699	11,012	12,914
Growth of GDP	%	5.3	7.2	5.4	6.9
Inflation (CPI)	%	-0.5	1.6	2.4	2.6
Unemployment	%	10.3	-	-	-
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-50.4	201.0	415.5	1575.0
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-

		2002	2003	2004	2005
External debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-0.3	2.5	5.7	8.3
Tax Revenue	% of GDP	4.1	3.8	5	5.5
Government consumption	% of GDP	18.5	18.4	17.0	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.9	2.9	2.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.0	4.9	4.4	3.6

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

In 2005, the Heritage Foundation (again) voted Bahrain “the freest economy in the Middle East,” and second freest in 2006. However, the government still enjoys a monopoly in the distribution of certain key goods and services like water provision. Legislation to enhance the transparency of privatization procedures was passed in 2003, while the first private power project was set up in 2004. Structural reforms continue to be implemented, as evinced by the government’s privatization of the country’s small public bus network and liberalization of telecommunications. While there is no informal market in goods of any significance, there is a black market in expatriate labor since past “Bahrainization” policies created “ghost workers,” that is, payrolled Bahrainis who do not show up to work. “Bahrainization” goals were eliminated in 2006, and were supposed to be substituted by a fee on expatriate labor. However, the introduction has been delayed.

Market-based competition

Anti-monopoly legislation was strengthened in 2002 as part of a number of measures designed to enhance transparency, laws regulating on tenders, administrative and financial monitoring, and the authority of the capital market.

Anti-monopoly policy

The Gulf Cooperation Council (GCC) countries introduced common tariffs in 2003, levying a common tariff of 5% in trade taking place between GCC countries. However, Bahrain signed a bilateral free trade agreement with the United States late in 2004, which took effect in August 2006. The agreement eliminates tariffs on all trade in trade consumer and industrial products. This

Liberalization of foreign trade

agreement has brought Bahrain under severe criticism from Saudi Arabia. Bahrain's simple average tariff rate was 5.2% in 2005. There are few non-tariff barriers to trade, but a limited number of products are subject to import and export prohibitions and licenses, and discrepancies between legislation and practice reduce transparency.

As a leading Arab financial center, Bahrain's legal, regulatory and accounting systems meet international standards. Foreigners and Bahrainis alike have ready access to credit on market terms. As regards setting up a business, despite the existence of anti-corruption laws, there is occasional high-level corruption in contract bidding and the management of successful investments. The IMF has consistently commended Bahrain's financial supervision as effective and its regulation as modern and comprehensive in recent years, most lately in 2006. The stock exchange is small, but active. In March 2004, Bahrain lifted the requirement that foreign insurance brokers and loss adjusters have at least 51% Bahraini ownership. They may now operate under 100% foreign ownership.

Banking system

8 | Currency and Price Stability

The Bahraini dinar has been pegged to the U.S. dollar since 1980. In January 2007, Bahrain (after Oman) voiced its intention not to join the GCC monetary union in 2010. Inflation grew in 2005 and 2006, measuring 2.6%. Although the IMF describes Bahrain's regulatory system as robust, the surging regional equity and real estate markets pose a risk. Consumer lending has grown rapidly but slowed in 2005, when loans were tied to income limits. Government economic policies are aimed at maintaining stability. Macroeconomic performance has been positive, with real GDP growth measuring 6.9% in 2005 and IMF forecasted at 7.1% in 2006. The Bahrain Monetary Agency (central bank) was the Gulf's most advanced regulator and in 2006 has now been transformed into a completely independent "Central Bank of Bahrain" (CBB).

Anti-inflation /
forex policy

Authorities follow a prudent policy – commended by the IMF – aimed at maintaining stability. Budgets are drafted on the basis of a very conservative estimate of oil prices (just over \$32 billion per barrel, while in fact current prices are double).

Macrostability

9 | Private Property

Property rights are well-defined and respected. The Economic Development Board has proposed legislation to ensure greater transparency in land acquisition and registration, currently under parliamentary consideration.

Property rights

Private sector growth is a stated goal of Bahrain's economic policies. Accordingly, privatization of state companies is ongoing: the telecommunication sector, the biggest power plant, and the main port have already been privatized, while the aluminum industry is now earmarked for partial privatization. However, due to the dominance of the hydrocarbon sector, the Bahraini economy is still state-dominated.

Private
enterprise

10 | Welfare Regime

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

Social safety nets

Opportunities for well-paid jobs are influenced by kinship networks. Formal restrictions for Shi'ites exist with regard to the security forces. Otherwise, Shi'ites are employed in public service, but Sunnis are over-represented in top ranks. Funding programs enabling poorer strata to pursue university education are extensive. Women's participation is supported. Females have the same access to higher education as men and are gradually gaining more importance in economic and political life.

Equal opportunity

11 | Economic Performance

Recent macroeconomic performance has been strong. Real GDP growth reached 6.9% in 2005 and was forecasted by the IMF at 7.1% in 2006. In spite of exceptionally high oil prices, which shifted the overall balance of revenues to the oil sector, the growth of non-oil sector (which expanded by 9.0%) was considerably stronger than that of the oil sector (which shrunk by 7.5%). However, the state's priority is to further develop Bahrain's financial sector – at the end of 2004, over 3,000 financial institutions operated in Bahrain – as well as the petrochemical industry, tourism and real estate. The increase in crude oil imports was offset by higher exports of refined products.

Output strength

12 | Sustainability

Ecological concerns are subordinated to growth efforts. Public awareness of environmental problems is rising (one of the king's sons promotes these issues as chairman of the Bahrain Sustainability and Ecology board), but there is no institutional framework. The extensive land reclamation has adverse effects on the environment, especially on the ground water. Population growth has led to a high settlement density. On the other hand, environmental reports have been made mandatory for the licensing of new construction projects. On the micro-level, small enterprises offering environmental tourism receive government support.

Environmental
policy

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 has licensed several private ones. In 2004, (the year for which the most recent data available was recorded) public spending for education was 15% of total public expenditure.

Education policy
/ R&D

Transformation Management

I. 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 perday (Bahrain itself produces only 40,000 barrels per day). Saudi Arabia halted its donations for political reasons for several months in 2004, making its leverage felt. On the other hand, Saudi Arabia has a vested interest in the stability of the al-Khalifa's rule: It fears the spillover effects of potential Shi'ite unrest on the substantial Shi'ite population of the Saudi Eastern Province. Obviously, Bahrain's small size limits its economic options since it cannot generate a market of its own. There is a similar problem in terms of security, insofar as the country's small size also limits its capacity to defend itself. It depends almost completely on its bilateral defense agreement with the United States in this respect.

Structural
constraints

Civil society traditions in Bahrain are much more deeply ingrained than in the neighboring countries. Since Bahrain was the first Gulf country to produce oil, an active worker's movement developed there from the late 1930s on, organized in unions that have only recently been legalized. There is a wide array of professional, social and cultural associations, religious and philanthropic societies, and clubs. Several NGOs, including human rights associations, the anti-corruption organization Transparency International, an association pressing for punishment of former state officials involved in torture, are active in political issues. Such organizations hold a plethora of public events, ranging from seminars to fundraising marathons to demonstrations. Most civil associations enjoy a high level of trust. The government does co-opt associations and NGOs, but this 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. Bahraini civil society features semi-private weekly town-hall like meetings (majlis), providing additional forums for debate. Being a small country with a high intensity of face-to-face interaction, social trust is generally high. Trust in the government is another question, however. As a rule, civic culture within civil society institutions is prevalent.

Civil society
traditions

While the Shi'a-Sunni conflict is prevalent in public discourse, Bahraini society is divided into far more than two discrete groups, as both confessions are split along ethnic lines as well. Most Shi'ites are Arab, but there is a substantial Persian minority among them. The majority of Arab Shi'ites have been farmers, but there have also been urban merchants and landowners. Sunnis are either tribally organized and stem from inner Arabia (as is the case with the ruling family), or they originate from the Persian side of the Gulf. Primordial (self-) identification along origins is still important for most Bahrainis. The Shi'a-Sunni distinction is dominant in public discourse, with some ethnic overtones. The conflict, however, seems not to be primarily religiously motivated, but rather to be due to the uneven distribution of wealth and political power. Within Shi'ite discourse, Sunnis are generally described as both privileged and culturally inferior ("Bedouins") and contrasted with the Shi'a population's assumed status as the islands' native population. Obviously devaluating identifications are also found within Sunnis' discourse on Shi'ites. Still, all actors stress the historic genesis of the Sunni-Shi'a conflict. In line with a general trend toward Islamization, the conflict has increased markedly only since the early 1980s and has been exacerbated by oppressive government policies in the 1990s. At the same time, significant professional and cultural societies, along with liberal and left-wing political societies and the business community are not split along sectarian lines. Since a significant part of Shi'ite community life is organized by religious houses, the boundaries between both denominations are constantly culturally enforced. Since a number of settlements are also predominantly inhabited by one sect only, primary schools are quite often exclusively Shi'ite or Sunni. One of the positive effects of parliamentary politics is, however, that both sides have been engaged in debates over questions of general interest. Today, even actors in sectarian-religious associations generally emphasize the importance of moderation and dialogue. Huge differences in wealth are more obvious in Bahrain than in many other countries, again due to the island's small size.

Conflict intensity

II. Management Performance

14 | Steering Capability

The leadership is capable of pursuing long-term aims, but not necessarily that of constitutional democracy, notwithstanding rhetoric to the contrary. The elite-driven reform process aims at allowing for a higher level of pluralism and

Prioritization

participation, modernizing state institutions' effectiveness, enhancing the rule of law, accountability and transparency, but in a limited way that leaves ultimate power in the executive's hands. Economic reforms are pursued more sincerely and more stringently than political change.

In 2002, the government successfully implemented political reforms that included introducing a bicameral parliament, holding general elections, and establishing a constitutional court. In recent years, however, reforms have stalled and civil liberties have been curtailed again. There are some positive developments, however. Parliamentary and municipal elections took place on schedule in November 2006 and were more inclusive than in the past. Basic state funding for political societies was introduced in June 2006. However, negative progress outweighs these achievements, most notably in the decrease of civil liberties during the period under observation. Since 2004, police have increasingly resorted to undue violence to disperse demonstrators and court rulings have increasingly been influenced by the executive, while political and human rights activists have been constantly harassed. The executive has not entered into a dialogue on constitutional reform, despite demands to do so by thousands of demonstrating Bahrainis, particularly in 2005. The government has refused to investigate credible allegations of political corruption and electoral fraud in "Bandargate" 2006. Government policies of economic reform seem to have been more sincere. The Economic Development Board, chaired by the crown prince, has proposed fundamental reforms of the labor market, the education sector, and of access to and use of land since 2004. However, these reforms have been met with great resistance by the business community and it remains unclear whether they will be successfully implemented.

Implementation

Some governmental actors, albeit a minority, display the readiness to change. In particular, the crown prince has experimented with new ways of finding consensus: the strategies of economic reform that he and his aides proposed have been subjected to a process of consensus-building and debates that are aimed at generating bottom-up consensus. However, this new strategy has initially not been met by success. Another flexible reaction by the king to the challenge of the prevalence of "old guard" decision makers was his creation of public-private bodies that appropriated many ministerial functions, many of which are chaired by the crown prince. Since 2004, however, repression has resurfaced as a political tool, in spite of the regime's very dismal experiences in the 1990s with repressive policies.

Policy learning

15 | Resource Efficiency

Generally, the budget is balanced, reasonably transparent, and subjected to some parliamentary supervision. As is common in the region, Bahrain's bureaucracy is

Efficient use of assets

inflated in line with political exigency, as the provision of administrative jobs confers legitimacy to the government. This system results in an ineffective use of human capital – as a rule, it is not the most qualified person who will secure a job in the administration, but rather the one best-connected to decision makers. To improve coordination between ministries and directorates, some inter-ministerial working committees have been set up (e.g., housing committee and the Economic Development Board, both headed by the crown prince). Often, however, newly created committees duplicate ministries already in place. They are used to providing the crown prince in particular with additional (and uncontrolled) decision-making power, without confronting the incumbent minister openly. The introduction of municipalities in 2002 has further duplicated the administration, as there is no clear division between competencies of the municipalities and of the governorates.

The duplication of governmental functions, the unclear division of powers between king and prime minister, between municipalities and governorates, limits the development of coordinated and comprehensive policies.

Policy coordination

Petty corruption is not endemic in Bahrain, which ranks 36th on Transparency International's Corruption Perceptions Index. Corruption seems widespread in elite circles and this is not addressed. Parliament is authorized to supervise government spending, but is limited in this capacity by a decree allowing investigations only into events following the establishment of parliament in 2002. In September 2006, a report locally termed "Bandargate" (written by British consultant Salah al-Bandar) was leaked; it rather credibly accused a top-ranking government official with establishing a circle of corrupt functionaries to influence the outcome of the elections in November. The "Bandargate" allegations have not been officially examined; to the contrary, a High Court ruling has forbidden the publication of anything about the report in October 2006. Measures to institutionally control corruption have been taken. Transparent tender processes have been introduced, as have financial audits of ministries and state institutions.

Anti-corruption
policy

16 | Consensus-Building

Rhetorically, all actors agree on both the goals of democracy and a market economy. A closer look at their respective concepts of these, however, reveals major differences. While government actors tend to define "democracy" as "allowing limited popular participation and control," some Islamist actors – all of them very vocally supportive of democracy – have different views on the limits of personal freedoms within a democratic system, as they extensively refer to the need of introducing Shari'ah.

Consensus on goals

While the reformers in government are powerful actors – the king, the crown prince and their allies – who can co-opt others successfully, it must be kept in mind that their ideas of reforms concern the promotion of good governance rather than democracy. While some ministers and functionaries oppose even these limited goals, such personalities can be checked by the reformers. Activists of genuine democratization, on the other hand, are found in the rather marginal left and liberal groups, and to some extent within Shi'ite Islamist circles. Such groups are marginalized by their lack of influence in the government.

Anti-democratic veto actors

The government's policies are ambivalent. On the one hand, the government tries to demonstrate even-handedness between Sunnis and Shi'ites by mostly symbolic gestures: it has allowed the establishment of a large institute of Shi'ite learning, started projects to incorporate Shi'ite concepts in school books, has drafted Shi'ite youth into community police, and invests in formerly neglected Shi'ite villages. On the other hand, basic inequalities have not been addressed: the electoral law is still biased against the Shi'ites; and district gerrymandering along confessional lines has led to a situation where Shi'ites constitute roughly 70% of the population, but their votes account for just under 50% of parliamentary seats.

Cleavage / conflict management

The government does not consult or officially cooperate with Bahrain's vibrant civil society organizations in any institutionalized or systematic manner, but pursues instead a co-optive approach. Officials often participate in workshops organized by civil societies and some ministries have at least been trying to cooperate with NGOs (mostly with regard to human and women's rights).

Civil society participation

Investigations into past human rights abuses have not been conducted. Especially within the Shi'ite community, the desire to implement transparent investigations into past human rights violations (especially during the Bahraini intifada in the 1990s) is prevalent. Demands of the majority of Shi'ite-dominated NGOs are moderate on this matter, as they favor a South African inspired truth commission model. The government has failed to respond to this interest, particularly since its approach of "starting afresh" has not won any support. The general amnesty provided for by legislative decrees 56/2002 and 10/2001 granted for political prisoners and state security staff alike needs to be repealed or amended. No institutionalized process of granting compensation to past victims of torture has been established, yet some individuals, such as some activists that have returned from exile, have been paid some compensation.

Reconciliation

17 | International Cooperation

Bahrain is not a classical recipient of international aid programs, but receives assistance from most of its GCC neighbors. However, the World Bank has been

Effective use of support

assisting Bahrain within the framework of its Technical Cooperation Program (TCP) for years, and the country conducts regular consultations with the IMF. While the U.S.-based National Democratic Institute (NDI) has been invited at the reform project's inception, the residence permit for NDI's head was revoked in May 2006 and thus NDI's work terminated. Other foreign democracy promotion agencies have also not been accredited. Municipal councilors have made study trips to Southeast Asian countries to study communal policies.

Bahrain actively and successfully promotes its political and economic reforms. Although its political progress has stalled during the period under review, it is still considered (by the United States and others) an exemplary reform state in the region – which is a statement on the state of reform in the region as much as on Bahrain, though. When compared with its neighbors, it offers more civil rights and civil activism. During the past two years, the Bahraini government has been increasingly criticized by Amnesty International and Human Rights Watch. Its economic reforms are credible and receive favorable ratings.

Credibility

Bahrain tries to implement GCC resolutions quickly, but was the first GCC country to sign a bilateral Free Trade Agreement with the United States in 2004 (implemented in 2006), and has voiced its doubts over the GCC common currency originally planned for 2010 in January 2007. Otherwise, it actively promotes regional integration. Following the settlement of its dispute with Qatar by the International Court of Justice, its bilateral relations with Doha have improved. In 2004 the route for the projected causeway linking both countries has been agreed upon. It has numerous signed bilateral trade and economic agreements and is a WTO member. Bahrain enjoys close bilateral military relations with the United States.: It serves as 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 Broader Middle East and North Africa (BMENA) initiative.

Regional cooperation

Strategic Outlook

There are three key areas requiring serious political consideration if Bahrain is to make significant progress in transformation:

The consolidation of liberties already practiced through legislation. The reform process has widened the space for the expression of political thought and political participation significantly. However, the granting of rights is largely left to the executive's discretion. Legal security for political work is deficient, and legislation is often not conducive to democratization. The law of associations, the law on political societies, the anti-terror law, the media law and the law on public gatherings and demonstrations need reconsideration.

Working to bring an end to unequal treatment of its citizens. The reform of the electoral law should allow constituencies be drawn more evenly to ensure greater transparency and a roughly similar weight for each vote. Investigating past human rights abuses should be facilitated, as the Shi'ite community in particular would welcome transparent investigations thereof. Also, the general amnesty (legislative decrees 56/2002 and 10/2001) granted for political prisoners and state security staff alike needs to be repealed or amended. A greater degree of formalization and transparency is needed, both in terms of compensation for victims of torture and government recruitment in all sectors.

Starting a comprehensive dialogue on the reform project's aims. Reforms have increasingly been seen as a top-down process and the population has not been allowed to develop a sense of ownership. In fact, mutual mistrust between rulers and ruled, and between different confessional and political groups has grown. This clearly constitutes a major obstacle to further political liberalization. To mend this situation, a comprehensive dialogue among all stakeholders must be initiated. While in fact all relevant actors agree on the reform's basic aim, that is, of "creating a constitutional monarchy with a democratic form of governance," the definitions of that aim differ substantially across the spectrum, creating further distrust.

In addition to these three dimensions, two more issues need to be addressed by a general debate. The first relates to the future role of the monarch and the ruling family. By evoking the examples of European constitutional monarchies and other "deep-rooted" democracies in the National Charter of 2001 and other deliberations of the ruler, expectations were generated among many Bahrainis that the king would have the authority to reign, not rule, at the end of a long-term reform process. Similarly, while acknowledging the dynasty's legitimacy

to reign, the political dominance of the extended ruling family is neither acceptable to the majority of Bahrainis, nor is it consistent with a credible liberalization process potentially leading to democratization.

The development of the legislative branch also needs to be addressed. While legislative power sharing between elected representatives and appointed officials on an equal basis might be acceptable during a phase of transition, developments have shown that many Bahrainis would not accept such an institutional set-up as final. While the Bahraini government can argue that giving sole legislative powers to elected representatives at an early stage of transition can be precarious, long-term development goals still have to be discussed.