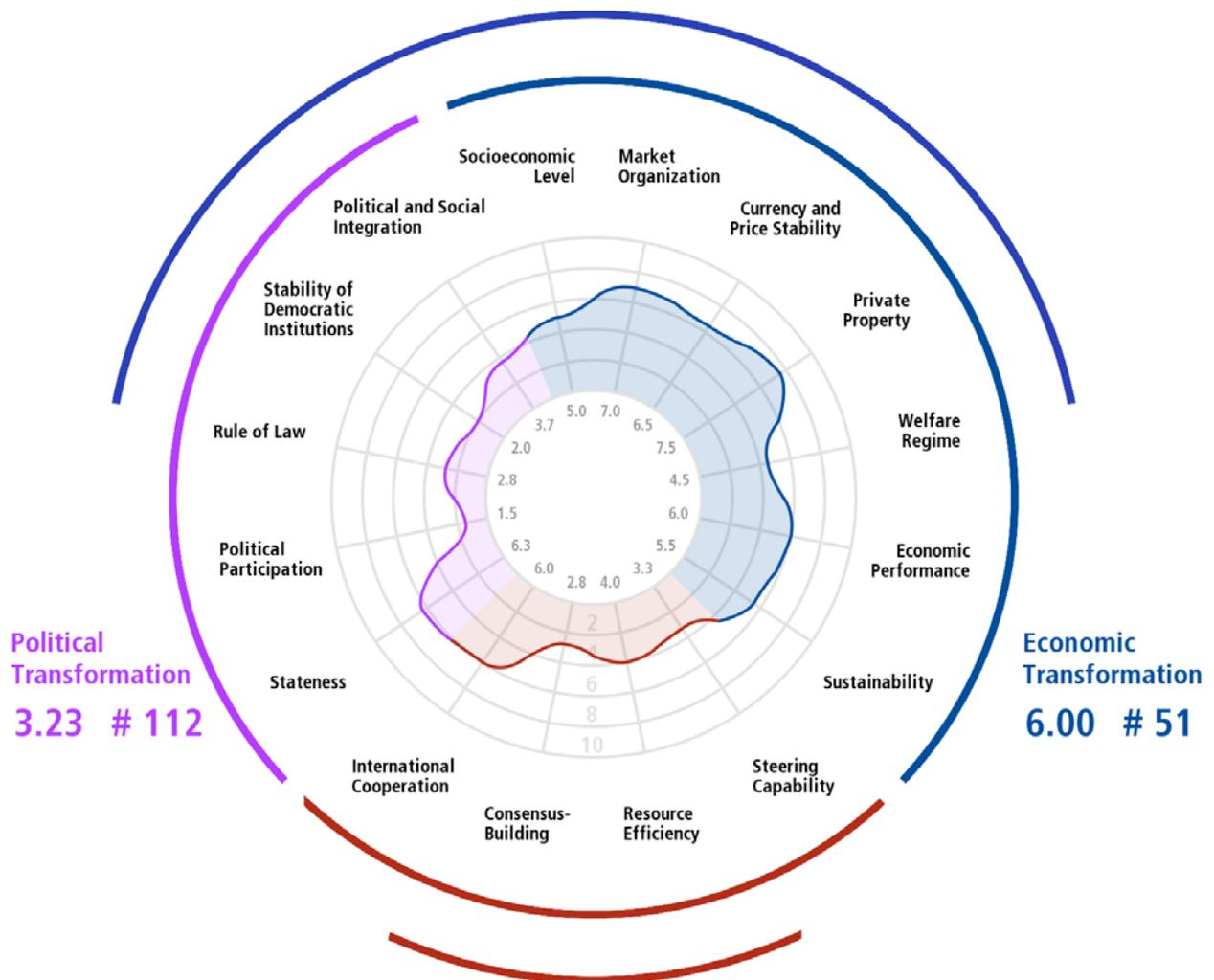


Bahrain

Status Index

4.62 # 89

on 1-10 scale out of 129



Political Transformation
3.23 # 112

Economic Transformation
6.00 # 51

Governance Index

3.52 # 105

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

| | | | | | | |
|--------------------------|--------|------|--------------------------------|-------|----------------------|-----|
| Population | M | 1.4 | HDI | 0.824 | GDP p.c., PPP \$ | - |
| Pop. growth ¹ | % p.a. | 3.8 | HDI rank of 188 | 47 | Gini Index | - |
| Life expectancy | years | 76.9 | UN Education Index | 0.745 | Poverty ³ | % - |
| Urban population | % | 88.8 | Gender inequality ² | 0.233 | Aid per capita \$ | - |

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Six years after the 2011 revolt, Bahrain is taking on the characteristics of a police state. During the period under review, the government intensified its crackdown on dissidents, human rights advocates, clerics, protesters and opposition forces. Al-Wefaq, the largest opposition party representing the mainstream of Bahrain's Shi'a majority, was banned and its secretary-general, Ali Salman, sentenced to nine years in prison for attempting to overthrow the regime. The government has also revoked the citizenship of the party's spiritual leader, Sheikh Isa Qassim. Others affected by the crackdown include leftist activists and human rights advocates. A prominent example, President of the Bahrain Center for Human Rights Nabeel Rajab, is being detained awaiting trial on charges of sedition. The judiciary continues to play a key role in the regime's campaign to crush civil society activities and the Shi'ite and pro-democracy opposition. Shi'a and pro-democracy activists and protesters have been repeatedly convicted under the anti-terrorism law since 2011.

In its efforts to crack down on dissent, the regime extended its use of controversial tools such as the anti-terrorism law, revocation of citizenship, violent dispersal of protests and death penalty. In January 2017, three Bahraini men were executed by firing squad amid claims that they had suffered an unfair prosecution based on forced confessions. These were the first executions in Bahrain since 2010 and the first of Bahraini citizens since 1996. Torture in police stations remains common. Government officials continue to accuse Shi'ites and Shi'ite interest groups of being foreign agents, which has exacerbated religious and sectarian rifts in Bahrain's already highly polarized society.

During the review period, Shi'a clerics repeatedly called for armed resistance against the regime, while Sunni extremists including the so-called Islamic State (IS) group called for attacks on Shi'ites. The government responded to a spectacular prison break in January 2017 by reversing one of the few national security reforms introduced since 2011, restoring the arrest and investigatory powers of the National Security Agency (NSA). The NSA is a notorious intelligence

unit accused of illegal house raids and the systematic torture of detainees. With the authorities levying terrorism allegations against activists and protesters, the NSA's misuse of these regained powers is likely. Though still pending approval, this latest national security reform will clear the way for direct military rule.

The regime's closest ally, Saudi Arabia, as well as the United States and United Kingdom continue to provide extensive support for the ruling Al Khalifa clan. Nonetheless, an internal power struggle appears to have brought the regime's hardliners and their oppressive policies back to the surface. Bahrain is on a trajectory to becoming a police state, with no restrictions on the executive. The rule of law and political liberalization promoting a semi-democratic transformation of the kingdom are seriously endangered. Similarly, Bahrain's economy is heading toward crisis. The low oil price has heavily affected state revenues and now threatens Bahrain's social cohesion and welfare state. The government does not have enough funds for subsidies and other cash transfers to ease tensions among the marginalized strata of society. As a consequence, Bahrain faces a challenging period politically, economically and socially.

History and Characteristics of Transformation

Since their conquest of the archipelago in 1783, the Al Khalifa family has established dynastic and absolute rule in Bahrain. From the outset, this provoked a strong antagonism between the Sunni ruling family and their supporters, on the one side, and the large majority of the population, who see themselves as native Shi'a (Baharna), on the other. In the twentieth century in particular, conflicts between Sunni and Shi'a became more intense and were articulated in political terms, either in waves of strikes and petitions (1938 and 1956) or in social unrest (in the 1990s). The British played a crucial role in institutionalizing minority Sunni rule, propping up the pro-British Al Khalifa monarchy. In 1820, Bahrain became a protectorate of the British Empire. During that period, police forces were recruited from British India. The strategy of importing foreign mercenaries to control local dissent continues today and Bahrain has recently expanded its use of foreign mercenaries from predominately Sunni countries. After British forces withdrew from the Gulf in 1971, the monarchy's dependence on external support to defend itself against internal uprisings and hostile neighbors translated into a close alliance with the United States, whose 5th Fleet is stationed in Bahrain. In 2016, the British Royal Navy reopened a military base in the kingdom. In 2014, Bahrain joined the U.S.-led raids against the so-called Islamic State (IS) group in Syria and Iraq and, in 2015, the Saudi-led war in Yemen. These military interventions illustrate the kingdom's close ties to both the United States and Saudi Arabia.

The monarchy's dependence on external support is strengthened by Bahrain's geopolitical location. The country's population is small (1.4 million as of 2015, of which roughly 60% are migrant workers) and its natural resources (oil, aluminum and natural gas) are limited. The only access is via the King Fahd Causeway connecting Bahrain with Saudi Arabia. The country shares its only oil field, Abu Safah, with Saudi Arabia, whose state-controlled company ARAMCO heads the exploitation and extraction. Rents from the kingdom's natural wealth have been heavily

invested in modern infrastructure and welfare programs, such as free education and medical treatment for its citizens. Despite the government's interest in economic diversification, Bahrain remains highly dependent on its oil revenues.

The Bahraini and Saudi monarchies share an interest in Sunni hegemony that has become more pronounced since the 1979 Revolution in Iran, given the latter country's equally hegemonic Shi'a ambitions. Saudi Arabia is interested in maintaining the status quo in Bahrain to oppose Iran gaining influence on the Arab Peninsula. Saudi Arabia was the driving force behind the Gulf Cooperation Council's (GCC) 2011 military intervention in Bahrain. The GCC troops, mainly composed of Saudi forces, entered the country to support the regime in dispersing pro-democracy protests and maintain Al Khalifa rule. As the tensions between the Sunni rulers and Shi'ite opposition continue to this day, Riyadh has sustained the deployment of its security forces.

Bahrain's political and economic transformation of the past 15 years is strongly linked to the current king, Hamad bin Isa Al Khalifa. King Hamad came to power in 1999 and quickly introduced a comprehensive reform of the political system, including a cautious democratization in response to the civil unrest of the 1990s. This approach was formalized after the National Action Charter was approved in a 2001 referendum by the establishment of a constitutional kingdom through a constitutional amendment in 2002. This semi-democratic reform process included the legalization of political societies (de facto parties) and liberalization efforts, but increasingly turned into a masquerade. As the years passed, dissatisfaction mounted, culminating in mass protest on 14 February 2011 (the 10th anniversary of the referendum). This recent uprising challenged the political progress of the past decade and paved the way for the restoration of an oppressive political system.

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

Transformation Status

I. Political Transformation

1 | Stateness

Despite ongoing attempts by the authorities to restore the country's political stability after years of fragility following the 2011 uprising, the state's monopoly on the use of force remains considerably challenged. In 2015 and 2016, small-scale protests continued nationwide on a regular basis, especially in Shi'a-majority villages and towns around Manama (the capital). Most of these protests remained peaceful; those where violence erupted were rapidly crushed by police, though the security forces struggled to fully control rural areas. A series of violent clashes between protesters and riot police erupted again in early 2017 in mainly Shi'a dominated neighborhoods after the execution of three men. Another wave of clashes in several villages on the outskirts of Manama broke out only one month later on the sixth anniversary of the 2011 uprising. In January, armed gunmen stormed the Jaw prison south of Manama, killing one police officer and freeing ten inmates convicted of terrorism. Despite these latest events, the number of armed assaults and bomb attacks against governmental facilities and police patrols have dropped significantly, though civil unrest persists in several areas of the country.

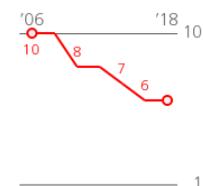
Meanwhile, Bahrain maintained the deployment of a significant number of foreign troops in the kingdom. The country hosts military bases for the U.S. Navy's 5th Fleet and (since 2016) the U.K.'s Royal Navy. Both countries use these bases for their regional operations. In contrast, Saudi security forces based in Bahrain are used internally. Their presence dates to early 2011 and is designed to assist Bahrain in its domestic security, raising doubts about the regime's ability to control its territory alone.

Despite ongoing protests against the ruling family and calls for democratization, questioning the nation-state itself is not common. The presence of at least two national narratives – a Sunni narrative dating back to Al Khalifa's conquest of Bahrain in 1783 and a Shi'ite narrative – undermines the legitimacy of the Al Khalifa family, which is contested primary in Shi'ite communities. Despite widespread

Question
Score

Monopoly on the
use of force

6



State identity

5

opposition against the regime, leading Shi'a opposition forces advocate for a constitutional monarchy, with greater power for the elected branches of government. These more moderate voices among the opposition, however, are becoming weaker, mainly due to repression by the state. As a consequence, more radical forces, who question the monarchy's legitimacy, are on the ascendance.

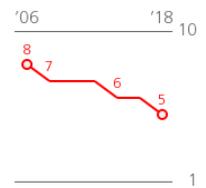
Highly controversial and dangerous for the state's identity is the extensive use of revoking citizenship. This frequent act by authorities undermines the people's ties to the state and creates rifts within Bahraini society. In 2015, the authorities revoked the citizenships of 208 Bahrainis. In March 2016, five of these newly stateless Bahrainis were deported. This practice continues in 2017, as at least six nationals were deported in January after their citizenship had been revoked.

In December 2015, the court of appeal upheld a decision to revoke the citizenship of eight Bahrainis. The court ruled that the authorities need not provide "specific means of proof" when stripping the citizenship of nationals who "cause harm to the state" or fail in their "duty of loyalty" to it. The ruling was based on a 2014 amendment of the 1963 citizenship law which allows the forfeiture of nationality if the person of interest "causes harm to the interests of the kingdom; or had acted contrary to the duty of loyalty to it." According to the Interior Ministry, "illegal acts" include terrorism related offenses, "spying for foreign countries," and "inciting and advocating regime change through illegal means."

Meanwhile, Human Rights Watch (HRW) reported on a Bahraini whose nationality had been stripped before he was deported. The individual had been issued a new passport identifying him as a resident rather than a citizen of Bahrain. This goes contrary to the National Institution for Human Rights' (NIHR) 2015 annual report, which stated that the exercise of forfeiture of nationality "must not lead to the emergence of statelessness."

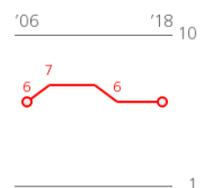
Bahrain's constitution provides for freedom of religion and conscience, but declares Islam as the religion of the state and Shariah as a principle source of law, though not the exclusive one. This, in practice, imposes limitations on the freedom of religion. Non-Muslims, including Christians and Jews, are relatively free to exercise their religion. Shi'a-Muslims, however, are subjected to state interference. Bahrain does not discriminate between Sunni or Shi'a, as the state does not explicitly mention affiliations in official documents. However, Bahrain's society and political sphere remain highly divided on religious and sectarian grounds. The government maintains limited supervision of religious discourses as well as monitors and partially controls religious institutions, including mosques. Associations, clerics and activists continually claim that authorities have carried out acts of vandalism against places of worship and restricted Shi'ite ceremonies.

The only domain where religious dogma is clearly a matter of legislation are personal status laws. Bahrain remains one of the only countries in the region without an Islamic



No interference of religious dogmas

6



family law that applies to all of its Muslim citizens. In 2009, Bahrain approved a family law for the first time, but it only applies to Sunni citizens. This leaves the vast majority of the population without clear legislation on personal status matters. Instead, Bahrain's Shi'a Shariah courts continue to decide on a case-by-case basis, with judges able to lean on their personal interpretation of Islamic law. In 2016, Bahrain's minister of justice announced that a separate personal status law for Shi'a will be issued soon, but Shi'a clerics – apparently fearing their power would be undercut – criticized the unilateral approach of the drafting process and demanded that the new law be issued with the approval of Shi'ite religious authorities.

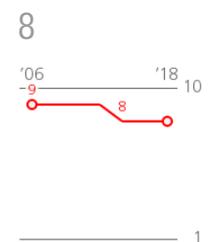
Basic administrative structures such as school-level education and basic health services as well as transportation and nationwide communication infrastructure are well-established. In the past, the government had no urgent need to impose taxes due to high revenues from the country's hydrocarbon exports. Due to the decline in revenues in recent years, however, Bahrain's government introduced several tax reforms, including the introduction of a value-added tax beginning in 2018. The governmental structure features a central government, four governorates and twelve municipalities, although the accountability and power of these local entities remains weak. During the review period, the government announced additional investments in the country's infrastructure, including upgrades to the road network and airport facilities as well as expanding internet access throughout the kingdom.

Despite the overall well-established administrative structure, a significant imbalance of services remains in place in different areas of the country. Predominantly Shi'a neighborhoods, villages and towns still suffer from less developed infrastructure and basic governmental services. Rural areas remain deprived as well. Shi'a community members frequently complain about economic discrimination for public jobs. The country's security forces, for instance, are largely composed of Sunni Bahrainis or Sunni mercenaries from other states.

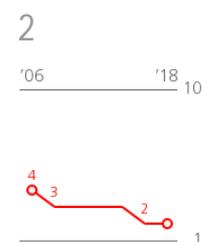
2 | Political Participation

Elections were reintroduced after the adoption of the National Action Charter. The 2002 Election Law (no. 14) grants the right to vote to Bahraini men and women at the age of 21 and citizen of GCC states who are residents of Bahrain or own property in the country. Despite the partial success of opposition forces in previous elections, Bahrain's electoral system remains flawed. Elections were neither free nor fair as authorities intervened in the voting process by gerrymandering, harassing opposition forces and their campaigns, maintaining an electoral district structure that favors pro-regime candidates, pressuring voters to cast their votes in order to raise the turnout, and banning parties ahead of elections. The electoral management body, the Directorate of Election and Referendum, is not independent, but rather headed by

Basic
administration



Free and fair
elections



Bahrain's minister of justice, who is appointed by the king and a member of the Al Khalifa family.

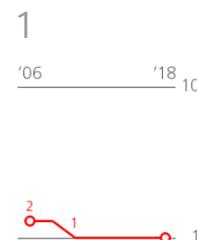
In June 2016, the king issued and ratified an amendment to law no. 14 on the exercise of political rights. This amendment raises the penalties for submitting incorrect voting information, damaging voting documents, participating in elections or referenda illegally, undermining the right to vote through violence, voting more than once, and spreading false information about the elections and candidates. Although this amendment includes harsher penalties for electoral fraud, it increases punishments for staging protests on election day and can be misused to prosecute opposition forces.

No elections were held in the review period and no essential reforms were implemented. Given the lack of reforms, the undemocratic nature of the electoral system remains in place. The 2014 elections were boycotted by major Shi'a opposition societies (de facto parties), these are therefore not represented in the formal political system. In contrast, the predominantly Sunni electorate strongly participated in the 2014 ballot. Due to the recent crackdown against the opposition, improvements for the 2018 elections are unlikely.

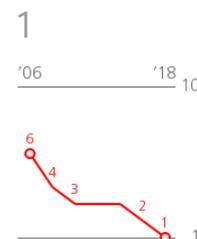
Bahrain's legislative system features the National Assembly, composed of two chambers: the elected lower house (Council of Representatives) and the upper house (Consultative Council), which is entirely appointed by the king. The Consultative Council was established in 1992 as an advisory body with the right to propose legislation and designated as the upper house of parliament in the 2002 constitution. The Council of Representatives remains the weakest body in Bahrain's legislative system as its decisions can be overruled by the upper house, which holds veto powers in the National Assembly. The lower house has no right to draft or amend legislations and can only reject or approve laws. The final authority for decisions about legislation is exclusively held by the king, which downgrades the Council of Representatives to an almost powerless institution.

Although Bahrain's constitution guarantees the right to assembly and establish private scientific and cultural associations, the freedom of assembly and association is widely restricted. The 1973 Public Gatherings Law prohibits unauthorized public gatherings of more than five people. A 2013 amendment of this legislation by King Hamad introduced further limitations as the decreed modification of the law bans "organizing protests, rallies, gatherings or sit-ins in Manama," which turned Bahrain's capital into a de jure protest-free zone. Attempts at staging protests in Manama and other parts of the country were repeatedly crushed by security forces in the review period. In 2015, Bahrain's parliament approved an amendment to the anti-terrorism law that affects the prosecution of protesters. The law stipulates life sentences or prison terms of no less than seven years for any individual found to have trained another person in the manufacture or use of weapons, explosives, or similar material with the aim of committing terrorist crimes. The government's interpretation

Effective power to govern



Association / assembly rights



of the law led to the prosecution of protesters, with Bahraini authorities repeatedly pursuing protesters on terrorism-related charges.

Freedom of association in Bahrain is equally under pressure. The 1989 Law of Associations enables extensive governmental interference in the internal affairs of NGOs registered with the Ministry of Labor and Social Development. The law gives authorities the power to monitor and control NGO funding. Involvement in politics is explicitly prohibited. A draft law on civil organizations was sent to parliament in 2013, but has been pending approval ever since. Its provisions would allow authorities to deny any organization from registering with the government if “society does not need its service” and would prohibit NGOs from inviting non-Bahrainis for meetings and activities. Even without the approval of this draft law, the rejection of registration applications is common. The ongoing crackdown against Bahraini dissidents also includes the prosecution of members of human rights organizations and religious entities such as the Islamic Enlightenment Society and the al-Risala Islamic Society, two NGOs affiliated with Shi’ite clerics that were closed in 2016.

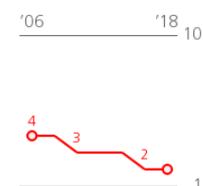
Bahrain’s constitution guarantees freedom of speech and scientific research as well as the freedom to express and propagate opinions in word and writing, but stipulates boundaries. Freedom of speech must be without prejudice to Islamic principles, the unity of the people and not instigate segregation or sectarianism. Article 26 further grants the right to privacy and guarantees the freedom of postal, telegraphic, telephonic and electronic communication, but refers to the established law for specifications on censorship and the confidentiality of communication. The 1965 Press Law and its latest revision of 2002, however, is considered the main tool for the government to strictly control the media. The law provides prison sentences for offenses (e.g., criticizing Islam or the king, and incitements that undermine the security of the state). Its vague language stimulates self-censorship. In addition, radio and television stations are entirely state-controlled.

More recently, the government extended its efforts to monitor and control online content. In a 2016 edict, the information affairs minister introduced further restrictions by increasing governmental oversights on the dissemination of electronic media and empowering the state to target content producers. Licensed newspapers are now required to apply for temporary licenses from the state-controlled Mass Media Directorate that would allow them to post videos not exceeding two minutes in length on their websites and social media accounts. The content of those videos must be part of the printed content or a reflection of it.

This latest action to tighten control of online content further formalized the regime’s campaign to restrict online media. Bahrain already has a long record of blocking online content, prosecuting online dissent and spying on users. Several state bodies play a key role in maintaining these practices. The Information Affairs Authority (IAA) oversees the media and is entrusted to order the blocking of websites without judicial proceedings. The IAA reportedly has blocked content that violates the Press

Freedom of
expression

2



Law as well as bans the publishing of content that is “instigating hatred of the political regime” or “jeopardizing public peace.” Internet service providers usually cooperate closely with the government if it requests the blocking of content. In 2016, the Canadian company Netsweeper sold an online filtering tool to Bahrain which enables the regime to monitor and censor content. In 2014, the government extensively spied on users using the Remote Control System, a sophisticated intrusion software produced by the Italian spyware company Hacking Team.

Meanwhile, the situation for journalists, opposition media outlets and online users remains highly volatile. Several dissidents, activists, clerics and users have been prosecuted on charges including spreading false news during war time (related to the Saudi-led war in Yemen), “insulting a brotherly nation” (based on criticism of the Saudi’s management of the 2015 Hajj, where hundreds of pilgrims died in a stampede), and “insulting” or “defaming” members of parliament or the government. Dozens of online users were arrested, detained or prosecuted for similar charges.

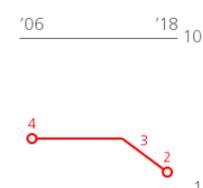
3 | Rule of Law

There is no separation of powers. The king holds extensive legislative, executive, and judicial authority and appoints the prime minister, his deputies, judges, and all members of the upper house of parliament as well as its president. Furthermore, he is the commander-in-chief of the armed forces, can call for a referendum, rule by decree and dissolve the parliament. There is no governmental accountability to the parliament, although the parliament enjoys limited tools to express its disagreement with the cabinet, such as declaring the inability of the chamber to cooperate with the prime minister. The government is also highly dependent on the king. The prime minister can propose cabinet members, but does not appoint them, as this falls under the authority of the king. Bahrain’s cabinet is largely composed of members of the royal family. In a 2015 cabinet reshuffle, King Hamad reappointed Prince Khalifa bin Salman Al Khalifa as Prime Minister, Crown Prince Salman bin Hamad Al Khalifa as First Deputy Prime Minister as well as four other deputy prime ministers. Key posts in Bahrain’s government continue to reside in the hands of the Al Khalifa family, including the ministries of interior, foreign affairs, finance and justice. Nine of the 22 members of the cabinet belong to the king’s family.

Bahrain’s judiciary is highly dependent on the executive, as the king appoints judges by royal decree. There is no legislative confirmation process for judicial appointees. The constitution provides for a nominally independent judiciary; once a judge is appointed, accountability is largely limited, as the law does not allow for the impeachment of judges. Numerous controversial sentences against activists, journalists and opposition figures indicate that the judiciary performs on behalf of the king and ruling class rather than act independently. Governmental pressure on judges and prosecutors in every stage of criminal proceedings is widespread. Members of

Separation of powers

2



Independent judiciary

2



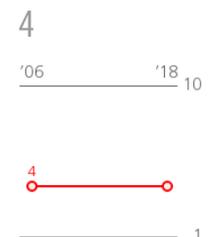
the royal family are also represented in the judiciary and although state officials have lost civil cases in court, the royal family de facto enjoys impunity.

Successful and adequate prosecution of office abuses is a rarity in Bahrain. Since the 2011 revolt, several low-ranking members of Bahrain's security forces were convicted of unlawful killings, but most were acquitted or received light sentences on appeal. The regime formalized its efforts to prosecute office abuses after the 2011 revolt by establishing the Office of the Ombudsman and a Special Investigation Unit (SIU) both under the authority of the Ministry of Interior, but their success at effectively and fairly investigating those abuses largely failed to materialize. The third annual report from the ombudsman's office, covering the period from May 2015 until April 2016, states that it received 992 investigation requests from detainees, their families and NGOs, including 55 complaints of torture. Those cases are usually referred to the SIU for further investigations, but the report indicates that out of the 138 cases that were transferred to the SIU since 2013, the unit only prosecuted one torture case. Meanwhile, human rights organizations continue to report inhuman treatment and the torture of detainees and protesters by security forces.

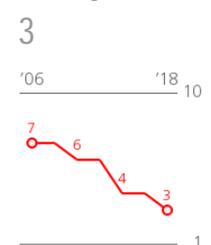
The prosecution of corruption cases and the misuse of public funds remains likewise unavenged. Although the king set up the National Audit Court (NAC) in 2002 to investigate financial misconduct and other transgressions with the power to refer those cases to prosecution, it has not strengthened governmental accountability. In mid-2015, several local newspapers reported on the alleged waste of 400 million BHD (\$1.06 billion) in public funds, referring to a report issued by the NAC. The report was not public and only distributed to a number of select people, with the NAC declining to provide further details. A member of parliament promised that government officials will be questioned and committees set up to examine violations of the law, while Bahrain's Minister of Cabinet Affairs, Mohammed bin Ibrahim al-Muttawa, said the report indicated a drop of complaints by 25%. The number of cases referred to prosecution declined by 80% to only five cases.

Bahrain's constitution guarantees the equality of citizens before the law, rules out their discrimination on the basis of sex, origin, language, religion or creed, stipulates personal freedom and explicitly forbids physical or mental torture and undignified treatment. In reality, these constitutional principles are largely disregarded as the royal family enjoys a superior status before the law and de facto impunity, while women and the country's Shi'a are strongly underprivileged and face a de jure discrimination in political, economic, and social matters. Bahrain signed the 1979 UN Convention on the Elimination of all Forms of Discrimination against Women (CEDAW) in 2002, but ratified it with "reservations," mainly due to Article 9, which holds states responsible for granting women equal rights with men to acquire, change or retain their nationality and the right of women to pass their nationality on to their children. The NIHR stated in its 2015 report that it continued to urge the government to lift its reservations on Article 9 and indicated that the NIHR's recommendations

Prosecution of office abuse



Civil rights



are reviewed positively by the government, though no further reform was made or announced during the review period.

Civil rights are also widely violated in almost every stage of law enforcement by security forces and the prosecution. Arrests and searches without warrants or court orders are common breaches of law. Despite the constitution's explicit ban on torture and undignified treatment in detention, reports about physical and mental torture – including electric shocks, being suspended from the ceiling and rape threats against female detainees – are widespread.

Also, foreign workers are confronted with discriminatory practices and abuses despite some recent initiatives to improve their legal security and prevent exploitation and abuses. Bahrain remains the only GCC country allowing foreign workers to form unions and announced in 2016 the introduction of a new flexible work permit that would allow foreign workers to act as their own sponsor. This latter reform would dismantle the kafala system, which requires foreign workers to have a local sponsor to handle their visa and legal affairs. The kafala system is considered a main mechanism behind the widespread exploitation and abuse of foreign workers, as the sponsor is typically their employer.

4 | Stability of Democratic Institutions

According to the 2002 constitution, Bahrain is a constitutional monarchy, but the king holds absolute power in the country. The power of the elected lower house of parliament (Council of Representatives) and the elected councils in the twelve municipalities is limited. The king appoints all members of the upper house of parliament, which can veto any decision made by the lower house. In addition, the lower house of parliament can only approve or reject legislation, not amend; legislation must be approved by both chambers in identical versions. If this process fails, the king can rule by decree, which further undermines Bahrain's democratically elected institutions.

The country's administrative structure remains largely centralized despite the existence of local governments. The four governorates and twelve municipalities enjoy little autonomy from the central government. The 2002 establishment of elected councils on a local level did not provide them with essential authority. Consequently, the king holds almost unlimited executive and legislative power, which downgrades the elected body to a rubberstamp in a de facto authoritarian system.

The reform process introduced by King Hamad in 2002 by the adoption of the National Action Charter is in significant regression since the 2011 uprising. Tendencies toward a more democratic political system are flawed; reforms remain cosmetic while the regime pretends that democratic development remains in place. Between 2002 and 2010, the participation of the Shi'ite opposition in elections

Performance of democratic institutions

2

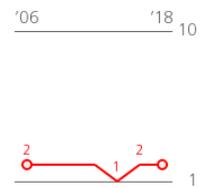
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Commitment to democratic institutions

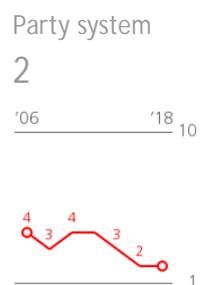
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maintained acceptance of the democratically elected bodies by a large number of political actors. As these institutions failed to deliver any progress for the democratization of the political system, the acceptance of these bodies strongly declined in large parts of the Shi'a community. The 2014 election boycott by the main opposition forces left Shi'ite societies (de facto parties) out of parliament and further deepened this antidemocratic tendency. Despite the election boycott, the commitment to democracy by most of these societies remains intact.



5 | Political and Social Integration

Political parties are banned in Bahrain, but the country's legal system allows the establishment of political societies which de facto operate as parties. These societies are permitted to act as parliamentary blocks, hold internal elections and campaign in public. According to the 2002 Political Rights Law and its 2004 revision, electoral meetings are forbidden at places of worship, universities, and public institutions. In 2016, the king issued an amendment of Law 26/2015 regulating political societies. This amendment bans simultaneous membership in a political society and engagement in religious preaching, guidance or speeches.



The formation of political societies based on a sectarian, ethnic or geographical basis is prohibited by law, but in reality, these factors play an important role for Bahrain's political societies. The party system features a broad variety of groups such as the Sunni National Islamic Forum (NIS), the moderate Arab-Islamic Wasat Society (AIWS) and leftist societies such as the National Democratic Action Society (Wa'ad) and Democratic Progressive Forum (DPF), whose leaders returned to Bahrain from exile in the early 2000s. After a decade of liberalizing the political landscape, the reform process came to a halt following the 2011 revolt. Instead, renewed pressure was exerted by the state (mainly) against societies representing the Shi'ite population.

The Islamic Action Society (Amal), an association with a militant history in the 1990s and a clear religious and sectarian orientation, was ultimately dissolved by a court ruling in 2013. Furthermore, the al-Wefaq National Islamic Society, the largest political group with a predominantly Shi'a partisan base, was suspended and had its funds confiscated in mid-2016. An appeals court upheld the order to ban al-Wefaq's activities. Its elected leader and secretary-general, Sheikh Ali Salman, was arrested in 2014 on charges of attempting to overthrow the regime and collaborating with foreign powers. Bahrain's High Court of Appeal more than doubled his initial prison sentence of four years to nine years. The crackdown against opposition figures also continued against leftist activists. In 2016, Wa'ad's former secretary-general, Ibrahim Sharif, was sentenced to one year in prison on a charge of inciting hatred.

Since the 2011 revolt, political societies and the legal framework for their activities significantly lost support and legitimacy in the kingdom. In the 2014 parliamentary elections, only four of the 40 elected deputies were members of political societies,

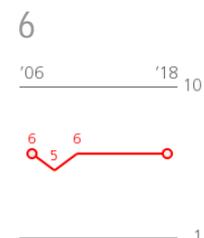
further undermining their reputation in Bahraini society. More and more, political activists refuse to register with the government and act outside the formal political system.

Bahrain hosts a comparatively large variety of civil society organizations, including women's rights groups, human rights organizations, cultural clubs, and unions representing domestic and foreign workers. Since the government's crackdown against associations, NGOs and political societies (de facto parties) affiliated with the Shi'ite opposition strongly intensified in recent years, a vast majority of Bahrain's population faces a de facto exclusion of the right to civic organization. Also massively affected by the state's crackdown are human rights groups lobbying for democratization, though many of these operate from abroad. The ability of interest groups to mediate between society and the political system controlled by the royal family and its allies is, therefore, seriously hampered.

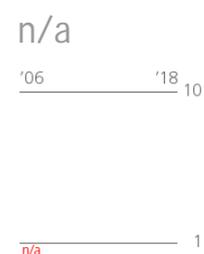
Particularly the union landscape remains a vibrant area of civic life in Bahrain. The 2002 labor law grants workers the right to form and join unions and was followed by the establishment of the General Federation of Bahrain Trade Unions (GFBTU). Further improvements followed in 2006, when King Hamad banned the sacking of workers engaged in trade union activities. A turning point in this progressive approach toward the labor market was the 2011 revolt, where union activists actively participated. As the regime only had very limited control over GFBTU, the king abolished the monopoly of GFBTU in 2012 and established the Bahrain Free Labour Union Federation (BFLUF). BFLUF maintains an outspoken loyalty to the regime, is closely affiliated with the ruling class and does not call for strikes. The regime thereby divided the working class, but was not able to oppress the activities of independent unions and abstained from repressive measures. GFBTU continues to legally challenge governmental policies and seeks to improve its performance by building up sectorial unions. This would replace unions tied to single firms, extending GFBTU's impact beyond the employees of individual companies.

There is no reliable data available about the approval of democracy, the democratically elected institutions or their performance in Bahrain. The massive exclusion of political actors (e.g., opposition movements, NGOs and political societies) after the 2014 legislative elections, rejection of the opposition in participating in the ballots and their violent exclusion from the political sphere by the regime indicate a serious setback in public approval for the semi-democratic system.

Interest groups

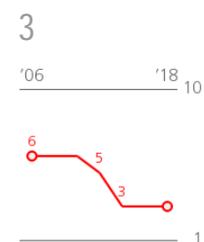


Approval of democracy



The necessity for an autonomous organization of cultural and social self-organization has strongly increased in the period under review. The crackdown against the Shi'a opposition included the closure of NGOs affiliated with their communities. This has increased the need for Shi'a-majority neighborhoods suffering from governmental negligence (e.g., in transport and health services) to increase collective self-organized networks. Soaring political polarization due to the state's crackdown against numerous Shi'a opposition groups has created further sectarian and religious division in Bahraini society. An assessment of advancements in social capital is difficult mainly due to the informality of networks that represent cultural and social self-organization.

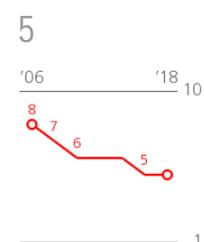
Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Although Bahrain's Human Development Index rating suggests slight improvements (0.824 in 2014), the country faces several significant socioeconomic barriers, affecting especially women, Shi'ites and foreign workers. Relative poverty, unemployment and systematic discrimination are concentrated among Shi'ites. Shi'ites have far less access to public employment and senior staff jobs and inhabit less developed neighborhoods, illustrating the unfair distribution of wealth in the kingdom. Bahrain does not suffer from extreme poverty as defined by the United Nation's (people living on less than \$1 per day), but an estimated 12.2% of Bahrainis live on less than \$5 per day. According to UNDP, the richest 20% of the population owns 41.6% of the total income earned, a figure that reflects persisting social inequality in Bahrain.

Question
ScoreSocioeconomic
barriers

For 2014, the World Bank indicated an unemployed rate of only 3.9% while the International Labour Organisation (ILO) estimated a rate of 7.5% for the same year and suggested a higher unemployment rate for women. Although the Gender Inequality Index for 2014 shows a slight improvement in Bahrain's performance since 2013, its rating of 0.265 remains lower than in 2010. The country's female labor force stood at 19.6% in 2014 and does not display considerable fluctuation. In addition, women's access to senior staff posts in both the private and public sectors are limited.

Largely excluded from state benefits, job opportunities and equal payment are foreign workers from Asia. The kingdom's minimum wage of BHD 300 does not apply to foreign workers. Foreign workers earn, on average, a salary below BHD 200 and face systematic abuse, exploitation, and discrimination. Although the Labor Law of 2012 included some improvements for women and migrant workers, including higher

penalties for employers who violate labor regulations, the authorities have not adequately prosecuted employers for violations. These violations most typically include withholding wages, charging recruitment fees and confiscating the passports of foreign workers. According to Human Rights Watch, employers do not face the actual criminal procedures outlined in the law. In 2016, Bahrain's government announced the introduction of a new flexible work permit that would allow foreign workers to act as their own sponsor. This move intends to dismantle the kafala system, which requires foreign workers to have a local sponsor to handle their visa and legal affairs. The kafala system is considered the main legal mechanism responsible for the widespread exploitation and abuse of foreign workers. The new system would allow foreigners to be associated with more than one employer and assume part-time jobs.

| Economic indicators | | 2013 | 2014 | 2015 | 2016 |
|---------------------------|----------|---------|---------|---------|----------------|
| GDP | \$ M | 32898.7 | 33387.7 | 31125.9 | 31858.5 |
| GDP growth | % | 5.4 | 4.3 | 2.9 | - |
| Inflation (CPI) | % | 3.3 | 2.7 | 1.8 | - |
| Unemployment | % | 1.2 | 1.2 | 1.2 | 1.3 |
| Foreign direct investment | % of GDP | 3.0 | 2.9 | -2.6 | 0.9 |
| Export growth | % | -0.7 | -4.1 | 1.3 | - |
| Import growth | % | 3.1 | -7.4 | -5.6 | - |
| Current account balance | \$ M | 2560.1 | 1123.7 | - | - |
| Public debt | % of GDP | 43.9 | 44.4 | 66.0 | 82.3 |
| External debt | \$ M | - | - | - | - |
| Total debt service | \$ M | - | - | - | - |

| Economic indicators | | 2013 | 2014 | 2015 | 2016 |
|---------------------|--|------|------|------|------|
|---------------------|--|------|------|------|------|

| | | | | | |
|---------------------------|----------|------|------|------|---|
| Net lending/borrowing | % of GDP | -3.5 | - | - | - |
| Tax revenue | % of GDP | 1.1 | - | - | - |
| Government consumption | % of GDP | 15.4 | 16.1 | 17.6 | - |
| Public education spending | % of GDP | 2.5 | 2.5 | 2.7 | - |
| Public health spending | % of GDP | 3.0 | 3.2 | - | - |
| R&D expenditure | % of GDP | - | 0.1 | - | - |
| Military expenditure | % of GDP | 4.1 | 4.4 | 4.6 | - |

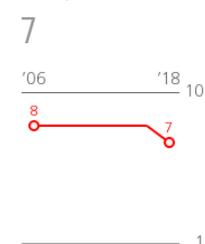
Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

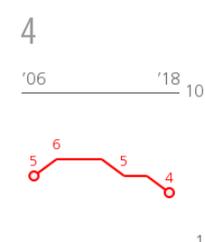
As Bahrain is a relatively small country with a small market, international investments are only appealing in certain sectors of the economy. While the country's industry remains partially protected by the government, the well-established banking, financial, tourism and real estate sectors have helped the kingdom to promote itself as business friendly. An institutional framework guarantees competition in certain sectors. Bahrain is keen to attract foreign investment and therefore has maintained a well-regulated business environment, including low entry and exit barriers for goods and services, a currency convertibility regime without limitations since 1973, and a competitive banking and financial sector. While neighboring financial hubs (e.g., Qatar and Dubai) are competing with Bahrain as the region's leading hub for banking and financial services, the sector requires further development by the government. Nonetheless, the sector has shown a certain degree of resilience despite the ongoing uncertainties surrounding the state's fiscal performance and the political turmoil of recent years.

Bahrain does not have specific anti-monopoly laws and only restricts monopolies in its constitution in an ambiguous way. Article 117 states: "Any monopoly shall only be awarded by law and for a limited time." There is also a lack of supervising authorities and clear standards as oversight is only implemented in some sectors, while others remain largely unregulated. Bahrain's industrial sector exhibits dominance by state-controlled companies such as Aluminum Bahrain and Gulf Petrochemical; both firms are closely affiliated with the hydrocarbons sector. Furthermore, de facto monopolies exist in key industries mostly held by leading royals, such as the prime minister and other factions tied to the regime. The country's telecommunications, real estate and tourism sectors feature more players on the market and appear to be more open for investment and non-governmental contribu.

Market-based competition



Anti-monopoly policy



Bahrain has largely liberalized its foreign trade regimes, though some restrictions, such as the trade embargo against Israel, persist. The country joined the WTO in 1995 and ratified the GCC's Unified Customs Union in 2003 (entering into force in 2015). The latter eliminates tariffs for GCC member states on 426 items (mainly food and medical products) and lowers the duties on all other goods to 5%. High import duties are only imposed on tobacco (110%) and alcoholic beverages (125%). GCC members have continued harmonizing their trade, tariff and taxation systems. Saudi Arabia remains Bahrain's major trade partner, as it receives 30% of its imports from the neighboring kingdom and exports 12% of its total export sheet to Saudi Arabia. Bahrain also signed free trade agreements with the European Free Trade Association and Singapore as well as a bilateral trade agreement with the United States.

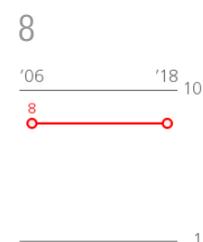
Non-tariff trade barriers exist to a limited extent, with Bahrain controlling the import of arms, ammunitions, alcohol, jewelry, pharmaceuticals and some electronic goods. The country does have a general import licensing system in place.

The U.S.-Bahrain Bilateral Trade Treaty allows free financial transfers without delay, does not impose any restrictions on the repatriation of capital, profits and dividends, and guarantees the application of international legal standards for expropriation and compensation cases and access to international arbitration. Investors from the United States are additionally treated as nationals across most sectors of the economy with few exceptions (e.g., the petroleum industry and media). Although Bahrain implemented significant steps to attract foreign direct investment in recent years, the FDI rate dropped sharply in 2015 (-4.5%) after reaching stable growth rates between 2.7% and 3% since 2011.

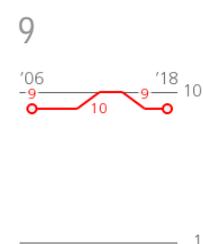
Bahrain's banking and financial sector is the cornerstone of the kingdom's diversification strategy and today the second-largest contributor to GDP (15%), surpassed only by the hydrocarbons sector. In 2001, Bahrain pioneered in Islamic finance regulations. Today it hosts some of the most important standard-setting institutions in the global Islamic banking market, having successfully created a niche in the banking sector in the Gulf region. The Central Bank of Bahrain's (CBB) rulebook is considered a benchmark for Islamic-compliant banking, which makes up a significant share of gross written premiums in Bahraini banks. However, the size of the country's banking sector makes it vulnerable. The assets for retail and wholesale banks accounted respectively for 248% and 390% of Bahrain's GDP in 2013.

The sector is well regulated by the CBB. All banks are currently required to apply a 12% minimum Capital Adequacy Ratio calculated in accordance with the Basel II requirements. World Bank data show that in 2015, the bank capital to assets ratio reached 13.5% (1.3% percentage point increase compared to 2014), while nonperforming loans stood at 4.4%. Local insurance companies are subject to solvency margin requirements with standards similar to those in the EU. Investment companies are subject to risk-based capital requirements that include position,

Liberalization of foreign trade



Banking system



counterparty and foreign exchange risk and expenditure requirements, assures the CBB in its guidelines.

8 | Currency and Price Stability

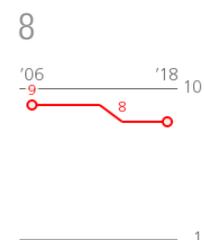
The country's inflation rate continues to show a tendency toward volatility, though it appears to be more stable than in previous years. Inflation dropped to 1.8% in 2015, the lowest annual rate since 2011 according to the IMF's consumer price index, but increased again in 2016. According to the Oxford Business Group, in April inflation reached its highest level since December 2013, standing at 3.8%, but decreased to 2.6% in August, reflecting lower food and non-alcoholic beverage prices, while housing and utilities costs increased by 3.8% compared to the previous year. The IMF is expecting consumer price inflation of 3.6% for 2016 and 3% for 2017.

The Central Bank of Bahrain (CBB), previously the Bahrain Monetary Agency, was established in 2006 by Decree 64, which guarantees its operational independence. Its oversight functions over the financial markets are, however, believed to be limited if members of the royal family interfere, such as was the case with investment company Gulf Finance House in 2011. CBB's governor Rasheed al-Maraj held high-level government positions before his appointment in 2005, among others, at the ministries of economy, finance and transport.

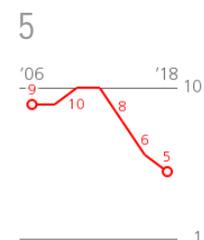
As the Bahraini dinar (BHD) has been pegged to the U.S. dollar with a static rate of \$1 per BHD 0.376, credit insurance companies such as Euler Hermes do not expect the exchange rate regime to be changed in the near future. As such, Bahrain's currency appears to be stable. However, the country's real effective exchange rate index rose to 111.5 in 2015 according to the World Bank, the sharpest annual spike since 1982 and the highest rate since 2006, indicating struggling economic competitiveness.

Bahrain's economic performance in terms of macrostability is under severe pressure. Public debt continues to rise quickly, reaching 72% of GDP in November 2016 after 61.9% and 44.4% in 2015 and 2014, respectively. The current account balance deficit also continues to rise after years of surpluses. The rating agency Fitch predicted a budget deficit of 15.4% of GDP for 2016, up from 14.8% the previous year. In addition, Bahrain's foreign reserves reportedly dropped further, having more than halved since 2014 due to the low oil price. Bahrain's central bank stopped publishing its monthly statistics bulletin in mid-2015 and has not provided a reason for not providing recent data. This makes bond prospectuses an important source of data about Bahrain's fiscal performance. Gross foreign reserves decreased to \$2.78 billion in June 2016, down from \$3.39 billion in December 2015. The last official figures provided for the year 2014 indicated foreign reserves of roughly \$6 billion.

Anti-inflation /
forex policy



Macrostability



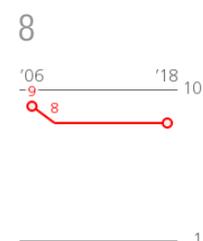
The dramatic decline in foreign reserves and rise in public debts are strongly linked to Bahrain's extensive spending on subsidies which were massively extended after the 2011 uprising. Due to the ongoing political tensions in the kingdom, the regime is forced to maintain a relatively high level of governmental subsidies, though it cut its spending on petrol and gas subsidies in January 2016 and plans to exclude foreign workers from meat and poultry subsidies. Tax increases for foreigners are to be introduced on electricity, sewage and water, while a VAT tax of 3% to 5% on goods and services will come into effect in January 2018. Despite these efforts, rating agencies like Fitch, Moody's and Standard & Poor's have cut Bahrain's rating, lowering expectancies for a fast recovery of the kingdom's fiscal performance.

9 | Private Property

The acquisition of property is considerably regulated in Bahrain and possible for foreigners from GCC states as well as non-GCC countries. Foreign companies and GCC nationals are allowed to own land in Bahrain, while non-GCC nationals face some restrictions as they are only permitted to own high-rise commercial and residential properties and property in tourism, banking, financial and health projects and training centers in specific areas of the country. The Bahraini government also allows 100% foreign ownership of new industrial entities and the establishment of representative offices and local branches of foreign companies without the need to present a local sponsor. Private investment of foreign or Bahraini firms in the petroleum extraction sector is only permitted under production-sharing agreements with Bahrain's state-controlled oil company BAPCO. GCC nationals enjoy the same ownership rights as Bahraini and are therefore favored over non-GCC nationals. Registering property in Bahrain only requires limited effort, taking only 31 days on average and two procedures according to the World Bank's Doing Business Report 2017.

Bahrain issued a new Lease Law in 2014 which went into effect in 2015 and is considered a significant step in regulating the real estate market in terms of leasing provisions under one single legal framework. Previous laws were inconsistent and only applied to certain types of properties as well as areas in the kingdom. The new Lease Law revoked five laws concerning the lease of rental and commercial property as well as includes new provisions and limitations for landlords on increasing rents. Despite this regulated legal framework for properties, Bahrain faces multiple challenges concerning corruption.

Property rights



Bahrain's hydrocarbons sector and related industries are dominated by state-controlled entities while the tourism, banking, financial, real estate, telecommunications, trade and health sectors remain open for private investors. In the past, the state was a key player in the country's industrial sector, but due to consistent policies regarding the liberalization of several sectors of the economy, private investments are now possible in multiple areas and subject to a well-regulated market, though privatizations in industrial sectors promoted the rise of the royal family and its allies.

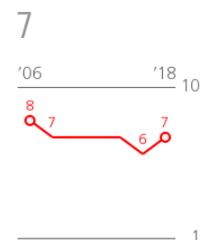
The 2001 Commercial Companies Law was amended several times in recent years to promote a business-friendly environment in order to attract foreign investment. New provisions were approved in 2014, 2015 and 2016. These promote faster administrative procedures and more oversight for the Central Bank, but also clarify minimum capital requirements and shareholder regulations, which are now more open for foreign investors. Access to Bahrain's market for foreign capital and expertise was also extended, though certain government restrictions remain in place. Administrative procedures to start a business in the kingdom are fairly regulated compared to international standards and require an average of 9.5 days and 7.5 procedures according to the World Bank's Doing Business Report 2017.

10 | Welfare Regime

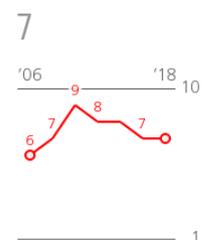
Bahrain has established a comprehensive welfare regime, offering free education and health care for citizens as well as a broad system of governmental subsidies. Public expenditure on health has risen constantly since 2011 to 3.2% of Bahrain's GDP in 2014. The kingdom's social insurance system dates back to 1976 and covers citizens employed in Bahrain or any other GCC member country. It covers old-age pensions and settlements, disability pensions and settlements, survivor pensions as well as death and funeral grants. This social insurance is funded by a 15% duty on monthly incomes, divided between the insured person and employer. There are further insurances for work injuries and unemployment, with restrictions for foreign workers.

Bahrain features a classical rentier state economy and is strongly dependent on the extraction of oil from the Abu Safah oil field. As oil prices dropped significantly in recent years, Bahrain struggled with maintaining the high degree of subsidized services and consumer goods. The government started to restrict access for particular services, mainly targeting foreign workers, but also Bahraini citizens who are politically active (the revoking of citizenship from dissidents remains the most widespread measure to exclude social safety benefits). The public health care system formerly allowed foreigners unrestricted access to health care, but struggled in covering the huge foreign worker population in Bahrain. In early 2015, the Ministry of Health introduced a new scheme for foreign private sector employees which requires each private company with less than 50 employees to pay an annual fee for

Private enterprise



Social safety nets



governmental medical services of \$189 per worker. Private companies also must pay \$58 for each Bahraini employee per year. Additionally, the government launched plans to further exclude foreigners from certain subsidies to ease pressure on the state budget.

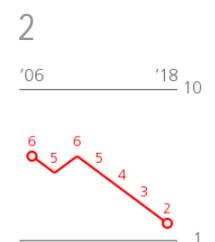
A main problem for marginalized strata of society is the lack of social housing as the government is well behind schedule in its construction schemes. Mostly affected by this are rural areas and predominantly Shi'ite neighborhoods.

Bahrain's constitution provides for equality and equality of opportunity for all its citizens, describing these principles as "pillars of society guaranteed by the state." The constitution also states that citizens are equal in the assumption of public posts. Despite this explicit ban on sectarian discrimination, there is extensive discrimination between nationals and foreign workers as well as between women and men and Shi'ites and Sunnis. Predominately Shi'a neighborhoods suffer from a lack of health services due to less developed infrastructure. Shi'ite citizens are largely excluded from public employment or only have access to the lower ranks in public institutions. A further deterioration of public employment opportunities for Shi'ites is expected as public jobs require the presentation of a passport with an election stamp (the government forces all state employees to prove they have voted by having their passport stamped; these stamps must also be shown when applying for public sector jobs). Due to the low turnout in predominately Shi'a areas in the 2014 elections, Shi'ite non-voters are therefore more likely to be excluded from public sector jobs. Shi'ites are also largely excluded from the country's security forces, which are almost entirely composed of local Sunnis and Sunni mercenaries from other countries. This deepens the perception among Shi'ites that the police are a sectarian tool used for oppression.

In an attempt to replace foreign workers with nationals, the government extended discriminatory practices against foreign workers. In 2016, the government announced the imposition of higher taxes on sewage, electricity and water for foreigners.

Gender inequality remains widespread in Bahrain. Women face discriminatory challenges in private as well as work-related matters. Although women are represented in the parliament and government, higher posts in the state apparatus and private sector are almost exclusively held by men. In contrast, the country's student body is highly dominated by women, who account for up to 70% of students in both public and private universities. However, the wage gap between men and women remains high. The World Bank ranks Bahrain on its Global Gender Gap Index 2016 in 131st place, 29 places down from 2006. Bahrain's female labor force stood at 19.6% in 2014 and has remained stable for years, though on a comparatively low level. In 2016, GFBTU pointed out that improvements were achieved in recent years such as an extension of maternity leave from 45 to 60 days, but described the wage gap as the most urgent area to tackle. Furthermore, the kingdom's personal status laws remain highly disadvantageous for women (e.g., in cases of divorce).

Equal opportunity



11 | Economic Performance

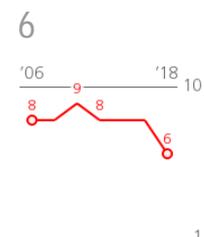
Due to Bahrain's rentier state characteristics and the continued low level of oil prices, the kingdom's economic performance struggled significantly in the period under review. Ongoing political unrest and tension between the regime and a major part of Bahrain's population further affected the country's outlook. The government has been forced to uphold a relatively high degree of subsidies on numerous goods and services, but has initiated several measures to decrease the subsidy bill and increase tax revenues. The government cut its spending on petrol and gas subsidies in January 2016, announced a plan to exclude foreign workers from meat and poultry subsidies, and approved the introduction of a VAT tax.

Despite these recent reforms, Bahrain's economic performance on quantitative indicators is weak. GDP per capita rose to \$46,946 in 2015, an upward trend since 2009, but absolute GDP declined to \$32.2 billion in the same year (compared to \$33.8 in 2014). GDP growth dropped to only 2.9% in 2015, after achieving stable rates in previous years (4.5% in 2014 and 5.4% in 2013), mainly due to the decline in the country's hydrocarbons sector (-0.1%) as the non-hydrocarbons sector's growth rate stood at 3.6%. The IMF is estimating even lower growth rates for the upcoming years and expects 1.8% and 1.6% for 2017 and 2018, respectively.

Inflation decreased to 1.8% in 2015 compared to rates between 2.7% and 3.3% in previous years. The IMF forecasts consumer price inflation of 3.6% in 2016 and 3% in 2017. Bahrain's public debts continue to rise quickly, reaching 72% of GDP in November 2016, up from 61.9% in 2015 and 44.4% in 2014. The current account deficit also kept on rising, with the rating agency Fitch predicting a budget deficit of 15.4% of GDP for 2016 (compared to 14.8% in 2015). In addition, Bahrain's foreign reserves reportedly dropped further, having more than halved since 2014. Further challenging Bahrain's economy is the negative output of foreign direct investments for 2015 (-4.5%) after stable rates between 2.7% and 3% since 2011.

These figures illustrate Bahrain's ongoing economic and fiscal dependency on the energy sector, which continues to largely contribute to the country's GDP (20%). Despite early efforts by the government to diversify the economy away from the oil and gas sector, dependency on the market price of hydrocarbons remains an obstacle for prosperous economic and fiscal development.

Output strength



12 | Sustainability

Bahrain's environmental challenges are vast. Land reclamation, huge coastal real estate projects and oil exploitation have led to deteriorating living conditions in particular areas of the country, including poisoned soils, depleted fish stocks near the coast, and falling ground water levels. Although the government highlights numerous legal instruments – from laws to the establishment of governmental bodies whose task it is to address environmental problems – Bahrain's performance in implementing appropriate measures has been ineffective and incoherent. In 2016, the government ordered a total ban on shrimp fishing in order to tackle the problem of depleting fish stocks, but fell short of providing alternative job opportunities for hundreds of fishermen. It also did not control the implementation of the ban, with fishermen continuing to fish for shrimp without governmental interference.

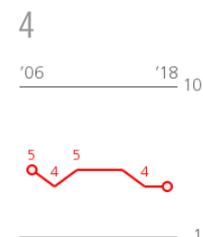
The only domain where the government has indicated a commitment for change is the renewable energy sector, but the country is behind schedule in establishing respective regulations. Governmental bodies including the Supreme Council for the Environment have almost no power to implement executive policies. In 2016, NIHR suggested the establishment of a public prosecutor specialized on the environment with jurisdiction to initiate law enforcement in cases arising from violations of the constitution and environmental laws. So far, however, no executive action has been taken.

Bahrain has the oldest public education system on the Arabian Peninsula, opening its first public schools in 1919. The first school for girls was established in 1928, which explains the relatively high educational level of girls in the kingdom. The World Bank indicates in its 2016 Development Indicators a Gender Parity Index that suggests parity between girls and boys in primary and secondary school. The literacy rate is equally high and reached a total of 95.7% with a slight advantage for men (96.9% for men, 93.4% for women).

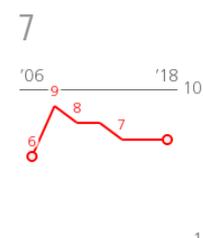
Public education is free of charge for Bahraini citizens and accessible for all parts of society. The duration of compulsory education is nine years. Bahrain's public education is considered to provide a reasonable level of education in regional comparison, but mediocre by international standards. Higher education and research continue to suffer from a lack of funding and expertise. Public expenditure on education only reached 2.6% of GDP in 2012 and 0.1% for research and development in 2014. The enrollment ratio in higher education rose by more than three percent in the review period and stood at 36.8% in 2016, according to the World Bank.

As Bahrain intensifies its efforts to strengthen its higher educational system in the context of the United Nation's Global Goals (Sustainable Development Goals), the government has set up a cooperation agreement with the Bahraini al-Baraka Banking Group that includes investments in job creation and education-related projects worth

Environmental policy



Education policy / R&D



\$635 million. Up to \$191 million are designed to support and finance Bahrain's educational system.

Overall, Bahrain's educational system appears quite good on paper, but given the polarization of society and politicization of education, the country's Shi'ites are more likely to be excluded from access to high quality education.

Governance

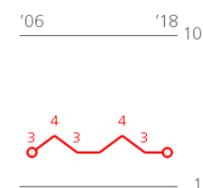
I. Level of Difficulty

In its recent past, Bahrain has not faced pandemics, wars, natural disasters or similar threats to the country and its population. The level of structural constraints is therefore tolerably limited. Although Bahrain's governance is not compromised by severe poverty or infrastructural deficiencies, the unfair distribution of wealth and demands for more political power by a majority of Bahrain's population are posing serious challenges for the regime. Even if liberal reformers, headed by the Crown Prince, were able to repel the regime's hardline policies and reintroduce a reconciliation process to settle the conflict between the Sunni ruling regime and Shi'ite majority, the long-term success of such an approach is not guaranteed. Bahrain and its domestic policies remain highly dependent on regional geopolitical developments. As its rulers are backed by Saudi Arabia, while some Shi'a movements enjoy support from Iran, Bahrain is strongly affected by tensions between the two regional powers.

One main obstacle for an independent and self-determined political future is the profound dependency on Saudi Arabia. Bahrain currently has only one direct connection to Saudi Arabia – the King Fahd Causeway – as the Qatar Bahrain Causeway project remains incomplete. Dependency on Riyadh, however, goes far beyond this geographical constraint. Saudi Arabia has an enormous interest in Bahrain's domestic affairs and supports the regime to prevent its arch-enemy Iran from gaining more influence on the Arabian Peninsula. Riyadh therefore strongly opposes any concessions toward Bahrain's Shi'ites, fearful of potential spillover effects. Successful inclusion or empowerment of Bahrain's Shi'ites in the political system could encourage Saudi Shi'ites to rise up and raise similar demands. Unsurprisingly, Saudi Arabia continues the deployment of its security forces in Bahrain.

Structural
constraints

3



Another powerful constraint is the rentier state structure of Bahrain's economy. Roughly 85% of its revenues come from the Abu Safah oil fields, a jointly owned project of Saudi Arabia and Bahrain, but exploited by the Saudi company ARAMCO, assuring Riyadh even more influence over Bahrain's domestic affairs. Attempts to diversify the economy have not been extensive enough to have a considerable impact on remodeling the economy away from a dependency on hydrocarbon exports. Therefore, Bahrain's state budget remains highly volatile due to the instability of oil prices.

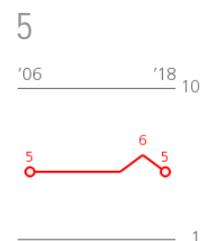
Compared to the other GCC states, Bahrain has a relatively liberal society that features a vital civil society comprised of a comparatively large number of NGOs, associations and political societies (de facto parties) with diverse backgrounds and orientations. The stability of the ruling system – the Al Khalifa family rules Bahrain since 1783 – further provide a form of political continuity. Many associations and NGOs have a long-lasting history. Similarly, independent trade unions have their roots in the struggle of Bahraini workers in the 1930s, which culminated in the formalization and legalization of labor unions when the king launched the National Action Charter in 2002.

The conflict between the ruling Sunni Al Khalifa family and its allies and the Shi'a population has a long-lasting tradition. Records of rebellions by Bahrain's Shi'a go back to the 1920s. The last extensive revolt occurred in the 1990s and only calmed after the 1999 enthronement of King Hamad, who swiftly advanced a reconciliation campaign that led in 2002 to the adoption of the National Action Charter. After a decade of limited political democratization and the political inclusion of Bahraini Shi'a, the reconciliation process came to an abrupt halt with the outbreak of the 2011 uprising. Since then, at least 185 Bahrainis have been killed in clashes with security forces or in detention and 4,000 dissidents and protesters have been arrested or detained.

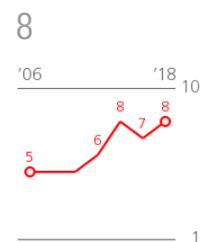
While the Shi'a movements are struggling for their political survival, more radical actors have gained influence in recent years. The raising popularity of political Islam in Shi'a communities, encouraged by the 1979 Islamic Revolution in Iran, and the Saudi-led promotion of ultraconservative discourses in Bahrain's Sunni community contributed to a fortification of religious and sectarian cleavages. The conflict between Shi'a and Sunni is not the only fault line in Bahraini society, but the one with the strongest impact on disputes over the distribution of wealth and political power. Sectarian propaganda, manipulation and instigation are frequently used by radical factions of Sunni and Shi'a movements as a tool for further religious polarization.

Despite widespread opposition against the ruling family in the Shi'a community, leading Shi'a opposition forces continue to call for a more democratic political system with greater power for the elected branches of government, rather than seeking to replace the monarchy. Bahrain's Shi'a opposition is capable of mobilizing

Civil society traditions



Conflict intensity



large numbers of protesters throughout the country, even though the regime's hardliners continue to escalate their crackdown against dissidents, protesters and opposition figures. In 2016, authorities revoked the citizenship of al-Wefaq's spiritual leader, Sheikh Isa Qassim, a move that caused violent protests throughout the country and a sit-in lasting for months outside the cleric's home in the village of Diraz. This escalation by the regime is likely to further deepen the sectarian rifts in society since Qassim is affiliated with the moderate Shi'a opposition, undermining popular support for moderate forces.

Meanwhile, Bahrain's radical Shi'a opposition movements have adopted increasingly extreme rhetoric and violent forms of resistance. Open calls for fighting and toppling the regime became more common in recent years. In January 2017, a Shi'a cleric announced a "new phase of armed resistance" against the regime and the al-Ashtar Brigades explicitly conducted its terrorist attacks (e.g., the killing of a police officer near Manama in early 2017) with the goal of bringing down the regime. The authorities claimed in 2015 that the group was smashed, but their latest attack raises doubts. Also, Sunni radicals remain a serious threat for Bahrain's security. In December 2016, IS called on its followers to attack the U.S. military base in Bahrain as well as Bahraini Shi'ites. This call to arms highlights the influence of the Bahrain-born IS member Turki al-Binali (aka Abu Sufyan al-Silmi) within the militia's leadership. Due to this expansion of violent forms of resistance, the conflict intensity in Bahrain soared in the review period.

II. Governance Performance

14 | Steering Capability

Bahrain's government is generally able to establish long-term goals on economic development and political transformation, but remains highly volatile to adjustments of power in the regime's inner circles in terms of implementing these goals. Growing antagonism between the more liberal factions of the regime, headed by the Crown Prince, and the hardliners, represented by Prime Minister Khalifa bin Salman and the Commander-in-Chief Khalifa bin Ahmed Al Khalifa, strongly compromises the regime's ability to set up clear policy priorities. However, long-term goals tend to be put aside in cases of popular discontent. In a classical rentier state manner, the regime ensures its capability of coopting parts of society with massive spending initiatives.

As both wings of the regime share an essential interest in maintaining their economic privileges and avoiding any destabilization of the country, consensus on economic strategy is more evident than on political matters such as the country's political transformation. The regime's key figures agree in principle on sustaining the overall

Question
Score

Prioritization

4

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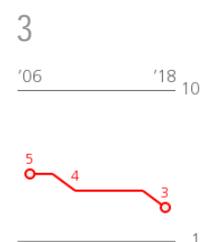
model of ruling – a monarchy under the guidance of the Al Khalifa family – but follow different approaches to achieving this. An inclusive liberalization policy was dominant for almost a decade, but was gradually replaced with an iron fist after the 2011 uprising. This has culminated in an extensive retreat from liberalization during the review period. Growing tensions between Saudi Arabia and its arch-enemy Iran are an additional factor undermining the regime’s ability to set clear priorities, as Riyadh has repeatedly interfered in Bahrain’s domestic affairs in order to safeguard its own short-term interests.

The regime’s ability to effectively implement its strategic political and economic goals is highly dependent on internal regime dynamics and the performance of the oil sector, which remains the kingdom’s main source of income and therefore directly affects the regime’s capability of implementing necessary reforms and policies. Due to the instability of these two factors, Bahrain faces a wide gap between publicly announced policy goals and priorities and their implementation.

One example of the regime’s dysfunctional implementation ability is the Economic Vision 2030 which was set up in 2008 and includes National Development Strategies (NDS) for certain planning periods. The NDS for 2015 to 2018 labels seven priorities for the government. The first priority is to maintain a safe and pleasant environment and includes sub items such as access to public space, a safe and secure environment and the promotion of human rights and social cohesion. Access to public space and the promotion of human rights are likely to be reinterpreted in a restrictive manner, since the regime faced a significant shift of power that left the country’s reformists in a weak position. The regime’s hardliners massively expanded their power and influence over policymaking processes and law enforcement and were able to push back reformist attempts to further liberalize the political system. As the balance of power within the regime is highly skewed, hardliners only face nominal resistance to their policy goals and can therefore proceed with a repressive approach in handling the country’s political crisis. The recent implementation failure of the Bahrain Independent Commission of Inquiry’s (BICI) recommendations further underline the actual gap of official policy goals and priorities and their implementation, though the regime maintained its rhetorical commitment to a democratic transformation.

Bahrain’s economic crisis also challenges the regime’s ability to implement its policy goals. The low oil price directly affected state revenues and made it difficult to maintain a level of public spending and cooptation policies that reflect the regime’s priority of achieving social cohesion. In a typical rentier state manner, the regime responded to the increasing demands of the population with repression, since the drop in oil revenues hampered the government’s ability to increase public spending to ease tensions.

Implementation



Bahrain's government shows little willingness in policy learning, especially since the regime's reformists lost influence and power over the country's affairs. The regime as a whole is only committed to reforms if these do not threaten the ruling system and vast privileges of its elite. This affects the political and economic transformation, although the government demonstrated more readiness in implementing economic reforms within the boundaries of its rentier state, which remains a serious obstacle for the transformation to a market economy.

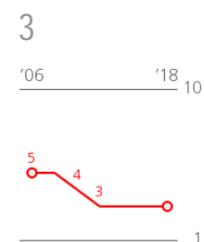
Major initiatives to institutionalize policy learning mechanisms such as the National Dialogue and BICI failed entirely in the period of review. The regime's commitment to a political transformation remains limited to minor cosmetic reforms that do not lead to real change. One example is the establishment of the state-controlled National Institution for Human Rights (NIHR) by King Hamad in 2009. NIHR is designated to receive complaints about a broad variety of human rights-related matters by citizens and residents. NIHR also has a mandate to study legislation and regulations, present recommendations, and conduct field visits to prisons and other governmental facilities. While NIHR repeatedly praised meaningful improvements in Bahrain's human rights record, it sticks to a soft-spoken and superficial review and evaluation of human rights abuses by state officials which fails to reflect the fierce situation of human rights on the ground. Although NIHR's detailed reports include numerous reasonable recommendations for revisions of legislation and criminal procedures in order to abide by international obligations, the consultative activities of NIHR did not lead to real change in governance.

15 | Resource Efficiency

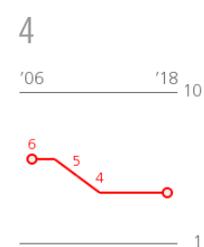
In a typical rentier state manner, state bureaucracy in Bahrain is inefficient and largely bloated, with the regime using extensive public employment as a tool to coopt large parts of the population by distributing a share of the country's wealth to its citizens. Average salaries in public sector jobs remain much higher than in the private sector. The median monthly wage for Bahrainis stood at BHD 517 at the end of the second quarter of 2016; public sector wages rose to BHD 686 and private sector wages to BHD 393, according to Bahrain's Labor Market Regulatory Authority.

The country's labor force is largely composed of foreign workers, who make up almost 79% of Bahrain's labor force of 754,863 in mid-2016 (595,151 foreigners and only 159,711 Bahrainis). The number of foreign workers increased at an annual rate of 7.8% while the number of Bahraini workers grew only 0.8% compared to 2015 despite attempts by the government to replace foreigners with nationals. To implement the Bahrainization Law approved in April 2016, the Labor Market Regulatory Authority has called on business owners to hire Bahrainis when filling job vacancies. The law imposes fines up to \$800 or revokes work permits for any employer who does not employ at least one Bahraini among every four workers.

Policy learning



Efficient use of assets

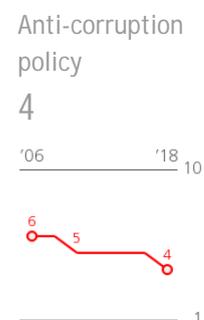
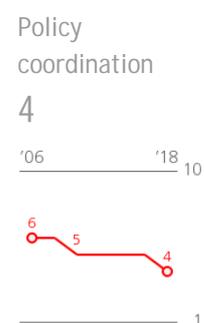


Bahrain's budget resources remain highly volatile given the low oil price, with the budget deficit growing during the review period. Besides this structural challenge for a balanced fiscal and budgetary sheet, endemic corruption and the opaque allocation of assets to the royal family causes severe difficulties for an efficient use of resources. While the royal family enjoys de facto impunity in cases of inappropriate use of public funds and corruption, the prosecution of those cases is not effective. In 2015, media reports based on an unpublished report by the National Audit Court provoked an outcry. The report documented the alleged waste of public funds worth BHD 400 million (\$1.06 billion).

Bahrain's policy coordination is largely dependent on the current state of internal regime power struggles and the economic outlook, as these highly affect the ability of the regime to reach consensus. The less consensus, the more likely a further deterioration of policy coordination. There are general obstacles for a reasonable success at coordination, including conflicting competences of the king, prime minister, and ministries as well as the central government, governorates and municipalities. A relatively new conflict between governmental bodies occurred due to a draft amendment of the constitution's Article 105. This draft amendment indicated an expansion of the military judiciary's power and may lead to conflicts and overlapping responsibilities between the military's legal system, judiciary and Interior Ministry.

Public sector corruption in Bahrain remains endemic and a serious challenge for economic performance and the transformation to a market economy. The country's elite, who enjoy impunity, profit from corruption and therefore show little interest in limiting the impact of rentier state deficiencies. The government maintained its pronounced commitment to fight against corruption, though only rhetorically. The interior minister claimed in 2016 that the fight against corruption remains a top priority of the government and announced the implementation of a national anti-corruption strategy.

These pronouncements have not been followed by serious changes of practice in terms of anti-corruption. A 2015 report by the National Audit Court indicated a serious decline in complaints and referrals to public prosecution. In 2016, the General Director of Anti-Corruption and Economic and Electronic Services reported the successful referral of 61 corruption cases to prosecution. The alleged waste of public funds by government departments worth BHD 400 million (\$1.06 billion) has not lead to the prosecution of state officials. Opposition newspapers point out that the state's increased hiring of mercenaries from Yemen, Jordan, Syria and Pakistan raised the risk of corruption in the security apparatus as mercenaries "cannot be loyal to anyone or anything but money."



16 | Consensus-Building

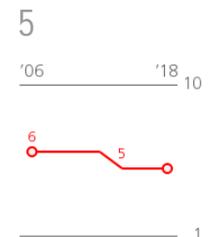
Although, representatives of both the reformist and hardliner factions of the regime agree rhetorically on reforming the political system toward a more democratic and participatory order, their interpretation of democracy and how to implement respective reforms strongly differ. Both factions accept the concept of democracy only to a limited extent and do not intend to abrogate the monarchy, which would seriously threaten their own privilege and risk their political survival. Reformers within the ruling class continuously push for a wide variety of liberalization strategies, but do not support a substantial democratization of the kingdom. In contrast, hardliners consider the liberal approach of coopting opposition forces through a semi-democratic system as hazardous and therefore try to replace this strategy with more oppressive policies.

The country's ruling class, including its reformist and hardliner factions, agrees on market economics as a primary goal of transformation. As long as the assets of the royal family and their allies are not affected, there is significant support for reforms promoting market economy principles. The same does not hold true for a transformation toward a more democratic system.

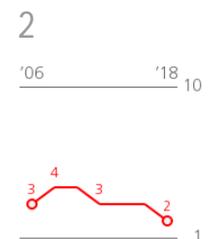
The reform oriented wing of Bahrain's ruling class, represented by Crown Prince Salman bin Isa Al Khalifa, is under severe pressure. The liberalization process introduced in 2002 with the National Action Charter lasted for almost a decade, but came to a halt after the 2011 uprising. Attempts by the country's reformists to manage the crisis in a way that does not threaten the status quo of the ruling class and at the same time maintains an inclusive and semi-democratic political system largely failed. The revival of a national dialogue headed by the crown prince and the implementation of the Bahrain Independent Commission of Inquiry's (BICI) recommendations failed to yield any progress in reconciliation. The opposition remained outraged, which seriously damaged the ability of reformists to proceed with their political liberalization strategy.

This setback for a semi-democratic transition became evidently clear in early 2017, as the regime's hardliners were able to enforce several measures reflecting their repressive approach. The severe escalation of the government's crackdown against opposition forces and human rights defenders, execution of three men in early 2017, and alarming plans to increase the military judiciary's influence are strong setbacks for Bahrain's reformers. They also are illustrative of the growing power and influence of the regime's hardliners.

Consensus on goals



Anti-democratic actors



Due to the significant shift of power from the more liberal wing of the regime toward the hardliner faction, the ability and willingness of Bahrain's authorities to moderate cleavage-based conflicts and depolarize current political tensions strongly declined during the review period. Efforts by the regime's reformist forces to proceed with their agenda of reconciliation with the opposition and depolarizing the conflict clearly lost ground. Instead, the escalating severity of the regime's hardliners intensified Bahrain's structural conflicts.

The government's crackdown against Shi'ite individuals and organizations was considerably extended, deepening societal rifts. The regime appears to purposefully target the country's Shi'ite communities and their lobby groups in order to further polarize the conflict. The crackdown has not only targeted radical factions within the Shi'a opposition, but also moderate forces. In 2016, Bahraini authorities banned the activities of the moderate al-Wefaq and stripped the citizenship of Sheikh Isa Qassim, a leading Shi'ite cleric and spiritual leader of al-Wefaq. This led to extensive protests and sit-ins in several predominantly Shi'ite neighborhoods. Al-Wefaq's secretary-general, Ali Salman, was convicted of inciting riot and calling for regime change, while numerous Shi'ite activists and protesters were prosecuted under the anti-terrorism law. Government officials have continued to accuse Shi'ite groups and individuals of being foreign agents, which implicitly delegitimizes their demands on a sectarian basis and further polarizes Bahrain's society. Attempts to moderate the conflict are confined to rhetorical statements by liberal figures of the regime with no direct mitigating impact on the state's crackdown of dissidents.

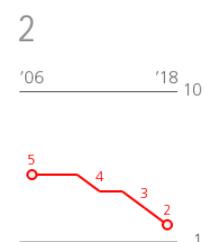
In the past, Bahraini government officials regularly held informal meetings with opposition forces in order to maintain a minimum of inclusion with the kingdom's political societies (de facto parties). NGOs and associations were mostly ignored by the regime. Institutionalized mechanisms for the political participation of civic actors do not exist and were neither introduced nor announced during the review period. Instead, the crackdown against civil society organizations was expanded.

Shortly after the 2011 revolt, the king announced the establishment of the Bahrain Independent Commission of Inquiry (BICI) to investigate abuses that occurred during the uprising. Although King Hamad's move was strongly welcomed by local and international human rights groups, especially as the government announced that it had fully accepted BICI's recommendations and incorporated them into its reform vision, the implementation of these recommendations largely failed. Reports by Human Rights Watch (HRW) and Bahraini NGOs (e.g., the Bahrain Center for Human Rights and Bahrain Institute for Rights and Democracy) indicated that the authorities only fully implemented two of the 26 proposals by 2015. The government has claimed otherwise, stating that 19 recommendations have been fully accomplished. This minor progress in reconciliation was completely retracted in 2017

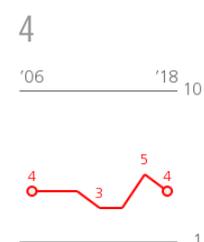
Cleavage /
conflict
management



Civil society
participation



Reconciliation



when the government restored the law enforcement powers of the National Security Agency (NSA). These had been rescinded in 2011. The reversal eliminated one of the few significant security sector reforms introduced since 2011. The execution of three men in 2017 brought the reconciliation process within the BICI framework to a complete standstill and withdrew governmental support for the two recommendations already achieved.

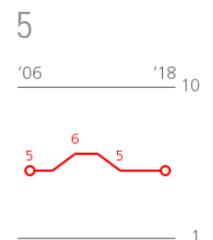
Nevertheless, Bahrain's regime continued to praise its reconciliation efforts rhetorically, mainly by using its state-controlled human rights body to highlight the government's performance in addressing human rights abuses and the fulfillment of repeatedly promised reforms. In its 2015 and 2016 annual reports, NIHR advertised its efforts in promoting a culture of human rights in the state apparatus through trainings, workshops, awareness programs and lectures for members of the kingdom's security forces, judiciary, prosecution and other executive agencies. As NIHR remains largely silent on human rights abuses committed by these agencies, it contributes to the regime's efforts to whitewash government actions.

17 | International Cooperation

Bahrain receives international assistance from UNDP and the World Bank. UNDP has run several projects related to water, education, and health since the 1970s. Since the 1980s, the World Bank's activities have included support for Bahrain's Ministry of Finance and the central bank on fiscal management, private sector management, economic diversification, and privatization. As such, the kingdom remains a relatively credible partner for international institutions providing development aid. However, the structural incapability of Bahrain's regime to allocate investments and social spending to all strata of society remains a severe challenge and raises concerns.

The country also receives significant security assistance, especially from the United Kingdom. Since 2012, the United Kingdom has spent £5 million on training Bahraini security force in an attempt to reform the notorious security apparatus, accused of torture and systematic violence against detainees and protesters. So far, the United Kingdom's intensified security cooperation has largely failed to provide improvements in Bahrain's human rights record. The assistance has included help for torture watchdogs such as the Ombudsmen and the Special Investigations Unit. The latter dismissed torture complaints from the three men who were executed in 2017, though there were strong indications that these men had been beaten and forced to sign false confessions. Both units were trained by Northern Ireland Cooperation Overseas, which also provided trainings for Bahrain's prison guards. The U.K.'s College of Policing reportedly refused to publish details about their work with Bahraini authorities. In 2016, international human rights organizations called on the United Kingdom to immediately stop its security cooperation with Bahrain, since further abuses could not be ruled out.

Effective use of support



In terms of intergovernmental and security cooperation, Bahrain's credibility among the international community remains high. The kingdom promotes itself as a reliable partner in Western and Saudi-led campaigns labeled as anti-terrorism efforts. Bahrain joined the U.S.-led raids against IS in Syria and Iraq and the Saudi-led war in Yemen in 2015. It has also maintained extensive security cooperation with Saudi Arabia, the United States and United Kingdom, though the continuing crackdown on human rights defenders and NGOs has increased tensions with international human rights organizations and the United Nations. Bahrain's government repeatedly clashed with the U.N. High Commissioner for Human Rights and issued harsh verbal responses to the U.N.-body and its head after being criticized for its human rights record.

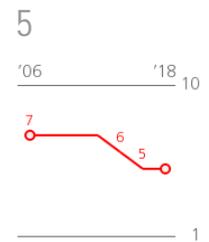
Bahrain's commitment to the U.N. Framework Convention on Climate Change (UNFCCC) remained outspoken in the review period, though the government's implementation of particular policies in order to achieve these goals was insufficient. Environmental challenges are widespread in Bahrain, but not tackled consistently according to the UNFCCC's goals despite the government's official commitment.

Bahrain's economic outlook strongly deteriorated in the review period, with its fiscal and economic credibility suffering considerably in 2016. The drop in oil revenues is challenging the country's performance in terms of macro stability. Bahrain's public debts rose to 72% in 2016 (compared to 62% in 2015) and GDP growth dropped to 2.9% in 2015 and 2.1% in 2016. The IMF is expecting rates below 2% for the two upcoming years. Due to this prognosis and ongoing political tensions, major rating agencies including Fitch have maintained a negative outlook on Bahrain.

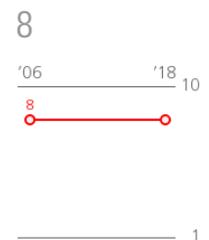
Bahrain's collaboration with the GCC remains a cornerstone of the country's regional cooperation. In 2015, the kingdom joined the Saudi-led war in Yemen to push back Iranian influence in the region. In 2017, King Hamad highlighted the importance of Bahrain's contribution to the war as well as military cooperation with other GCC member states. Bahrain enjoys extensive support from Saudi Arabia, the United Arab Emirates and Kuwait in terms of development aid and military support. In 2011, the GCC launched a \$10 billion aid package for Bahrain and Oman. A further \$670 million in Saudi funds were allocated to Bahrain in 2015 to finance development projects related to housing, road networks, power and water distribution. Moreover, Saudi Arabia's king allegedly has renewed his promise to provide financial support for the purchase of new fighter jets for Bahrain's Royal Air Force.

Bahrain's government also intensified its relationship with Turkey, a close ally of Saudi Arabia, the United States and United Kingdom. King Hamad was the first foreign head of state to visit Turkey after the failed military coup in 2016, confirming the two countries' close ties. While the Qatar Bahrain Causeway remains incomplete, Riyadh announced the construction of a second bridge connecting Saudi Arabia with Bahrain.

Credibility



Regional cooperation



Manama's relationships to Qatar, Iraq, and especially Iran remain difficult and hostile. Although Bahrain plans to set up a ferry service connecting the country with Qatar in 2017, Bahrain's government has resisted restoring close ties with Doha. Coverage by the Qatar-based television broadcaster al-Jazeera during the 2011 uprising remains a challenge for their bilateral ties. Bahrain's relations also remain tense with Iran. Government officials repeatedly attacked Iran's leadership over alleged interference in domestic affairs and supporting the Shi'ite opposition. The government also continuously blames Bahraini dissidents of cooperating with foreign powers, rhetoric that reflects the regime's fear of Iran empowering the country's Shi'a communities.

Strategic Outlook

In the period under review, Bahrain was facing severe economic challenges and on the path to becoming a police state. The 2011 uprising only temporarily improved conditions for civil society actors. The government has reintroduced repressive measures against the opposition, becoming even more violent in its attempts to crush criticism. Nonetheless, civil society actors opposing the regime have persisted. As the possibilities for maneuver rapidly diminished, Shi'ite and pro-democracy opposition groups turned toward new forms of resistance. Unconventional forms of civic protest and civil disobedience, such as placing teddy bears at protest sites to mock the government's response, illustrate the determination and agility of civil society to adapt to the increasingly hostile political environment. As the political and economic marginalization of Bahrain's Shi'a majority remains a structural problem, current government repression will not ease in the near future.

Further deterioration of the rule of law and civil and political rights is likely. In part, because the radical wing of the opposition increased its threats to attack the government, the U.S. military base in Bahrain and Bahraini Shi'a. Such violence would lead to a further escalation of the regime's crackdown against opposition forces and civil society actors. A pending amendment to the constitution would expand the jurisdiction of the military's legal system. Removing current legal limitations on the military courts is particularly alarming as it would enable the military to prosecute and convict civilians. Such a return to military rule would damage the kingdom's international reputation as well as economic outlook. A stable and peaceful political environment remains a key factor for attracting FDI and positive international ratings.

Given that oil prices are unlikely to recover soon, current economic challenges will persist. Though the government has taken steps to decrease its dependency on the hydrocarbons sector by diversifying the economy, Bahrain's rulers must intensify these reforms. Longstanding structural constraints must be effectively tackled for development to flourish. Needed reforms, however, will be extremely difficult to achieve given Bahrain's deeply embedded rentier state. Rentier state theories assume that in times of decreasing rents, state repression is likely to increase – an accurate, albeit undesirable, reflection of Bahrain today and in the near future.