

Bahrain

Status Index (Democracy: 1.8 / Market economy: 3.7)		5.5	Management Index		3.9
System of government	Autocracy		Population	0,7 mill.	
Voter turnout	-		GDP p. c. (\$, PPP)	16,060	
Women in Parliament	-		Unemployment rate	18 %	
Population growth^a	3.6 %		HDI	0.839	
Largest ethnic minority	~30 %		UN Education Index	0.86	
			Gini Index	n. a.	
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

With its roughly 700,000 inhabitants, about a third of whom are foreign born, Bahrain is the smallest country in the Middle East. In October 2002, this authoritarian island state held its first parliamentary elections in nearly 30 years, with slightly more than 53 % of some 250,000 eligible voters participating. Women had been granted suffrage, which was not the case when parliamentary elections had last been held in 1973, but no female candidate succeeded in entering the Parliament. Forty members were elected to the bicameral Parliament, with Islamicist and secularly oriented candidates roughly balanced in number.

The majority of the elected deputies belong to different groups of Sunni Islamicists, because Shi'i Islamicists were boycotting the elections. International observers were not allowed to monitor the voting, but members of the opposition judged the elections to be fair. Early in 2002, the emirate changed its status to that of a kingdom as part of a reform program that helped put an end to a four-year phase of political unrest. Many Bahrainis view the reforms as patently cosmetic. There was no national reconciliation. Regional developments might contribute to a renewed outbreak of protests.

This report comes to the conclusion that, although democracy and a market economy remain out of the question in Bahrain, there has been positive development. The reformers' managerial achievements received a mixed assessment. Crucial problems remained unresolved with respect to freedom of speech, the rule of law, unemployment, corruption, absorption of the Shiite majority, economic diversification and the sustainability of economic development.

2. History and characteristics of transformation

Sheik Hamad bin Isa al-Khalifa succeeded his father as emir in 1999 following the latter's death. A year later he issued a series of decrees that initiated a limited transition to democracy. The renewal of the social contract was aimed at transforming the country into a constitutional monarchy and legitimizing the exercise of power. As a countermove, all political prisoners were released, those who had been forced into exile were encouraged to return, and the notorious State Security Law, along with the State Security Court, was abolished.

In February 2001, an overwhelming majority of the population voted for a new National Charter that, in providing for a separation of powers and an independent judiciary, reflected the pro-democracy consensus. There was a euphoric sense of new beginnings among the population, but this soon turned to resignation. Opposition members of every shade criticized Sheik Hamad for autocratically imposing a new national constitution that differed from both the Charter and the previously suspended constitution.

During the wave of unrest from 1994 to 1998, which in Bahrain was referred to as an *intifada*, restoration of the constitution of 1973 was one of the actors' principal demands. The wave of demonstrations and arson and bombing attacks emanated mainly from elements of the country's majority Shiite population, which had suffered considerable exclusion since the island's conquest by the al-Khalifa clan in 1783. The repressive measures the government took in response to the protests were severe and resulted in massive human rights violations.

With the rise of oil prices, the economic developments at the end of the period offered favorable conditions for further deregulation of the Bahraini economy. The economy is still dependent primarily on the production and processing of oil. Bahrain produces approximately 37,000 barrels of oil per day from an offshore field of its own, in addition to which it receives, by way of economic aid from Saudi Arabia, the entire output (140,000 barrels per day) of an oil field to which the two countries share rights. Bahrain imports from Saudi Arabia an additional 200,000 barrels of oil per day that are processed in the country's refinery and exported. Oil exports accounted for more than 60 % of the country's total receipts in 2000. Oil revenues tripled in mid-1999 as a result of high oil prices, and the government registered an unplanned budget surplus that allowed leeway for investments. However, Bahrain remains dependent upon aid payments from Saudi Arabia, Kuwait and the United Arab Emirates. Experts estimated that oil resources would be nearing depletion by 2005.

New prospects opened up in 2001 when the International Court of Justice in The Hague, Netherlands, settled a long-standing border dispute with Qatar and awarded Bahrain ownership rights to the potentially gas- and oil-rich Hawar Islands. Hopes for an increase in trade and visitor traffic also led to plans to construct a bridge between the two countries. The government recognizes that the country's future prosperity depends upon economic diversification. Crown prince Sheik Salman bin Hamad al-Khalifa, who was educated in the United States, is a committed proponent of the Singapore model. Bahrain's much-praised legal framework has allowed it to maintain its position as a regional banking center; as one of the most important global centers of Islamic banking in this region it is attracting new service providers. Industry is dominated by the government.

The Supreme Privatization Council, made up of representatives from both the government and private sectors, was founded in March 2002 for the purpose of drafting guidelines and a timetable. Several large projects were planned and initiated at the same time, including the construction of a new superharbor, expansion of the airport, and several million-dollar projects to modernize the oil refinery (Bapco) and the aluminum smelter (Alba).

Tourism is one of the economic sectors with the largest growth (14 % of GDP). At least four large new resorts are under construction with total expenditures of approximately \$1.83 billion. A large public housing project worth \$5 billion is also planned. Diversification efforts are initiated primarily by the state, receive considerable subsidies and depend in a variety of ways upon external sources.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

With the transformation of its political regime, Bahrain has made significant progress in several areas. The most important of these is a restriction of the state's hitherto often arbitrary use of force and an increase in tolerance of public debate and demonstrations. Deficiencies remain in political representation, the rule of law and freedom of speech. Freedom of speech has been considerably limited by a new, repressive media law and strict controls of websites. It remains to be seen whether the Parliament's existence will help stabilize the system, including the rulers' power, or whether momentum will develop for an expansion of pluralism and the democratic franchise.

3.1.1 Political regime

(1) *Stateness*: There are no problems of state identity in Bahrain. The state has a monopoly on the use of force, despite isolated protest actions and minor acts of arson from 1998 to 2000. Defining citizenship and who qualifies as a citizen is no longer a politically relevant issue, as inhabitants without passports (the *bedoon*, approximately 3 % of the population) were granted citizenship during the period. Widespread criticism was aroused, however, by the naturalization of numerous members of the security forces who had been recruited from other Islamic countries.

Although Bahrain defines itself as an Arabic-Islamic state and bases its legislation on Islamic law (“*Shariah*”), the political process has been secularized. An efficient system of administration is guaranteed, as is public order and safety.

(2) *Political participation*: Partial elections have been taking place since 2002, but they do not decide who will actually wield power. The ruling family exercises the real powers of governance. The king appoints the prime minister, who in turn appoints the cabinet. Members of the ruling family occupy all ministerial posts relevant to security. Political parties and trade unions are prohibited. Some 20 religious and political associations were authorized to operate in the run-up to the elections of 2002. Freedom of assembly is not guaranteed in principle, however. Civic organizations such as culturally oriented clubs and professional associations must continue to have their programs approved by the appropriate ministries, and are permitted to operate only to the extent that they are not outspokenly critical of the regime. From 2000 on, criticism in these forums was tolerated more than before. Nevertheless, freedom of speech remains problematic.

The media are subject to a mixture of censorship and self-censorship. No foreign journalists from major media organizations have been accredited in Bahrain since 1997. International news agencies rely on local resources, and the Arabic television broadcaster Al-Jazeera is no longer allowed to operate. A draconian new press law was enacted by royal decree following the parliamentary elections. The society’s ethnic-sectarian fragmentation was exacerbated during the *intifada*, partly as a result of the government’s deliberately divisive policies. This fragmentation plays a not insignificant role in the dynamics of association among the diverse civic forces that have committed themselves to creating a civil society.

(3) *Rule of law*: There have been considerable transformation shortcomings with respect to the separation of powers: The executive occupies a monopoly position, the legislature’s role is limited, and reciprocal checks and balances between the two seem unlikely in the near future. Parliamentary involvement in political decision-making remains to be seen, but would most likely be negligible. A royal

decree issued shortly after the parliamentary elections prohibited the body from taking up any issues concerned with the time before it assembled.

During the run-up to the parliamentary elections, the four most influential opposition groups called for a boycott of the voting, as the people's elected representatives—contrary to provisions of the National Charter of 2001—share legislative rights with the 40 members the king appoints to the Parliament's upper house. This arrangement (the Parliament of 1973–1975 was unicameral) allows the regime to have the last word over the legislature.

The judiciary is nominally independent, but in practice is subject to clear limits. Members of the ruling family are well-represented within the judiciary, and judges are appointed by the king. State prosecutors and the security forces collaborated on the closest possible terms during the wave of unrest. There are plans to remove the prosecutor's office from the premises of the Interior Ministry's control center, and to establish a constitutional court.

Corruption within the bureaucracy is relatively rare, and has been dealt with more strictly in the last several years. Political and economic corruption is widespread, on the other hand, and is unlikely to be eliminated, resulting as it does from the patronage that permeates the entire system, whose network of connections is based on tribal and sectarian loyalties. Officeholders have been able up to now to abuse their positions without risk of legal prosecution. As before, criticism of the ruling families of Bahrain and Saudi Arabia can be articulated only in private gatherings.

3.1.2 Political patterns of behavior and attitudes

(1) Institutional stability: Bahrain's existing institutions cannot yet be described as democratic. State institutions such as the administration and judiciary are, with the limitations on the rule of law already mentioned, stable. However, significant actors regard both the new national constitution and the Parliament as illegitimate. The major forces of opposition, which in Bahrain have traditionally consisted of left-wing and Shiite groups, regard all legislation enacted since the last Parliament was dissolved as unconstitutional.

The voter turnout of more than 50 % cannot be taken as an indicator of approval for the manner in which reforms were managed, as citizens were pressured into going to the polls. A notation was stamped into the passports of voters, who were also issued a "certificate of good behavior," something which led many to fear that participation in the boycott could have negative consequences. Moreover, those affiliated with the security forces, the national guard and the military were ordered to participate in the voting.

(2) *Political and social integration*: Bahrainis are interested in politics and political participation to a much greater extent than are citizens of other Gulf Cooperation Council (GCC) states, and since the 1950s they have been involved in numerous clubs, associations and charitable networks. In the end, however, the landscape is one of personality-oriented interest groups that have become increasingly fragmented and competitive as they have become more and more differentiated. Some of these groupings exhibit a high level of organization. There was an overall increase in willingness for social self-organization during the years of the *intifada* and the period of low oil prices. The ability of the state and civic interest groups to cooperate with one another remains unstable, however.

The government's strategy, consisting in a mixture of control, co-opting and political bargaining, has undermined the autonomy of the interest groups and has frequently caused leading figures to give in. Civic organizations demonstrate great willingness to engage in cooperative bargaining. Thus critics living in exile speak of a "tame opposition."

Survey data on attitudes toward democracy are not available. Shiites, who make up about 70 % of the population, have supported democratization of the system since the 1920s. Disappointment with the limited role of the new institutions and with a series of royal decrees has shattered a short-lived faith in the government's capacity for democracy. While the civic-organizational dynamic takes a progressive course, a decline in "democracy enthusiasm" is becoming apparent. Many citizens regard the new institutions as a means for stabilizing the ancien régime under a new look.

The government's close alignment with the United States, which designated Bahrain a "major non-NATO ally" in May 2002, is rejected to an ever greater degree. Bahrain harbors a U.S. Navy base (Central Command of the Fifth Fleet) as well as an Air Force base whose strategic importance has increased as a result of Saudi Arabia's attitude of appeasement in the face of opposition to the use of U.S. bases on its soil. During a series of demonstrations against the Israeli occupation of the Palestinian territories in 2002, the withdrawal of U.S. forces from Bahrain was vehemently demanded for the first time.

3.2 Market economy

The basic features of the economic system have remained unchanged. During the second half of the period there was a slight growth in the economy as a result of rising oil prices. Progress was made with the initiation and planning of new projects. The resolution of the territorial dispute with Qatar in particular offers

cause for hope. There are transformation shortcomings in the areas of privatization, transparency and competition.

3.2.1 Level of socioeconomic development

The key indicators show a high level of development. All citizens have access to free schooling and health care. Bahrain has the lowest rate of illiteracy in the Arab world. Gender-specific exclusions still exist to some extent, although girls regularly achieve a higher grade level in the schools than boys, and more female than male students are enrolled in the universities.

Women make up roughly 20 % of the work force and are employed mainly in the government and banking sectors. Few women have advanced into top positions, and up to now they have been underrepresented in the political sphere. There are numerous reports of domestic violence against women, but they are seldom brought before a court of law. Divorce requests made by women remain problematic.

Absolute poverty does not exist, but there are considerable disparities in the distribution of income, as is readily apparent in residential areas. Shiites from rural areas are structurally disadvantaged and are excluded from employment in the security forces and the military. And there are still reports that their chances are less favorable when they apply for university posts.

There was 2.4 % unemployment in 2000, according to official figures, but Western estimates range from 15 % to 25 %. Experts point out that unemployment among young people in Shiite villages may be as high as 45 %. Crown prince Sheik Salman bin Hamad al-Khalifa declared the unemployment rate to be 15 % in the first statement of a royal family member concerning this problem.

Approximately 65 % of the work force is made up of guest workers, most of whom come from Asia and are exposed to the various forms of discrimination inherent in the system. Numerous instances of mistreatment of female servants came to light during the period, as well as instances of illegal trade in women, who were forced into prostitution. Prostitution is forbidden in Bahrain, but smugglers and agents have gone unpunished up to now. The “free visa” trade, which brings guest workers into the county in circumvention of official law, is a lucrative business in which members of the elite are implicated. Until this practice is abolished, it is unlikely that there will be much change in the high rate of domestic unemployment, the existence of which officials deny.

3.2.2 Market structures and competition

The basis for market-based competition has been assured. Except for oil and a few basic foodstuffs, prices are set by private businesses that import foreign goods. Foreign trade was further deregulated during the period. In January 2000, import duties on 43 foodstuffs were abolished, and duties on consumer goods were reduced from 10 % to 7.5 %.

In line with joint GCC economic policy, duties on tobacco goods were raised to 100 %. Duties on boats, automobiles (20 %) and alcohol (125 %) remained unchanged. Further reductions are planned. No taxes are levied on income, land ownership or production. In addition to import duties, indirect taxes are levied on gasoline, for example, as well as office, hotel room and residential rentals. Foreign investors are allowed to own 100 % of businesses.

The government limits external debt, and up to now it has been able to finance budget deficits through local banks. The official debt in March 2001 was \$840 million. According to an IMF study, the government's total debt in the same year was estimated to be equivalent to 31.1 % of GDP. There are rules for free competition, but the state's competition and development policies are characterized by a tilt in favor of the government's clientele and large-scale projects. The selection procedures for project bids are not always transparent. Anticartel legislation does not exist.

3.2.3 Stability of currency and prices

The currency has been linked to the U.S. dollar since 1980. This measure was intended to facilitate oil exports, which are calculated in dollars anyway, as well as to minimize exchange rate fluctuations for the private sector and encourage imports. There are plans for a currency union of all six GCC member states by 2010, with a uniform currency also linked to the dollar.

The GCC states have little choice in the matter as long as they remain as dependent on the United States as they have been, even if they are making it more difficult to develop a non-oil-based economy. There is no black market. Profit utilization and transfers are subject to no controls. The government's debt policy is oriented toward stability. No loans have been obtained from the IMF or the World Bank.

3.2.4 Private property

Property rights and acquisition are well defined. Business formation and investment in the private economy are encouraged. However, the privatization of

existing state-owned companies has not made significant progress in the last few years, except for the liberalization of the mobile phone market in May 2003.

3.2.5 Welfare regime

Bahrain has a developed welfare regime with comprehensive free health care. More problematic is the lack of a regulated system of unemployment insurance. During the period, unemployed workers received temporary aid payments for the first time. They were also permitted to organize an association for the unemployed.

The government made efforts to introduce vocational schools and to improve practically oriented programs. In light of the high birthrate, however, it is not clear how the many young people struggling to enter the market every year are to be absorbed. Family cohesion is strong, and there are close-knit private solidarity networks as well as state-sponsored support programs for the disabled. According to tradition, it is also possible for citizens to appeal directly to the king in an emergency, an option that is still used. Urgent problems could be forestalled in this way. The introduction of unemployment insurance and employment policy measures, with the aim of nationalizing the work force, are essential if anything even close to the level of stability of the oil-boom years is to be preserved.

3.2.6 Strength of the economy

Bahrain's social and economic performance indicators are comparable to those of OECD member states, and the country is classified by the World Bank as a "high-income country." There are, for lack of transparency, no data for many areas, so that the relevant studies (World Bank, UNDP, CIA Factbook, etc.) contain either gaps or mutually contradictory assessments.

The available data for the period show a continuous growth in GDP (estimated at -2 % in 1998, 5 % in 2000) as well as a slight rise in the rate of inflation (0.5 % in 1998, 2 % in 2000). External debt totaled approximately \$2.7 billion in 2000 as compared with \$2 billion in 1997. The industrial growth rate declined by an estimated 2 % in 2000, in contrast to 3.4 % in 1995. The value of exports, on the other hand, increased from \$3.3 billion in 1998 to \$5.8 billion in 2000.

Estimates of unemployment remained stable during the assessment period at about 15 %. Overall, the problems that emerge are more typical of developing countries. These include budget deficits, a relatively high unemployment rate, and scarce water and oil resources. Despite the present high price of oil, there is increasing

pressure on the budget as efforts are made to maintain government-financed social services in the face of a population growth rate of approximately 3.5 %.

The introduction of taxes that experts have been recommending for years is anathema to the various governments in the Gulf area, which compensate for their lack of legitimacy with extensive welfare services and fear rising levels of dissatisfaction. The model for growth rests primarily on exports and large businesses, and thus does not fully exhaust the possibilities for growth.

3.2.7 Sustainability

Bahrain has a well-developed state system of primary and secondary education and a state-supported university system. During the 1995–1997 period, the state's educational expenditures amounted to 4.4 % of GDP; more recent figures are lacking. Experts complain that too much emphasis is placed on memorization in the schools, and that critical thinking is not encouraged.

The International Labor Organization criticized the Ministry of Education in 1995 for being too poorly organized to prepare young Bahrainis for their entrance into the job market. Since then, educational providers have been attracted from abroad to establish new institutions. New educational offerings are focused on information technology and technical occupations. It is too early to assess the quality of these measures. Unemployment among young people remains a problem with considerable explosive potential for the future, despite the effectiveness of private solidarity networks.

Another problem is the increasing salinity and scarcity of ground water. Society and the legislature have grown increasingly conscious of environmental matters in recent years. Thus, for example, ecotourism was introduced during the period. The tendency, however, is to continue to subordinate environmental concerns to growth considerations.

4. Trend

(1) *Democracy*: During the period, and for the first time in almost 30 years, Bahraini citizens acquired the political participation rights for which they had long struggled. In contrast to the disturbances that flared up repeatedly before the period, public order and security had been restored. House searches or arrests without a court order rarely occurred from 2001 on. There were also fewer reports of mistreatment in police stations or prisons.

International organizations such as Amnesty International and the Red Cross were granted permission for inspections. Progressive developments could be observed also with respect to citizens' organizational opportunities and the free activity of social organizations. Deficiencies continue to exist, to be sure. Willingness for participation appears to be in decline among the citizenry.

(2) *Market economy*: The fundamental indicators for the period show a slight improvement in the status of development. Economic growth is attributable mainly to higher oil prices. Gini index data are not available. Rather, it is assumed that the existing income disparities have not changed, although during the period in which reform policy was being negotiated a large number of people were accepted into the ranks of recipients of various state allocations, i.e., political rents.

The basic institutional conditions for market-based activity have not changed. As measured by macroeconomic data, overall economic development during the period has become more dynamic. In view of the crisis conditions at the beginning of the period, the data reveal a success for the state's development policy, which is attributable mainly to an increase of confidence in Bahrain's stability as well as to higher oil prices.

Table: Development of socioeconomic modernization indicators

	HDI	GDI	GDP index	UN Education Index	Political representation of women	GDP per capita (\$, PPP)
1998	0.820	0.803	0.81	0.85	0	13,111
2000	0.831	0.875	0.84	0.85	0	15,084

Sources: UNDP, Human Development Report, 2000, 2002, <<http://undp.org/hdr2000.english/FAQs.html>>, <<http://undp.org/reports/global/2002>>

5. Transformation management

5.1 Level of difficulty

At the beginning of the evaluated period, the high overall level of economic and social development; the existence of the basic structures of a market economy; the society's high educational level; and a stable and, by Arab standards, efficient bureaucracy offered favorable conditions for the beginning of a political transformation process.

Key problems existed as a result of mounting conflict over wealth distribution during the period of lower oil prices, sporadic but recurring and sometimes violent protest actions against the regime, and an increasing polarization between the elite and the “rest of the population.” Another difficulty facing the new government was the hostile stance of hardliners among the ruling family, and their influential clientele, toward the reform plans.

In light of the structural social and cultural conditions shaping the political process over the long term, the level of difficulty facing transformation should be regarded as high. The fact that there had been little previous experience of civil society, democracy or the rule of law made the approach to a democratic transition more difficult.

5.2 Reliable pursuit of goals

In contrast to conditions before the period, which were characterized by shortsighted decisions, political rigidity and a focus by the elites on maximizing economic benefits, from 1999 on the government demonstrated strategic and future-oriented thinking as well as maneuverability. For the most part, members of both ruling family and opposition could be persuaded with, among other things, the help of increased payments to accept the political transformation process. Key aspects of the reform plans were formulated and implemented.

In general, those actors who were of relevance in decision-making maintained their commitment to the transformational goal of instituting a constitutional monarchy. However, specific political measures were not always compatible with the reform goals, and the government lacked the will for cooperative action. Dialogue with the moderate opposition on important issues did not produce compromises; thus by the end of the period, the opposition could not be absorbed into the new political regime.

As a result, central policy goals, such as creating a consensus within the population and renewing the regime’s claim to legitimacy, could not be achieved. In the face of mounting criticism at home and abroad over the continuing unrest in Bahrain, which for a time remained uncontrollable despite repressive measures, the government was fundamentally concerned that domestic and foreign economic actors should consider Bahrain reliable.

As a result of the government’s difficult balancing act between the opposing goals of initiating a limited process of democratization and not limiting the extent of its own power, its transformation strategy remained by and large incoherent and susceptible to changes of political course by which it lost favor.

5.3 Effective use of resources

In pursuing its transformational policy, the government makes effective use of few of its available personnel and organizational resources. In addition to the problems in the educational system mentioned above, the development potential of the Shiite population from rural areas has been largely neglected. In contrast to the 1940s and 1950s, the Bahraini work force today is either uneducated or poorly trained, and insufficient use is made of it in general. Domestic handicrafts and trades are particularly underdeveloped. The bulk of all manual work is performed by Asian guest workers, who are hired for minimal wages.

For years experts have also criticized the bloated bureaucracy and urged its reorganization. Recruiting procedures are not shielded from political lobbying, and hiring decisions often do not follow professional criteria. In an authoritarian rentier state, the administration is entrusted primarily with allocating revenues and is therefore not subject to the normal efficiency criteria of a democratic market economy.

Problem-oriented and policy-related coordination between individual administrative departments also remains problematic in Bahrain. The ministries often fail to coordinate their policies with one another, particularly when their presiding ministers come from rival factions of the elite. Positive steps toward political decentralization were made by instituting local councils, but these bodies did not as a result enjoy autonomy, and the scope of their action remained subject to narrow limits.

On the whole, the creative potential of the population, in both economic and political terms, has not been exhausted. There are no arrangements for public control of state institutions. Deregulation remains necessary even in key economic sectors. Improving the effectiveness of resource management would require a consistent battle against corruption such as has yet to be seen. State allocations continue to be distributed according to clientelistic considerations.

Too little use has been made of the society's existing cultural resources, such as its readiness to assume direct responsibility and to organize itself. The government was unsuccessful in propagating, as part of its nation-building efforts, national cultural values and traditions that transcend sectarian differences. Instead, it fell back primarily on Bedouin traditions, and this only exacerbated the Sunni elite's antagonism toward the settled Shiite population of the archipelago. This attitude did little to help the cause of economic-political transformation, as it encouraged a tendency to hierarchical thinking, submission rituals, suppression of

opposition, nepotism, structural discrimination and using the law as a tool for special interests.

5.4 Governance capability

With its plans for reform, the new political elite in Bahrain have demonstrated a certain flexibility and capacity to learn. But public discussion of mistakes or perceived problems remains taboo, and this could limit the political actors' ability to learn. Although the government has sufficient political authority to implement reforms, it appears to lack the will to overcome ingrained habits in forming policy.

Economic misallocations, among which could be included payments to ruling family members and former members of the opposition, are not stringently avoided. Even development plans have not always been decided on rational principles, but often according to the "logic" of prestige or of satisfying clients. This is a policy that cannot be maintained without incurring considerable debt, especially in times of low oil prices. Despite the king's maneuverability, there was an obvious lack of political wisdom among the major political actors, but it may be possible to attribute this to the influence of Riyadh and Washington as well.

It was clearly not anticipated that limiting the role of the new political institutions, in contradiction to official statements, and enacting a new constitution before Parliament had convened were bound to arouse widespread disapproval.

While the government made great efforts during the first half of the period to integrate nonorganized interests and to integrate opponents more thoroughly into the political decision-making process, its efforts enjoyed very little success during the second half of the period. As the elections approached during 2002, the cleverly chosen political reform strategy became less suitable, and opportunities for development were missed.

5.5 Consensus-building

All of the important political and social actors are in agreement on the reform goal of democratizing the political system, though their notions of democracy and policy decision-making may vary considerably. Antidemocratic actors with veto powers are virtually nonexistent. Opposition groups lack the power to block the reform process. The rejection by the four largest opposition groups was not intended to repudiate the direction of development toward a socially cushioned,

reform-oriented market economy, but was in reaction to a failure to pursue this goal rigorously enough.

It remains to be seen whether these mutually irreconcilable lines of division become more rigid. The government's announced approval of establishing NGOs has shown few results so far, but it is to be expected that civic groups will organize themselves with increasing frequency and attempt to actively influence how economic and social policy is arranged. Such a development would strengthen the will to solidarity within the population and could move it toward a solidarity that bridges sectarian and group divisions.

In light of the ruling family's unwillingness to allow a confrontation with a past that many Bahrainis experienced as unjust, or to make amends for past human rights violations during the intifada, a reconciliation between former victims and perpetrators is not to be expected. As part of the reform program, a royal decree granted government employees and officials immunity for their role during the wave of unrest. This development, which was received with indignation, is an indication that civil rights, despite unmistakable improvements in this regard, will continue to lack any basic guarantee.

5.6 International cooperation

The semidemocratic transformation process is attributable not only to a change of generations in top positions of power, but also to pressure both from neighboring states and from the United States. A continual improvement in bilateral relations with Qatar was to be noted during the period. Bahrain proved itself to be a reliable and cooperative partner within the GCC as well as in its relations with the United States. The World Bank advises the Gulf States, including Bahrain, in a large number of economic issues within the context of the Technical Cooperation Program (TCP).

The decision made in 2001 by GCC heads of state to establish a currency union requires the swift implementation of a series of structural and institutional reforms. It is expected that the currency union will bring to its member states more cooperation and transparency with respect to economic and financial policy, as well as greater opportunities for growth as a result of, among other things, the development and amalgamation of the heretofore regionally underdeveloped securities market and the emergence of a more stable environment for businesspeople and investors.

6. Overall evaluation

In view of the starting conditions, current status and evolution achieved, as well as the actors' political management achievements, this report comes to the following concluding evaluations:

(1) Originating conditions: The starting conditions for transition were on the whole positive. The vast majority of the population had been demanding the restoration of Parliament and the constitution for decades, the protests had assumed a violent character over a roughly four-year period, and internal stabilization—achievable only with the aid of political reforms—was overdue.

Functional and in some cases highly efficient market-economy structures had existed before the period, as had an efficient state. Missing, on the other hand, were traditions of the rule of law and democracy, which could be developed unproblematically through close contact with the West, the modern educational system and the presence within the population of democratic values.

The transformation during the assessment period was accomplished mainly by curtailing the security organs' arbitrary exercise of power, and by cautiously introducing local councils and a Parliament.

(2) Current status and evolution: The progress made toward a democratic transition has fallen short of the expectations of a vast majority of the population. The Shiites' major representatives could not be induced to cooperate. Thus one of the country's key problems, the failure to absorb the Shiite portion of the population, remained unresolved, and the configuration of power, which could be described as old regime versus democratic opposition, could not be broken.

A qualitative and stable democratic transition did not succeed. Considerable deficiencies remain with respect to political representation of the population, the rule of law and transparency. Internal threats to the new order could develop if the "war against terror" expands within the region and the price of oil declines. On the whole, the market-economic transition has had a moderately positive evolution, in spite of the adverse situation at the beginning of the period, but the transformation process toward an efficient social market-economy is still far from complete.

Although most of the quantitative indicators attest to successful management, the most important structural reforms of the market-economic system—diversification and privatization of the economy, development of a robust capital market, creation of an effective competition policy, and nationalization of the work force—have not made much progress.

(3) Management: The verdict on the actors' managerial performance is mixed. That the intifada was ended and reforms were introduced must surely be regarded

as very successful management. On the other hand, policy management left something to be desired, especially in view of the ruling family's continuing hold on power, the lack of measures against corruption, and the manner in which the process of coming to terms with the past has been suppressed.

The strategies that were applied created the impression that nothing had changed in the regime's mistrust of the Shiite population. These fundamental conditions offer little hope for consolidating a reform policy that remained halfhearted, caught up as it is in the dilemma of whether to preserve the ruling family's power or to introduce democracy.

7. Outlook

Whether one regards Bahrain's transformation as essentially successful depends on one's viewpoint. If the goal was to end the wave of unrest, stabilize the country, and consolidate the ruling family's power and cooperative relationship with the United States, then its transformational performance may be regarded as a great success. U.S. commentators, for instance, hail it as a commendable example of democratization in the region.

If, however, the end in view was to develop a market-based democracy worthy of the name, then the reform policy's limitations cannot be overlooked. It remains to be seen whether the Parliament and the other new institutions, such as local councils and human rights organizations, will be capable of independent action within the scope of their assigned functions. It is quite possible that the democratization process might develop an unstoppable dynamic of its own and spread.

In any event, it is to be expected that memories of past injustices (not only from the time of the intifada), especially among the Shiite segment of the population, will be kept alive by those affected, as the theme of injustice is a key element of Shiite theology and collective self-identity. In view of the fact that the process of confronting the past is suppressed from above, the establishment of justice seems a far-off prospect.

Thus it is not to be expected that old fault lines defined by ethnic-sectarian and economic criteria will be erased anytime soon in Bahrain. Given the foreseeable increase of tensions in the region's hot spots and the growing criticism of U.S. imperialist policies, these unresolved problems could lead to the outbreak of a second intifada within the next decade, with such devastating consequences as have already been seen in Palestine.

For the medium term there are key issues to be resolved with respect to the rule of law, improving the model of democratic representation, assuring the sustainability of economic development, and absorbing those segments of the population that up to now have been largely excluded from economic development. Legal reforms are urgently needed to strengthen the rule of law and civil rights. Such reforms should include an effective separation of powers, restrictions on the government's influence over public prosecutors' offices and the courts, freedom of speech, lifting the state of emergency, and a reform of the labor and entry laws for foreigners.

The political elite's management will be crucial to Bahrain's ability to cope with the enormous challenges of the coming years, and much will depend on its skill in distancing itself from that part of its cultural heritage that is based on tribalistic notions and practices, as well as on how actively it begins to recognize and integrate the country's other traditions. In a state as decisively dependent on economic and political rents as Bahrain, there are inherent limits to market-economic and democratic development. In the end, the concentration of market power, clientelism and the rent-seeking mentality are barriers to dynamic economic and political development.