

# BTI 2012 | Bahrain Country Report

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

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**Key Indicators**

Population	mn.	1.3	HDI	0.806	GDP p.c.	\$	-
Pop. growth <sup>1</sup>	% p.a.	7.6	HDI rank of 187	42	Gini Index		-
Life expectancy	years	75	UN Education Index	0.747	Poverty <sup>3</sup>	%	-
Urban population	%	88.6	Gender inequality <sup>2</sup>	0.288	Aid per capita	\$	-

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

## Executive Summary

Bahrain's democratic reform process has come to a standstill since 2009, which marked the 10th anniversary of King Hamad bin Isa Al Khalifa's accession to power. The positive developments in civil and political liberties observed with the start of the reform process in 2002 have in recent years been counteracted by repressive state tactics in which freedoms of expression and assembly have suffered most. Human rights conditions deteriorated significantly during the run-up to parliamentary elections in October 2010, when the government resorted to violent oppression, banning opposition websites and publications, and arresting hundreds of opposition activists on vague terrorism charges, alternatively for plotting to overthrow the regime, threatening national unity or spreading lies. Many of the arrested activists were subjected to long pre-trial detainment terms. Most alarmingly, credible allegations of the use of torture in Bahraini prisons have emerged once again.

Nevertheless, all major political forces participated in the parliamentary elections of October 2010 which confirmed the prevailing power structures. The main Shi'ite opposition group al-Wefaq won more than half of the votes but, due to gerrymandering of constituencies, fell short of winning the majority.

The regime continued to ignore the demands from much of the population to delegate more legislative power from the palace to the elected Chamber of Deputies, to investigate allegations of past and present torture in custody, and to tackle basic inequalities in society. It is notably the Shi'ite Muslim majority population (about 70%) who feels discriminated and treated as second class citizens. Shi'ite resentment has further been fueled by widespread allegations of "political neutralization" whereby the government is said to be granting citizenship to thousands of Sunnis from abroad in order to shift the confessional balance in the country. However, it is difficult to find positive proof that would support this claim. Aside from a few small positive steps taken

towards supposed democratic reform (such as the new labor law or some small changes to the rules of parliament), Bahrain remains an authoritarian state.

However, promising developments have again been noted in terms of economic reform. The impact of the global economic downturn has slowed but not halted overall economic growth in Bahrain during the period under review. Thanks to prudent regulation by the authorities, the country's economic recovery and macroeconomic stability seem to have consolidated by the end of 2010. The government has continued to implement measures to realize the country's "Vision 2030" long-term economic development plan, designed to improve living standards by building a competitive, diversified economy.

## History and Characteristics of Transformation

When current King Sheikh Hamad bin Isa Al Khalifa came to power in 1999, Bahrain initiated an economic and political reform process. The regime has undertaken serious efforts to diversify the country's economy. In addition to oil, financial services followed by weekend tourism from neighboring Gulf States and industrial production (e.g., aluminum, petrochemicals, ship repairing, manufacturing) have become important sources of revenues. Because these sectors proved susceptible to repeated political unrest in the 1990s, the ruling elite initiated a gradual top-down process of political liberalization.

The first steps of the democratic reform process were received with popular enthusiasm. Shortly after Sheikh Hamad ascended to the throne in 1999, he issued a general amnesty for political prisoners and invited exiled political activists to return. A "National Action Charter" that appeared to promise significant political reforms was approved in a general referendum in February 2001 (98.4% yes votes). The country was hence proclaimed a constitutional kingdom and one year later, the king issued the amended constitution. However, the response to these developments was less enthusiastic because the amended constitution gave the elected Chamber of Deputies (Majlis an-Nuwwab) fewer powers than that of the royally appointed Consultative Council (Majlis ash-Shura) – and fewer than it had enjoyed in the 1970s.

By the time parliamentary elections were held in October of 2002 (the first since 1975), a large number of political societies (equivalent to parties) had been registered. While all political societies participated in the municipal elections of March 2002, four societies (among them the leading, moderately Islamist Shi'ite al-Wafaq National Islamic Society) boycotted the parliamentary elections in October of the same year in rejection of the aforementioned amendments and to protest campaigning restrictions and electoral gerrymandering that privileged Sunni votes. Women ran for election, but did not win any seats (one woman was elected in 2006, though she ran unopposed in a sparsely inhabited constituency). In part due to the Shi'ite boycott, the council of deputies was dominated by Sunni religious societies in the first legislative term of 2002-2006. All major political societies took part in the parliamentary

elections of 2006 and 2010. Due to the gerrymandering of constituencies, the Shi'ite opposition failed in both cases to secure an absolute majority. Although no international monitors were allowed, national human rights organizations and the opposition reported irregularities in the elections.

A look at the legal basis of the reforms and at political practices reveals that Bahrain is not an electoral democracy. King Hamad both rules and governs. He appoints the members of the executive, the prime minister, half of the National Assembly and all judges. Members of the Sunni Muslim royal family hold the top security offices and central ministerial posts. The powers of the Chamber of Deputies remain restricted, contrary to promises made in 2001. Political and civil freedoms guaranteed in the constitution are limited by law and restricted by ill-defined references to national cohesion. Since 2004 the reform process has slowed and in came in 2009 to a halt. As it became obvious that the reforms were not intended to establish a democracy, and that the elite eschewed further compromise or dialogue, elements within the opposition became radicalized, refusing any involvement in official politics. At the same time, in an effort to control opposition activism, the state began employing oppressive measures such as media censorship, the use of police violence and the legalistic harassment of activists.

With Sunni-Shi'ite relations already strained, a report of the former government adviser Salah al-Bandar published in 2006 refueled the opposition's allegations that the government has deliberately naturalized thousands of Sunni Muslims from abroad in recent years in order to contain the proportion of Shi'ites in the population ("Bandargate Scandal"). Relations between the government and the opposition deteriorated further with repeated violent clashes between mostly young Shi'ites and security forces in the first half of 2009 and increasing state suppression prior to the parliamentary elections in October 2010.

After a short and seemingly calm period following the elections of 2010, the country has witnessed massive anti-government protests at the beginning of 2011 that have been inspired by political unrest in other parts of the Arab world. At the time of writing (January 2011), a state of emergency has been imposed, and fierce police and military violence has left several dead and hundreds injured.

While Bahrain's democratic reform process has, since its initiation in 2002, been degenerating continually, reforms on the economic side have proven more successful in providing the country a functioning market economy. The government has implemented policies to ensure greater accountability and transparency, as well as a gradual liberalization of state monopolies. Privatization has been eagerly pursued, although the economy today remains state-dominated. The entangled problems of an unjust distribution of wealth and the predominance of the public sector have been discussed frankly in public. The government's official long-term development plan launched in 2010, Vision 2030, will help the country move away from its dependency on finite oil reserves that are subject to market volatility. It aims to build a competitive, sustainable economy designed to improve living standards by strengthening other strategic sectors and the Bahraini skill pool.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

In principle, the state's monopoly on the use of force is enforced nationwide. However, throughout the period under review, riots have erupted frequently, especially in Shi'ite areas, leading to violent clashes between protesters and security forces. These riots and demonstrations must be seen as direct reactions to arrests of Shi'ite opposition members and the alleged police violence in custody, as in January 2009, when young men were setting fire to tires and blocking roads in Shi'ite areas after the arrest of three prominent Shi'ite opposition activists. In August 2010, after months of relatively small but regular street protests, which often involved burning tires, throwing stones and Molotov cocktails, there was a security crackdown against opposition groups, mainly the unregistered al-Haq, but also against al-Wefaq, which forms the largest parliamentary block. This prompted more angry protests and, according to opposition sources, the subsequent arrest of 230 people, virtually all Shi'ites, by the end of August 2010. In addition, there have been more serious arson attacks on power stations, and, in July 2010, the Gulf Daily News quoted an anonymous source that claimed that there were to twenty fires started daily in different parts of the country.

While these incidents do not challenge the state's monopoly on the use of force, they do reflect public resentment (among Shi'ites) of unemployment, economic inequality and perceptions of sectarian discrimination. Against the background of social unrest and protests in Egypt, Tunisia and elsewhere in the Arab world, tensions were very high in Bahrain at the end of the period under review (January 2011).

The incidence of criminal violence and overall street crime remains low in Bahrain.

In general, all political, religious and ethnic groups accept the notion of a Bahraini nation-state. What is being questioned however, even if rarely in public, are the government's efforts to construct Bahrain's identity along officially designated

Question  
Score

Monopoly on the  
use of force

8

State identity

7

lines of national identity. For example, opposition activists organized a meeting on 15 August 2009 to celebrate an alternative “National Day” on the 38th anniversary of independence from colonial Britain, which Bahrain gained on 14 August 1971. This event was reportedly shut down by police as it symbolized a rejection of the officially denominated National Day of December 16, the date when former King Sheikh Isa bin Salman Al Khalifa came to the throne.

More serious problems persist regarding the equality of Bahraini citizens. There is a pervasive feeling among the Shi’ite population, which constitutes the majority of citizenry with about 70%, that they are treated as second-class citizens. They do not form a homogenous group, however, with the majority being of Arab origin and only a minority of Persian origin. It is the former group who feels most deprived and is most politicized. Even though the Shi’ites’ qualification as Bahraini nationals is not disputed, they are subject to diverse forms of discrimination.

Citizenship has become a contentious issue in Bahrain in recent years and critique of the government’s naturalization practices persists. Especially among the Shi’ite majority of the country, there is a widespread perception that the government has adopted a deliberate policy of “political naturalization” by granting citizenship to Sunni Muslims from abroad in order to adjust the sectarian balance. The government has consistently denied such charges, but the primary results from Bahrain’s census, conducted in the fall of 2010, suggest that since 2001 more than 60,000 foreigners have been given citizenship. Even though the government gives no information on the religion or sect of these naturalized foreigners, the fact that the 2010 estimate of 1.2 million inhabitants is 11.6% higher than the 2008 figure suggests an average annual population growth of 5.8%, while at the same time Bahrain’s fertility rate has been declining (from 4.63% between 1980 and 1985 to 2.29% between 2005 and 2010, according to a U.N. report).

In general, citizenship seems to be conditional on political loyalty, as a prominent case of citizenship withdrawal in 2010 suggests: prior to the parliamentary elections in October 2010, the government retracted the citizenship of a leading Shi’ite cleric, Ayatollah Mohammad Najati, Bahrain’s representative of the most influential Shi’ite cleric in Iraq, Grand Ayatollah al-Sistani. Najati was born in Bahrain as one of the country’s stateless people, regionally known as “Bidoon,” mostly people of Persian origin whose families never received citizenship after the introduction of passports by the British in the 1930s. It was not until the initiation of the political reform process in 2002 that several thousand Bidoons were granted citizenship by King Hamad. Because Najati had at times openly criticized the government and called for democracy in Bahrain, the government’s action was widely understood as a warning to other clerics to remain silent on political issues. In November, the citizenship of Najati and his family was reinstated and their passports returned.

As in most Islamic countries, religion plays a prominent role in society and politics in Bahrain. Even though Bahrain's laws are largely secularized, many political movements and actors, pro-government as well as opposition, identify themselves with sects. Domestic as well as international political disputes are often framed in sectarian terms. A recent example is the escalation of the Saudi-Yemeni conflict in the fall of 2009, when Bahraini members of parliament in the elected Chamber of Deputies were split along sectarian lines as to whether to support Saudi Arabia, a Sunni country, in its conflict with a Zaydi Shi'ite movement in northern Yemen.

No interference of religious dogmas

7

According to Bahrain's constitution, Islam is the state religion, and Shari'ah is identified as "a" (not "the") source of law. For a long time, Bahrain was one of the few Arab countries without a codified family law (in all other spheres the law has been codified and is the same for all religious sects), and cases involving family and personal status were dealt with in the Shari'ah court system, which has Sunni and Shi'ite branches. As the Shari'ah court rulings are based on interpretations of Islam's holy works (the Quran and the Sunnah) by predominantly male religious scholars, Shari'ah court judges can exercise considerable discretion.

The government's attempts to codify the family law have met with strong opposition, particularly from Shi'ite clerics who portray it as encroachment on a sphere of clerical power and a key area of Shi'ite autonomy. After the government subsequently dropped its plans to push through a single codified family law in 2006, the Sunni part was resubmitted and passed by both houses of the parliament in May 2009. Accordingly, personal status and family issues of the Shi'ite majority of the population are still governed under un-codified Shari'ah court rulings.

Bahrain maintains a functioning administrative structure throughout the country. However, there are some unclear responsibilities between ministries and directorates where inter-ministerial working committees have been set up with similar tasks and duties. The introduction of municipalities in 2002 has further complicated the administration, as there is no clear division between competencies of the municipalities and the governorates.

Basic administration

9

While infrastructural development is uneven, basic sanitation, water, telecommunication and electricity networks are readily available everywhere.

Bahrain's health care system has improved rapidly over the past years and enjoys a good reputation. The education, transportation and communications systems are well developed according to regional standards and accessible for all Bahrainis and foreigners.

## 2 | Political Participation

Since the installation of the new constitution in 2002, elections have taken place on a four-year term for one chamber of the bicameral legislature, the Council of Deputies (lower house). Hence, election results do not determine the composition of government, as the king as head of state appoints the members of the other chamber, the Shura or Consultative Council (upper house), the prime minister (who has been his uncle, Khalifa Salman Al Khalifa, since independence in 1971) and the ministers. The central ministries (oil, defense, foreign affairs, interior, etc.) are allocated to members of the ruling family.

Moreover, the forty constituencies are very unequal in size. The largest district, which is mainly Shi'ite, contains over 12,000 people, while the smallest, mainly Sunni, has only 500 voters.

Problems with the 2006 polls were well known and similar irregularities occurred during the latest parliamentary elections on 23 October 2010. Again, no international monitors were allowed and concerns were raised about military voters and "general" voting stations where people could vote outside their constituency. While the high turnout of 63% in the 2010 elections was portrayed by the authorities as indication of the broad support for the institution of parliament, it is more likely a result of the previous weeks of unrest and arrests of Shi'ite opposition activists, and the Shi'ite clerics' endorsement of voting as a religious duty.

The Shi'ite opposition group al-Wefaq emerged as the largest group with 18 of 40 seats (+2). Although it won 53% of the vote, it fell short of a majority due to gerrymandering of electoral districts. The second largest group was composed of pro-government independents (17 seats). The representation of Sunni groups declined significantly, with al-Menbar gaining two seats only in the second round and al-Asalah falling from seven to three seats.

Four Shi'ite and leftist opposition groups boycotted the elections. The Bahrain Freedom Movement, the Islamic Action Society (Amal), the al-Wafa Islamic Movement and the al-Haq Movement (both unregistered) called for a boycott to protest both the 2002 electoral law, which serves as the basis for the gerrymandering of districts, and the limited powers of parliament.

Prior to the election, the Information Affairs Authority blocked websites and shut down the newsletters of the two main opposition societies, al-Wefaq and al-Wa'ad National Democratic Action Society, a liberal and leftist political society with Sunni and Shi'ite members. Al-Wa'ad won no seats in the election.

Free and fair  
elections

3



The government is not elected; it is appointed by the king. The elected officials of the Chamber of Deputies have only limited power to govern. In order to strengthen the powers of the Chamber of Deputies and to increase the accountability of the Shura council, there were minor changes applied to the rules of parliament ahead of the elections in October 2010. For example, members of parliament are now allowed to hold secret votes on sensitive issues and to discuss any matter of general interest, rather than being limited to a specific range of subjects, with the government being obliged to assign the minister concerned to attend the session. Also, the number of members of parliament in the general secretariat of the Chamber of Deputies was increased so that it now matches the number in the Shura council's general secretariat. Members of both chambers will furthermore be obliged to declare their assets and those of their families.

Effective power to govern

1

However, these small improvements cannot belie the fact that the underlying distribution of power remains unaffected, as the elected deputies' powers to govern are still very limited; this power remains in the hands of the royally appointed executive.

Generally, Bahrain tolerates more political and civic activism than its neighboring Gulf monarchies. Assembly rights are however restricted by law (32/2006), which holds that citizens must obtain a license to hold demonstrations, which are banned from sunrise to sunset in any public area. Police and security forces regularly use violence to break up unregistered demonstrations and unauthorized peaceful assemblies. For example, in March 2009, human rights organizations reported that the special forces opened fire on protesters, among them families who had gathered peacefully in Sitra to demand a return of their lands, which were confiscated by the army; there was also a protest in the capital Manama to demand the release of political detainees. Several demonstrators were injured.

Association / assembly rights

3

Formal political parties remain illegal in Bahrain but the government allows political societies or groupings to operate as an equivalent. They can field candidates for election and act as parliamentary blocs. Under the fairly restrictive political societies law of 2005, it is illegal to form political associations based on class, sectarian, ethnic, geographic or occupational affiliations. Members of political societies may not be a member of any non-Bahraini political organization. The law requires societies to accept the constitution and to register with the Ministry of Justice.

Moreover, the law does not allow political societies to appeal to foreign entities on national issues, and the authorities are sensitive to violations of this provision, as official reactions to a meeting between the opposition group al-Wefaq and the British ambassador in February 2010 demonstrated. The meeting was interpreted as interference in Bahrain's political life and prompted demonstrations by members of

parliament in front of the embassy and a warning by the government to other ambassadors to adhere to international conventions.

The law's injunction against promoting sectarian agendas is obviously problematic for Islamist societies, which are sectarian almost by default. So far, however, the government has permitted all political societies to register, regardless of their (oppositional) orientation. Two Shi'ite opposition groups, al-Haq Movement for Liberties and Democracy and the relatively new Shi'ite opposition movement al-Wafa, refuse to register with the government because it would put limits on their activities; they also refuse to participate in elections because of the limited powers of the elected chamber.

According to the law of associations, civil society organizations are required to obtain a license to operate from the Ministry of Development and Social Affairs. License approval is conditioned on eschewing foreign funding and a requirement that all members be at least 21 years old; licenses have been granted in most cases, even to those organizations critical of government policies. However, the boundary of permitted critique is easily crossed, and if an NGO's work is perceived to contravene the government's aims, the ministry can (and does) withdraw the license. For example, the Bahrain Center for Human Rights was banned in 2004 after its president called on the prime minister to resign, and it remains an "illegal" organization to this day; the Bahrain Youth Society for Human Rights has been denied a license, and staff from both NGOs complain of repeated harassment by the authorities. This kind of interference with NGO activity is clearly motivated by political considerations. Personal motifs might sometimes be involved, too, as the following example suggests: according to the Bahrain Center for Human Rights, the Ministry of Social Development announced in the summer of 2010 that the Migrant Worker's Protection Society was not legally registered and would have to close. This announcement came after an incident in which a migrant domestic worker fled to the society's shelter from the home of a high-ranking ministry official, claiming she had been abused. The society responded to the ministry's request by handing over a copy of its 2005 official authorization, noting that in previous years the ministry had donated funds to the shelter. The society eventually managed to continue its operations.

Amid rising tensions prior to the elections in October 2010, the government tightened its control on associations and their work. For example, the Ministry of Development and Social Affairs dismissed the board of the registered Bahrain Human Rights Society and a new, government-appointed board was installed after the society had expressed concern publicly about allegations of torture and other violations of the rights of detainees. During the same time, three Bahraini human

rights activists (including the vice president of the Bahrain Center for Human Rights) were prevented from travelling.

Independent labor unions may be established and migrant workers can join them, although in practice many are fearful of doing so. Strikes must be announced with a two-week notice and are forbidden in vital sectors (such as security, civil defense, transportation, health care, communications and basic infrastructure). Although private sector workers cannot be dismissed from union activities, there is reportedly continued harassment of unionist workers.

Although freedom of opinion and expression is constitutionally guaranteed, this freedom is subject to the authorities' definition, as laid down in the restrictive press law. Journalists still face jail terms for violating the press law, although amendments were being drafted in March 2010 to remove this penalty, as was the case already in May 2007; it remains to be seen if any real changes will eventually be approved and implemented.

Freedom of  
expression  
3

While state-run television and radio reflect official views only, privately owned print media still provides for a range of opinions. Of the six privately owned daily newspapers, of which four are in Arabic and two in English, some are indeed critical of the government's work. However, critique of the political system is often perceived or interpreted as a slur against the royal family, and there is a high degree of self-censorship. Journalists have routinely been charged with the defamation of officials and with defying authority by ignoring a government gag rule on writing about the "Bandargate" scandal.

When in 2009 a leader of the opposition group al-Wefaq criticized the failure to implement "a real constitutional monarchy," as pledged in the National Action Charter publicly approved in 2002, the group was subjected to harsh criticism from its opponents, including Sunni opposition groups and the minister of justice, who threatened to persecute al-Wefaq under the political societies law. According to the Bahrain Center for Human Rights, government ministers also contacted newspapers, asking them not to publish al-Wefaq's responses to the criticism it received.

Although Bahrain is a party to the International Covenant on Civil and Political Rights, which, among other things, protects freedom of expression, the government does not always feel obliged to act accordingly. Usually, the Bahraini authorities ban publications in cases that may cause embarrassment or public mayhem, taking advantage of the lack of independence of Bahrain's judiciary. For example, in July 2009, Bahrain's oldest newspaper, "Akhbar al-Khaleej," was suspended for a day for violating the press law. It had published an article written by a member of the Consultative Council that was highly critical of Iran, its president Ahmadinejad, and

its religious leadership. A few weeks prior, Bahrain had officially congratulated Ahmadinejad on his controversial re-election on June 12. And when the opposition group al-Haq raised issues of human rights and sectarianism in forums in London and Washington, the group was charged with “spreading false news,” “contacts with organizations and parties overseas,” and so on.

While the king publicly stated his support for a more balanced press in a speech to mark World Press Freedom Day in May 2010, the Ministry of Culture and Information froze the operations of the Bahrain bureau of satellite news channel al-Jazeera for some days that same month. No official reason was given but the “violation of professional norms and failing to observe laws and procedures regulating journalism, printing and publishing,” according to the official Bahrain News Agency. The decision came a day after al-Jazeera aired a program about poverty in Bahrain. The day the ban was announced, an al-Jazeera crew that had traveled to Bahrain to interview a former U.N. official about poverty in the country was barred from entering the country.

In its 2010 World Press Freedom Index, Reporters Without Borders states that the number of imprisonments and trials, notably against bloggers and net activists, is growing. Bahrain has one of the highest Internet penetration rates in the Middle East, reaching nearly 35% in mid-2009, according to a 2010 report by Freedom House. In recent years, the country’s blogosphere has become a popular arena for political and social discussion, circumventing restrictions on print media. In September 2010, a well-known blogger, Ali Abduleman, who set up Bahrain’s first Internet discussion forum, “Bahrain Online,” was arrested. Abduleman later reported that he had been tortured in custody and that officials had threatened to have his family fired from their jobs, charges that were denied by officials. After the security crackdown on Shi’ite opposition activists in August 2010 and al-Wefaq’s subsequent criticism of the arrests, Bahraini newspapers were banned from further reporting on these arrests and the Information Agency ordered al-Wefaq’s website to be blocked for violating the constitution and the press law. Due to the imposed restrictions on the flow of information online, Bahrain’s ranking in the World Press Freedom Index dropped from rank 119 to 144.

In a questionable effort to increase Bahrain’s credentials with respect to freedom of the press prior to the elections in October 2010, the Ministry of Culture and Information was renamed the Ministry of Culture, with power over culture and tourism, and the Information Department was replaced by a new Bahrain Media Authority that is in charge of all media-related affairs, including foreign media, the Bahrain News Agency, publishing and printing.

### 3 | Rule of Law

The Bahraini constitution contains a commitment to the separation of powers and they are institutionally differentiated. At the same time, however, the executive is constitutionally privileged over the other authorities, and in reality there are few checks and balances on executive authority. The king appoints cabinet ministers and the president and members of the 40-seat Consultative Council, with whom the elected members of the council of representatives share their legislative powers. In case of a deadlock, it is the president of the Consultative Council who casts the tie-breaking vote. In addition, the bicameral National Assembly may propose legislation, but the cabinet must draft the laws.

Separation of powers

4

The judiciary does not act independently from executive authority.

Bahrain's legal system is based on a mix of British Common Law, Islamic law, and other civil codes, regulations and traditions. There are two branches of courts in Bahrain: the Civil Law Courts and the Shari'ah Law Courts, which work independently of one another. The Shari'ah Law Courts deal with the personal status and family issues of the Sunni and Shi'ite Muslim population. Sunni family and personal status law was finally codified in May 2009, thereby improving legal certainty (for Sunnis) but at the same time creating a further rift between the two main confessional groups, as the Shari'ah Court rulings concerning family matters of Shi'ite Muslims are still subject to the discretion of Shi'ite religious authorities.

Independent judiciary

4

Although Bahrain's legal system enjoys a good reputation in the region, especially in commercial matters, the independence of the judiciary is impaired by the fact that all judges are appointed by the king, that courts are often subjected to government pressure in political issues, and that foreign workers may face discrimination in favor of Bahrainis.

Indeed, since 2006, direct political influence on the judiciary seems to have increased steadily. Human rights activists often argue that detainees are political prisoners, as in the case of 19 men who were accused of killing a policeman of Pakistani origin in 2008. In October 2009, they were cleared of all charges while eight other men continued to await trial for the murder. The politicization of the legal system and the courts' subordination to the king's rule was further demonstrated by the royal amnesty that was granted in April 2009 to 178 detainees accused of security-related offences and to 22 opposition activists, who were charged with (but not convicted of) plotting to overthrow the regime in December 2008. The pardon has been understood as serving two goals: first, to calm social unrest, which had become more widespread in the weeks before as a reaction to the detention of the 178 and the trial of the 22 activists; and second, to mitigate the international publicity that the trial and the riots had gained. Due to its economic

dependence on foreign investment, the Bahraini regime is sensitive to international criticism. In any case, the royal pardon reinforced perceptions that political favors, rather than legal principles, substantiate the criminal justice system.

Numerous arrests occurred in Bahrain amid rising social unrest in many parts of the Arab world at the turn of the year 2010-2011. The Bahrain Center for Human Rights reported more than 50 arrests of (suspected) activists in December 2010, mostly in Shi'ite villages.

Although in July 2009 the government had announced a reform of the judicial system with the introduction of more specialist courts and improvements in training, rational and efficient proceedings are not guaranteed, notably in trials against opposition activists. For example, after the arrest of 23 opposition activists, including lead figures of the unregistered political societies al-Haq and al-Wafa, in August 2010, their trial has been repeatedly halted, and after resuming for the third session in November, it was again adjourned until December. The charges brought against them include: formation of an illegal organization, intent to overthrow the regime and to dissolve the constitution, inciting people to change Bahrain's political system, disseminating propaganda with the aim to undermine the state, and planning and fundraising for "terrorist attacks." After the activists' lawyers resigned en masse in protest at what they said was the court's refusal to investigate allegations of torture in custody, the ministry of justice appointed a new team of lawyers for the next session, with whom the charged activists immediately refused to cooperate. By January 2011, the trial appeared to have come to an impasse.

Petty corruption within the bureaucracy is not a prevalent problem, but – despite the existence of anti-corruption laws – there are reports of cases of abuse of office and high-level corruption in contract bidding and the management of successful investments. Bahrain is not familiar with the practice of questioning or prosecuting any of its ministers or officials such as executives, and the Bahrain Center for Human Rights claims that the authorities apply double standards in dealing with these cases. In November 2009, the parliament endorsed the cabinet's ratification of the U.N. Convention Against Corruption (UNCAC), the only global anti-corruption convention. But cases of high-level corruption, such as the involvement of senior officials in extensive corruption schemes, taking over lands or public funds, as well as cases of impunity for members of the ruling family or those who are close to it, are not dealt with efficiently.

For the first time in Bahrain's history a sitting minister was questioned by police in 2010. State minister Mansoor bin Rajab was arrested in mid-March 2010 and was later released on his own recognizance after being questioned on the charge of money laundering inside the country and abroad, which, according to reports, amounted to more than 12 million dinar (over \$30 million). The Public Prosecution Authority issued a ban on the circulation of information in the case after the

Prosecution of  
office abuse  
4

minister's defense filed a request to summon the Minister of National Security, Sheikh Khalifa bin Abdullah Al Khalifa, as a witness in the case. While the latter still holds his position in the government as a minister and was not questioned or brought to trial, accused Minister bin Rajab was dismissed but not sentenced (under Bahraini law, money laundering is an offense punishable by up to 15 years in prison). Instead, the government appeared eager to cover up the case by imposing a media ban on the story.

As part of the change of rules of parliament ahead of the election in October 2010, senior public figures, including ministers, judges, ambassadors, members of parliament and of the Shura council, are now obliged to declare their assets and those of their families. Those who refuse to declare their assets will be fined. This move is obviously designed to increase transparency in public offices and to limit opportunities for conflicts of interest. The failure or success of implementation of these changes cannot be assessed at the time of writing.

Bahrain has been a signatory to the International Covenant on Civil and Political Rights since 2006, and while the constitution guarantees these rights, they are at the same time limited by law. The power of the executive to curb civil rights has been cemented by legislation in a law on political societies (August 2005), a new law on rallies and demonstrations, and an anti-terrorism law (both July 2006). Equality before the law is guaranteed by the constitution, but is often limited in practice as members of the royal family are difficult to sue and foreigners are often disadvantaged. Despite such flaws, Bahrain became a member of the U.N. Human Rights Council in 2008 and will serve for the next three years.

Civil rights  
6

Although Bahrain is usually considered a tolerant society, there is growing resentment over foreign workers who, by the end of 2010, accounted for about 54% of Bahrain's population and, in the first quarter of 2010, for 76% of employment, according to figures released by the Labor Market Regulation Authority (LMRA). The Bahrain Center for Human Rights reports that many non-professional expatriates experience prolonged periods of withheld wages, passport confiscation, unsafe housing, excessive work hours and physical abuse. When in August 2009 the new labor law, which replaces the employee sponsorship system by giving foreign workers more freedom to change jobs, took effect, members of parliament from the elected chamber wanted to dilute the new law and instead punish foreign workers who abandon their employer with prison sentences and fines. This attempt was however rejected by the Consultative Council, reasoning that it would contradict international labor conventions.

Bahrain has ratified nine international labor conventions, including two on forced labor. Before the implementation of the new labor law, the old sponsorship system, which is common to all Gulf countries, has long been criticized by human rights groups for placing workers at the mercy of their employers. For example, workers

used to depend on their employer for their work visa, and according to the Migrant Workers Protection Society (NGO), many employers used to keep the passports of their employees, even when they were no longer employed, a breach of basic rights to which the police reportedly paid little attention.

While Human Rights Watch acknowledged the new labor law as “the strongest sponsorship reform in the region,” unequal pay (e.g. Bahrainis get paid 2.3 times more in the private sector than foreign workers) and the exclusion of non-Bahrainis from overall labor reforms remain critical problems. And while the change in legislation is expected to protect migrant workers from some abuse, it does not apply to household servants, who are particularly vulnerable to exploitation.

A UNDP report published in October 2010 commended several improvements introduced by the Bahraini government (e.g., the new labor law, policies for monitoring the sponsorship system, inclusion of migrant women in national strategies to tackle violence against women, and the inspection of workers’ housing), but at the same time highlighted the vulnerability of domestic workers who are subjected to various types of abuse (such as non-payment of wages, lack of respect for contracts, physical and sexual abuse, and the deportation of foreigners with HIV). According to the Bahrain Center for Human Rights, a draft labor law circulated in May 2010 extends some rights to domestic workers, including annual vacation and end-of-term pay, but still excludes them from provisions mandating maximum work hours and days off.

As in the other Gulf countries and many parts of the world, domestic workers are considered members, or rather property, of the household. It is therefore unlikely that they will be given the same rights as other migrant workers any time soon because “that would constitute interference by the government in the family life of Bahrainis,” according to government officials.

Other basic legal discriminatory practices remain in place as well. This pertains to the equality of the sexes and to the equality of Sunnis and Shi’ites. Shi’ites are discriminated against with regard to electoral law and recruitment into the security forces.

The Bahraini state strives to empower women: the king appointed ten women to the Shura council in 2006 and eleven in 2010, and has appointed two female ministers as well as female ambassadors. In December 2010, the Middle East & Northern Africa Businesswomen’s Network was inaugurated in Bahrain as an NGO with the assistance of the Bahrain Businesswomen’s Society. According to a statement, its aim is to increase the number of women in business, to advance the role of women in society and to promote a regional culture of women’s entrepreneurship through the provisioning of training, education, networking opportunities and so on.



As the creation of this NGO suggests, women still play only a minor role in Bahraini society and are subjected to non-equal treatment, especially regarding personal status. After the codification of Sunni Shari'ah law, arbitrary rulings are now confined to the cases of Shi'ite women, who are still subject to the discretion of Shi'ite Shari'ah court rulings. Both the codified Sunni personal status law and the uncoded Shi'ite court rulings build on Shari'ah norms that do not endorse gender equality. Although Bahrain has adhered to the Convention on the Elimination of All Form of Discrimination against Women (CEDAW), it has also stipulated that the treaty's implementation must conform to the tenets of Islamic law and that traditional restrictions on the movements of female family members be retained.

At the end of 2009, a national discourse on human trafficking evolved after the authorities staged crackdowns on prostitution, arresting more than 50 people in connection with alleged prostitution rackets. The Women's Petition Committee (an NGO) is accusing the government of not doing enough to prevent prostitution and the trafficking of women, notably from East Africa and Asia, because those who profit from human trafficking ostensibly had close connections to senior government officials. The crackdown, which soon came to a halt without further implications, should therefore be seen as an effort to improve the image of Bahrain's tourism sector, rather than to right the overall situation of abused women.

Although Bahrain has ratified the Convention against Torture, which prohibits torture and other ill treatment under any circumstances, reports on systematic maltreatment and torture in custody have increased significantly in recent years. In a report published in February 2010, Human Rights Watch documented the systematic use of torture by security officials for the purpose of coercing confessions from suspects from 2007 through 2009. The oppositional Bahrain Center of Human Rights is monitoring and documenting cases of systematic torture of political detainees, such as that of the 23 opposition activists arrested in August 2010. The activists' lawyers have alleged that their clients were tortured in custody by such means as beatings, hanging by wrists or ankles, lengthy sleep deprivation and solitary confinement. Additionally, Amnesty International stated in a recent report that many arrested activists are being kept in secret locations and are not granted regular access to their lawyers and families.

To boost its human rights credentials, and after a special session of the U.S. Congress during which the Human Rights Watch Report on the revival of torture in Bahrain was the main subject of discussion, the government announced the formation of a new National Human Rights Organization in April 2010. Its members include senior representatives from several national human rights

organizations, but notably no one from the Bahrain Center for Human Rights, which is the most outspoken in its criticism of the government. The new organization's mandate is not yet clear.

Excessive police violence can be assessed in various instances throughout the period under review. Several political activists have been severely beaten and human rights groups reported that young men from Shi'ite villages were abducted, beaten and photographed naked before being dumped on the street. In order to investigate allegations of mistreatment and torture, several international human rights NGOs sent delegations to Bahrain in September 2010. With the parliamentary elections just one month away, the government reacted with heightened sensitivity and criticism of their work, describing it as "interference" in Bahrain's elections.

#### 4 | Stability of Democratic Institutions

Bahrain is an authoritarian regime and not a constitutional monarchy in the Western sense, as pledged in the National Action Charter of 2002. The principal decision makers are not democratically elected and the powers of the king are too extensive to be considered a constitutional monarchy under the Western definition, in which the king rules but does not govern.

King Hamad appoints and dismisses the prime minister and the cabinet, he appoints the president and the members of the Consultative Council, he is chairman of the Higher Judicial Council and appoints all judges, he can rule by decree and dissolve the parliament, he has a veto right to laws passed in the National Assembly and he has the power to amend the constitution and to propose or promulgate laws.

The bicameral National Assembly passes legislation with an absolute majority of its present members. It is composed of the elected forty members of the Chamber of Deputies and the royally appointed forty members of the Shura or Consultative Council, an advisory body with the right to propose legislation. The Chamber of Deputies enjoys the same powers as the Shura council. However, it is the president of the Shura council who casts the tie-breaking vote in case of a deadlock. In effect, the Consultative Council has veto power over decisions made in the Chamber of Deputies and ultimate decision-making remains in the palace.

The lower house may initiate and consider legislation, but not draft it. The actual drafting is done by the executive, which however has to take up initiatives from the lower or upper house. The lower house also supervises government action and spending. However, there are still no details available on defense spending and the expenditures of the royal court in the annual budget statement, and members of parliament refused to approve the annual budget statement as they did in 2006, 2007 and 2008 – with little practical impact. The government made some minor changes

(e.g., more expenditures for social priorities in the budget draft 2009-2010), but eventually the parliament's powers to rein in spending are limited and the budget was passed unopposed.

In addition to these institutional constraints, the performance of the parliament has been rather inefficient and defective in recent years due to the inexperience of many members of parliament with this relatively young institution, their frustration with their lack of power, disputes between members of parliament, and occasional protests and walkouts. In its 2006 –2010 session, the parliament passed only 84 laws; more than 130 proposals were abandoned because they had not been discussed before the recess in May 2010.

Furthermore, the policy of appointing members of the ruling family to high executive ranks in the government or in state-run institutions and companies has contributed to increased favoritism at the expense of proficiency and professionalism. For example, the cabinet is largely composed of the Al Khalifa family, which holds key ministries such as oil, defense, interior and foreign affairs. Those posts are given to them as privileges enjoyed by the ruling family, regardless of their academic or professional background or ability. Moreover, as members of the ruling family, they are usually not subjected to monitoring or questioning so that this so-called policy of “Khalfana” has led to these governmental institutions having de facto impunity from questioning, monitoring and financial or administrative accountability.

Since these “democratic” institutions are part of an authoritarian regime, they are criticized by a substantial part of the population. A thorough reform of Bahrain's constitution, including the devolution of some power from the palace to the parliament, has been a long-standing demand of nearly half the elected deputies, all opposition activists and large parts of the population, especially (but not exclusively) the Shi'ites, who feel most marginalized by the current system. Public criticism of government policy is largely channeled through organized political societies and NGOs.

While political societies, NGOs and the clergy often accept democratic principles in theory – and criticize the state for lacking them – they do not employ democratic procedures internally.

Even though the changes to the rules of parliament introduced by the government ahead of the parliamentary election in October 2010 were marginal and cosmetic at best, they were an implicit acknowledgement that members of parliament need to be seen as having a stronger role in Bahrain's political system if its democratic claims are to have any legitimacy.

Commitment to  
democratic  
institutions  
2

It is quite obvious that ruling elites have no interest in moving towards more meaningful democratic institutions.

## 5 | Political and Social Integration

Political societies, which function as an equivalent to formally illegal political parties, are vocal but not decisive actors in Bahraini politics. There are more than fifteen political societies in Bahrain, but only eight have a political vision to speak of. In regional comparison, political societies have firm roots, due to the legacy of political contestation. However, the membership of these societies is quite rigidly fragmented along confessional, class and sometimes ethnic lines.

Party system  
4

Some associations have a legacy as former underground movements (leftists, Shi'ite Islamist movement), some have developed from Islamist philanthropic societies (e.g. Sunni Islamic societies), and others have been set up specifically to participate in the reform project (e.g. National Action Charter Society). There are two main leftist or secular political societies: the Wa'ad National Democratic Action Society and the Democratic Progressive Forum (DPF). Until recently, there were two dominant Shi'ite opposition groups, al-Wefaq National Islamic Society (with around 65,000 members the largest political organization in Bahrain) and the Islamic Action Society (IAS). In October 2009, al-Wafa entered Bahrain's political scene as a new Shi'ite opposition movement, heralding a new phase of Shi'ite politics in which senior Shi'ite clerics are seeking support for different opposition strategies. Al-Wafa poses a direct challenge to al-Wefaq, as they essentially share some of their goals (a more powerful and representative parliament, an end of the perceived political and economic exclusion of Shi'ites, investigations into allegations of sectarian discrimination and torture), but are split over the extent to which they should cooperate with the government. After boycotting the parliamentary elections in 2002, al-Wefaq has participated in parliament since 2006, as it recognized parliament as a platform for voicing their demands and for participating in the political process. This however was the reason for the split off and creation of a rival grouping, the al-Haq Movement for Liberties and Democracy, which aims to pursue the same goals but from outside parliament. It began drawing away support from al-Wefaq, accusing the group of compromising its values by participating in fake and meaningless politics. Like al-Haq, the newly founded Shi'ite movement al-Wafa is also refusing to register with the Ministry of Justice and is boycotting parliament. While al-Haq is respected and supported in some areas for its deliberate stand, it is also being criticized for not offering a positive alternative beyond its demand for an elected parliament.

Although the Shi'ite political societies are moderate and for the most part do not seek to replace the ruling regime, they are still viewed skeptically by the Sunni

minority population and by the government. Leftists and liberals are also fragmented into competing societies.

The Sunni bloc is mainly represented by al-Menbar National Islamic Society, which is linked to the Muslim Brotherhood, and al-Asala Islamic Society, a Salafi puritanical movement. They do share opinion with al-Wefaq on socially conservative issues and have cooperated in other such as putting the government under public scrutiny. On other issues, the Sunni societies tend to align themselves with the government.

Due to past and present oppositional activism, oppositional societies like the Shi'ite Islamist and leftist associations have firm roots in Bahraini society, while the liberal and pro-government associations do not.

In the latest parliamentary election in October 2010, pro-government independents emerged as the second largest group with seventeen seats (the largest was al-Wefaq with 18 out of 40 seats).

There is an average range of interest groups stretching over all strata of society and reflecting most social interests. Interest groups and professional organizations, such as trade unions, clubs and associations, are common. Some are split along sectarian lines, while others overlap. The feeling of being treated as second-class citizens is prevalent among the Bahraini Shi'ite majority, and demands for more political inclusion and equality dominate their groups' agendas.

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

There are also a large array of women's organizations, including the Bahrain Businesswoman Society (BBS), Bahrain Women's Society (BWS), the Awal Women's Society and the Mustaqbal Society. Bahrain's Women's Union, established in 2006, brings together 12 societies to advocate women's rights, press for legislative changes and prepare women for political roles.

As many NGOs are in fact closely affiliated with certain political societies and/or sects, cooperation on common goals is often complicated. For example, the three Bahraini independent human rights societies rarely agree on pooling their efforts; instead, they vilify each other. Also, civil society activism often spurs sectarian conflict; indeed, many Sunni Bahrainis accuse the Bahrain Human Rights Center of stirring such conflicts.

There are also some pseudo-NGOs, founded by the government, such as the National Human Rights Authority. It was established by royal decree in November

2009 and resembles similar organizations in Saudi Arabia and Qatar. Its 23 members are appointed by the king on a renewable four-year term and, according to local press reporting, the new body will review human rights complaints, work with international and domestic human rights groups, and advise the government on human rights-related legislation.

Non-Muslim minorities (approximately 9% Christians and 9.8% others), mostly not Bahraini citizens, are generally free to practice their faith and may form interest groups. However, these organizations tend to be cultural clubs. Expatriate labor is prevented from forming interested groups that voice political demands. Like all other interest groups, they must obtain a permit from the Ministry of Justice and Islamic Affairs to operate legally, though the government has not punished groups that operate without this permit.

There is no survey data available on attitudes toward democracy in Bahrain. Most political movements do however call for democratic participation within the framework of a constitutional monarchy. Bahraini Islamic political societies of both sects have incorporated their notions of democracy into their respective programs. A substantial part of the political scene – that is, Shi’ite Islamists and most leftists – reject the current constitution and demand more democracy. Protests for more democracy have attracted thousands of participants. However, it obviously cannot be gauged how profound these protesters’ understanding of democratic norms is. It should be noted that a large number of Islamist pro-democracy activists also participated in protest marches calling for a withdrawal of the parliament’s power to decide on the codified family law.

Trust among the Bahraini population is in many cases contingent upon ethnic and religious backgrounds as these factors determine affiliation to a certain social community. Accordingly, a majority of the substantial number of philanthropic organizations in Bahrain serve only their own religiously and/or ethnically defined community. Their activities range from working with youth and building sport centers to developing art projects and providing assistance for the needy. Religious organizations, though important, are not predominant. Among the Shi’ites, religious gathering houses (“ma’tem,” literally “funeral house”) play a prominent role by serving as community centers. Liberal organizations maintain a shelter for abused women and for former victims of torture. Migrant communities have established numerous charitable and social clubs.

In recent years, there have been growing concerns of the ruling Sunni minority about Shi’ite majority population loyalty and power. Relations between the two sects continued to deteriorate in 2010, especially during the run-up to the parliamentary elections in October.

Approval of  
democracy  
n/a

Social capital  
5

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers

6

Bahrain's Human Development Index rose by 0.9% annually between 1980 and 2010, from 0.615 to 0.801 today, which gives the country a rank of 39th out of 169 countries with comparable data. Neither the poverty rate nor the Gini coefficient is known for Bahrain, but substantial differences in wealth are obvious. Poverty and unemployment are concentrated among the Shi'ites; they inhabit the poorest neighborhoods of Manama and the most battered villages in the surrounding countryside.

Inequality and exclusion from society is also prevalent between nationals and expatriates. Numerous human rights organizations have criticized the exclusion of migrant workers from overall labor market reforms. The reforms mainly aim at qualifying Bahraini nationals to eventually replace the more skilled segment of the expatriate workforce in the private sector (in 2009, Bahraini nationals accounted for only 19% of the private sector workforce), a process referred to as "Bahrainization." Already today, Bahrainis are paid 2.3 times more in the private sector than foreign workers, and, under measure in effect since January 2010, Bahrainis receive a minimum wage of 300 dinar per month in the public sector, while non-Bahrainis are excluded from the minimum wage rule and only earn an average of 196 dinar a month. To date, the public sector provides most employment opportunities for Bahrainis. Of the more than 90% of civil service posts held by nationals, a large number are occupied by Sunni Muslims.

Shi'ite citizens are represented in the diplomatic corps and constitutional court but are largely excluded from higher ranks of the security apparatus; Sunni citizens are often favored for employment in sensitive government positions and managerial ranks in the civil service.

Bahrain's Gender Inequality Index (GDI) value was 0.477 in 2010, as elaborated in the UNDP's Human Development Report. Although women have become increasingly organized and active in the public arena in recent years, enjoy the right to vote and to participate in elections, they are still underrepresented in government positions, political organizations and the judicial system. Discrimination against women also persists in the workplace and legal system.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	18473.1	21902.9	20594.9	-
GDP growth	%	8.3	6.3	-	-
Inflation (CPI)	%	3.3	3.5	2.8	<b>2.0</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	9.5	8.2	1.2	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	2906.6	2256.9	560.0	<b>770.1</b>
Public debt	% of GDP	19.2	14.6	25.4	<b>32.0</b>
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-
Cash surplus or deficit	% of GDP	4.0	6.4	-	-
Tax revenue	% of GDP	1.3	1.5	-	-
Government consumption	% of GDP	14.1	13.5	-	-
Public expnd. on edu.	% of GDP	3.0	2.9	-	-
Public expnd. on health	% of GDP	3.6	3.7	4.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.2	3.0	3.7	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Due to high levels of economic freedom, low taxation, openness to global trade and financial market development, Bahrain's economy is generally viewed as competitive. The kingdom's open and conducive investment environment was identified as a key competitive advantage by international surveys. There have been no limitations on currency convertibility since 1973.

Market-based  
competition  
8



In its 2010 Index of Economic Freedom, the Heritage Foundation ranked Bahrain as the freest economy in the Middle East and among the top twenty globally, raising its overall score by 1.5 points to the rank of 13th out of 179. The closest Arab runner-up is Qatar at 39th.

In general, the market sets prices and there is no substantial black market. However, notably through the policy of “Khalfana,” which assigns senior positions in government or government-related companies to members of the royal family, the government still enjoys a monopoly on the distribution of certain key goods and services such as the water supply. Privatization is moving forward, but the ruling elite and other economic elites reap most of the benefits.

In some instances, the local business community expects the government to intervene in order to control prices. For example, after a 30% price increase in cement at the beginning of 2010, two local cement manufacturers (Bahrain imports most of its cement through Saudi Arabia) tried to increase their prices accordingly, but the powerful Bahrain Chamber of Commerce and Industry, whose members include prominent local construction firms, lobbied the Ministry of Industry and Commerce to intervene to stop the “cement cartel.”

In order to attract more foreign investment and businesses, Bahrain wants to establish itself as an international center for arbitration. It is already functioning as a regional center for arbitration, notably for firms based in Saudi Arabia, where the judicial system is slower and difficult for foreign companies to understand. In January 2010, the government hence announced the creation of a new arbitration center, the “Bahrain Chamber of Dispute Resolution,” fully independent from domestic courts and implemented by the Ministry of Justice and the American Arbitration Association.

Furthermore, a new corporate governance code was launched in March 2010 with the aim of maintaining Bahrain’s status as a main financial center of the Gulf region by improving the quality of the board management of companies operating in the kingdom and by increasing transparency.

Nonetheless, foreign companies remain excluded or limited from investing in certain activities, such as road transport of goods and passengers, an industry which is, however, a miniscule market.

Comprehensive laws to prevent monopolistic structures and conduct exist, but the regulatory environment is somewhat uncoordinated. Anti-monopoly legislation was strengthened in 2002 with a bundle of measures enhancing transparency including a law on tenders, a law on administrative and financial monitoring, and a law on the authority of the capital market. While Bahrain has no specific competition law, the

law of commerce, the company law, and the regulation on mergers and acquisitions (2004) deal with competition and the prevention of monopolies.

The following might serve as an example of the enforcement of this legislation: until other telecommunications providers entered the market in 2004, Bahrain's dominant Internet provider, Batelco, had a monopoly. In September 2009, the Telecommunications Regulatory Authority (TRA) began investigating complaints by competitors about restricted Internet access. When it found that Batelco was in effect hindering third-party access to the international connected submarine network cable, the termination point of which is on Batelco premises, the TRA subsequently fined the company 5 million dinar (\$13.3 million) and ordered it to open up access to the network cable. It should be noticed, however, that at the same time, the TRA general director's three-year contract was not renewed, which immediately raised questions about the degree to which the government supports an independent and robust telecommunications regulator.

As in previous years, the Canadian Fraser Institute ranked Bahrain as the most liberal among the 22 Arab states in its 2010 Report on Economic Freedom in the Arab World. A WTO member since 1995, Bahrain generally acts according to the organization's rules and regulations. Bahrain's average tariff rate was 3.6% in 2009; international trade is only occasionally hindered through non-tariff barriers but a limited number of products are subject to import and export prohibitions or restrictions, and standards can be inconsistent. Selected goods are prohibited, such as products considered "obscene."

Enforcement and protection of intellectual property rights is improving but is still not institutionalized or handled efficiently.

Foreign investment is sought after, but certain sectors are restricted. Whereas GCC nationals enjoy full property rights and may own 100% of the shares of firms listed on the stock exchange, there are some restrictions for non-GCC nationals, whose holdings are limited to 49%. Bahrain permits 100% foreign ownership for new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be established for regional distribution services and may operate within the domestic market if they do not exclusively pursue domestic commercial sales. Foreign and local individuals and companies enjoy access to credit on market terms.

At the beginning of 2011, the financial and legal procedures to register the Bahrain Stock Exchange as an independent entity were finalized. The exchange has now become the Bahrain Bourse, fully owned by the government and legally supervised and regulated by the Central Bank of Bahrain. There are currently 50 companies listed at the Bahrain Bourse.

Liberalization of  
foreign trade  
8

During the period under review, Bahrain has taken further steps to expand its network of information exchange agreements. In March 2010, Bahrain signed its first double-taxation agreement with the UK, which contains provisions for the exchange of information between tax authorities in accordance with the OECD's 2006 guidelines. After reaching the threshold of twelve double-taxation agreements, the OECD upgraded the country to its "white list." This upgrade from the "gray list" is important at a time when tax evasion is more aggressively pursued by governments around the world in order to improve their strained public finances at home.

In February 2010, the government announced plans for the liberalization of ship registration through a new maritime law that will allow non-Bahraini ship owners to register under the Bahraini flag. At the same time, the authorities were reviewing port tariffs. After the inauguration of the new Khalifa bin Salman Port in November 2009, the government has been trying to attract more foreign investment in the shipping sector.

With its sound legal, regulatory and accounting systems, Bahrain has established itself as a regional center for banking, structured funds, insurance and several other financial services. The IMF evaluates Bahrain's financial supervision as effective and adequate and its regulation as modern and comprehensive. In its November 2010 report, the World Economic Forum ranked Bahrain as having the most liberalized financial sector among 57 leading global economies and 23rd overall in the Financial Development Index, up four places from 2009.

Although less affected than many other economies, the global financial crisis left its imprints on Bahrain's economy as banks remain cautious about lending and continue to hold on to their capital. But in the end, Bahrain's financial sector has demonstrated a high degree of resilience, and overall financial stability increased in the past two years, notably due to the efficient and stable banking system and the risk of a sovereign debt crisis.

Bahrain's banking sector actually is composed of three single sectors, each a separate market with its own characteristics and conditions: retail, wholesale and Islamic banking. With more than 400 banks and financial institutions, the financial sector accounts for over 25% of GDP, and became the largest single contributor for the first time in 2009. In 2010, the loan/deposit ratio in the banking sector was a healthy 75-80%, but non-performing loans were rising. As of October 2010, Bahraini banks held combined assets of about \$211 billion.

The impact of the global financial crisis has been mild, thanks to Bahraini banks' low exposure to financial turmoil and toxic assets in the region and the world. Although all listed banks, both retail and wholesale, posted losses at the end of

2008, the majority of Bahrain's retail banks survived the global credit crisis without severe damage, though many were to a high degree reliant on real estate and are now realizing that diversification is necessary for future growth. The Central Bank of Bahrain proved itself a solid regulator, for example mandating an increased level of scrutiny over the banks' 2009 annual reports to boost the quality of supervision. Additionally, since August 2009, new real estate regulations are being enforced by the central bank, which limited real estate lending to 30% of banks' loan portfolios and there are plans for new liquidity-management rules for banks (after the default of two Bahrain-based banks in July 2009).

The central bank's regulatory reputation is one of Bahrain's key attractions for foreign investors in the financial sector, but it should be noted that it is not fully independent from the government and can therefore be subject to political pressure. At present, under the 2006 central bank law, the central bank acts as banker to the government, and issues, redeems and pays the interests on government debts. As part of the preparations for adopting a single GCC currency (according to official statements, this is not expected before 2015 – 2020), the central bank has been asked to stop lending to the public sector and semi-state-owned enterprises from January 2010 on in order to increase its independence. Following the risk management standards established in the Basel II Accords, the central bank is furthermore moving away from a blanket requirement of 12% for a bank's capital adequacy ratio to ratios that will be set for each bank according to the level of risk in their loan portfolios and investments.

## 8 | Currency and Price Stability

Controlling inflation and an appropriate foreign exchange policy are recognized goals of the government's economic policy. Consumer price inflation averaged in 2010 at 3.3%, depicting a moderate 1.3% year-on-year rise by November, according to figures from Bahrain's Central Informatics Organization. By January 2011, annual inflation had eased to 0.6%, its lowest level since 2007.

However, because the Bahraini dinar is pegged to 1 U.S. dollar at BD 0.376, imported inflation remains a key risk for the Central Bank of Bahrain because of fluctuations in the U.S. dollar against the euro and other world currencies. As part of preparations for the planned GCC monetary union, it is expected that the peg will be re-evaluated and eventually changed. In January 2010, the four GCC members – Bahrain, Kuwait, Qatar and Saudi Arabia – announced their agreement to enter a monetary union, and the eventual single currency may be pegged to a basket of currencies, as the Kuwaiti dinar already is.

The government introduced an "anti-inflation" subsidy in 2008 at the request of members of parliament to help families cope with the rise in international food

Anti-inflation /  
forex policy

9

prices in the first months of that year. Originally intended to be a temporary measure, the grant has proven politically difficult to remove as the Bahraini population remains concerned about the rising cost of living. When the government was discussing changes in the subsidy system in January 2010, shifting away from a universal system of food and fuel subsidies to a more targeted system in which only low-income Bahrainis receive subsidized goods and services, many people, including members of parliament, demonstrated in the streets. Finally, the parliament consented to tighter eligibility criteria for the allowance but not its removal.

Although the IMF classifies Bahrain's regulatory system as robust, the regional equity and real estate markets pose a risk, as the crash in the Dubai property market demonstrated in the summer of 2009. It was only after the burst of the Gulf property bubble that the Central Bank of Bahrain was able to implement limits on real estate lending, due to fierce resistance from influential figures in the banking community.

According to the Heritage Foundation's 2010 Report on Economic Freedom, the key factors providing for macroeconomic stability in Bahrain are its favorable business environment, the competitive tax regime, the low cost of doing business, the prudent regulation by the authorities as well as its sophisticated financial sector.

Bahraini authorities are committed to fiscal prudence and long-term sustainability and follow a prudent policy aimed at maintaining stability, which is commended by the IMF. Although public expenditure rose by just 1.1% in 2009 (to 2.1 billion dinar), concerns about public finances persist, especially in light of Bahrain's dependency on volatile oil prices. Although Bahrain is only a small oil producer, oil revenue still accounted for 82% of total revenue on average from 2007 to 2009.

State budgets are usually drafted on the basis of a relatively conservative estimate of oil prices (\$40/barrel for the budget period 2008 – 2009) and fluctuations in oil prices led the government to revise its fiscal projections on a regular basis.

In acknowledging this discrepancy, the draft budget for the period 2010 – 2011 is now based on an average oil price of \$80/barrel; it may however still become necessary to revise the budget if oil prices diverge significantly.

The government is also trying to reduce its dependency on oil by expanding its tax base (e.g., through the introduction of a new tax on property sales in November 2009) and by strengthening the financial sector (which succeeded oil as a proportion of nominal GDP for the first time in 2009 with 20.8%).

In accordance with a broader regional trend, where sovereign wealth funds provide financial aid for the domestic economy, the Bahraini state holding company

Mumtalakat announced in April 2009 that it will contribute 52.5 million dinar in 2009 and 60 million dinar in 2010 to the state budget.

Due to higher state spending to stimulate the economy, public debt rose significantly from 705 million dinar (\$1.8 billion) or 8.6% of GDP in 2008, to 1.2 billion dinar or 14.6% of GDP in the third quarter of 2009, and to 27.3% of GDP in the first half of 2010, according to estimates by the Economist Intelligence Unit.

Bahrain recorded a net fiscal deficit of 9.4% of GDP in 2009 and expects to run a budget deficit with averaging 2.6% of GDP or about 813 million dinar (\$2.16 billion) in 2011 and 2012.

Although Bahrain's subsidy system does not jeopardize overall stability, subsidies weigh heavily on public finances: about 5% of GDP or 428 million dinar (\$1.1 billion) was spent on them in 2008, when commodity prices were high. The budget draft for 2011 – 2012 envisages 434 million dinar spent on subsidies each year. Due to the growing population, the government will have to increase subsidy spending in 2012 to maintain the current subsidy system. Reform of the subsidy system is therefore a priority of the Economic Development Board, Bahrain's official strategy and planning organization.

The fact that Bahrain had no difficulties in finding buyers for a long-term bond worth \$1.25 billion (or 5.8% of Bahrain's GDP for 2009) which, by March 2010, was six-fold over-subscribed, demonstrates that the Bahraini economy is perceived as stable and enjoys the confidence of international markets, even under difficult economic conditions for international debts.

This being said, the volatile political situation and the high level of political unrest might negatively impact Bahrain's economic stability in the longer run.

## 9 | Private Property

Property rights and regulations on acquisition, benefits, use and sale are well defined and respected, but occasionally property rights are susceptible to contravention by the Al Khalifa family, whose members regularly requisition tracts of productive agricultural land for commercial development. Also, land acquisition around the city of West Rifa, which is located on an island and where a substantial part of the royal family is settled and the royal court is located, is subject to a non-transparent vetting process.

In recent years, other influential figures (sheikhs, businessmen) confiscated properties on the northern shoreline of the island and declared the attached land as

Property rights

8

private property, depriving the public of more lands that have long been considered community property by local residents.

In May 2009, the National Assembly approved a new “land acquisition by government law” after the Constitutional Court had ruled in 2007 that the previous law was unconstitutional. This law prevented ministries and other governmental organizations from purchasing land, which led to a freeze of various large-scale projects. The new 2009 law restricts and regulates the government’s ability to seize property and establishes more legal certainty for landowners. However, the law needs further clarifications.

In order to diversify the income sources of the government and to reduce dependency on volatile oil revenue, a new tax on property sales was introduced in November 2009. When ratified by parliament, it will add to the existing 1% stamp duty that is levied on all property sales in Bahrain.

Foreign firms can resolve disputes satisfactorily through the local courts but there are no prohibitions on the use of international arbitration to safeguard contracts. With the establishment of a new arbitration center, the “Bahrain Chamber of Dispute Resolution,” Bahrain now guarantees by law that domestic courts cannot intervene in any way if companies choose Bahrain as arbitration center.

Although Bahrain acceded to the World Intellectual Property Organization’s Patent Cooperation Treaty in 2007, the enforcement and protection of intellectual property rights can be a problem due to inadequate institutionalization.

Private sector growth and entrepreneurship are explicit goals in Bahrain’s Vision 2030, a long-term economic development plan which aims to diversify the economy from oil and build up a viable private sector and a tax-based economy.

Private enterprise  
7

As a small oil producer, Bahrain cannot afford to support a large public sector and has therefore launched a privatization program. Privatization of state companies is ongoing and the telecommunications sector, the country’s biggest power plant and the main port have already been privatized. In January 2010, Bahrain announced plans to privatize the country’s loss-making airline, Gulf Air, within about a year. Bahrain is further planning to privatize other public services, from hospitals to waste management. However, as the restructuring of the economy will take time, the dominance of the hydrocarbon sector still prevails and Bahrain’s economy is still state-dominated.

The new corporate governance code, launched in March 2010 by the Ministry of Industry and Commerce, must be understood as another effort to improve Bahrain’s business and investment climate. The new code incorporates international best

practices for corporate governance and will help private companies to access capital, while also increasing transparency and accountability.

The government is also supporting small- and medium-sized enterprises (SMEs); according to Sheikh Mohammad bin Issa Al Khalifa, chairman of the government labor fund “Tamkeen” and CEO of the Economic Development Board, SMEs constitute 99% of Bahrain’s private sector.

As part of the government’s Vision 2030 blueprint, Tamkeen launched three initiatives in June 2009 to help SMEs that have been hit hardest by the newly introduced labor fees. SMEs were also afraid of the new labor law because it allows foreign workers to freely change jobs.

## 10 | Welfare Regime

Bahrain has a state-sponsored national security system in place and citizens of Bahrain are entitled to a lot of state assistance, including medical services and treatment, unemployment benefits, housing benefits, disability benefits and more. Expatriate workers are excluded from most of the benefits offered to Bahraini citizens but do receive free health care. In 2007, Bahrain’s public health expenditure stood at 2.8% of GDP, a bit below the global average (3%).

Employees and civil servants pay into pension funds. Civil servants enjoy some of the highest wages and benefits in the region. In April 2010, the government announced new subsidies for public sector workers and an increase in the monthly minimum wage to 300 dinar (including social allowances), effective from January 2010. The new minimum wage does not apply to foreign workers, who earn an average 196 dinar per month.

Although the state provides citizens with cheap state loans and runs extensive housing programs, there have been increasing concerns and resentment about the scarcity of housing during the period under review. Property development in recent years has been targeted at the lucrative high end of the market and the government now has a housing waiting list of 47,000 people. The implementation of the “King Hamad Scheme for Dilapidated Houses” to upgrade existing housing stock is reportedly four years behind schedule. With a steadily growing population and allegations of political naturalization, housing remains a sensitive political issue. The government is therefore keen to mitigate the situation and has allocated 20 million dinar a year for the next twenty years for housing and doubled the budget for renovating old homes to 4 million dinar in 2009 – 2010. In July 2009, a new joint venture, “Naseej,” was launched to provide affordable housing. It is a consortium of the state pension fund, the social insurance organization, local and regional banks, and investment companies.

Social safety nets

8



Bahrain has a universal system of food and fuel subsidies. After the IMF advised Bahrain and other GCC countries to “reorient” their subsidies toward the neediest and to diversify their revenue base, the government in December 2010 was discussing ways of redirecting subsidies in Bahrain without lowering the living standards of low- and middle-income earners. However, the timescale is unclear and is likely to be influenced by political developments. Amid rumors of scrapping subsidies, the government in January 2011 assured the public that it will continue to subsidize basic goods.

But the government is well aware that the current system, which relies heavily on revenue from oil production, is unlikely to be sustainable for a small oil producer like Bahrain. The state does not levy corporate or capital taxes, nor a formal personal income tax, although there is a 10% municipal tax on rents and a 1% levy on salaries to fund unemployment benefits. The latter was introduced in June 2007 as a reduction of job opportunities that resulted from lower economic growth. All wages of Bahraini citizens are subject to a 1% tax, supplemented by a government contribution of 1%.

Bahrain’s 2002 constitution guarantees equality between men and women and provides citizens the right to education, health care, property, housing, work, the right to defend the country and the right to engage in economic activities. In reality, equality of opportunity is impeded by kinship networks, sectarian affiliation and ethnic background. The findings of the Economist Intelligence Unit’s quality of life index for 2009 showed significant income disparities between nationals and foreigners, men and women, and public sector and private sector workers. There are no laws that directly ban discrimination.

For years, Bahrain’s Shi’ites have complained of institutionalized discrimination in employment in the government and the security forces. Public services do employ Shi’ites, but Sunnis are overrepresented in the top ranks of this sector. According to the Bahrain Center for Human Rights, the percentage of high-level government posts held by Shi’ites has declined from 25-30% in 1999 to 13% in 2008 (while Shi’ite citizens account for approximately 70% of Bahrain’s population). Fears of Shi’ite power and suspicions about their loyalties have further limited employment opportunities for young Shi’ite men. While mid-level and junior officer posts in the military are mostly occupied by expatriates, the highest ranks in the security apparatus are dominated by members of the ruling family.

Funding programs for scholarships and other financial aid that enables the poor to pursue tertiary education are extensive. Women are granted equal access to higher education and are gradually gaining more importance in economic and political life, thanks to initiatives by the different women’s organizations present in Bahrain and the region. In 2009, the ratio of female to male enrollment in tertiary education was 253%. This figure is more than double the world average of 107.4% but not unusual

Equal opportunity  
5

in the GCC region, as the ratios in Qatar (625%) or the UAE (205%) show. Although female education is encouraged and supported in the region, it does not necessarily lead to professional employment, as traditional gender roles persist. In 2007, women constituted approximately 21% of Bahrain's labor force and about 34% of adult women were employed.

Additionally, significant inequalities in wages exist in the private sector, where women earn an average monthly salary of 307 dinar (\$814) while men earn 454 dinar (\$1,204).

## 11 | Economic Performance

Bahrain's economic performance is good, but, like everywhere else, the global economic downturn affected the national economy. Lower regional growth and a decline in foreign direct investment (FDI) and trade flows reduced economic expansion in 2009 to 3.1%, generating a nominal GDP of \$19.319 billion, down from 6.3% growth or \$21.902 billion in 2008, according to data released by the Central Bank of Bahrain. The fact that the economy still grew in 2009 is noteworthy given weak global demand, the sharp decline in oil and aluminum prices, and the weakness of the construction sector. Accordingly, GDP per capita remained high by world standards at \$34,955 in 2008 (the latest figure available).

Due to the global recession and the downturn of the local real estate market, FDI inflows fell in 2009 to 96.7 million dinar (\$257 million, down from 674.5 million dinar in 2008) but remained positive. The housing sector was highly affected by the financial crisis with fewer homeowners willing to take on further mortgages.

Bahrain's trade balance remained positive during the period under review, with an estimated surplus of \$1.702 billion in 2009 and \$2.182 billion forecasted for 2010.

As the economic recovery was consolidating by the end of 2010, the IMF estimated a GDP growth of 4% in 2010 and predicted an acceleration to 5% in 2011 thanks to higher oil prices and careful management of the economy by the government and the central bank. These figures appear high by world standards but become less impressive when the high population growth rate is taken into account (according to the official 2010 census, the Bahraini population grew by 5.8% annually from 2008 to 2010). Actually, population growth seems to be exceeding economic growth, implying a decline in real incomes.

According to Bahrain's Labor Market Regulatory Authority, total employment grew by 4.4% in 2009, the slowest rate since 2002. As figures from the Ministry of Finance suggest, unemployment fell from 3.8% in 2009 to 3.7% by March 2010,

Output strength

8

though this figure might be an underestimation as it only takes into account registered unemployed Bahrainis.

According to government data released in June 2010, Bahrain recorded a gross domestic deficit of 5.8% of GDP (\$1.2 billion) in 2009, compared to a surplus of 6.6% of GDP in 2008. After rollovers, the reported deficit for 2009 was even higher with 9.4% of GDP versus a surplus of 4.5% in 2008. With lower international oil prices, the government's revenue fell by 36.2% in 2009, from 2.7 billion dinar to 1.7 billion dinar. By contrast, the constant rise in oil prices during the budget period from 2009 to 2010 led the government to revise its projections and to increase its borrowing by 1 billion dinar (\$2.7 billion). This increase in state spending to stimulate the economy resulted in domestic public debt of 27.3% of GDP after the first half of 2010, compared to 8.6% of GDP at the end of 2008. The IMF expressed concern about the rising debt levels and urged the government to pursue further fiscal reform and reduce subsidies.

Consumer price inflation (CPI) averaged 2.5% in 2010, down from an estimated 2.8% in 2009. The main reasons for these moderate rates were slower domestic demand growth, a drop in world commodity prices in 2009 and only minimal price growth in 2010, and the stabilization of the U.S. dollar and hence the Bahraini dinar against the euro and other currencies. Annual average CPI is projected to remain contained at 2.4% in 2011 and 3.3% in 2012. It is worth noting that the official CPI is widely believed to underestimate price pressures; for example, the Economist Intelligence Unit estimates that inflation has been much higher, at an annual average of 7% in 2009 and 2010, for the following reasons: most of the GCC was experiencing double-digit inflation; world food prices rose by 30% year-on-year; the effective value of the dollar declined by an estimated 6.6%; and average private-sector wages rose by 13.8%.

## 12 | Sustainability

Although awareness of environmental issues is rising, environmental concerns are often subordinated to growth efforts and business interests. The degradation of arable land and coastline desertification are the most urgent and severe environmental problems in Bahrain. Only 2.82% of the country's total surface is arable, and the average annual level of rainfall is 72 mm. Extensive land reclamation projects have had adverse effects on the environment, especially on the ground water. In addition, the growing population has led to a high settlement density and an overuse of the Dammam aquifer, Bahrain's main source of fresh water. Desalination plants are the main supplier of potable water today.

Environmental regulation does not have an institutional framework and is therefore weak and hardly enforced. Hence, Bahrain ranked 145th out of 163 countries and

third last in its peer group of Arab states in the 2010 Environmental Performance Index. It was the first time Bahrain was assessed.

There are however some positive signs, such as the mandatory environmental reports for any new construction project, or government support for small enterprises providing environmental tourism (e.g., dolphin watching). Also, the government has partnered with the UNDP to develop a national environmental strategy and a corresponding national environmental action plan.

In July 2010, the government announced a five-year plan to raise fish stocks by clearing up debris, saving coral reefs and building artificial reefs to create the right environment for fish breeding. This initiative came on the back of political tensions between Bahrain and Qatar over the illegal entry of fishermen into Qatar's territorial waters. As marine stocks are declining, respect for territorial waters has become a sensitive issue.

Public education institutions of good quality from primary to university levels are readily accessible for all strata of society. Primary and secondary school enrollment in the 2008-2009 school year were among the highest in the region (96-100%), as was the literacy rate (90.8%). There are also more than 50 private schools and many Bahraini university students are enrolled in private institutions and receive funding from the government labor fund Tamkeen. Tertiary enrollment was at 29.9% in 2008-2009.

To keep up with the educational progress in the Gulf region, Bahrain's education system has witnessed significant growth in recent years. This growth has been driven mainly by the establishment of new private universities (which some critics have claimed to be commercially motivated and below international standards). Universities are still weak in research, and even though there are no formal restrictions on academic freedom, teachers and professors tend to avoid politically sensitive issues, and scholars who criticize the government are subject to dismissal. In late 2008, the Quality Assurance Authority for Education and Training was established as a regulatory body to review public and private institutions at all levels.

Investment in education and training has averaged around 11% of total expenditure (or around 3% of GDP), which is still far less than government spending on defense and security (26% in 2009).

Like elsewhere in the region, education is not sufficiently matched to the demands of the labor market. The government is trying to address this shortage and to restore its status as a regional leader in the field of education with its National Education Reform Initiative (NERI), the educational component of its Vision 2030 development plan. The initiative is overseen by the Economic Development Board in cooperation with the Ministry of Education and the Higher Education Council

Education policy /  
R&D  
8

and is meant to introduce international standards to the country's schools and universities and to eventually match skills with the needs of the market.

## Transformation Management

### I. Level of Difficulty

While Bahrain's government is not substantially constrained by internal structures, its small size and central location in the Persian Gulf limit its course of action. Bahrain's domestic oil reserves are not large enough to support the economy on their own and approximately three-quarters of the country's oil production depends on the Abu Saafa oilfield, which Bahrain shares with neighboring Saudi Arabia. Bahrain itself produces only 40,000 barrels a day, while Saudi Arabia supplies the country with 140,000 barrels a day. However, Saudi Arabia has a strong interest in maintaining the stability of the Al Khalifa's rule, as it fears the spill-over effects of potential Shi'ite unrest on the substantial Shi'ite population in Saudi Arabia's eastern province.

Structural  
constraints  
3

Bahrain is also only a modest gas producer with 12.8 billion cubic meters a year and will need to start importing gas if it is to expand its aluminum production, its main non-oil goods exports. The government is making serious efforts towards this goal: in May 2010, it announced that the construction of facilities to import Liquefied Natural Gas (LNG) will be awarded in early 2011. At the time of this writing, there was no further information available about the tender process. Meanwhile, Bahrain's National Oil & Gas Company (NOGA) signed a gas co-operation deal with Russia's state-owned oil and gas company, Gazprom. In order to triple gas production by 2014, the largely state-owned Bahrain National Gas Company (Banagas) announced in November 2010 that it plans to drill eight new gas wells.

As for Bahrain's security situation, the country has only limited capacities to defend itself. It depends almost entirely on the United States, its long-time ally, which has established headquarters for the U.S. Naval Forces Central Command and U.S. Navy's Fifth Fleet in Bahrain's capital, Manama.

Traditions of civil society in Bahrain are much deeper than those in neighboring countries. As the first Gulf country to produce oil, Bahrain has an active worker's movement that has been developing since the late 1930s and has organized recently in legalized unions. Since the new constitution was implemented in 2002, Bahrain has seen an increase in the number of civil society organizations. There is a wide array of professional, social and cultural associations, religious and philanthropic societies, and clubs. Several NGOs work in the political arena, among them several human rights associations. As Bahrain is a small country with a high degree of face-to-face interaction, social trust is generally high.

Civil society traditions

5

It should be kept in mind, however, that trust in the government is another issue, and that public disappointment in the course of reform has led to a general sense of distrust in the government.

During the period under review, there were repeated violent incidents. Protests in Bahrain range from organized demonstrations with slogans and themes to more chaotic disturbances by Shi'ite young men. The uneven distribution of wealth and political power has led to increasing frustration among the Shi'ite majority population. Accordingly, the level of political mobilization is significantly higher within the Shi'ite community than in the Sunni or other minority communities.

Conflict intensity

6

The Sunna-Shi'a conflict is prevalent in public discourse, and sectarian affiliation plays an important role for political activism. Liberal and left-wing political societies, as well as the business community, are the only groups not split along sectarian lines. The rise of Islamization since the 1980s has further led to an increasing confessional fragmentation of civil society organizations.

Political debates are often framed in sectarian terms, and distrust between both sects is widespread in most levels of society. When, at the end of 2009, Saudi Arabia was involved in a military conflict with a Zaydi Shi'ite movement (known as "Huthi") in northern Yemen, members of parliament were split on sectarian lines about whether Saudi Arabia should be supported or not. Allegations by pro-government members of parliament and some Sunni observers that the Shi'ite political society al-Wafaq was showing loyalty to their Shi'ite co-religionists over the Bahraini state reflects broader Sunni concerns about the Shi'ite community's loyalty to Iran. It further demonstrates how easily regional dynamics can exacerbate tensions between Bahraini Shi'ites and Sunnis.

In the run-up to the parliamentary elections in October 2010, the political scene as well as civil society was characterized by rising sectarian tensions and an increasing polarization towards the limited political reform process.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Prioritization  
5

The political leadership is capable of taking on a longer-term perspective and of setting and maintaining strategic priorities, but not necessarily in the normative sense of constitutional democracy, notwithstanding rhetoric to the contrary. The elite-driven reform process initiated by the king and the crown prince in 2002 and outlined in the National Action Charter officially aims at allowing for a higher level of pluralism and participation, modernizing state institutions' effectiveness, and enhancing the rule of law, accountability and transparency. In actual fact, the stalling reform process aims at calming social unrest while consolidating authoritarian rule in a pseudo-democratic cloak. As social tensions rose significantly prior to the elections in October 2010 and amid growing public frustration over the insufficient implementation of the promised democratic reforms, the regime's strategic plan is on the verge of failure.

It is therefore difficult to speak of reform drivers and defenders of the status quo in the executive. In general, Prime Minister Khalifa bin Salman Al Khalifa is perceived as representing the old guard, which is basically opposed to any regime change. But he is of course part of the royal family (he is the uncle of the current King Hamad bin Isa Al Khalifa) and has been in office since 1971, appointed by the king.

Religious authorities, notably from the Shi'ite majority population, may act as veto players in the political process. For example, after strong opposition from Shi'ite clerics to the codification of the personal status and family law, the government abandoned its plans to establish a single codified family law in 2006. While a codified family law for Sunni Muslims was passed by parliament in May 2009, personal status and family issues of the Shi'ite majority are still governed under Shari'ah court rulings by Shi'ite clerics who can exercise a great degree of discretion.

In terms of economic reforms, the regime exhibits decidedly greater steering capabilities. This is evident by its implementation of the official Vision 2030 long-term development plan, which will see the country move away from reliance on hydrocarbons by strengthening other strategic sectors (such as financial services, industry, business, tourism and education), thereby building a competitive and sustainable economy designed to improve living standards. The government is pursuing Vision 2030 more stringently and consistently than political change, and is

not being worn down by resistance from certain business communities (as was the case with the implementation of labor market reforms).

The political reform process initiated in 2002 has stalled since 2004, and it has been on hold since 2009. The regime has backtracked on many of its originally stated reform goals and since 2006 the general level of state repression against political opponents has risen sharply. Controversial laws such as the press law (47/2002) remain in place. An anti-terrorism law signed in 2006 further limits political freedom by criminalizing acts that “damage national unity.” The law also allows for extended periods of detention without charges being filed and without judicial review.

The government has not institutionalized human rights protections into law, and harassment of human rights activists continues. The establishment of a new, government-funded and royally controlled National Human Rights Authority in November 2009 has been discredited by human rights organizations as a PR attempt to boost the regime’s human rights credentials.

All of this reinforces the notion that the government’s actual policy priority is regime survival and restoration of social calm – by force if necessary.

While the regime’s continuity was at no point endangered during the period under review, the government largely failed to restore calm. Actually, the government’s policies tended to fuel existing tensions, such as the use of repressive state tactics and harassment of opposition activists.

Government policies for economic reform have been implemented more effectively. To transform the government’s Vision 2030 long-term economic development plan into reality, the National Economic Strategy (NES) has been set up by the government and the Economic Development Board. The NES includes strategic initiatives that ministries and other government organizations will implement over the next five years and that will be evaluated according to the defined criteria.

The government has also shown determination in the pursuit of its long-term policy goal of liberalizing the Bahraini labor market. A number of labor market reforms became operational in 2008 and a new labor law that replaces the old sponsorship system went into effect in August 2009. To increase the number of Bahrainis in the workforce and to prevent expatriates from becoming a majority, the Labor Market Regulation Authority (LMRA) is committed to regulating immigration and tackling the black market in visas. In March 2010, visa restrictions were tightened: expatriates entering Bahrain from other GCC states can no longer buy a visa upon arrival unless they are senior managers or professionals. There were also plans announced for tighter restrictions for people entering Bahrain for the first time (e.g., they must possess a return ticket). The LMRA has also introduced an “easy exit strategy” for foreigners who have overstayed their visa (reportedly affecting some

Implementation  
4



40,000 people): whoever is illegally in the country and does not have a pending court case can leave the country “in dignity” after paying a fine of between 15 and 25 dinar.

In line with the labor market reforms, the government is addressing the skill shortage problem with its Vision 2030 program. It has implemented policies such as raising the quality of education and training, or increasing the relative costs of foreign labor by introducing fees. In addition, the government is attempting to cut back spending and to reduce Bahraini dependence on public sector jobs. According to official data, Bahrainis accounted for 51% of the population in mid 2009, but only for 19% of the private sector workforce.

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

The regime did introduce some small changes to the rules of parliament before the election in October 2010 in order to increase the accountability of the Shura council and to strengthen the powers of the Chamber of Deputies. While these changes were an implicit acknowledgement that members of parliament must be perceived to have a stronger role if the institution of parliament is to have any legitimacy, these changes appeared to be more cosmetic and pretentious in light of the accompanying crackdown on the opposition. In the period leading up to the election, the government detained prominent opposition activists on terrorism charges, closed oppositional publications and websites, and intimidated civil society activists.

Regarding the organization of the market, the regime has shown more readiness for innovation and encompassing change. The privatization process is pursued consistently, and numerous public-private enterprises that appropriate many ministerial functions (although as to date the economy remains state-dominated) have been established. An example of international knowledge exchange is the establishment of the Bahrain Chamber of Dispute Resolution, announced in January 2010. The Ministry of Justice and the American Arbitration Association will implement the arbitration center.

Policy learning

3

## 15 | Resource Efficiency

The government makes efficient use of only some of its available human, financial and organizational resources.

Efficient use of assets

4

As is common in the region, Bahrain's bureaucracy is inflated. This is due to political reasons; the provisioning of administrative jobs confers legitimacy to the government. Civil servants in Bahrain enjoy some of the highest wages and benefits in the region. Public sector wages were again the largest single item in the budget draft for 2011-2012. However, they no longer account for more than half of all current spending as they did before 2009, as the wage bill has grown less rapidly than other areas of spending.

The number of politically motivated dismissals and new appointments of public servants is low because key government figures usually retain their position. Political loyalty and good connections to decision makers, not necessarily qualifications, help to secure a job in the administration.

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

The generally balanced state budget was affected by the economic downturn and the following decline in oil prices. Bahrain recorded a net fiscal deficit of 9.4% of GDP in 2009 and expects to run a budget deficit averaging 2.6% of GDP or about 813 million dinar (\$2.16 billion) in 2011 and 2012.

Due to higher state spending to stimulate the economy, finance development projects and the refinancing of debt by borrowing from domestic and foreign sources, public debt rose significantly from 705 million dinar (\$1.8 billion) or 8.6% of GDP in 2008 to 27.3% of GDP in the first half of 2010, according to estimates by the Economist Intelligence Unit.

The budget draft is subject to some parliamentary control, but, as it is usually very general and does not entail details on defense spending and expenditures of the

royal court, and due to the restricted powers of the National Assembly, parliamentary control cannot be efficient.

Because of Bahrain's strong dependency on oil revenue, budget drafts are regularly revised if world oil prices diverge significantly from initial financial projections. For example, when oil prices were constantly rising in 2009, the government revised its borrowing by 1 billion dinar (\$2.7 billion). The supplementary budget was approved by parliament eight months after the original budget for 2009-2010 had been passed.

The government tries to coordinate conflicting objectives, but with limited success. The duplication of governmental functions, the unclear division of powers between the king and the prime minister, as well as between municipalities and governorates, limit the development of coordinated and comprehensive policies. The king, the crown prince and the prime minister maintain their own parallel "courts," including their own groups of economic experts and consultants, who often voice contradictory opinions.

Policy  
coordination  
5

In September 2007, the crown prince announced a campaign to combat corruption and bring corrupt officials to justice. A wide-ranging investigation into the country's major government-owned companies resulted in the criminal prosecution of a number of high-level executives in Bahrain's Aluminum Company (Alba) and the national airline, Gulf Air. Still, corruption laws have not been tightened. Interestingly, though, the Bahrain Center for Human Rights reported that municipal officials ordered one Waad Party candidate in the parliamentary election for October 2010 to remove billboards with the slogan "Enough to Corruption," saying it was "a breach of the law," without indicating which law. A court ruled on 4 October 2010 that the banners did not violate the law, but the government appealed. As corruption is believed to be widespread in elite circles, the commitment to anti-corruption policies is not considered credible by human rights and civil society organizations. A sitting minister was questioned in spring 2010 (the first time in Bahrain's history) on charges of money laundering. State minister bin Rajaab was subsequently dismissed but not sentenced; instead, the authorities imposed a media ban on the story.

Anti-corruption  
policy  
5

Parliament is authorized to supervise government spending, but is limited in this capacity not only by its lack of expertise and legislative powers but also by a decree that prohibits parliamentary scrutiny of cases prior to 2002. More efficient auditing of state spending is provided by the National Audit Court (NAC), an "independent" government body. Its 2009 report found financial and administrative irregularities and mismanagement with 47 million dinar (\$125 million) of government spending, and identified several ministries, government agencies and authorities that wasted

public funds, notably because of inadequate planning and risk management. The report, presented in December 2010, details how several ministries, government agencies and authorities wasted the money by not complying with laws and regulations. Bahrain's prime minister subsequently ordered a probe into these allegations.

However, there are some positive developments, too. In November 2009, the parliament endorsed the cabinet's ratification of the U.N. Convention against Corruption (UNCAC), and as part of the changes to the rules of parliament prior to the election in October 2010, senior public figures are now obliged to declare their assets and those of their families. The success or failure of these measures in the fight against corruption remains to be seen.

Bahrain's public procurement system has become more transparent with the implementation of a new government procurement law in 2002 that established the basic framework for a rules-based public procurement system. To implement this law, a tender board, chaired by a minister of state, was established in 2003 to oversee all government tenders and purchases. However, allegations of corruption in tender processes persist.

## 16 | Consensus-Building

All major political actors agree rhetorically on establishing democracy and market economy as strategic, long-term goals of transformation. On closer examination, however, there are crucial differences in how these goals are perceived. The government defines democracy in unusual terms, namely as exercising "tolerance for very limited popular participation," emphasizing "national unity" and "social cohesion" rather than pluralism and freedom of speech. Some Islamist actors will express support for democracy, but harbor rather special views regarding the limits of personal freedoms within a democratic system. But also less fundamentalist clerics may disagree about the establishment certain democratic practices when perceived as encroachment to spheres of religious authority, as happened with the opposition of influential Shi'ite clerics to the introduction of a codified personal status law.

With regard to the goal of establishing a functioning and sustainable market economy, all actors agree on the necessity of reforming the national economy but there are some differences among the old guard and the younger elite about the pace privatization and the role of the state. Also, different views on economic reform prevail between leftist, liberal, and Islamist groups. Both leftists and (mostly) Shi'ite Islamists do not prioritize privatization.

Consensus on goals

6

In the end, however, the central decision-makers belong to the ruling family and pursue one central goal: preservation of power.

While the reformers in government – the king, the crown prince, and their allies – are powerful actors capable of successfully persuading or co-opting others, one must bear in mind that their concept of reform involves the consolidation of their authoritarian rule while, at the same time, promoting good governance. They do not promote democracy in the normative western sense.

Anti-democratic  
actors  
3

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

During the period under review, the government has not been very successful in managing conflicts. The regime's crackdown on opposition and human rights activists, repeated allegations of systematic torture being exercised in custody, numerous clashes between security forces and (mainly Shi'ite) activists and protestors, as well as conduct and result of the parliamentary elections in October 2010 demonstrate a disability to depolarize structural conflicts or to establish a broad consensus across the dividing lines.

Cleavage /  
conflict  
management  
3

Moreover, the reintroduction of the regime's depiction of the opposition as steered by Iran, as attempting to overthrow the government, and as fuelling terrorism exacerbates cleavages.

Basic inequalities have not been addressed, as the electoral law remains biased against the Shi'ites and gerrymandering along sectarian lines has created a situation in which the Shi'ites, who make up roughly 70% of the population, find their votes accounting for just under 50% of parliamentary seats. Population has become a contentious issue and allegations from the Shi'ite community that the government is exercising political naturalization by granting thousands of Sunni Muslims from abroad easy access to Bahraini citizenship in order to shift the confessional balance have further fuelled the Shi'ite perception of being treated as second class citizens.

The political leadership neglects civil society participation and formulates its policy autonomously. There are no institutional means of consultation and cooperation between governmental agencies and civil society actors. Officials do, however, often participate in workshops organized by civil society organizations, and some ministries seek cooperation with NGOs (mostly with regard to human and women's rights). At the same time, the government also has no systematic means of co-opting civil society groups.

Civil society  
participation  
4

The case is different with the business community, represented foremost by the powerful Bahrain Chamber of Commerce and Industry. Its views receive a great deal of government attention.

Although investigation of past human rights abuses has been a long-standing demand of the opposition and much of the population since the begin of the reform process in 2002, the political leadership has neither initiated such investigations, nor a process of reconciliation.

Reconciliation  
3

Sectarian discrimination and torture was reportedly common in the 1990s but a royal amnesty passed by legislative decrees in 2001 and 2002 prevents any criminal investigations. There is no institutionalized process of compensation for past victims of torture, although individuals can claim compensation, and some have done so and received funds, as well as jobs and houses.

After a Human Rights Watch report published in February 2010 documented the systematic use of torture by security officials for the apparent purpose of coercing confessions from security suspects throughout the period 2007-2009, the foreign ministry (sic) promised to look into the allegations of torture. However, as of October 2010, there had been no independent investigations or prosecutions concerning cases documented in the report.

## 17 | International Cooperation

Bahrain does not receive international aid on a large scale. However, the World Bank has been assisting the country for the past thirty years within the framework of its Strategic Cooperation Program (Technical Cooperation Program until 2008) for the GCC states. The program currently includes support for the Ministry of Social Development and Ministry of Finance, and carries out activities such as pension system analysis, privatization support and alternative energy review and analysis. The World Bank is also developing a comprehensive program of technical assistance through dialogue with the Economic Development Board.

Effective use of  
support  
6

Bahrain has also conducted environmental programs with the UNDP, and is currently developing a national environmental strategy and a corresponding national environmental action plan with the help of UNDP.

Due to its limited defense capacities, Bahrain has cultivated a close military relationship with the United States. Like its Gulf neighbor states, Bahrain participates actively in the U.S.-launched Broader Middle East and North Africa Initiative (BMENA) and serves as the headquarters of the U.S. Fifth Navy Fleet, which is of key strategic importance to military operations in Iraq and patrols in the

Persian Gulf. This clearly assures U.S. protection of Bahrain as well as Washington's continued political good will toward the kingdom.

Bahrain has been able to attain a high level of confidence from the international community regarding its reform policies aimed towards a sustainable market economy. The country has received favorable ratings for its economic reforms and initiatives. In 2009, the World Bank and the IMF awarded Bahrain's Minister of Finance Shaikh Ahmad bin Mohammad Al Khalifa the "Finance Minister of the Year" award for the MENA region in light of his commitment to strong financial regulation and prudent investment in the economy; they also appointed him the new chairman of their development committee.

Credibility

7

As for Bahrain's democratic reliability, international state actors rarely express doubts about the government's commitment to democratic reform policies. This is less an acknowledgement of the credibility of the Bahraini government in pursuing alleged democratic transformation than an indication of the Western preference for stability over democracy, especially in a region like the Gulf with its multiple trouble spots. The political leadership is openly criticized only by international NGOs such as Amnesty International and Human Rights Watch.

Due to its small size and centrally exposed location in the Persian Gulf, Bahrain has to play a delicate balancing act among its larger neighbors and is usually eager to promote regional integration. Following the settlement of its dispute with Qatar over the Hawar islands in 2001 by the International Court of Justice, its relations with Qatar have continually improved. After the illegal entry of Bahraini fishermen into Qatari territorial waters in May 2010 caused political friction, Bahrain's government was quick to announce intensified coastal patrols and a plan to raise marine stocks. The construction of a \$40 billion, 40-km-long causeway between Bahrain and Qatar has been put on hold in June 2010, probably due to financing difficulties, which the Bahraini authorities have denied. In order to reduce traffic congestion, and maybe also to calm Saudi Arabian fears of the strategic consequences of a Bahraini-Qatari causeway, it was announced in August 2010 that the King Fahd Causeway between Bahrain and Saudi Arabia is to be widened as part of a 2 million dinar upgrade.

Regional  
cooperation

8

Bahrain was a founding member of the Gulf Cooperation Council (GCC). As a rule, it implements GCC resolutions quickly and appears to remain committed to the declared goal of a monetary union in the GCC, even after Oman and the UAE pulled out in 2006 and 2009 respectively.

At the same time, Bahrain was the first GCC country to sign a bilateral Free Trade Agreement with the United States in 2004 (implemented in 2006) and has signed bilateral trade and economic agreements with Australia, Bangladesh, China, Egypt,

France, Greece, India, Iraq, Jordan, Malaysia, Russia, Singapore, South Korea, Syria, Tunisia, Turkey and the United Kingdom.

As for its largest Shi'ite neighbor, Iran, Bahrain is keen to maintain working relations with the country across the Gulf. At the end of 2009, a bilateral security co-operation agreement was ratified by the Iranian parliament. At the same time, the Bahraini regime often accuses Iran of meddling in its affairs, of stirring up unrest, and so forth. Relations to Iran are hence rather unstable.

Like other GCC states, Bahrain is concerned about the potential political and security risks of Iran's nuclear program, but is also wary of a possible military strike by the U.S. and/or Israel, as the presence of the U.S. Fifth Navy Fleet makes it vulnerable to counter attacks. Leaked U.S. diplomatic cables published on the whistleblowing site website Wikileaks suggest that Bahrain is unsure whether force against Iran is necessary but seems to prefer "action" to inaction (although it was not specified what "action" might mean).



## Strategic Outlook

Inspired by political unrest in North Africa and elsewhere in the Arab world, social frustrations over unemployment, poverty, restricted political liberties and sectarian discrimination had developed into mass demonstrations on Bahrain's streets by mid February 2011.

Protests are not uncommon in Bahrain, but the tone and scale of the most recent demonstrations are unprecedented. What was also different about the February 2011 demonstrations is that protesters hoped to attract foreign media coverage and international backing for their demands; their attempts thus far have been in vain. In an echo of similar anti-government movements across the Arab world, the opposition declared 14 February 2011 as a "Day of Rage." This date was deliberately chosen because it was the tenth anniversary of Bahrain's National Action Charter, which had promised political reforms including a new parliament.

Although the protests began in Shi'ite villages, they were not exclusively Shi'ite. The protesters have been careful to describe their revolt as non-sectarian, chanting slogans such as: "There are no Sunnis or Shi'ites, just Bahraini unity." As tens of thousands gathered to demand democratic reforms, the release of political prisoners, the investigation of the deaths of protesters and not least the resignation of the government, savage police and military violence has swept over the capital Manama. This in turn, has led some of the more hard-line opposition groups, including al-Haq, to change their demands to nothing more than regime change – a move that cost them their Sunni allies and that may exacerbate existing sectarian tensions.

Alarmed by the collapse of the hitherto "stable" regimes in Tunisia and Egypt, the Bahraini regime reacted with resolute brutality, positioning tanks on Manama's central Pearl Square. Riot police used tear gas, rubber bullets and physical violence against protesters, leaving at least nine people dead and hundreds injured. King Hamad has promised a probe into these killings and the release of some political prisoners. At the same time, he has declared a three-month period of emergency rule and called for troops from neighboring Gulf countries for help in "restoring security and stability." The military took over key areas of the capital and announced that all protests were banned. Authorities have imposed a 4pm to 4am curfew and restricted movement around the country, severely hampering efforts by journalists to conduct first-hand reporting. The strength of the official reaction demonstrated just how far removed Bahrain remains from a parliamentary democracy in which freedom of speech and assembly are protected.

The public uprising in Bahrain has implications for the wider Gulf region. Before intervening in Bahrain, the neighboring GCC states had already expressed fears that the Bahraini unrest could spill over to their countries, all of which have substantial Shi'ite minorities. After Saudi military forces and Kuwaiti policemen intervened on 15 March 2011 in support of King Hamad, regional actors as well as outside experts showed growing concern over a possible Iranian intervention in support of the Shi'ite protestors. At the time of this writing, Iranian authorities had criticized the

Bahraini crackdown, demonstrating Iran's religious affiliation with the Shi'ite protestors rather than concern for democratic reform or human rights (remember the Iranian crackdown of the "green" opposition movement after President Ahmadinejad's controversial re-election in June 2009).

Through these patterns of speech and action, the popular political reform movement is becoming increasingly framed in sectarian terms, reinforcing religious identities and hence fuelling the danger of a deepening Sunni-Shi'ite divide, not only in Bahrain but also throughout the region. Bahrain and its neighbors consider stability crucial to regional security and therefore perceive stability as essential to regime survival, regularly mentioning Iraq to exploit fears that change will unleash uncontrollable forces; it has become clear that, in their eyes, democratic reform and regime survival are mutually opposed concepts that co-exist in a delicate balance.

At the time of writing, the situation in Manama and other areas of the country was very unclear. However, it is obvious that an intensification of state suppression and security crackdown will not sustain the Al Khalifa rule; instead, it will further undermine its legitimacy. It is also obvious that neither monetary concessions nor minor changes in the regime's structure will silence the protestors. Despite the king's quick announcement on 14 February 2011 that all Bahraini families will receive a one-off grant of 1,000 dinar (\$2,660) and that the monthly "anti-inflation" grant of 50 dinar (\$133) would be maintained for each Bahraini family for the next two years, the protests continued and intensified. On 27 February 2011, the king partially reshuffled the cabinet and swore in five new ministers, hoping to appease the protestors. As the uprising had surged by mid March, King Hamad delegated the crown prince to hold a dialogue with the opposition groups, though without responding to the call of opposition leaders for a resignation of the government.

If the Bahraini regime wants to calm political unrest and enjoy the support of the entire population, it has to engage in an open and serious dialogue with the opposition, which represents the Shi'ite Muslim majority. It must finally deal with the demonstrators' main concerns, which have long been opposition demands: dismissal of the prime minister; delegation of legislative power from the palace to the parliament; the rule of law; an end to discrimination against Shi'ite citizens; the reduction of poverty through the creation of employment opportunities; and the implementation of true democratic reforms.

More precisely, the restrictive laws regulating freedoms of expression, association, public assembly and of political societies have to be reconsidered. Ratification of the amendments made to the Press and Publications Law needs to be reintroduced and supported in the National Assembly. The anti-terror law is too vague to be applied transparently and needs to be brought into line with international practice.

The whole judiciary needs to become more independent from the executive by ensuring elected deputies a role in appointing non-ruling family members to central positions. The goal should be the establishment of a legal framework that serves the democratic reform process and guarantees legal certainty for political activism. Prosecution of state agents responsible for abuses needs to

be ensured. Also, the Shi'ite clergy should be engaged in a dialogue about the virtues of a codified family law, similar to the one that has already been passed for the Sunni Muslim minority population. At the same time, the perceived discrimination against the Shi'ites has to be discussed. The government has always refuted allegations of discrimination, but its refusal to investigate past and present human rights abuses that have overwhelmingly involved Shi'ites, to deal with the apparent barriers to employing Shi'ites in certain sectors and the gerrymandering of constituencies with dense Shi'ite populations, and the dubious growth rates of the Sunni minority population, all sustain the impression of a two-class society.

Past and present torture allegations must be investigated impartially, and all prisons should be opened for inspection by human rights organizations and international NGOs, thereby giving the regime the opportunity to defuse allegations of mistreatment in custody. Consultants and representatives from international organizations such as the United Nations should be deployed in Bahrain in order to support and supervise the implementation of reforms and to mediate between the government, the opposition and civil society.

Rising oil prices will support the national economy, but in order to finance the announced one-off grant, the subsidy system and development projects, the government should also consider a reform of the national tax system. Bahrain has the lowest tax jurisdiction within the region, which is certainly an asset with regard to foreign investment, but is also at the same time a drain on public finances.