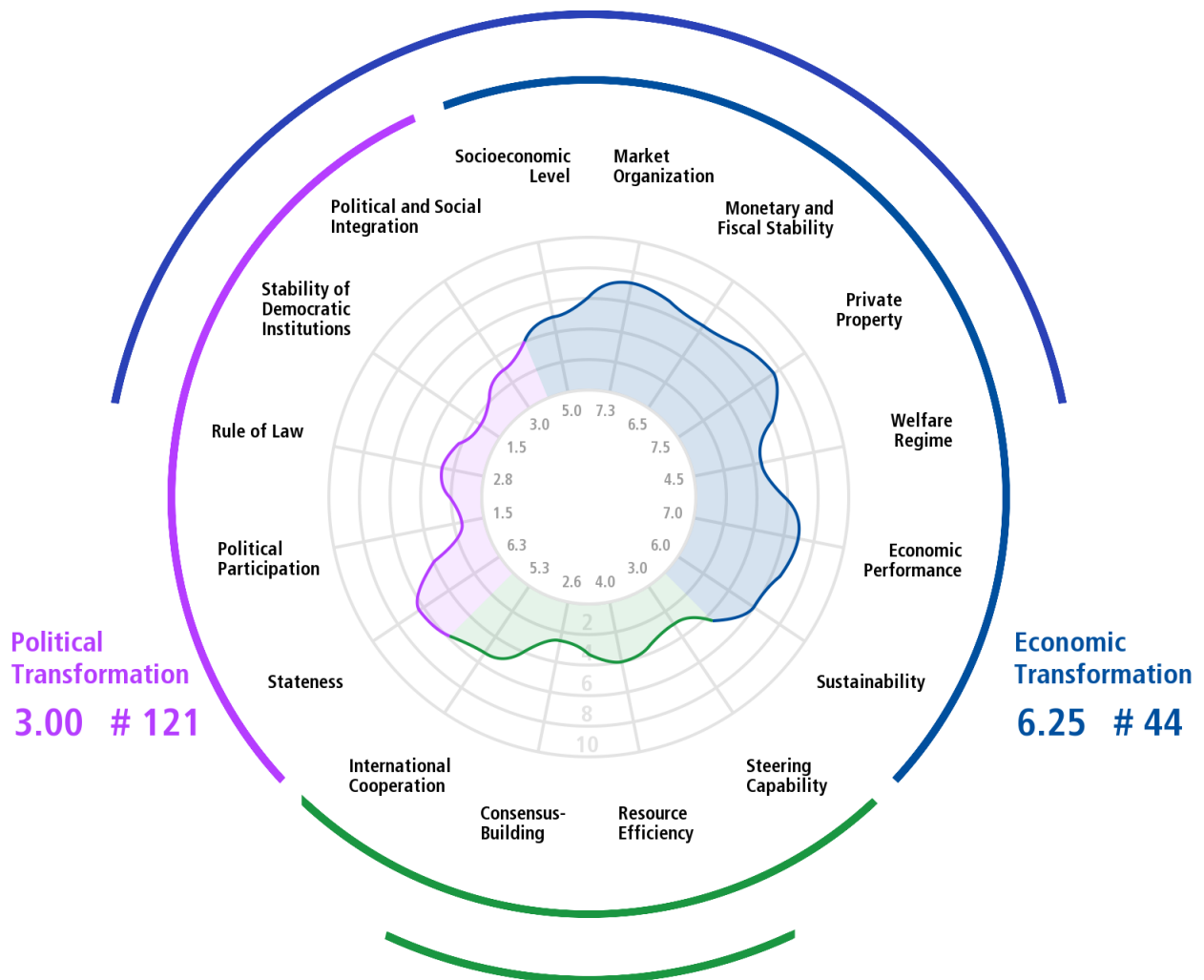


Bahrain

Status Index

4.63 # 96

on 1-10 scale out of 137



Political Transformation
3.00 # 121

Economic Transformation
6.25 # 44

Governance Index

3.24 # 118

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – Bahrain. Gütersloh: Bertelsmann Stiftung, 2020.

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Key Indicators

Population	M	1.6	HDI	0.838	GDP p.c., PPP \$	47220
Pop. growth ¹	% p.a.	4.9	HDI rank of 189	45	Gini Index	-
Life expectancy	years	77.0	UN Education Index	0.738	Poverty ³	% -
Urban population	%	89.3	Gender inequality ²	0.207	Aid per capita	\$ -

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

While Bahrain's authoritarian regime continued to crack down on opposition forces and dissidents, domestic politics essentially focused on the kingdom's economic and fiscal crisis, and the growing tensions between Saudi Arabia and Iran. During the period under review, Bahraini authorities maintained their campaign against the opposition, outlawed another political party ahead of the 2018 parliamentary elections and closed the last remaining independent domestic newspaper. Protests were effectively banned, and the few marches staged in villages and towns across the country were violently dispersed by security forces. Thousands are believed to be imprisoned for political reasons. Freedom of expression was under severe pressure, while authorities increasingly exploited controversial tools (e.g., the anti-terrorism law and the revocation of citizenship) to silence and punish opponents. More than 450 Bahrainis were stripped of their citizenship in the review period alone. Numerous imprisoned dissidents launched hunger strikes to protest against unfair trials, the lack of religious freedom in Bahraini prisons and poor detention conditions. The torture and ill-treatment of individuals by the kingdom's notorious security forces remains widespread, while security officials enjoy de facto impunity.

In 2017, five protesters were killed and hundreds arrested when security forces attempted to disperse a sit-in, set up in the village of Diraz in 2016 around the house of the popular Shi'a cleric Sheikh Isa Qassim, who was convicted of money laundering and had his citizenship revoked. The village was de facto under siege for more than two years, but – after authorities allowed Qassim to leave Bahrain for medical treatment in 2018 – barriers and checkpoints were removed and tensions in the village eased. Meanwhile, a series of bomb attacks against security forces and an oil pipeline further illustrated Bahrain's vulnerability to targeted attacks on vital infrastructure facilities. Though it remains unclear whether the groups responsible for those bomb attacks are still operating.

In an unprecedented mass trial in 2018, a Bahraini court revoked the citizenship of 115 people, accusing them of establishing a terrorist group with the alleged support of Iran's Revolutionary

Guards. The regime continues to use such allegations to discredit opponents and justify the government's excessive repression, but also to blame foreign governments for persistent unrest in the kingdom. Bahrain's ruling class, led by the Al Khalifa family, intensified its diplomatic and economic cooperation with neighboring Saudi Arabia, and with the United States and the United Kingdom partly to further isolate Iran and its ally Qatar. Several arms deals worth billions of U.S. dollars were finalized in the review period, further strengthening military cooperation between Manama, and its Western allies and the Gulf Cooperation Council (GCC).

However, Bahrain increasingly struggled to contain its economic and fiscal crisis due to the low oil price as the kingdom's structural deficiencies (e.g., its considerable dependency on oil revenues) persist. The government secured another \$10 billion aid package from its GCC allies, further expanded its austerity program and launched a tax reform to increase non-oil state revenues, but without seriously tackling the rentier state tendencies that constrain Bahrain's economy. Meanwhile, significant recent oil and gas discoveries could have a devastating effect on Bahrain's economic diversification, as the regime might prioritize further exploration and exploitation in order to regain fiscal sovereignty in the short- to medium-term over economic diversification.

History and Characteristics of Transformation

Since their conquest of the archipelago in 1783, the Al Khalifa family has established dynastic and absolute rule in Bahrain. From the outset, this led to a deeply antagonistic relationship between the Sunni ruling family and their supporters, on the one side, and the large majority of the population, who see themselves as native Shi'a (Baharna), on the other. In the twentieth century in particular, conflicts between Sunni and Shi'a groups became more intense and found political expression, either in waves of strikes and petitions (1938, 1943 and 1956) or in social unrest (in the 1990s). The British played a crucial role in institutionalizing minority Sunni rule, propping up the pro-British Al Khalifa monarchy. In 1820, Bahrain became a protectorate of the British empire. During that period, police forces were recruited from British India. The strategy of importing foreign mercenaries to control local dissent continues until today as Bahrain has recently expanded its use of foreign mercenaries recruited from predominantly Sunni countries (an unknown number of mercenaries from Yemen, Jordan, Syria and Pakistan are integrated in Bahrain's security apparatus). After British forces withdrew from the Gulf in 1971, the monarchy's dependence on external military support to defend itself against internal uprisings and hostile neighbors translated into a close alliance with the United States, with the U.S. Fifth Fleet stationed in Bahrain.

The monarchy's dependence on external support is strengthened by Bahrain's geopolitical location. The country's population is small (1.5 million as of 2017, of which roughly 55% are migrant workers) and its natural resources (oil, aluminum and natural gas) are limited. The only land access to Bahrain is via the King Fahd Causeway connecting the country with Saudi Arabia. Bahrain shares its only significant oil field, Abu Safah, with Saudi Arabia, whose state-controlled company ARAMCO heads the exploitation and extraction. Rents from the kingdom's natural

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

The Bahraini and Saudi monarchies share an interest in Sunni hegemony in the region that has become more pronounced since the 1979 revolution in Iran, given the latter country's equally hegemonic Shi'a ambitions. Saudi Arabia is interested in maintaining the status quo in Bahrain to oppose Iran gaining influence on the Arab peninsula. Saudi Arabia was the driving force behind the Gulf Cooperation Council's (GCC) 2011 military intervention in Bahrain. Saudi and UAE forces entered the country to support the regime in dispersing pro-democracy protests and maintain Al Khalifa rule. As tensions between the Sunni rulers and the Shi'a opposition continue to this day, Riyadh has sustained the deployment of an unknown number of troops in Bahrain. In the meantime, the power struggle between Saudi Arabia and Iran in the region has translated into extensive cooperation between Bahrain, and its Western allies and the GCC. The kingdom has been increasingly involved in proxy conflicts. In 2014, Bahrain joined the U.S.-led coalition against the so-called Islamic State (IS) group in Syria and Iraq and, in 2015, the Saudi-led war in Yemen. In 2017, Bahrain joined an initiative launched by Saudi Arabia to isolate Qatar over regional quarrels. A British navy base, which opened in 2016, was expanded in 2018 with the addition of a naval support facility, which might be used for joint trainings with Bahrain's navy, British officials indicated.

The political and economic transformation of Bahrain over the past 20 years is strongly linked to the current king, Hamad bin Isa al Khalifa, who came to power in 1999 and quickly introduced a comprehensive reform of the political system, including cautious democratization in response to the civil unrest of the 1990s. This approach was formalized with the approval of the National Action Charter in a 2001 referendum and the establishment of a constitutional kingdom. The 2002 constitution reintroduced a parliamentary system for the first time since the 1970s, though the newly created National Assembly only holds limited authority. This semi-democratic reform included the legalization of political societies (de facto parties) and liberalization efforts, but increasingly turned into a masquerade. Over the years, public dissatisfaction mounted and culminated in the mass uprising on February 14, 2011 (the 10th anniversary of the referendum). This recent revolt challenged the political progress of the past decade and paved the way for the restoration of an oppressive political system.

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

Transformation Status

I. Political Transformation

1 | Stateness

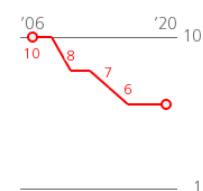
Bahrain's monopoly on the use of force remains challenged due to the activities of armed militants, and persistent civil unrest in Shi'a-majority villages and towns across the country. Several peaceful small-scale marches were staged in marginalized rural areas with a Shi'a majority, but also in outskirts of the capital city, Manama. But the overall number of people protesting in the review period declined significantly. A long-lasting sit-in around the house of the Shi'a cleric Sheikh Isa Qassim in the village of Diraz witnessed repeated clashes between protesters and police forces. In 2017, five protesters were killed after security forces violently tried to disperse the sit-in. Major protests only occurred on the anniversaries of the 2011 uprising in February 2017 and 2018, and ahead of the parliamentary elections in late 2018.

While those protests represented only a partial challenging to the state, a series of attacks by armed militants in 2017 increasingly threatened the government's ability to maintain control. In September 2017, a bomb attack on police forces guarding a Shi'ite procession during the Ashura festivities injured five, while a homemade bomb targeting a bus carrying police personnel a month later killed one police officer and injured eight. The bomb attack on an oil pipeline in 2017 has further illustrated Bahrain's vulnerability to targeted attacks on vital infrastructure facilities, though it remains unclear if the groups responsible for these attacks are still operating. No major terrorist attack was recorded in 2018. However, Bahrain maintained the deployment of a significant number of foreign military personnel in the country, including U.S. and UK troops, and security forces from Saudi Arabia and the United Arab Emirates, and continued to integrate mercenaries from other Arab countries into its domestic security apparatus. Thus, doubts about the regime's ability to maintain control on its own increased.

Question
Score

Monopoly on the
use of force

6



Questioning the nation-state is not common in Bahrain, although large parts of society challenge the current political order and call for the democratization of the state. The presence of at least two national narratives – a Sunni narrative dating back to the Al Khalifa’s conquest of Bahrain in 1783 and a Shi’ite narrative – undermine the legitimacy of the Al Khalifa family, which is primarily contested in Shi’a communities. The dominant political role of the royal family, and political, economic and social inequality, most notably between Sunni and Shi’a groups, remain major catalysts for popular unrest. Due to the intense repression by the state, moderate voices among the Shi’a opposition have become weaker, while more radical forces, including ultra-conservative Sunnis, are on the rise.

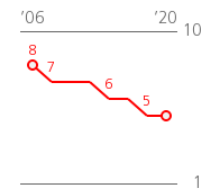
Meanwhile, discourses about national identities are inconsistent and sectarian identities do not solely reflect religious affiliations. The conflict between privileged Sunnis and marginalized Shi’ites is predominantly shaped by the politically motivated discrimination of Shi’ites. Thus, the royal family’s strategy to preserve its political power translates into a controversial policy regarding citizenship and naturalization. The government encourages foreign Sunnis to immigrate to Bahrain. It allows Arab nationals to apply for citizenship after 15 years of residence and non-Arab foreigners after 25 years of residence. At the same time, the state continues to extensively revoke the citizenship of Shi’ite opposition figures, which further undermines people’s ties to the state and deepens rifts within society.

During the review period, the government further expanded this practice. Between 2012 and January 2019, a total of 804 Bahrainis were stripped of their citizenship. In 2017, 156 cases were recorded and 298 cases in 2018. The legal basis for this practice is the 2014 amendment to the 1963 Citizenship Law, which grants the Ministry of Interior the authority to revoke a person’s citizenship when the person “causes harm to the interests of the kingdom or acts in a way that contravenes his duty of loyalty to it.” Depriving citizens of their nationality renders them stateless and is a violation of international law, Amnesty International declared.

Bahrain’s constitution stipulates freedom of religion and conscience, but declares Islam the religion of the state and Shariah a principle source of law. Non-Muslims (including Christians, Jews and Hindus) are relatively free to exercise their religion and the government allows freedom of worship. Non-Muslim and Muslim groups must register with the government. There are 19 non-Muslim groups registered in Bahrain, including several Christian churches, and Hindu and Sikh groups. Shi’ite Muslims, however, are subjected to state interference and face restrictions regarding the exercise of their religion. The government maintains supervision of religious textbooks and preaching, and monitors mosques and prayer halls. Clerics and activists claim that authorities have demolished places of worship and restricted Shi’ite ceremonies. In 2018, a Shi’ite mosque was demolished south of Manama after residents had rebuilt it without government approval, while authorities detained several clerics during the 2018 Ashura festivities, accusing them of inciting hatred

State identity

5



No interference of religious dogmas

6



against the regime. There is no systematic interference by the government at Shi'ite places of worship or ceremonies, but authorities regularly intervene on suspicions of political activity.

The state does not discriminate between Sunnis and Shi'ites in principle. Religious affiliations are not explicitly mentioned in official documents, including birth certificates. However, the country's society, and the political, social and economic spheres are divided along sectarian lines. A possible domain for future friction between the state and Shi'a clerics is the unified Personal Status Law, signed into law by the king in July 2017. The 2009 Family Law only applied to Sunni Shariah courts and left the Shi'a community without clear legislation regarding personal status matters. Shi'a clerics continued to judge according to their personal interpretation of Islamic law. The 2017 law addresses issues such as marriage, child custody, divorce and inheritance, and aims to ensure that Sunni and Shi'a Shariah law is being enforced. Due to the sectarian tensions in Bahrain, some Shi'a clerics considered the law an interference in Shi'ite religious affairs.

Basic infrastructure for a nationwide supply of water, sanitation and electricity is well-established. Access to improved sanitation facilities stood at 99% in 2015, while 100% of the population had access to improved drinking water sources, according to World Bank data. Administrative civil functions (e.g., school-level education, primary and secondary health care, public transportation and communication infrastructure) is likewise well-developed. Bahrain features the highest internet penetration in the region.

However, villages, towns and neighborhoods in Manama, which are predominantly inhabited by Shi'ites, as well as rural areas suffer from less developed infrastructure and limited access to basic services.

In the period of review, the government continued to upgrade infrastructure, although it focused on mega projects instead of tackling imbalances between urban and rural areas. The first stage in constructing a new terminal of Bahrain International Airport, worth \$1.1 billion, is set to be launched in 2019. A medical city featuring almost 300 beds and research facilities is scheduled to open in 2021. In addition, the government increasingly tackled the housing shortage and launched several projects in cooperation with the private sector to provide housing for the low- and middle-income segment. Moreover, Bahrain increasingly pushed for the digitalization of services. In 2018, the Information and e-Government Authority announced that it had transferred 50% of websites and governmental electronic services to Amazon's cloud computing service AWS, indicating that cloud computing will "significantly reduce operational costs, reduce time and improve services."

Basic
administration

8



1

2 | Political Participation

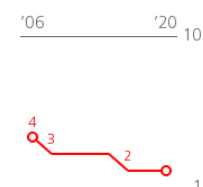
After the adoption of the National Action Charter in 2002, Bahrain reintroduced a formally semi-democratic system, and holds parliamentary and municipal elections every four years (2002, 2006, 2010, 2014 and 2018). Every Bahraini woman and man at the age of 20, and citizen of a GCC state who owns property or is resident in Bahrain is eligible to vote. However, the most recent simultaneous elections for the three municipal councils and the upper house of parliament, the Council of Representatives (COR), clearly illustrated that elections are neither free nor fair. The electoral system remains flawed, while the government further undermined the legitimacy of the elections by extensively interfering in the electoral process. In 2016 and 2017, authorities dissolved two major opposition parties (al-Wefaq and Wa'ad) and barred their members from running for office. In 2018, the king ratified an amendment to the Exercise of Political Rights Law, which bans the candidacy of “leaders and members of dissolved political organizations” and “persons previously convicted to a prison sentence of six months or more.”

Ahead of the 2014 elections, authorities reduced the number of electoral districts for the COR elections from five to four, further decreasing the likelihood of Shi'ite candidates winning a seat due to the increased gerrymandering of electoral districts in favor of the Sunni electorate. In the run-up to the 2018 elections, authorities rejected at least five candidates, claiming that they had been former al-Wefaq members, and removed thousands of names from voter lists, asserting that those had not participated in previous elections. Moreover, the High Election Commission, assigned to monitor the vote, is far from independent. The commission operates under the authority of the minister of justice, Sheikh Khaled bin Ali Al Khalifa, a member of the royal family. In use are also “general” polling stations unconnected to districts, which increases the risk of manipulation. During the two election rounds in 2018, numerous reports indicated further violations, including vote buying by naturalized citizens, voter intimidation, and governmental pressure on the voting intentions of public sector workers and military personnel. Due to boycott calls by major opposition forces (e.g., al-Wefaq), the official turnout rate of 67%, a 14% increase compared to 2014, is not credible.

Results of the parliamentary election indicate a partial shake-up of the COR. Only three out of 23 members of parliament, seeking re-election, could regain their seats. Independents won 34 out of the 40 seats in total, while party-affiliated politicians won six seats. Thus, political societies doubled their outcome compared to the 2014 election. Al-Minbar, the political arm of Bahrain's Muslim Brotherhood, lost its only seat. The ultra-conservative Salafist al-Asalah Society won an additional seat and now has three seats in the COR. The Democratic Progressive Tribune, an al-Wefaq ally, won two seats and the pro-governmental National Unity Assembly one. In December 2018, the government resigned, but the newly appointed cabinet featured

Free and fair elections

2



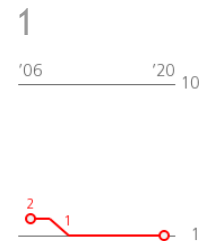
only three new ministers. The king, likewise, appointed the new Consultative Council, the parliament's upper house, in which 31 out of 40 members retained their seats. Both chambers of parliament have therefore been reassembled, but their impact on the government's performance and executive policies in general remains limited.

Bahrain's legislative system is composed of two chambers: the elected lower house of parliament (the Council of Representatives, COR) and the upper house of parliament (the Consultative Council), which is entirely appointed by the king. The Consultative Council was established as a subordinate body in 1992 with advisory competences, but designated as parliament's upper house in the 2002 constitution. The 2002 constitution also created the COR, whose members are elected in a popular vote. Together, the COR and the Consultative Council (40 members each) constitute the bicameral National Assembly. A constitutional amendment in 2012 transferred power within the National Assembly toward the COR and declared the elected body to be the presiding chamber of parliament. In case of joint sessions of both chambers, the National Assembly is chaired by the speaker of the COR.

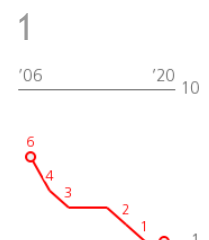
However, the COR has only limited power regarding legislation and oversight over the government, as both chambers of parliament can only vote on draft laws proposed by the government. Both chambers can amend, approve or reject draft legislations and propose laws to the government, but are barred from voting on legislations drafted without the government's approval. The COR has the power to submit written questions (information requests with limited accountability of the government) to the cabinet and to call ministers for interpellations. For the removal of a minister through a vote of no-confidence, a two-thirds majority in the COR is required. The chamber does not have the authority to raise the subject of confidence in the prime minister, but can declare its "non-cooperation" with him by a two-thirds majority. In this case, the king has to decide if he sacks the prime minister or dissolves the COR. Final authority regarding legislation is exclusively held by the king, the COR is not designed to effectively counterbalance the power of the government.

Bahrain's constitution provides for the right to assemble and the right to establish private associations as long as they do not violate the official religion or public order. But in reality, freedom of assembly and association is widely restricted. The 1989 Law of Associations allows authorities to monitor and control NGO funding, while the involvement of such organizations in politics is strictly prohibited. Religious associations exist, but NGOs affiliated to Shi'a clerics are under increasing governmental pressure. Human rights organizations critical of the government exclusively operate from abroad. Freedom of assembly is likewise non-existent. The 1973 Public Gatherings Law and its 2013 amendment prohibits public gatherings of more than five people without a permit and bans "protests, rallies, gatherings or sit-ins in Manama," which turned the country's capital into a de jure protest-free zone. Authorities continue to arrest, prosecute and sentence protesters on such charges, but increasingly refer to the Anti-Terrorism Law and its 2015 amendment in trials of

Effective power to govern



Association / assembly rights



people, arrested during protests or sit-ins. It stipulates harsh prison sentences for individuals found guilty to have trained another person in the manufacture or use of weapons, explosives or similar material with the aim of committing terrorist crimes. During the review period, there were no authorized protests, but authorities dispersed several marches and sit-ins, and staged night raids ahead of expected protests.

Freedom of the press and scientific research, and freedom of speech (spoken and written) is guaranteed by Bahrain's constitution. The freedom of postal, telegraphic, telephonic and electronic communication is likewise "safeguarded" and confidentiality guaranteed. The censorship of communication is prohibited in principle, but exceptions are specified by law. In reality, however, the government increasingly uses vaguely worded legislations to restrict freedom of speech and freedom of the press, continues to monitor and block online content, and spies on internet users. The Press Law allows the state to prosecute anyone who criticizes or insults the king, or threatens national security. A 2016 edict by the minister of information affairs introduced further restrictions by expanding governmental oversight of the dissemination of electronic media and allowing the state to target content producers.

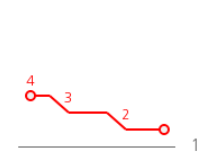
In March 2018, the Ministry of Interior publicly threatened those who criticize the regime online, stating that it is tracking online accounts that have "departed from national norms, customs and traditions," according to Human Rights Watch. Ahead of the 2018 elections, at least six people were detained and charged over allegations, such as "obstructing the electoral process" or "misuse of a phone" after they had announced their intention to boycott the vote, including a former member of parliament. Several opposition figures and activists remain behind bars on charges related to statements they made online, including the head of the Bahrain Center for Human Rights, Nabeel Rajab. After he was convicted and pardoned for tweets he wrote in 2014, authorities arrested him again in 2016. In January 2018, an appeals court upheld a two-year prison sentence against him for "disseminating false news, statements and rumors that would undermine [Bahrain's] prestige" in a case related to a TV interview. In 2018, Rajab was handed an additional five-year prison sentence on charges of "releasing false news during wartime and publicly insulting brotherly states and the Ministry of Interior" relating to tweets about Saudi Arabia's role in the war in Yemen.

Freedom of the press is likewise under heavy pressure. In June 2017, authorities closed the only remaining independent newspaper, al-Wasat, after the outlet had published an article about protests in Morocco's al-Hoceima. The government justified its decision to suspend al-Wasat's print and online edition alleging the newspaper had violated the law. The newspaper had "published a column (...) that included a defamation of a sisterly Arab country," according to Bahrain's state news agency BNA. While al-Wasat's closure is a major blow for the media landscape and freedom of the press in the kingdom, authorities continue to jail journalists.

Freedom of expression

2

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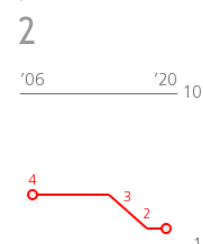
According to the Committee to Protect Journalists, six reporters were held in detention as of December 2018. Authorities have also refused to renew the accreditations of at least four local reporters, who were assigned by foreign media outlets.

3 | Rule of Law

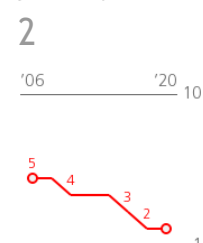
Bahrain's constitution claims that the system of government is based on a separation of legislative, executive and judicial authorities, but in reality, there is no separation of power. The king holds extensive legislative, executive and judicial power, and appoints the prime minister, his deputies, judges and all members of the upper house of parliament. The king is also the commander-in-chief of the armed forces, can call for a referendum, dissolve the elected lower house of parliament and call early elections. The king can rule by decree and safeguards the "supremacy" of the constitution and the law. The parliament does not have the authority to hold the king or the prime minister accountable, but enjoys limited tools to express its disagreement with the cabinet or question individual ministers. The government is also highly dependent on the king, although the prime minister can propose cabinet members. But their approval falls under the king's authority. The cabinet is traditionally largely composed of members of the royal family. In a cabinet reshuffle in late 2018, the king reappointed his uncle, Prince Khalifa bin Salman Al Khalifa, as the country's prime minister – a post he has occupied since 1971 – and Crown Prince Salman bin Hamad Al Khalifa as first deputy prime minister. Key government posts are held by members of the royal family, including the ministries of interior, foreign affairs, defense, finance and oil.

The judicial system in Bahrain is neither independent nor free from the influence of political decision-makers. However, the constitution stipulates that the judiciary is independent. All judges, including the members of the Constitutional Court, are directly appointed by the king. In addition, the king chairs the High Judicial Council and, therefore, has authority over administrative matters of the judiciary. No approval of judges by the parliament or any other branch of the government is required. Once a judge is appointed, accountability is largely limited, as the law does not allow for the impeachment of judges. In 2017, the king ratified a constitutional amendment, which grants military courts the authority to trial civilians "accused of threatening the security of the state." The amendment further downgraded the rule of law in Bahrain as defendants in military courts enjoy less guarantees of a fair trial than in civilian courts. Both military and civilian courts continued to regularly issue controversial sentences against activists, journalists, human rights defenders and opposition figures during the review period, including embracing mass trials, indicating that the judiciary largely performs on behalf of the ruling class. Members of the royal family are also represented in the judicial system and although state officials have repeatedly lost court cases, the Al Khalifa family de facto enjoys impunity.

Separation of powers



Independent judiciary



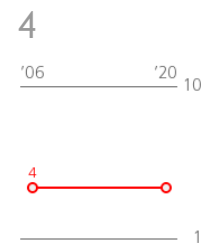
Adequate, consistent and transparent procedures to efficiently prosecute abuses of office are largely absent in Bahrain, especially regarding unlawful killings, torture, ill-treatment and other violations by the country's security forces. Human Rights Watch said in 2019 that, despite the installation of oversight mechanisms as recommended by the Bahrain Independent Commission of inquiry (BICI) in 2011 (e.g., the Interior Ministry's Ombudsman Office and the Special Investigations Unit), prison guards and other officials were not held accountable for alleged crimes. King Hamad established those mechanisms after the 2011 uprising to investigate allegations of human rights abuses. However, except first-instance convictions of several low-ranking police officials who were later acquitted or given light sentences in appeal trials, those mechanisms largely failed to effectively investigate and prosecute abuses of office by the kingdom's notorious security forces.

However, authorities continued to occasionally prosecute financial crimes (e.g., bribery, embezzlement and money laundering) during the review period. Though investigations exclusively targeted low-level officials. In 2018, a police officer enrolled in the traffic department was charged with embezzlement, while the Ministry of Interior referred 28 individuals, including government employees, to the public prosecution on allegations of forging passports, travel stamps, visas and resident permits for foreign countries. Numerous public servants, including a governmental assistant undersecretary, were referred to the prosecution service by higher education authorities over charges of falsifying academic records and education certificates. Meanwhile, the U.S. State Department upgraded Bahrain to "Tier 1" status in its 2018 "Trafficking in Persons Report" based on the assessment that the kingdom had made "key achievements" on the issue, highlighting the first ever conviction of a government official on charges related to forced labor. Bahrain's overall performance in terms of prosecuting abuses of office remains highly flawed as high-ranking officials, the royal family and security apparatus personnel are not investigated properly.

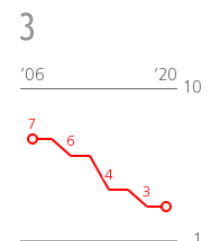
Bahrain's constitution provides for equality of its citizens "before the law in public rights and duties," prohibits discrimination based on sex, origin, language, religion or creed, and explicitly forbids "physical or mental torture" and "undignified treatment." However, authorities are frequently accused of serious violations of those stipulations. Reports and testimonies indicate that physical and psychological torture, as well as mistreatment during investigations, arrest procedures or in detention is widespread. The same accounts for the refusal of officials to grant defendants access to lawyers or medical treatment. Authorities also intensified their practice of rounding up Shi'ite activists and dissidents ahead of expected protests, temporarily and arbitrarily arresting civilians on dubious charges and issuing travel bans.

Women, Shi'a and migrant workers are heavily disadvantaged, and face de jure and de facto discrimination in political, economic and social matters. The 2009 Family Law only regulated personal status matters in Sunni Shariah courts and left Shi'ite

Prosecution of office abuse



Civil rights



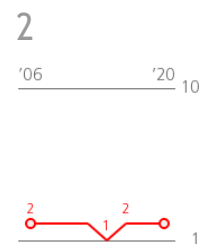
women in legal limbo, as Shi'a courts continued to rule on a case-by-case basis. The 2017 Personal Status Law also covers Shi'ite courts and is, therefore, a limited improvement. However, women still face unequal rights regarding personal status matters such as divorce. The “marry your rapist” law in the 1976 Penal Code (Article 353) is still in place, despite parliamentary steps to abolish the law in 2015.

The constitution and the Labor Law grant the right to strike and to form independent trade unions, though with significant restrictions. Collective bargaining, and the establishment of trade unions in the public sector, and oil and gas industry are illegal. Migrant workers are allowed to join unions, but leadership posts in unions have to be occupied by Bahrainis. Trade unions are barred from political activities and must affiliate with one of the kingdom's two trade union federations (the General Federation of Bahrain Trade Union or Bahrain Free Trade Union Federation). Although trade unions were vibrant and active civic actors ahead and during the 2011 uprising, they have pursued a less confrontational approach subsequently due to repression and mass sackings following the 2011 general strikes. Meanwhile, migrant workers continue to be subject to low pay, abuse and exploitation. In 2018, construction workers staged several marches to protest against unpaid salaries.

4 | Stability of Democratic Institutions

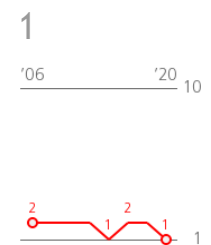
Bahrain is a constitutional monarchy as stipulated in the 2002 constitution and 2012 constitutional amendment, but the king holds absolute power. The government structure is composed of a central government, four governorates and 12 municipalities, which are partially democratically represented in three municipal councils. However, the kingdom's administrative structure remains largely centralized, despite the existence of regional governments and elected municipal councils as neither the governorates nor the municipalities enjoy autonomy from the central government. The elected lower house of parliament (COR) and the three municipal councils representing the 12 municipalities only have limited authority over the government and no power to hold the king or the prime minister accountable. Although the COR has some power over individual ministers, its ability to perform is very limited as the king appoints all 40 members of the upper house of parliament, the Consultative Council. This makes it de facto impossible for the COR to win a vote in a joint session with the Consultative Council within the framework of the National Assembly, which only convenes when a disagreement between both chambers occurs (e.g., the Consultative Council approves a law but the COR rejects it). Thus, draft laws can be formally sent back to the cabinet, but in reality, the king repeatedly intervenes, and demands that the government and COR negotiate matters. This procedure has repeatedly led to frictions between the cabinet and the COR. However, if negotiations fail, the king can rule by decree, which fundamentally downgrades the COR to a mere rubberstamp body.

Performance of democratic institutions



The legitimacy of Bahrain's semi-democratic institutions declined significantly during the review period, both among the ruling class and the opposition. Although elections were held in 2018, the political environment prior to the vote clearly indicated that Bahrain's democratic institutions are no longer capable of absorbing and channeling political confrontations. The crackdown on major opposition forces representing the Shi'a majority, and the liberal and left-wing strata of society illustrated that the regime has abandoned any policy that aims at reconciliation within the framework of the country's democratic institutions. Though the regime continued to claim that it is committed to the semi-democratic model. Prior to the vote influential opposition forces, such as al-Wefaq, were excluded from the formal political sphere. In 2018, the king ratified an amendment to the Exercise of Political Rights Law, which effectively banned the candidacy of opposition candidates as the amendment prohibits "leaders and members of dissolved political organizations" from running for office. In return, al-Wefaq called for a boycott of the elections, which further undermined the legitimacy of the democratic system currently in place. Although the acceptance of Bahrain's democratic institutions strongly declined among Shi'a communities in recent years, most political societies – including those that were banned during the review period – continue to lobby for democratic reforms and still support a parliamentary political system.

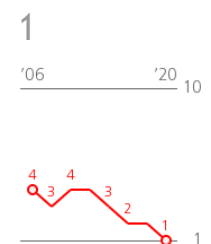
Commitment to democratic institutions



5 | Political and Social Integration

Bahrain's legal system imposes broad restrictions on political interest groups and political parties are banned by law. However, so-called political societies, which de facto operate as parties, are legal, and allowed to form parliamentary blocks, hold internal elections and campaign publicly. The 2002 Exercise of Political Rights Law prohibits electoral meetings in places of worship, universities and public institutions, while the 2016 amendment of the Law 26/2015 (which regulates political societies) bans simultaneous membership in societies and engagement in any kind of religious preaching, guidance or speech. Political societies based on sectarian, ethnic or geographic bases are likewise prohibited. However, religious affiliations play an important role for many of Bahrain's political societies.

Party system



The kingdom's party system features a broad variety of societies but their ability to operate are increasingly limited. In 2016, the largest opposition party with a predominantly Shi'ite voter base, the al-Wefaq National Islamic Society, was banned and had its assets liquidated by court order. Al-Wefaq officials are continuously prosecuted by authorities, including the society's elected leader Sheikh Ali Salman. Ali Salman was arrested and jailed in 2014 on charges of attempting to overthrow the regime and sentenced to up to nine years in prison before an appeals court acquitted him in June 2018. In November 2018, Bahrain's High Court of Appeals overturned the acquittal and sentenced Ali Salman to life in prison on charges of spying for Qatar. In 2017, the left-leaning and secular National Democratic Action Society (Wa'ad),

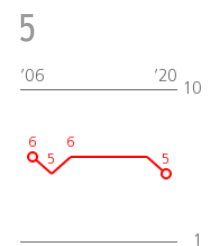
which includes both Sunni and Shi'ite members, was likewise dissolved and had its assets seized on charges of supporting terrorism.

As of 2019, the party system is largely composed of small conservative Sunni political societies, such as the moderate Arab-Islamic Wasat Society, the Islamic Shura Society and the National Islamic Platform Society (al-Minbar), the political arm of Bahrain's Muslim Brotherhood. Increasingly significant in the country's party landscape are the nationalist and pro-government National Unity Assembly, formed in 2011; the ultra-conservative Salafist al-Asalah Society; and the Democratic Progressive Tribune, an ally of al-Wefaq. All three parties won seats in the 2018 COR elections. However, the sweeping crackdown on al-Wefaq and Wa'ad has been a blow for the country's party system as a whole as it further undermined the legitimacy and credibility of elections in general.

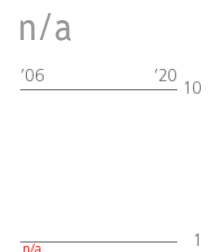
Given the size of Bahrain's territory and population, and the authoritarian tendencies of its regime, the kingdom hosts a comparatively large variety of civil society groups, such as charities, women's rights groups and cultural clubs. The number of political societies (de facto parties) and trade unions is remarkable, although the crackdown on opposition groups and human rights advocates significantly decreased their ability to operate. Human rights groups mainly operate from abroad. Trade unions are also under pressure and have adopted a less confrontational approach since the regime turned back to authoritarian rule. Bahrain's Muslim Brotherhood remains a major interest group in the country, and operates a political arm, the al-Minbar society, as well as charities and networks in Bahrain's educational system. However, due to the crackdown on the Shi'a opposition, and affiliated political societies and religious associations, a vast majority of the population faces de facto exclusion from the right to civic organization. The ability of civic groups to mediate between society and the ruling class is, therefore, seriously undermined.

Reliable data from public opinion surveys or polling on public approval or rejection of democratic norms and procedures is not available in Bahrain. Voter turnout in the 2018 parliamentary elections could have been an indicator for citizens' approval of the current state of Bahrain's semi-democratic system. However, the official turnout of 67%, a 14% increase compared to the 2014 elections, is not credible due to the ongoing systematic crackdown on opposition groups representing the country's Shi'a population and their exclusion from the formal political sphere. The banned al-Wefaq society claimed that voter turnout did not exceed 30% and stood at less than 10% in some districts. However, al-Wefaq called for a boycott of the vote in what can be considered another indication of a decline of popular support for the political system currently in place. An assessment of Bahraini society's approval of the semi-democratic system or the performance of the elected COR is, therefore, not feasible.

Interest groups

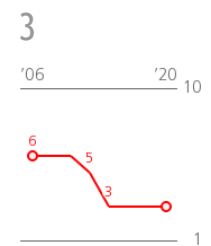


Approval of democracy



Bahrain's economic and fiscal crisis linked to lower oil prices has increasingly affected socioeconomic outcomes for vast proportions of Bahrain's already marginalized population, with people in Shi'a-majority neighborhoods particularly affected. Recently imposed taxes on water and electricity consumption, and cuts to meat and fuel subsidies are increasingly leading to declining living standards in those communities. The crackdown on the Shi'a opposition and clerics involved in politics has included the closure of civil society organizations such as religious charities. Thereby, existing formal and informal non-governmental social safety nets have been dismantled, which has significantly increased the necessity for new informal mechanisms and an autonomous self-organized sphere able to fill the gap and maintain the availability of basic services and goods for affected communities. Soaring political polarization due to the government's crackdown on the Shi'a opposition has further widened sectarian and religious rifts in society. Rising costs for basic commodities have affected the majority of Bahrain's migrant workers as their monthly average salary remain significantly below the country's minimum wage. Due to the informality of self-organized networks, an assessment of their evolution is difficult to provide.

Social capital



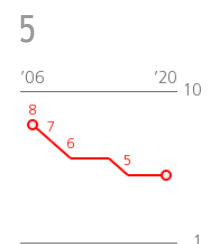
II. Economic Transformation

6 | Level of Socioeconomic Development

Although Bahrain's natural resources provide for a relatively high overall living standards, vast proportions of the population are fundamentally excluded from society and the kingdom's wealth, especially women, Shi'ites and migrant workers. According to the Gender Inequality Index, Bahrain maintained a stable but low ranking (scoring 0.222 in 2017), indicating only slight ups and downs since 2011. The country's Human Development Index score is increasing and stood at 0.846 in 2017. Although there is no reliable data about Bahrain's poverty rate and the extent of relative inequality, the unequal distribution of wealth remains a major concern in terms of inclusive socioeconomic development. Significant socioeconomic barriers exist for both Shi'ites and women. Women have far less access to management positions in the public and private sectors, and face discrimination in terms of wages and representation in the labor market and in politics. The government also grants Sunni Bahrainis significant preferential treatment in the public sector and in politics, while Shi'ites face considerable discrimination regarding access to public sector jobs, education and in the judicial system.

Question Score

Socioeconomic barriers



Economic indicators		2015	2016	2017	2018
GDP	\$ M	31125.9	32250.1	35432.7	37746.2
GDP growth	%	2.9	3.5	3.8	1.8
Inflation (CPI)	%	1.8	2.8	1.4	2.1
Unemployment	%	1.1	1.0	0.9	1.0
Foreign direct investment	% of GDP	0.2	0.8	1.5	4.0
Export growth	%	-1.0	-1.8	2.8	4.5
Import growth	%	-5.6	-3.4	7.8	4.1
Current account balance	\$ M	-752.1	-1492.8	-1599.8	-
Public debt	% of GDP	66.0	81.3	88.2	94.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	17.6	17.0	16.6	17.5
Public education spending	% of GDP	2.7	-	2.3	-
Public health spending	% of GDP	3.2	3	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.6	4.7	4.4	3.6

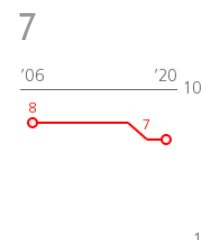
Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

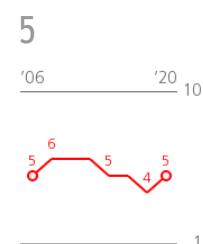
Bahrain features a relatively small market and its economy is largely dependent on the hydrocarbon sector as oil revenues account for about 76% of state income. Due to the government's dependency on oil income, the oil and gas sector (19% of GDP), and other key industries (e.g., aluminum, which accounts for more than 30% of the country's non-oil exports and 11.5% of total exports) remain strongly protected. Other relevant sectors of the economy (e.g., finance, banking, tourism, real estate and ICT) attracted significant foreign investment and are well-regulated. Bahrain is generally keen to attract foreign direct investment and allows 100% foreign ownership in numerous sectors, as such inward investment has increased in recent years. Entry and exit barriers for goods and services are low, and Bahrain has maintained a currency convertibility regime without limitations since 1973. The World Bank's 2019 Doing Business Report ranked Bahrain 62 out of 190 countries regarding the general business environment, up four places compared to the 2018 report, mainly due to improvements in protecting minority investors, clarifying ownership structures and reducing bureaucracy related to cross-border trade. Starting a business in Bahrain takes an average of 9.3 days and seven procedures, including permits, according to the World Bank. Costs to start a business in Bahrain remain stable and are considered moderate. Meanwhile, the newly introduced Personal Data Protection Law aims to promote "efficient and secure processing of big data for commercial use" and provide "guidelines for the effective transfer of data across borders," according to Bahrain's Economic Development Board (EDB).

Despite a generally well-regulated business environment, Bahrain lacked a clear framework for competition and regulations to prevent monopolization and cartels for years. However, the government tackled the absence of relevant legislation during the review period and ratified several laws in 2018 to boost foreign investment and improve the business environment. The newly introduced Competition Law intends to prevent monopolies and anti-competitive behavior, which would "make it easier for new businesses to enter existing markets and compete with significant players," the EDB has stated. The new Bankruptcy Law sets rules for bankruptcies in line with Chapter 11 insolvency rules in the United States, including provisions for cross-border insolvencies. Nevertheless, those new legislations have to prove their capacity to provide an adequate framework for competition in Bahrain, although their ratification is a step in the right direction.

Market organization

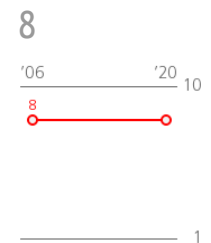


Competition policy



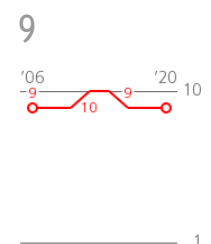
Bahrain has largely liberalized its foreign trade policies since the country joined the WTO in 1995 and the GCC's Unified Customs Union in 2003 (entering into force in 2015), which eliminated tariffs for GCC members on numerous items, mainly food and medical products, and lowered duties on all other goods to only 5%. The simple average MFN applied stood at 4.8% in 2017, while Bahrain imported goods and services worth \$11.6 billion in 2016 (\$1.8 billion of agricultural goods and \$9.9 billion of non-agricultural products). Significant import barriers are only applied on beverages and tobacco (200%), and animal products (100%). Saudi Arabia is by far Bahrain's largest trading partner, followed by the United States and the United Arab Emirates. The kingdom's trade policy features free trade agreements (FTA) with the European Free Trade Association and Singapore, while the most significant agreement remains the bilateral FTA with the United States, which entered into force in 2006. During the review period, Bahrain and the United States signed a Memorandum of Understanding, further clarifying requirements for U.S. exports of food and agricultural products to Bahrain within the framework of the bilateral Bahrain-U.S. FTA.

Liberalization of foreign trade



The banking sector remains a pillar of Bahrain's non-oil economy, accounting for roughly 16.5% of GDP in 2016. The country maintained its reputation as a reliable regional hub for banking and finance businesses as assets held by the banking sector continue to grow. Banking assets stood at \$192.7 billion at the end of September 2018, compared to \$189 billion a year before, according to the Central Bank of Bahrain (CBB). The growth was primarily driven by the rise of foreign assets (\$135.8 billion as of September 2018 compared to \$131.5 billion in 2017), while the budget of commercial banks slightly rose to \$85.5 billion as of September 2017. Total assets held in the sector constitute about 545% of the country's economy, illustrating the significant of banking and financial businesses for Bahrain's economy, as well as associated risks. Additionally, the kingdom remains a major hub for the Islamic finance industry, and hosts its global oversight body, the Accounting and Auditing Organization for Islamic Institutions, and the Islamic Rating Agency. Islamic banking assets stood at 14.8% of Bahrain's total assets in 2017 and have, therefore, only limited impact on the sector's overall performance. Latest World Bank data from 2015 indicate that non-performing loans to gross total loans stood at 4.41%, while the bank capital to assets ratio stood at 13.51%.

Banking system



8 | Monetary and fiscal stability

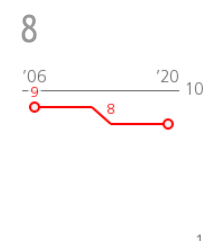
Bahrain's monetary policy is overseen by the Central Bank of Bahrain (CBB), established by royal decree in 2006 to replace the Bahrain Monetary Agency. The CBB is "administratively and financially independent," according to the Financial Institutions Law, but its Board of Directors is entirely appointed by the king. The CBB's independence in terms of its oversight functions over banking and the financial markets is, therefore, limited. Meanwhile, Bahrain's exchange-rate policy is predictable and reliable as the Bahraini dinar (BHD) has been officially pegged to the U.S. dollar at the static rate of \$1 to BHD 0.376 since 2001, after it had been informally pegged at the same rate since 1980. The Bahraini dinar's exchange rate to the euro and the British pound has improved slightly since early 2018. The euro was worth BHD 0.436 at the end of the third quarter of 2018, compared to BHD 0.451 in December 2017. Meanwhile, the British pound was worth BHD 0.490 in the third quarter of 2018, compared to BHD 0.508 in December 2017. The kingdom's real effective exchange rate, however, continued to rise and reached a peak of 115.1 in 2017, compared to 114.6 in 2016 and 111.6 in 2015. The real effective rate has been increasing since 2011, indicating struggling economic competitiveness.

During the review period, Bahrain's inflation rate decreased and stood at only 1.4% in 2017 (significantly down on the 2.8% in 2016), the kingdom's lowest rate since 2011. Due to the austerity program, featuring the implementation of a VAT tax and significant subsidy cuts, inflation is expected to soar in 2018 and 2019, as prices for fuel, water, electricity and transport dramatically increased in 2018. The inflation rate is likely to reach 3% in 2018 and up to 4.8% in 2019.

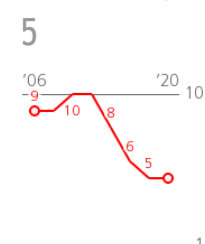
Despite the kingdom's considerable efforts to cut the budget deficit and improve macroeconomic indicators, Bahrain's fiscal performance remained weak in the review period as vulnerabilities (e.g., external debt) increased. The current account balance reached an all-time low in 2017 with a shortfall of \$1.6 billion. The budget deficit stood at 13.2% of GDP in 2017, a slight reduction on its all-time low in 2015 of 18.4%. Meanwhile, total reserves decreased to \$2.44 billion in 2016, down from \$3.4 billion in 2015 and \$6 billion in 2014. Public debts rose considerably and stood at 90.6% of GDP in 2017, up from 82.3% of GDP in 2016 and only 29.7% of GDP in 2010. However, the government continued to tackle the structural budget deficit, and implemented several reforms to consolidate and reform public spending. The most recent World Bank data on net lending/borrowing indicates a negative rate of -3.5% in 2013.

After subsidies on fuel and meat were further cut in the review period, the government increased tariffs on water and electricity imports, indicating a decline in electricity subsidies by almost 50%. For private households, water bills doubled and electricity bills quadrupled in 2018. The government also imposed new taxes on alcohol,

Monetary stability



Fiscal stability



tobacco and sugary drinks, and started applying the VAT tax reform as of January 2019 to increase non-oil state revenues. The introduction of a 5% flat VAT on goods and services came amid a GCC agreement to impose the tax in 2018. However, the implementation of the tax on companies and institutions with annual sales exceeding BHD 5 billion was postponed in Bahrain due to resistance in the parliament. Governmental services and numerous other goods and services are exempted from the VAT tax, including oil products, financial services, real estate, health care, education and land transport.

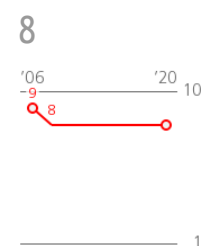
Meanwhile, a \$10 billion aid package to be paid in installments by Bahrain's GCC allies Saudi Arabia, Kuwait and the United Arab Emirates was finalized in 2018, which aims to support Manama's fiscal balance program and eliminate the budget deficit by 2022. While the aid program is expected to strengthen Bahrain's fiscal stability in the short- to medium-term, significant offshore oil and gas discoveries in 2018 might further consolidate state revenues in the long-term. Though it remains unclear when the new fields will be ready for exploitation.

9 | Private Property

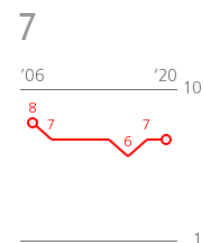
Property rights are well-regulated and well-defined in Bahrain. GCC nationals and companies enjoy the same ownership rights as Bahrainis and are allowed to purchase and own real estate and land without significant limitations, while the authority of sale and allocation of public land is solely held by the king. Non-GCC nationals are also permitted to own real estate, but only in specific areas of the country, high-rise commercial and residential units, and property related to tourism, banking, financial, health care or training projects. The government allows 100% foreign ownership of companies in certain sectors, and the establishment of representative offices and local branches of foreign companies without the need to present a local sponsor. Meanwhile, the kingdom increasingly promotes foreign investments in its real estate sector and launched the Bahrain Real Estate Investment Exhibition (BREIX) in 2018 to boost international investments in the country's real estate market.

The oil and gas sector, and affiliated industries are dominated by state-controlled companies while joint-ventures and other private investments in the petroleum sector are only permitted under production-sharing agreements with the state-controlled oil company BAPCO. However, certain sectors (e.g., tourism, banking, finance, real estate, trade, telecommunications and health care) are open to private and foreign investors. The most recent amendment to the 2001 Commercial Companies Law further improved the business environment in the non-oil sector and allowed 100% foreign ownership in various sectors of the economy, including manufacturing, mining and water supply. Previous amendments had promoted faster administrative procedures, and clarified minimum capital requirements and the oversight authority of the central bank.

Property rights



Private enterprise

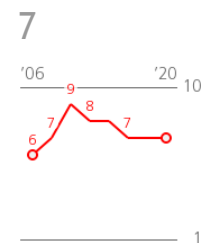


10 | Welfare Regime

With Bahrain's huge oil revenues, the state has established a comprehensive welfare regime for its citizens, including free education and health care, and maintained a vast budget for subsidies for fuel, food and other commodities. The kingdom's public social insurance system dates back to the 1970s and covers citizens employed in Bahrain or any GCC country. It covers old-age and disability pensions, and death and funeral grants. Additional insurances for unemployment and work injuries are available, but with restrictions for foreign workers. The life expectancy at birth in Bahrain is increasing and stood at 76.9 years in 2016, up from 75.5 years in 2006. Public expenditure on health care increased from 2.3% of GDP in 2004 to 3.2% of GDP in 2014. However, the government has launched several reforms of the public health care system's spending schemes in recent years to control public expenses and externalize costs to foreigners, mainly due to the drop in state oil revenues. In 2015, the Ministry of Health introduced new rules for private sector employees, which requires employers to pay an annual fee of \$58 per Bahraini worker and \$189 per foreign worker. In 2018, King Hamed ratified a new Health Insurance Law, which makes it obligatory for foreign workers, visitors and tourists to buy health insurance and pay fees according to the duration of their stay. Bahraini citizens, and expatriate migrants working as housemaids, drivers, gardeners and nurses will be covered by the state under the law. The government estimates that public spending on health care would have more than doubled to BHD 1 billion by 2038, but the new law will reduce expenses by 20%.

Meanwhile, the government has attempted to tackle the socioeconomic effects of its austerity program during the review period. In 2018, subsidies on commodities (e.g., fuel, energy and meat) were lifted, while water and electricity prices soared. Water bills for private households doubled and electricity bills quadrupled in 2018, after government subsidies for electricity dropped by BHD 63 million in 2017. The Ministry of Labor and Social Development introduced a cash transfer program for 156,000 families to compensate families for the lifting of meat subsidies. Though it remains unclear if the cash transfers will be sufficient to mitigate the impact of the state's austerity program on lower-income households. The state has also tackled the growing housing shortage for low- and middle-income segments of the population, after government housing programs were delayed in recent years. The Ministry of Housing expanded the eligibility criteria for the housing program Mazaya, which subsidizes the purchase of housing units in cooperation with private banks and real estate developers. The age eligibility of Mazaya, launched in 2013, was raised from 35 to 50 years old and the income bracket expanded to BHD 500 – 1,500 from BHD 600 – 1200. Although its impact on the housing shortage in neglected Shi'a neighborhoods has been low, the program has the potential to reduce the overall extent of the housing gap in the coming years.

Social safety nets

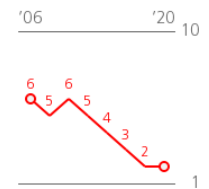


Bahrain's constitution guarantees the equality of its citizens, explicitly prohibits discrimination and stipulates that citizens are "equal in the assumption of public posts." However, women and Shi'ites remain disadvantaged regarding access to education and public sector jobs. Shi'ites continue to have restricted access to public posts, predominantly occupy lower level public offices and are largely excluded from the security services, which are almost entirely composed of local Sunnis or Sunni mercenaries. Meanwhile, the integration of women in the country's educational system is well-developed. The Gender Parity Index for gross enrollment displays parity between girls and boys in primary and secondary education, and a large advantage for girls in tertiary education. However, the literacy rate of women is still considerably lower than men (96.1% of men and 91.6% of women as of 2010). Additionally, women remain largely underrepresented in management positions in both the private and public sector. Women made up only 21% of the total labor force in 2017. The same accounts for political representation. Although the government features several female ministers, the key posts in the cabinet are held by men. The parliamentary election for Council of Representatives (COR) saw a record number of female candidates (40 out of 293 candidates in total), while the total representation of women in both chambers of parliament increased to 18%. Women account for nine out of 40 members of the Consultative Council and six out of 40 members of the COR.

Meanwhile, discrimination against foreign workers in terms of the legal framework and its enforcement remains widespread in Bahrain. Under the kafala system, which requires migrant workers to have a local sponsor to handle their visa and legal affairs, migrant workers have been subjected to excessive working hours and exploitation, have had their passports and salaries withheld, and abusive recruitment fees. Migrant workers also receive a considerably lower wage than Bahrainis. The kingdom has a minimum wage of BHD 300 per month, but an estimated 65% of foreign workers earn less than BHD 200. Although Bahrain launched a new work permit scheme to partially dismantle the kafala system in 2017, the impact of the so-called Flexi-Permit is fairly limited. The new scheme was set up to allow irregular migrants to formalize their status by granting migrant workers the right to sponsor themselves and work for several employers. However, workers in professions such as health care, education and engineering are excluded, while formally employed regular foreign workers are not allowed to apply. As total costs of the permit for a two-year period are about BHD 1,100, the scheme is inaccessible for many and has had a very limited impact on the kafala system.

Equal opportunity

2



11 | Economic Performance

The low oil price and the state's declining hydrocarbon revenues continue to challenge Bahrain's economic performance. Although the government implemented a comprehensive austerity program in order to cut the budget deficit and stabilize macroeconomic indicators, the economy's overall performance is under severe pressure. Bahrain's GDP significantly increased in the review period and stood at \$35,307.1 million in 2017, while the GDP per capita (PPP) rose to \$47,527 in the same year. Official unemployment remains at a stable rate of 1.2% in 2017. However, although these figures indicate relatively strong output strength, Bahrain's economy remains highly vulnerable due to its dependence on the oil price and the state's hydrocarbon revenues.

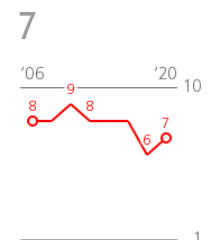
The current account balance reached an all-time low in 2017 with a shortfall of \$1.6 billion. Bahrain's latest budget surplus was generated in 2014, illustrating the economy's dependence on the global oil price level. Public debts rose considerably in the review period and stood at 90.6% of GDP in 2017, up from 82.3% in 2016 and only 29.7% in 2010. The kingdom's inflation rate decreased to 1.4% in 2017, but is expected to rise in 2018 and 2019 due to increasing fuel, water, electricity and transport prices. Non-oil tax revenues are expected to increase in 2019 and 2020 due to the implementation of the VAT, but it remains unclear if the tax reform will be able to compensate for the decline in oil revenues since 2014. Meanwhile, foreign direct investment (FDI) almost doubled in a year-to-year comparison and stood at 1.5% in 2017 but remains generally low. Though, forecasts expect a further increase in FDI in 2019.

12 | Sustainability

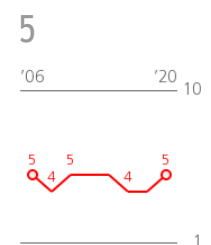
Environmental issues (e.g., pollution, contamination of soil and depleting livestock) remain a major challenge in Bahrain. The expansion of coastal real estate projects and offshore oil exploitation further threatens coastal livelihoods and living conditions. Although the government announced several total bans on shrimp fishing, sometimes lasting for six months, fish stocks declined dramatically. Authorities intensified their efforts to implement the ban on shrimp fishing and repeatedly seized illegally caught shrimp, but the government's overall performance in terms of executing environmental policies, protection measures and legal instruments remains weak. Overloaded sewage stations continue to empty vast amounts of wastewater into the sea.

Nevertheless, the government has increasingly pushed the country's industry toward more sustainable policies and higher environmental standards. Since 2018, the Supreme Council for Environment (SCE) intensified its supervision of industrial installations, conducted field surveys and inspections of industrial facilities, and

Output strength



Environmental policy

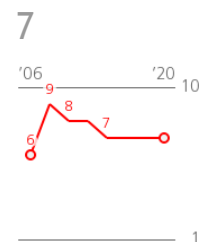


announced a monitoring program for further inspections. In 2019, the SCE launched a project to supervise the implementation of environmental standards and legislation by Bahraini companies in cooperation with private consulting companies. The program aims to ensure companies' compliance with environmental standards and legislation, but is voluntary. Its impact is, thus, limited but a step in the right direction.

Meanwhile, Bahrain's approach toward renewable energy and energy efficiency is more promising in the short- to medium-term. In 2016, the government announced a goal that renewable energy sources would account for 5% of the total energy mix by 2025 and 10% by 2035, and an energy efficiency target of 6% by 2025. The government intends to install solar panels on new residential units and infrastructure projects, and develop on- and off-shore wind-power facilities. Several companies already operate small solar power plants and Bahrain opened its first solar panel assembly plant in 2017. A tender for a 100-megawatt solar power plant was launched in 2018, but the deadline for bids was postponed several times throughout the year. The government claims that these policies are motivated by the 2016 Paris Climate Accord, which Bahrain has signed and ratified. Nevertheless, this state-sponsored slow transition toward renewable energy is primarily fiscally oriented as the government struggles with the decline in oil prices. The same accounts for imposed taxes on water and electricity, and the decrease in fuel subsidies. These policies might, however, have an effect on the very high per capita consumption of water and electricity, as prices soared in the review period.

Bahrain's overall educational system is well-established, and features primary and secondary public schools, available nationwide, as well as private institutions, primarily in tertiary education. The literacy rate stood at 94.6% of the population in 2010, according to World Bank data. The kingdom's public educational system is considered to provide a reasonable level of education by regional comparison, but mediocre by international standards. However, the U.N. Education Index indicates a constant improvement in education in terms of average years of schooling for adults, with Bahrain's score leaping from 0.685 in 2014 to 0.758 in 2017. Meanwhile, the government only spent 2.7% of GDP in 2016 on education, and 0.1% of GDP on research and development in 2014. Public universities and governmental research institutions continue to suffer from a significant lack of funding and expertise. Large parts of society are effectively excluded from private education, with private institutions considered to provide a better level of tertiary education, as fees for private universities and schools are high. Discrimination against Shi'ites in the public education system reportedly persist, inter alia, regarding governmental scholarships in more lucrative and prestigious fields.

Education policy /
R&D



Governance

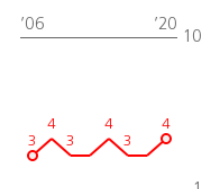
I. Level of Difficulty

Bahrain's structural constraints are fundamentally limited to political and economic matters, which are mostly, but not exclusively, determined by the kingdom's geographical location and its significant natural wealth. The country has not faced a pandemic, war or natural disaster, nor is it affected by extreme poverty or infrastructural deficiencies. Politically and economically, Bahrain is heavily dependent on its GCC neighbors. The kingdom's only land access is via the King Fahd Causeway, connecting it to Saudi Arabia, with whom it shares its only significant oil field, Abu Safah. The state-controlled Saudi oil company ARAMCO heads its exploitation and extraction, which increases Manama's dependence on Riyadh. Although considerable new oil and gas resources were discovered in Bahrain in the review period, Manama will not be able to pursue independent, self-determined foreign and regional policies any time soon due to Saudi Arabia's extensive interference in Bahrain's internal affairs. Against this background, Manama remains tied to Riyadh's confrontational regional policy regarding Iran. Bahrain's vast hydrocarbon resources, its dependency on oil revenues and the kingdom's rentier state are further constraints on the regime's ability to maneuver, as the low oil price continues to challenge the government's ability to maintain fiscal stability. Despite partial successes in promoting economic diversification in recent years, the recent oil and gas discoveries are expected to increase the government's rent-seeking attitude and might represent a set-back for the economy's diversification. The bomb attack on an oil pipeline in 2017 further illustrated Bahrain's vulnerability to targeted attacks on its key industry.

Civil society traditions in Bahrain are considered mediocre by international comparison. Although the kingdom hosts a large variety of civil society organizations, such as associations, charities, cultural clubs, trade unions and political societies (de facto parties), a long-term tradition of civic engagement is only recorded in very few domains. Independent trade unions have their roots in the struggle of Bahraini workers in the 1930s, while the history of religious charities and networks dates back to the nineteenth century. However, today's locally active civil society is bounded by the polarized political environment. Independent trade unions are strongly contained by the regime, while human rights organizations critical of the government operate from abroad.

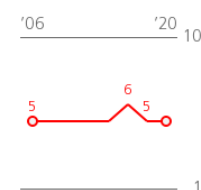
Structural constraints

4



Civil society traditions

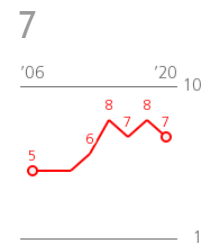
5



The tensions between the ruling Al Khalifa regime and the Shi'a opposition remains Bahrain's major political and socioeconomic conflict. Governmental repression of popular mobilization by formal opposition groups continues to threaten the fragile social cohesion, further polarize the political sphere, and widen rifts in society along sectarian and religious cleavages. The democratic Shi'a opposition is, therefore, increasingly marginalized in the political sphere, although it continues to occasionally call for protests and lobbies for political reform. The blockade of the village of Diraz, which was cordoned off by security forces after locals had set up a sit-in at the house of al-Wefaq's spiritual leader Sheikh Isa Qassim in 2016, finally ended in 2018 after Qassim was allowed to leave the country for medical treatment. Barriers and checkpoints around Diraz were removed by the police and the sit-in terminated.

Ever since, tensions between the opposition and the regime eased on the surface as they shifted away from the country's streets. But the conflict had already covertly intensified as radicalized actors on both sides shifted toward more violent means. The series of bomb attacks in 2017, including attacks on security forces and the bombing of a pipeline, illustrated that armed militant groups were on the rise – at least temporarily. As no major attack occurred in 2018, it is unclear if those groups are still able to operate. However, the attacks indicate a rising ability and willingness among certain parts of the opposition to use violent means against the regime. During the review period, authorities responded by intensifying their crackdown. An increasing number of suspects were arrested and prosecuted on terrorism charges and accused of being affiliated with armed militant groups or collaborating with Iran. Though the number of prosecuted individuals accused of terrorism raises doubts about the credibility of the regime's official claims, given the size of the country. In early 2018, Bahrain's Ministry of Interior announced the arrest of 47 members alleged to be affiliated to three terrorist groups, including Saraya al-Ashtar, an organization established in 2013 with links to Iran's Revolutionary Guards. In May 2018, a total of 116 individuals allegedly related to a terror cell run by Iran were arrested, accused of planning attacks against Bahraini security forces and prosecuted on terrorism charges. In October 2018, seven individuals, accused of being responsible for the 2017 pipeline blast, were sentenced to prison terms of between seven and 10 years. While the 2017 bombing campaign illustrated that the conflict intensity in Bahrain has considerably increased, at least temporarily, it remains unlikely that the confrontation between the mainstream pro-democracy opposition and the regime will intensify in terms of popular mobilization any time soon. The government's ongoing and unrestrained crackdown on the formally organized opposition has planted the seeds for further popular unrest in the medium-term.

Conflict intensity



II. Governance Performance

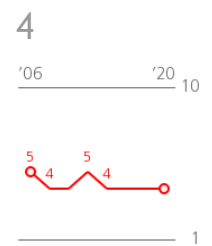
14 | Steering Capability

The limited cabinet reshuffle in December 2018 illustrated once again that the tensions within Bahrain's regime remain. King Hamad reappointed his son, Crown Prince Salman bin Hamad Al Khalifa, as first deputy prime minister and Prince Khalifa bin Salman Al Khalifa as the country's prime minister – a position he has held since 1971. Therefore, reformists and hardliners maintained their share of power, although the regime's reformists, led by the crown prince, remain at a disadvantage with regards to their political agenda. During the review period, the regime's anti-reform faction, led by the prime minister, continued to push for an uncompromising approach toward the Shi'a opposition, and reversed even more achievements of liberalization and reconciliation that were introduced in 2002 and strengthened in 2011. Ever since, the balance of power has considerably shifted in favor of the hardliners as Bahrain's political transformation regressed toward an authoritarian system. However, the regime is generally able to set and maintain strategic priorities and long-term goals, most notably regarding economic development and the overall status quo. The regime's key figures agree in principle on sustaining the monarchy under the leadership of the Al Khalifa clan. Both wings of the elite share an essential interest in maintaining their economic and political privileges, and avoiding any destabilization of the country. Despite internal disagreements over political transformation, the regime has prioritized tackling the economic crisis and is able to agree on economic policies that are considered effective in maintaining the status quo.

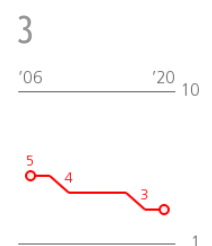
Low oil prices continue to undermine Bahrain's ability to effectively implement the regime's strategic economic and fiscal policy priorities. Since 2015, the state budget and, therefore, the government's spending policies have been directly affected by the decline in oil revenues. In a manner typical of a rentier state, the government continues to co-opt vast segments of society through financial inducements (e.g., free public service provision, subsidies and infrastructure projects), but increasingly struggles to finance its welfare regime. The impact of recent subsidy cuts and the newly imposed VAT on the state budget remains yet to be seen. Despite substantial external aid from its GCC allies, the government has had to significantly expand its austerity program, which further threatens the regime's spending policies and the fragile social cohesion. In return, Bahrain's ruling elite is increasingly forced to follow the lead of Saudi Arabia and the United Arab Emirates regarding multilateral regional policies such as isolating Iran and Qatar. This dependency jeopardizes Manama's sovereignty and even contradicts some of the regime's domestic policies.

Question
Score

Prioritization



Implementation



In recent years, Bahrain's regime has clearly demonstrated that it is neither willing nor able to adopt sustainable long-term policies that would democratize the political system or comprehensive reform the rentier state economy. The government pushed for partial economic diversification in the past and has continuously claimed that upgrading the non-oil sector is a top priority necessary for medium-term development. However, the recent oil and gas discoveries could have a devastating effect on Bahrain's economic diversification, as the regime might opt to prioritize exploration and exploitation in order to regain financial and political sovereignty, and neglect diversification policies.

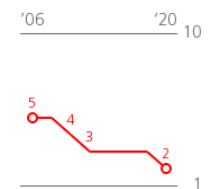
On the political level, the democratic transformation significantly regressed during the review period. The regime continues to crackdown on the Shi'a opposition, freedom of expression and freedom of assembly, and increasingly exploit legal provisions for political purposes. Furthermore, the authorities have reversed two of the few implemented recommendations of the Bahrain Independent Commission of Inquiry (2011), which was set up in 2011 as a response to popular unrest and demands for political reform. In 2017, the regime restored the arrest and investigation powers of the notorious National Security Agency (NSA), and granted military courts jurisdiction over civilians. Meanwhile, Bahrain's government continues to ignore the most essential recommendations raised in the U.N. Human Rights Council's Universal Periodic Review 2017 (e.g., adequately investigating torture allegations against state officials), while the regime's official human rights body, the National Institute for Human Rights (NIHR), consistently whitewashes the regime's human rights record.

15 | Resource Efficiency

In a manner typical of a rentier state, state bureaucracy in Bahrain is inefficient and bloated, with the regime using extensive public employment as a tool to co-opt large parts of society by distributing a share of the country's wealth to its citizen. Wages in the public sector remain relatively high compared to the private sector. However, the government is increasingly forced to limit public expenditure due to the budget deficit and pressure from external actors to increase the efficiency of governmental spending. The expansion of the austerity program, during the review period, included cuts to public spending on water and electricity services, strengthening accountability in governmental entities, simplifying public administrative procedures, and the introduction of a voluntary retirement scheme for state employees to reduce public sector employment. The retirement bill, however, faced opposition in the parliament and from the judiciary in 2018, and has been retracted for the time being. The friction between the government and the parliament over the matter illustrated the rising disagreement over the government's austerity program even within state institutions and is slowing down the implementation of certain austerity measures. Meanwhile, the \$10 billion aid package for Bahrain's fiscal balance program pledged by Saudi Arabia, Kuwait and the United Arab Emirates included a fiscal cooperation

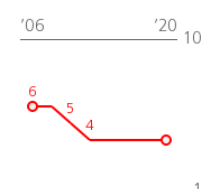
Policy learning

2



Efficient use of assets

4



agreement, signed in Manama in October 2018. Although the details of the agreement have not been published, it appears to be a tool to pressure Bahrain to consolidate public expenditure, as the three GCC donors also struggle to maintain their own public expenses due to the low oil price.

The coordination of policies and objectives within the ruling class is managed behind closed doors as regime hardliners and reformers rarely clash in public. Policies related to the state spending on economic projects or the welfare program are largely dependent on Bahrain’s oil revenues and are, therefore, more likely to be implemented without tension when global oil prices are high. As oil revenues are currently limited, conflicts over state spending priorities have increased. Disputes between the elected upper house of parliament and the government over policy decisions related to the austerity program, but also the controversial retirement bill, repeatedly occurred during the review period, indicating that the economic crisis is increasing frictions between governmental institutions.

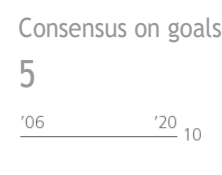
The investigation and prosecution of corruption (e.g., embezzlement, money laundering and bribery) is not adequately executed in Bahrain. Embezzlement in the public sector remains widespread and the ruling elite, including the royal family, enjoys de facto impunity. Although the law provides significant criminal penalties for corruption, law enforcement is weak and officials are rarely convicted. Financial disclosure by government officials is not required by law. Moreover, the budgets of several state entities (e.g., the army) are non-transparent, while procedures for the privatization of public land remain opaque.

In 2018, authorities launched an anti-corruption hotline, and a new website for the General Directorate of Anti-Corruption and Economic and Electronic Security, encouraging citizens to file complaints. But the performance of the National Audit Office (responsible for monitoring and combating governmental corruption) indicates that the ruling elite does not intend to adequately tackle the kingdom’s endemic levels of corruption.

16 | Consensus-Building

Bahrain’s regime does not intend to transform the political system toward a democratic order. The regime’s reformist wing, led by the crown prince, believes in the positive impact of a partial democratization and liberalization of the current political system in order to maintain social cohesion, and absorb and channel tensions within the opposition. But its opponents within the ruling elite rigidly refuse any concession that would make the political order more democratic. As the regime’s hardliners are currently in the ascendancy, a return to the liberalization policies of the early 2000s is unlikely to occur any time soon.

Both regime factions rhetorically agree on transforming the country into a market economy, but maintain a substantial rent-seeking attitude. The rentier state tendencies of the island kingdom, most notably concerning the kingdom’s natural oil resources,

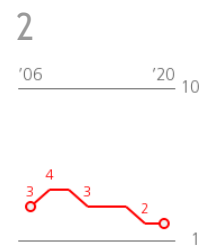


constitute a serious obstacle for the successful transformation toward a market economy. However, due to the current economic crisis, the kingdom made considerable progress in terms of liberalizing the economy, as the king ratified several laws that aim to attract more foreign investment, cut the budget deficit and replace subsidies with cash transfers.

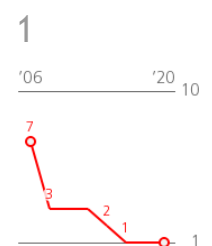
The regime's hardliners, the so-called Khawalids, remained in an advantageous position, and were able to further reverse the political achievements of the liberalization and reconciliation process introduced in 2002. After the regime had restored the arrest and investigation powers of the NSA in 2017, the king ratified a constitutional amendment that grants military courts jurisdiction over civilians. The most significant security sector reforms implemented after 2011 were, thereby, rescinded, while the power of the army (the anti-reform faction's most powerful branch) increased even further. Although the king occupies the regime's key post, it is unlikely that he would risk an open confrontation with the Khawalids by removing the prime minister any time soon. Bahrain's most powerful anti-democratic actor, thus, maintains its influence. However, the activities of the armed militant groups that launched a series of bomb attacks in 2017 increasingly played into the hands of the regime's anti-democratic faction, as the attacks provided a justification for an even more intense crackdown on the opposition. Although it remains unclear if these groups still operate in the kingdom, the double-sided radicalization of militant regime opponents and the regime itself represents a considerable challenge to any progress in democratizing Bahrain's political system.

Due to the current imbalance between the two major factions of the regime, Bahrain's leadership is not able to successfully mediate in the kingdom's cleavage-based conflicts. The Khawalids have escalated sectarian and religious tensions in society, and successfully sidelined the reformists within the regime. The government's crackdown on opposition forces continues to target not only radical regime opponents, but also moderate factions. But although Bahrain's sociopolitical polarization is widely portrayed as a sectarian and religious tug-of-war between the privileged Sunni strata of society and marginalized Shi'a communities, the conflict runs deeper and is predominantly shaped by a politically motivated discrimination of Shi'ites. Thus, the royal family's strategy for preserving its political power effectively translates into controversial policies, such as revoking the citizenship of Shi'ite regime opponents and naturalizing Sunni immigrants, which widens rifts in society and escalates the cleavage-based conflict.

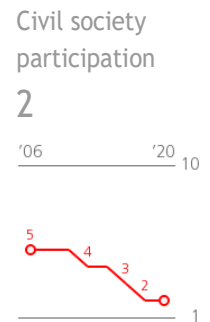
Anti-democratic actors



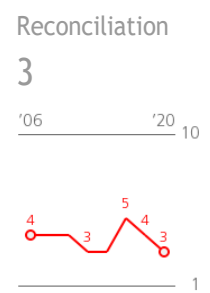
Cleavage / conflict management



Before the 2011 uprising, informal meetings between government officials and opposition figures were regularly held to maintain a minimum of dialogue with the kingdom’s political societies (de facto parties). NGOs and associations did not have any substantial opportunity to interact with the regime. After the 2011 revolt, King Hamad launched the “national dialogue,” an informal and temporary platform for talks between the regime, and opposition parties, NGOs and journalists. The process aimed to absorb popular discontent, although major opposition forces were excluded. There are no institutionalized mechanisms for the participation of independent civil society stakeholders regarding decision-making procedures or the implementation of policies. However, authorities invited civic actors (e.g., the state-controlled NIHR and government-sponsored NGOs) to participate in an electoral monitoring campaign during the 2018 elections in conjunction with the High Elections Committee, which is led by the minister of justice. Independent organizations did not take part in the campaign, while the general crackdown on civil society and political parties continues.

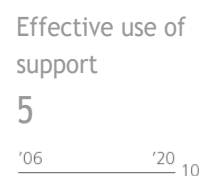


Reconciliation efforts by the regime’s reformists remain stalled. In the review period, authorities intensified their crackdown on the Shi’a opposition and liberal activists, widening rifts between the ruling elite and the opposition. The impact of the Bahrain Independent Commission of Inquiry (BICI), set up after the 2011 uprising, proved to be only transitory, as the regime revoked one of the few security sector reforms implemented after the revolt. The power of the kingdom’s notorious security forces and the army has expanded, while the misconduct of security officers, including the torture and ill-treatment of civilians, is not investigated or prosecuted by local authorities. Furthermore, Bahraini courts continue to play a major role in the regime’s crackdown on the opposition and government critics, as they regularly issue controversial verdicts against dissidents and protesters. The authorities are also increasingly stripping regime opponents of their civil rights by revoking their citizenship. The regime, thereby, continues to reject any opportunity for political reconciliation with the opposition.



17 | International Cooperation

Without doubt, Bahrain existentially depends on foreign support, especially from Saudi Arabia. Yet, this does not mean that the government is particularly keen on requesting further external support, especially if the support comes with difficult questions regarding Bahrain’s controversial human rights record.



Thus, Bahrain has received little international assistance from European countries. The Netherlands funded projects related to poverty reduction, women rights and water management, while the UNDP has provided funding for health care and education projects. However, Bahrain’s authorities received consultancy assistance from the World Bank and the private sector regarding fiscal and economic reform programs, and made significant use of the advice given.

Bahrain remains a credible international partner, especially for its regional and international allies, including the GCC, Egypt and Pakistan, and the United States and the United Kingdom. High-ranking officials from Saudi Arabia, the United States and other countries continued to visit Manama during the review period, unanimously emphasizing the importance of the strategic relationship to the kingdom, while ignoring domestic human rights violations. Therefore, Bahrain remains a major recipient of foreign military aid and funding for the country's security sector. According to the U.S. State Department, the primary goal of the U.S. assistance for the kingdom is to “strengthen Bahrain's interoperability for regional security and counterterrorism cooperation; boost Bahrain's maritime defenses against smuggling and terrorism; and improve Bahrain's ability to deny terrorists sponsorship, support, and sanctuary.”

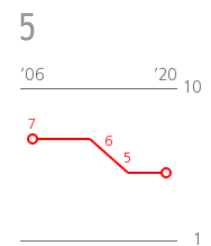
The kingdom plays a key role for the United States in “maintaining open shipping lanes” in the Gulf and countering Iranian influence. During the review period, the U.S. government approved a significant number of arms deals with Bahrain after U.S. President Donald Trump lifted export restrictions on weapons and arms to the kingdom, imposed by the U.S. Obama administration in 2011. The most recent deals, worth more than \$5 billion, include the sale of 19 F-16V aircrafts, the upgrade of Bahrain's F-16 fleet, two patrol vessels, 12 AH-1Z Viper attack helicopters, as well as missiles and military trainings.

The United Kingdom likewise continued its security cooperation with Bahrain, including training and support, approved the sale of small arms ammunition and two C-130 Hercules transport aircrafts, and continued its police training program with the Bahraini Ministry of Interior. Britain's police cooperation with Bahrain was heavily criticized by human rights groups, including the Bahrain Institute for Rights and Democracy and the U.K.-based organization Reprieve, who accused the British government of being complicit in human rights abuses in Bahrain.

At the same time, Bahrain maintained its reputation in terms of its commitment to trade agreements (e.g., the bilateral U.S.-Bahrain Free Trade Agreement) and international labor standards (with slight improvements in labor rights during the review period), and successfully portrayed itself as a credible stakeholder in international organizations. In 2018, the U.N. General Assembly voted in favor of Bahrain's request for a seat in the U.N. Human Rights Council. Bahrain received 165 out of 192 votes and will be part of the body from 2019 until 2022.

However, the arrest of Bahraini footballer Hakeem al-Araibi in Thailand in November 2018 made international headlines and brought significant international attention to Bahrain's politically motivated law enforcement while Bahraini authorities maintained their extradition request for the athlete. While the prosecution of the known critic of the Bahraini government is unlikely to harm Bahrain's international cooperation with Gulf states or Western allies, the case significantly harms the kingdom's international credibility and might backfire in international organizations (e.g., the United Nations).

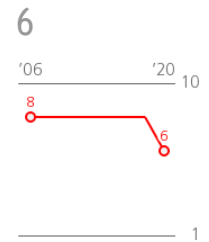
Credibility



Tensions between Saudi Arabia and Iran increasingly affected regional alliances in the Middle East during the review period. Therefore, Bahrain further intensified its cooperation and integration with the Saudi-led bloc, while relations to Iran and Qatar deteriorated significantly. In 2017 and 2018, Bahrain's military participated in numerous joint military drills with Saudi Arabia, the United Arab Emirates, Oman, Kuwait, Jordan, Egypt, Pakistan and the United Kingdom. Additionally, the Bahraini army conducted bilateral drills with Egypt and Pakistan in 2018, while the kingdom's Ministry of Interior intensified its cooperation with the United Arab Emirates. A planned Gulf security alliance, the Middle East Strategic Alliance (MESA) – including Saudi Arabia, the United Arab Emirates, Egypt and Bahrain, with the outspoken support of the United States – aims to confront Iran and is scheduled to be officially launched in 2019.

In 2017, Bahrain and its allies Saudi Arabia, the United Arab Emirates and Kuwait cut ties to neighboring Qatar, a move that further illustrated the growing tensions between the Saudi-led bloc and Iran. However, Manama refused to bow to Saudi pressure and outlaw the Muslim Brotherhood due to the significant domestic importance of its Bahraini spin-off. While Saudi Arabia, Egypt and others have designated the Muslim Brotherhood a terrorist entity, the group's local branch continues to play an important role in maintaining support for Bahrain's regime in the Sunni electorate. Members of al-Minbar, the organization's political arm, are actively involved in the kingdom's educational system, security apparatus and judiciary, and in the past even in the government and the parliament. However, al-Minbar amended its statutes in 2018 in an attempt to clarify that the movement is not affiliated to the international Muslim Brotherhood or any other foreign organization. Nevertheless, Bahrain strictly follows its vital ally Saudi Arabia in its regional policies and is therefore not able to pursue an independent regional agenda.

Regional
cooperation



Strategic Outlook

During the review period, Bahrain's regime continued its crackdown on moderate opposition forces, civil society stakeholders and freedom of expression, and pushed dissidents and regime critics out of the formal political sphere. Any reconciliation with regime opponents and major Shi'ite political actors is, therefore, unlikely to occur any time soon. As the regime's hardline faction gained even more power in recent years, the further polarization and radicalization of Bahrain's political conflict is highly likely. The government's policy of revoking the citizenship of dissidents and protesters, and the uncompromising performance of Bahrain's judiciary have further widened societal rifts in the kingdom and paved the way for future sectarian and political violence.

The ongoing regional tensions between Saudi Arabia and Iran, and Bahrain's fiscal and economic crisis will, in the meantime, continue to dominate local news, and shape Bahrain's foreign and economic policies. Due to Bahrain's political and economic dependence on Saudi Arabia, Manama is expected to become increasingly involved in proxy conflicts between Teheran and Riyadh. Social tensions are also likely to intensify in Bahrain as the massive expansion of the government's austerity programs challenge the living standards of a large strata of society. Rising costs for basic commodities (e.g., food, fuel, electricity and water) will not only affect marginalized communities in the kingdom, but also sections of the middle class.

Although oil prices are unlikely to recover any time soon, Bahrain's macroeconomic outlook is expected to improve slightly in the short- to medium-term as the government continues to benefit from the external fiscal support of its GCC allies, and has taken considerable measures to cut the budget deficit and increase non-oil state revenues by implementing a significant tax reform. The recent offshore oil and gas discoveries will likewise contribute to an improved economic outlook, although it is unlikely that these resources will start producing a return before 2022. However, Bahrain's National Oil and Gas Authority has signed the first concession contract with Italy's Eni S.p.A. for an exploratory well in the northern maritime bloc, where drilling is expected to start in 2019. The kingdom's rentier state tendencies will, however, continue to be a severe obstacle for the diversification of the economy. As the structural deficiencies of Bahrain's economy (e.g., rent-seeking by the regime and major actors in society) will persist, a comprehensive reform of both the political system and the economy is unlikely to progress any time soon.