

BTI 2010 | Bahrain Country Report

Status Index	1-10	6.05	# 51 of 128	
Democracy	1-10	4.42	# 84 of 128	➔
Market Economy	1-10	7.68	# 20 of 128	➔
Management Index	1-10	4.36	# 85 of 128	

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

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	0.8	HDI	0.90	GDP p.c.	\$	-
Pop. growth	% p.a.	1.9	HDI rank of 182	39	Gini Index		-
Life expectancy	years	76	UN Education Index	0.89	Poverty ²	%	-
Urban population	%	88.5	Gender equality ¹	0.63	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

The hopes that had been raised by the reform process in 2001 and 2002 have clearly been put on hold in 2009. During the past four years, the government has severely retracted civil and political rights and has once again resorted to repressive strategies in which the freedom of expression has suffered most. The regime has tried to silence political opposition activists through several means, including charging opposition figures with planning terrorist acts – not a very credible charge – and subjecting activists to long pre-trial detainment terms. The rule of law suffered from executive involvement in legal processes, as some court rulings against political activists have clearly followed political reasoning. Most alarmingly, credible allegations of the use of torture in Bahraini prisons have emerged once again – a practice that seemed to have been overcome in the reform process' initial years.

The repressive practices of the state are mirrored by growing unrest among disadvantaged and oppositional Bahrainis, mostly young inhabitants of the Shi'ite villages and suburban neighborhoods. At the time of this writing (January 2009), nightly riots occur in these areas. Thus the regime and increasing parts of the opposition are locked in a vicious circle of ever-increasing violent tensions.

These developments were not inevitable. They are results of the Bahraini regime's unwillingness to tackle basic problems associated with the reform process and with Bahraini society in general. The first set of problems relate to the very limited power of elected officials in the Bahraini political system, the second to the relative discrimination of the Shi'ites, who constitute 70% of Bahrain's population. Moreover, the government has not successfully dispelled the opposition's claims that it tries to shift the confessional balance by naturalizing Sunni foreigners.

As is evident from massive demonstrations throughout 2005, thousands of Bahrainis wanted constitutional change that would put legislative competencies solely in the hands of elected representatives. However, the king and/or the government have not sought any long-term

compromise. To the contrary, the government has made it clear that it regarded the political reforms as completed.

Nevertheless, all major political forces participated in the latest parliamentary elections (November 2006), including groups that had boycotted prior elections. The current parliament is dominated by Islamist groups of both Sunni and Shi'ite background. Leftist groups did not secure any seats, and it seems likely that this failure is due to election fraud (at least in one case). Still, the opposition Shi'ite Islamist group "al-Wifaq" forms the largest parliamentary bloc (42.5% of the seats). However, their deputies could not achieve any of their democratization goals. This is partly due to the lack of consensus-building with other parliamentarians across sectarian boundaries, but more so to the constitutional limits to the elected deputies' powers.

During the past years, the government has also failed to address the pressing and highly charged issue of dealing with human rights violations during the 1990s. Thus the regime has failed to generate trust in its alleged project of "national reconciliation."

While thus no positive developments in the field of political reform can be noted, economic reform progresses. The labor market reforms have been implemented since summer 2008 and have shown positive effects: the number of unemployed among Bahraini nationals decreased, and the legal situation of migrant workers has improved. At the same time, the current financial crisis will surely negatively impact the country and contradict some of these positive developments. The precise nature of these effects, however, cannot be accurately predicted at this moment.

History and Characteristics of Transformation

When Sheikh Hamad Ibn Isa Al Khalifa came to power in 1999, Bahrain initiated an economic and political reform process. Due to its marginal oil supplies, Bahrain has undertaken serious economic diversification efforts for the past thirty years. However, Bahrain is still dependent on oil, mostly donated from Saudi Arabia. Financial services constitute another important income factor, followed by weekend tourism from neighboring Gulf States and industrial production (aluminum, petrochemicals, ship repairing, manufacturing).

These sources of income have proven volatile to political unrest, which, however, was a prominent feature of Bahraini politics in the 1990s. The opposition fought to set limits upon the autocratic regime of the ruling family, the Al Khalifa, and struggled for the resumption of parliamentary life, which Bahrain had experienced for a short two years (1973 – 1975) following its independence from the United Kingdom. While the government sought to rigidly and often violently suppress the opposition, the conflict became charged with religious connotations and was increasingly understood in sectarian terms, that is, as a problem between a deprived Shi'ite

majority and the dominant Sunni ruling family with its clientele.

To overcome the entangled problems of economic crisis and social and political conflicts, the ruling elite opted for a gradual top-down process of liberalization. The first steps of the reform process were received with popular enthusiasm. Shortly after coming to power, Sheikh Hamad issued a general amnesty for political prisoners and invited exiled political activists to return. A “National Action Charter” was subjected to a general referendum. It promised the resumption of constitutional rule and parliamentary life. The Charter further proposed the introduction of a second appointed parliamentary chamber, the Consultative Council (*majlis ash-shura*), though no exact definition of its role was given, and proposed as well the transformation of the “State of Bahrain” into the “Kingdom of Bahrain.” The public overwhelmingly endorsed the National Action Charter (98.4% yes votes) in February 2001. When one year later the king issued the amended constitution, reactions were not as unanimously enthusiastic since the Consultative Council had the same legislative powers as the elected Council of Deputies (*majlis an-nuwab*). Nonetheless, a large number of political societies (the equivalent to parties) had been registered. While all political societies participated in the municipal elections of March 2002, four societies, among them the biggest one, the moderately Islamist Shi’ite *al-Wifaq*, boycotted the parliamentary elections of October 2002, because of their rejection of the amendments. Although gerrymandering privileged Sunni votes, elections have generally been regarded as free and fair. Women ran as candidates, but did not win any seats (which changed in 2006 when one woman got elected). The voter turnout of roughly 53%, however, shows that there are substantial reservations held among parts of the population. Resulting from the partial Shi’ite boycott, the Council of Deputies has been dominated by Sunni religious societies in the first legislative term of 2002 – 2006. In November 2006, all major political societies participated in the parliamentary elections. Due to the gerrymandering of districts, the Shi’ite opposition failed to secure an absolute majority but has held a comfortable 17 seats (out of 40). However, it seems likely that governmental interference in the 2006 parliamentary elections prevented the victory of at least one and probably up to three leftist candidates.

A close look at the legal basis of the reforms and at political practices reveals that the ruling elite retains most decision-making powers in its hands: the executive remains completely unaffected by political competition; the most important ministries are held by members of the ruling family; the Consultative Council gives the king an indirect final say in legislation; political and civil freedoms guaranteed by the constitution are limited by law and are restricted by ill-defined references to national cohesion. Since 2004 the reform process has slowed to a halt. As it became obvious that the reforms were not intended to establish a democracy, and that the elite was not ready for further compromise, parts of the opposition became radicalized. At the same time, the state resorted to oppression to control any opposition, which ranged from the legalistic harassment of activists to undue police violence and media censorship. Since then, tensions have been on the rise. At the time of this writing, political prisoners are being detained in Bahrain, torture has re-emerged, the freedom of expression is severely curtailed and riots are becoming commonplace.

On the economic side reforms included policies to ensure greater accountability and

transparency and the liberalization of state monopolies. In 2004, the telecommunications' sector was privatized and the first private power project was publicly tendered and awarded. The entangled problems of unjust distribution of wealth and the predominance of the public sector have been discussed frankly in public. The debate on a comprehensive long-term economic restructuring, based on a McKinsey study, has been launched by the crown prince in 2004. In 2007, the first phase of the economic reforms – the labor market reforms – were implemented.

Transformation Status

I. Democracy

1 | Stateness

In principle, the state's monopoly on the use of force is enforced. However, throughout the period under review, there were repeated incidents of violent clashes between protesters and security forces, sparked mostly by violent police tactics. Demonstrations, which security forces routinely disperse with excessive violence, have been concentrated in areas with a Shi'ite majority population. A minority of opposition activists have engaged in arson attacks. Examples include: an attack in March 2008 on the farm of the king's security advisor, an attack in April 2008 on a private vehicle, and an attack in the same month on a police patrol car, which led to the death of a policeman. From autumn 2007 onwards, expatriate workers have increasingly become victims of violence at the hands of Bahraini youths. While these incidents point to increasing political tensions, they do not threaten the state's monopoly on the use of force. The general crime rate remains low.

Monopoly on the use of force

In general, all political, religious and ethnic groups accept the notion of a Bahraini nation-state. However, serious problems regarding the equality of Bahraini citizens remain unresolved. The Shi'ite majority population – which constitutes 70% of the Bahraini citizenry – is subjected to diverse forms of discrimination. However, Bahraini Shi'ites do not form a homogenous group: the majority are of Arab origin, a minority of Persian origin. It is the former group who feels most deprived and is most politicized. Most contentious is the bias against the Shi'ites in the electoral law. Moreover, Shi'ites are de facto barred from holding higher positions in the security forces, although there is no legislation to that effect. Generally, settlements with a majority Shi'ite population are less developed. Poverty and unemployment seem to concentrate in the Arab Shi'ite community as well. Overall, the feeling of being treated as second class citizens is pervasive in most parts of the Shi'ite population. Parliamentarians and civil society actors claim that the government tries to shift Bahrain's confessional balance by granting citizenship to Sunni Arabs and Asians. The government denies such policies (e.g., during a parliamentary hearing in December 2008), but hard facts to verify or refute these claims are not available.

State identity

However, the Shi'ites' qualification as Bahraini nationals is not disputed. Within

the Shura Council and the non-Al Khalifa members of cabinet, Shi'ites constitute approximately half the members.

According to Bahrain's constitution, Islam is the state religion, and the Shari'ah is stated to be "a" (not "the") source of law. In actual fact, Bahrain's laws are vastly secularized with the exception of family and inheritance laws. Cases involving personal status are dealt with in the Shari'ah court system, which has a Sunni and a Shi'ite branch. As Bahrain is one of the few Arab countries without a codified family law, Sunni and Shi'ite Shari'ah court judges can exercise considerable discretion. The government's attempts to codify the family law have met with stiff opposition, particularly from among the Shi'ite community. The Shi'ite clergy is capable of mobilizing thousands of demonstrators for its causes (as evidenced by repeated marches against the codification of the family law, the last in June 2008) and hence can act as a veto-power in some respects. Islamic political movements demanding a stronger role of Islam in the country's policies and legislation exist in Sunni and Shi'ite communities.

No interference of religious dogmas

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

Basic administration

2 | Political Participation

Election results do not determine the composition of government. The king as head of state appoints the prime minister (e.g., the king's uncle has been prime minister since independence) and the ministers. The central ministries (oil, defense, foreign affairs, interior, and so on) are allocated to members of the ruling family.

Free and fair elections

Elections do take place for one chamber of the bicameral legislature, the Council of Deputies. The 40 electoral districts are very unequal in size. The largest district, mainly Shi'ite, contains over 12,000 people, while the smallest, mainly Sunni, has only 500 voters. Moreover, there were credible allegations of electoral fraud in at least three electoral districts in the last national and municipal elections (25 November 2006; 2 December 2006), resulting in the failure of three candidates of the political left to secure seats.

Elected officials have no power to govern. The government is not elected but appointed by the king. He also appoints military commanders.

Effective power to govern

Generally, Bahrain tolerates more political and civic activism than its neighboring Gulf monarchies. However, legislation enables executive interference – and instances of executive interference with NGO activities and security forces’ (often violent) dispersals of assemblies have increased sharply. Assembly rights are restricted by law (32/2006), which holds that citizens must obtain a permit to hold demonstrations or rallies. The tolerance of demonstrations shown by the previous government is now absent. There were large-scale clashes in December 2007 following the death of a protester in an earlier confrontation with security forces.

Association /
assembly rights

Political parties remain illegal in Bahrain. However, political societies function as an equivalent by fielding candidates for election and acting as parliamentary blocs. The 2005 law concerning political societies is restrictive and forbids the establishment of political societies on the basis of class, sectarian, ethnic, geographic or occupational affiliations. Members are not allowed to be members of a non-Bahraini political organization, or members of Bahrain’s defense force (army), national guard or state security agencies. Moreover, societies must accept the constitution. The law’s provision not to promote sectarian agendas is obviously problematic for Islamist societies which are sectarian almost by default. Moreover, four political societies reject the constitution. So far, however, the government has permitted all political societies to register, regardless of their (oppositional) orientation.

According to the Law of Associations, civil society organizations are required by law to obtain a license to operate from the Ministry of Social Affairs. This license is granted in most cases, even to those organizations critical of government policies. There are notable exceptions, however; if an NGO’s work is perceived to contravene the government’s aims, the ministry can (and does) withdraw its license. For example, the Bahrain Human Rights Center was forced to dissolve in 2004 and to date is an “illegal” organization. Activists associated with the Center (and affiliated organizations) are subject to repeated harassment and are often arrested. This kind of interference with NGO activity is clearly motivated by political considerations.

Trade unions are allowed, and non-nationals can join them.

During the period under review, freedom of expression deteriorated markedly. Despite the constitutional guarantees of freedom of opinion and expression, and in a departure from earlier, mostly tolerant practices, a restrictive press law (47/2002) is now in place and implemented. Journalists have been routinely charged with the defamation of officials and with defying authority by ignoring a government gag-rule on writing about the “Bandargate” scandal. In 2007, a total of 47 complaints were filed against journalists and publishing houses in the courts. In May 2007, the Shura Council passed liberal amendments to the press law (e.g., skipping prison sentences for journalists), but they have not been approved by the elected Council of Deputies.

Freedom of
expression

Internet censorship has increased dramatically. In January 2009, 66 mainly oppositional Internet sites were blocked and could not be accessed inside Bahrain.

However, the privately owned print media still provides for a range of opinions, especially since an oppositional Arabic newspaper (close to the Shi'ite opposition) is tolerated. State-run television and radio reflect official views only. There are, however, no restrictions on satellite dishes. Political societies and other NGOs publish newsletters critical of the government's performance. Direct personal criticism of the king or members of the ruling family's inner circle is not practiced.

3 | Rule of Law

The constitution states a commitment to the separation of powers, but privileges the executive branch at the same time. In reality, there are few checks on executive authority. In the bicameral parliament, the elected deputies share their legislative powers with the Consultative Council's appointed members, a set-up which effectively guarantees a royal veto. Additionally, the parliament's by-laws assign the drafting of bills to the government, and members of both chambers may only write proposals.

Separation of powers

Government monitoring is somewhat more effective. It is in the hands of the elected lower house only, and a number of investigations have been carried out. Parliament has to approve the government's budget, but the government's draft is very general.

There are two branches of courts: the Civil Law Courts and the Shari'ah Law Courts. The Shari'ah Law Courts, which work independently, deal with personal status and inheritance issues of Muslims. The Civil Law Courts are formally independent as well, but are often subjected to government pressure in political issues. For example, in January 2007, two Bahrainis were sentenced to prison terms for possessing leaflets calling for an election boycott (of the preceding 2006 elections). In another example in February 2007, two prominent opposition activists (Abdulhadi Al Khawaja and Hassan Mushaima) were arrested and immediately freed on bail for delivering speeches criticizing the government. The charges brought against them included: promoting a change to the political system; public incitement of hatred against the regime; announcement of false news and captious rumors; propagation of excitatory propaganda; and public incitement to disobey the law and praising issues that are considered crimes. In December 2008, 14 Bahrainis were arrested for allegedly plotting terrorist attacks in Bahrain. The same month, the state TV channel aired confessions of six of the accused, which led to allegations of torture. In January 2009, another three prominent opposition figures were arrested and charged with planning a terrorist attack.

Independent judiciary

The king appoints higher judges. Members of the royal family are over-represented as judges (the Public Prosecutor also is a ruling family member). Lawyers are independent, in theory and in practice. Court decisions can be appealed. A constitutional court was established and the former state security courts were abolished.

Petty corruption within the bureaucracy is not a prevalent problem, but – despite the existence of anticorruption laws – there is occasional high-level corruption in contract bidding and the management of successful investments. These high-level corruption cases are not efficiently dealt with and corrupt officeholders are rarely prosecuted. If so, abusive officeholders are re-posted rather than tried.

Prosecution of
office abuse

Although Bahrain is not a signatory to the International Covenant on Civil and Political Rights, the constitution guarantees these rights but limits them by law. Reports on systematic maltreatment of prisoners, rare beforehand, have increased sharply. The oppositional Bahrain Center for Human Rights accuses the government of having resumed the systematic torture of political detainees, in particular the 14 Bahrainis arrested in December 2008 on charges of having formed a terror cell. According to a statement published by their lawyers, most of the 14 detainees were subject to beatings, torture by electrocution in the armpits and on the genitals, and being hung up for long periods. Moreover, they were allegedly kept in solitary confinement. The Bahrain Human Rights Center alleges other torture cases as well.

Civil rights

Excessive police violence can be assessed in various instances throughout the period under review. Several political activists have been severely beaten, and in some instances targeted with rubber bullets when riot police disperse public gatherings, as was the case with Ibrahim Sharif in May 2007.

Although the constitution grants privacy of communication, circumstantial evidence suggests that telephones are occasionally tapped.

The power of the executive to curb civil rights has been cemented by legislation in a law on political societies (August 2005), a new law on rallies and demonstrations (July 2006), and an anti-terror law (July 2006). Equality before the law is guaranteed by the constitution, but is often limited in practice as members of the royal family are difficult to sue.

On a more profound level, some basic legal discriminatory practices remain in place. This pertains to the equality of the sexes and to the equality of Sunnis and Shi'ites. On the one hand, the Bahraini state strives to empower women: The king appointed 10 women to the Shura Council in 2006 and has appointed two female ministers as well as female ambassadors. On the other hand, quotas are rejected and women are subjected to non-equal treatment especially regarding personal status. Bahrain has no codified personal status law; hence judges for both Sunni and Shi'ite

Shari'ah law rule according to discretion. The lack of a personal status law can be ascribed to the resistance of religious figures, mainly among the Shi'ite clergy. Shi'ites are discriminated against with regard to the electoral law and to recruitment into the security forces.

Bahrain's foreign workforce, especially domestic workers, is not adequately protected by law, but is excluded from most civil and all political rights.

4 | Stability of Democratic Institutions

The principal decision makers are not democratically elected. The executive is appointed by the king. The bicameral parliament, partially elected, has to approve of government bills. Elected deputies may supervise government action and spending. However, most deputies lack experience in financial control, and the budget provided by the government is not detailed and excludes the expenditures of the royal court and the security forces.

Performance of democratic institutions

Since the "democratic" institutions are part of the authoritarian regime, they are thoroughly criticized by a substantial part of the population. A thorough constitutional reform that would entail a change of the parliamentary set-up is a priority of almost half the elected deputies' agenda, and wide parts of the population, especially (but not exclusively) the Shi'ites.

Commitment to democratic institutions

The government is generally believed to consist of a pro-reform and an anti-reform bloc. The prime minister is seen as opposed to reform, whereas the crown prince – and to a limited extent the king – are seen as advancing reform. It should be kept in mind, however, that being in favor of reform does not equate being democratic.

5 | Political and Social Integration

Political societies are vocal, but not decisive actors in Bahraini politics. Some associations have a legacy as former underground movements (leftists, Shi'ite Islamist movement), some have developed from Islamist philanthropic societies (e.g., Sunni Islamic societies), others have been set up specifically to participate in the reform project (e.g., National Action Charter Society). Due to past and present oppositional activism, oppositional societies such as the Shi'ite Islamist and leftist societies have firm roots in Bahraini society, while the liberal and pro-government associations do not. Leftists and liberals are fragmented into competing societies.

Party system

In the current parliament, 29 out of 40 members of parliament are members of a political society.

Interest and professional groups, as well as clubs and associations are common. Some are split along sectarian lines, others cross-cut these. Associations are common for all strata of society, including the poor. Neither the government nor the legislature seek their opinions in an institutionalized way, but civil societies generally try to make their voices heard through lobbying, petitions, and informal talks with government staff and demonstrations.

Interest groups

However, many NGOs are in fact closely affiliated to certain political societies, a fact which complicates cooperation on common goals. To name one example: The three Bahraini independent human rights societies agree on pooling their efforts in very rare instances – as a rule they engage instead in vilifying each other. Also, civil society activism often spurs sectarian conflict. Indeed, many Sunni Bahrainis accuse the Bahrain Human Rights Center of stirring such conflicts.

The practice often found in authoritarian states of creating pseudo-NGOs is not quite as prevalent in Bahrain as in many other Arab states; however, the government has founded some GONGOs like the Human Rights Watch Society which created further distrust.

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

Consent to
democratic norms

A dense web of philanthropic organizations addresses a wide variety of problems through a range of activities that include work with youth and sport centers, developing art projects and providing assistance to the needy. There are also organizations for former victims of torture and families of "martyrs" (activists killed during the 1990s). Among the Shi'ites, religious gathering houses (ma'tem, lit. "funeral house") play a prominent role. Apart from planning religious festivities, ma'tems serve as community centers. Religious organizations, though important, are not predominant. Liberal organizations maintain a shelter for abused women and a center in which former victims of torture are treated. Migrant communities have established numerous charitable and social clubs. However, a majority of philanthropic associations serves only to their own religiously and/or ethnically defined community. Trust is high within confessional and ethnic communities, but not between them.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

The Gini coefficient is not known for Bahrain, but substantial differences in wealth are obvious. Poverty is concentrated in rural Shi'ite areas, where unemployment is higher than in Sunni areas. According to the IMF, unemployment declined from 15% in 2005 to 4% in mid-2007. It is not quite clear whether this reflects only a different approach to the data or marks a real decline in unemployment. The country has addressed poverty and unemployment with a comprehensive set of labor market reforms. The reforms are aimed at qualifying Bahraini nationals to eventually replace the more skilled segment of the expatriate workforce in the private sector, a process referred to as "Bahrainization." To date, the public sector provides the most employment opportunities for Bahrainis. Nationals hold more than 90% of civil service posts. However, with the bureaucracy being too large, future jobs have to be generated by the private sector. Hence, since 2006, vocational training programs and placement services have been offered to Bahraini nationals through the Ministry of Labor's National Training and Employment Program. In addition, in an effort to spur small projects, a bank has been established to offer microcredit to low-income individuals. However, due to the ongoing nature of the labor market reforms, it is difficult to gauge the overall success of these measures.

Socioeconomic
barriers

Bahrain's GDI value is 98.6% of its HDI (0.627 GDI, 0.90 HDI) as elaborated in the UNDP's 2008 Human Development Report. Bahrain's HDI ranking dropped from 39th in 2006 to 41st in 2007, but rose again to 32nd in 2008. However, it still ranks just below the United Arab Emirates and Kuwait, but is much higher than Saudi Arabia and Oman. Bahraini women comprise roughly 26% of the total Bahraini workforce.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	11235.7	13460.2	15828.3	-
Growth of GDP	%	5.6	7.8	-	-
Inflation (CPI)	%	2.4	2.6	2.0	-5.5
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	7.7	7.8	18.4	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	471.6	1474.2	2187.5	2906.5
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	5.3	7.6	3.7	-
Tax Revenue	% of GDP	4.9	5.3	3.8	-
Government consumption	% of GDP	16.7	15.7	14.2	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.6	2.6	2.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.3	3.6	3.4	-

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Bahrain's economy is generally competitive in several respects, including low taxation, openness to global trade and financial market development. Levels of business freedom, fiscal freedom, monetary freedom, and especially financial freedom are high. Bahrain has moved toward more flexible employment regulations. The implementation of new labor market legislation in July 2008 should resolve the problem of Bahraini "ghostworkers," which was created by prior Bahrainization goals.

Market-based
competition

In general, the market sets prices and there is no substantial black market. As in previous years, the Heritage Foundation ranked Bahrain as the freest economy in the Middle East for 2009 (ranked 16th out of 179; the closest Arab runner-up is Oman at 43rd). However, the government still enjoys a monopoly in the distribution of certain key goods and services like water provision.

Anti-monopoly legislation was strengthened in 2002, within a bundle of measures enhancing transparency including a law of tenders, a law of administrative and financial monitoring, and a law of the authority of the capital market. While Bahrain does not have a specific competition law, the law of commerce, the company law, and the regulation on mergers and acquisitions (2004) deal with competition and the prevention of monopolies.

Anti-monopoly
policy

Being a WTO member since 1995, Bahrain generally acts according to the organization's rules and regulations. Apart from an average tariff rate of 5%, international trade is only occasionally hindered through non-tariff barriers. Selected goods are prohibited, such as products considered "obscene." Foreign investment is sought after, but certain sectors are restricted. Whereas GCC nationals enjoy full property rights, there are some restrictions to these rights for non-GCC nationals, who are not allowed to own more than 49% of a Bahraini company's shares. In 2006, the government passed a new regulation enabling all nationalities to own "free hold" properties as well as commercial and investment (but not residential) properties throughout the country. Foreign and local individuals and companies enjoy access to credit on market terms. As of 2007, the Bahrain Stock Exchange listed more than 50 companies.

Liberalization of
foreign trade

As a leading Arab financial center Bahrain's legal, regulatory, and accounting systems well meet international standards. Foreigners and Bahrainis alike have ready access to credit on market terms. Bahrain's process for establishing a business is straightforward. Accordingly, the IMF evaluates Bahrain's financial supervision as effective and adequate and its regulation as modern and comprehensive.

Banking system

8 | Currency and Price Stability

In general, the government's economic policies are aimed at maintaining stability. However, since the Bahraini dinar is pegged to the U.S. dollar, Bahrain experienced increasing inflation in 2008 – estimated to have reached 3.5% – due in part to the global inflation in food prices during that year. Moreover, the housing demands of a growing population and investments of other GCC nationals have added upward pressure to real estate prices. Although the IMF evaluates the regulatory system as robust, the regional equity and real estate markets pose a risk. In December 2008, the government set aside \$106.4 million in subsidies for basic goods. High oil prices in the first half of 2008 have provided the country with comfortable funds.

Anti-inflation /
forex policy

The GCC's goal of establishing a common currency by 2010 has been postponed to 2013. However, in June 2008 GCC states agreed to establish a joint monetary council in 2010 which would serve as a forerunner to a common central bank.

Authorities follow a prudent policy aimed at maintaining stability, which is commended by the IMF. State budgets are drafted on the basis of a relatively conservative estimate of oil prices (\$40 per barrel, for the budget period 2007/2008) while current prices were a lot higher in recent years. In 2008, due to the sharp rise in global food prices, the government has started to subsidize basic food. This does, however, not jeopardize overall stability.

Macrostability

9 | Private Property

Generally, property rights are defined and respected. An exception is the city of West Rifa, where a substantial part of the royal family is settled and the royal court is located. The vetting process for individuals seeking to purchase lands there is not transparent. Also, land confiscation for real estate developments is often subjected to an opaque handling process. The Heritage Foundation's Economic Freedom Index ranks Bahrain first among Arab states concerning property rights. It states that foreign firms can resolve disputes satisfactorily through the local courts. Bahrain acceded to the World Intellectual Property Organization's Patent Cooperation Treaty in 2007.

Property rights

Private sector growth is a stated goal of Bahrain's economic policies. Accordingly, the privatization of state companies is ongoing and the telecommunications sector, the country's biggest power plant and the main port have already been privatized. The postal services, fuel stations, and water services have been earmarked for further privatization. However, due to the dominance of the hydro-carbon sector, the Bahraini economy is still state-dominated.

Private enterprise

10 | Welfare Regime

Bahrain supplies its citizens with an extensive welfare system with regard to education and health care. While the state provides citizens with cheap state loans and runs extensive housing programs, demand for cheap housing still exceeds supply. Employees and civil servants pay into pension funds. Civil servants enjoy among the highest wages and benefits in the region.

Social safety nets

Marking a major improvement in the social security system, Bahrain introduced an unemployment benefit system in June 2007. It is the first GCC state to do so. All wages are subject to a 2% tax, which is paid equally by the employer and the employee, applicable both to nationals and non-citizens, and supplemented by a government contribution of 1%. Despite this improvement, expatriate laborers are largely excluded from the welfare system, but do receive free health care.

Opportunities for well-paid jobs are influenced by kinship networks. There are formal restrictions in place for Shi'ites seeking employment with the security forces. Public services do employ Shi'ites, but Sunnis are overrepresented in the top ranks of this sector. Funding programs enabling the poor to pursue university education are extensive. Women's participation in public life is supported. Women are provided equal access to higher education and are gradually gaining more importance in economic and political life.

Equal opportunity

11 | Economic Performance

General macroeconomic performance is projected to remain good. GDP per capita has remained stable from 2005 to 2007. Thanks to a strong expansion in the non-oil sector, real GDP growth is estimated to have averaged 6.5% annually for 2007 and 2008. The overall fiscal surplus is estimated to have averaged 2.5% of GDP for 2007 and 2008, owing mainly to higher oil revenue, while the external current account registered record-high surpluses, on the order of 15% of GDP. According to the Economist Intelligence Unit, the rate of real GDP growth was at 6.7% in 2007, 6.9% in 2008, and is projected to be at 6.8% for 2009. In addition, the financial sector, which accounts for a greater proportion of GDP than the oil sector, will face intensifying competition from elsewhere in the region, notably Dubai and Qatar, but also, increasingly, Saudi Arabia. Unemployment of nationals seems to be a problem although the rate reportedly declined from 15% in 2005 to 4% in 2007. This might reflect a different approach to the data rather than a real decline in unemployment.

Output strength

12 | Sustainability

In general, environmental concerns are subordinated to growth efforts. However, the government has partnered with the UNDP to develop a national environmental strategy and a corresponding national environmental action plan. Among other projects, Bahrain has agreed to carry out a complete phase-out of chlorofluorocarbons from 2006 to 2010. Although awareness of environmental problems is on the rise, an overarching institutional framework remains absent. Extensive land reclamation projects have had adverse effects on the environment, especially on the ground water. In addition, population growth has led to a high settlement density. However, environmental reports have become mandatory for the licensing of new construction projects. At the micro-level, small enterprises providing environmental tourism (e.g., dolphin watching) receive government support.

Environmental policy

Public education institutions of good quality from primary to university levels are readily accessible for all strata of society. Like elsewhere in the region, education is not sufficiently matched to the demands of the labor market. The state operates two

Education policy /
R&D

public universities and has licensed several private ones. In 2004 (most recent data available), public spending for education was 15% of total public expenditure. Universities are weak in research.

Transformation Management

I. Level of Difficulty

While Bahrain's government is not substantially constrained by internal structures, its economy is partially dependent on neighboring Saudi Arabia, which supplies Bahrain with 140,000 barrels of oil per day (Bahrain itself produces only 40,000 barrels per day). However, Saudi Arabia has strong interests in maintaining the stability of the Al Khalifa's rule, as it fears the spill-over effects of potential Shi'ite unrest on the substantial Shi'ite population of the Saudi Eastern Province. Obviously, Bahrain's small size limits its economic options since it cannot generate a market of its own. A similar problem exists in the security field, where Bahrain's small size also limits its capacity to defend itself. Hence, it depends almost completely on the United States in this respect, which has established its headquarters for the U.S. Naval Forces Central Command and U.S. Fifth Fleet in Bahrain's capital, Manama.

Structural
constraints

The roots of civil society traditions in Bahrain are much deeper than those in neighboring countries. As the first Gulf country to produce oil, Bahrain has an active worker's movement that has been developing since the late 1930s and has organized recently in legalized unions. There is a wide array of professional, social and cultural associations, religious and philanthropic societies, and clubs. Several NGOs work in the political arena, among them human rights associations and Transparency International, which presses for the punishment of former state officials involved in torture. Philanthropic societies hold a plethora of public events, ranging from seminars to fund-raising marathons to demonstrations. Most civil associations enjoy a high level of trust. While the government does co-opt associations and NGOs, this is less prevalent in Bahrain than elsewhere in the region. As a rule, some criticism of the government can be expressed as long as it does not involve direct personal criticism of the inner circle of the royal family. Bahraini civil society features semi-private weekly *jours fixes*, providing additional forums for debate. Being a small country with a high intensity of face-to-face interaction, social trust is generally high. However, trust in the government is another issue. Whereas many Bahrainis in the past differentiated between a camp surrounding the king and crown prince that was in favor of reforms and a camp surrounding the prime minister that was opposed to reform, disappointment in the reform course has led to a general sense of distrust in the government.

Civil society
traditions

The Sunna-Shi'a conflict is prevalent in public discourse. However, this conflict is not primarily motivated by religious bias, but is due to the uneven distribution of wealth and political power.

Conflict intensity

Still, sectarian affiliation plays an important role for political activism. Liberal and left-wing political societies – as well as the business community – are the only groups not split along sectarian lines. However, Islamization, which has been on the rise since the 1980s, has led to an increasing confessional fragmentation of civil society organizations. Since a big part of Shi'ite community life is organized by local mosque authorities, and as there is usually only one mosque present in many villages and neighborhoods, the boundaries between both denominations are continuously culturally enforced. Distrust between both sects is prevalent in most levels of society.

Parliamentary life has ambiguous effects: On the one hand, both sides have engaged in debates over questions of common interest – all parties agree, for example, on the position they want the Bahraini state to take toward Israel. On the other hand, parliament has been the scene of confessionalist agitation. However, most members of even sectarian-religious associations generally emphasize dialogue.

The level of political mobilization is significantly higher within the Shi'ite community. Most demonstrations are organized by Shi'ites who also comprise the majority of attendees.

II. Management Performance

14 | Steering Capability

Generally, the leadership does not aim at establishing a constitutional democracy, rhetoric aside. The elite-driven reform process simply aims at consolidating authoritarian rule. The ruling elite had hoped to deflect tensions and maintain political stability by facilitating a greater degree of pluralism and participation, a policy which is on the verge of failing.

Prioritization

In terms of economic reforms, however, the regime exhibits decidedly greater steering capabilities. This is evident by its implementation of the labor market reforms, which initially faced stiff competition from the Bahraini business community.

After an impressive start with the political reform project in 2002, the regime has backtracked on many of its original reform goals. Since 2006, the general level of state repression against political opponents has risen sharply, and the freedoms of expression and assembly have been curbed. The government has not institutionalized human rights protections into law. The government did, however, create a national human rights authority in November 2007, which, at the time of writing (January 2009), appears to have had minimal impact. Controversial laws such as the press law (47/2002) remain in place. In 2007, the Ministry of Social Development drafted new legislation on civil society organizations, but the ministry has not submitted the draft to the parliament. As of January 2009, the number of blocked Internet sites climbed to 66. An anti-terrorism law signed in 2006 further limits political freedom by criminalizing acts that “damage national unity.” The law also allows for extended periods of detention without charges being filed or judicial review. A group of Bahraini and foreign defendants accused of preparing terrorist attacks were sentenced in early 2008 to jail terms of several months, but then released. Despite all of this, Bahrain won a seat on the Human Rights Council in May 2008.

Implementation

The labor market reforms became operational in 2008.

As the years 2007 and 2008 were characterized by a repetition of the failed policies aimed at repressing political dissent, there is little evidence of fundamental learning processes underway. The failure to codify family law is another case in point: The government-authorized Supreme Council for Women, which has been tasked with outreach campaigns to market the idea of a codified family law, has failed to convince large parts of the population (i.e., the Shi’ite community) of the need for this project. In essence, the strategies involved in formulating and implementing policies have changed little in the past ten years.

Policy learning

15 | Resource Efficiency

Overall, the budget is balanced and subjected to at least some parliamentary supervision. As is common in the region, Bahrain’s bureaucracy is inflated. This is due to political reasons: The provision of administrative jobs confers legitimacy to the government. This state of affairs results also in an ineffective use of human capital. As a rule, it is not the most qualified person who secures a job in the administration, but the one best connected to decision makers. Because key government figures retain their positions, there is little need for politically motivated replacements of decision makers.

Efficient use of assets

In order to improve coordination between ministries and directorates, some interministerial working committees have been established, such as the housing committee and economic development board, both of which are headed by the crown prince. Often, however, newly created committees duplicate ministries

already in place. They are used to provide the crown prince in particular with additional decision-making power without confronting the incumbent minister openly.

The introduction of municipalities in 2002 has further duplicated the administration as there is no clear division between competencies of the municipalities and of the governorates.

The duplication of governmental functions as well as the unclear division of powers between the king and prime minister, and between municipalities and governorates, limit the development of coordinated and comprehensive policies. The king, the prime minister, and to some extent the crown prince, maintain their own parallel “courts,” including parallel sets of economic experts and so on, who often voice contravening opinions.

Policy
coordination

Although the crown prince announced in September 2007 a campaign to combat corruption that resulted in the criminal prosecution of a number of high-level executives in Bahrain’s Aluminum Company ALBA and Gulf Air, corruption laws have not been tightened. As corruption is believed to be widespread in elite circles, the commitment to anti-corruption policies is not considered credible. Parliament is authorized to supervise government spending, but is limited in this capacity not only by its lack of expertise but also by a decree that prohibits parliamentary scrutiny of cases prior to 2002.

Anti-corruption
policy

16 | Consensus-Building

All actors agree – rhetorically – with the idea of pursuing the twin goals of democracy and a market economy. Upon closer examination, however, there are major differences to be observed among the various ways in which these goals are conceived. Some Islamist actors will express support for democracy, but harbor rather special views regarding the limits of personal freedoms within a democratic system. The government endorses democratic development in rhetorical terms, but defines democracy in unusual terms, namely as exercising “tolerance for very limited popular participation.”

Consensus on goals

While the reformers in government – the king, the crown prince and their allies – are powerful actors capable of successfully persuading others, one must bear in mind that their concept of reform involves the consolidation of their authoritarian rule while, at the same time, promoting good governance. They do not promote democracy. Some ministers and functionaries oppose even the limited goals of reform; they can, however, be checked by those in favor of reform. Genuine democratization activists are found in the rather marginal leftist and liberal groups, and to some extent within Shi’ite Islamist circles. They are not, however, in positions of power.

Anti-democratic
veto actors

In contrast to previous years, the government has not been very successful in managing conflicts. During the period under review, political conflicts between the regime and the (mainly Shi'ite) opposition often erupted into clashes between security forces and demonstrators. There have been allegations of torture tactics being used once again in Bahraini prisons. In addition, basic inequalities have not been addressed, as the electoral law remains biased against the Shi'ites and gerrymandering along confessional lines has created a situation in which the Shi'ites, who make up roughly 70% of the population, find their votes accounting for just under 50% of parliamentary seats.

Cleavage /
conflict
management

There are no systematic or institutional means of consultation and cooperation between governmental agencies and civil society actors. At the same time, the government also has no systematic means of co-opting civil society groups. Officials often participate in workshops organized by civil society organizations, and some ministries seek cooperation with NGOs (mostly with regard to human and women's rights). While the whole range of civil society organizations participate in public debates, the government does not give equal attention to all actors. In general, the views of the business community, as voiced through the chamber of commerce, professional associations, and so on, receive most of the government's attention.

Civil society
participation

Despite the fact that investigating past human rights abuses have been a staple demand of much of the population since the reform process began in 2002, no such investigations have been conducted. For the Shi'ite community in particular, it is important to conduct an inquiry of human rights violations during the "Bahraini intifada" in the 1990s. Most of the Shi'ite-dominated NGOs express moderate demands on this matter and favor a truth commission modeled on the South African experience, but the government has failed to respond. The general amnesty granted to political prisoners and state security staff by legislative decrees in 2001 and 2002 has not been repealed or amended. There is no institutionalized process of compensation for past victims of torture, although some individuals have received some financial compensation. Activists who have returned from exile receive minimal monthly support. All in all, the government shows no clear intent to deal with the repressive past.

Reconciliation

17 | International Cooperation

Bahrain does not receive international aid on a large scale. However, the World Bank has been assisting the country within the framework of its Technical Cooperation Program (TCP). Bahrain has also conducted programs with the UNDP that are aimed at environmental sustainability. It has signed bilateral trade and economic agreements with Australia, Bangladesh, China, Egypt, France, Greece, India, Iraq, Jordan, Malaysia, Russia, Singapore, South Korea, Syria, Tunisia, Turkey, the United Kingdom and the United States, and it is a WTO member.

Effective use of
support

The U.S.-based National Democratic Institute (NDI) resumed its democracy promotion programs in Bahrain in September 2007 after its representative was expelled in the run-up to the 2006 elections. However, its activities are now subjected to the supervision of the “Bahrain Institute for Political Development,” a government-based agency. With limited defense capabilities, Bahrain cultivates a close military relationship with the United States. It participates actively in the U.S.-launched B-MENA initiative and Sheikh Hamad was the first Arab head of state to visit former President Bush after his re-election in 2004. Manama, which is both a harbor and the capital of Bahrain, also serves as the headquarters of the U.S. Fifth Naval Fleet, which is of key strategic importance to military operations in Iraq and patrols in the Persian Gulf. All of this clearly assures U.S. protection of Bahrain as well as Washington’s continued political good will toward the kingdom.

In their dealings with Gulf monarchies, Western states are usually much more interested in stability than in democracy. This clearly does not facilitate greater interest in democratic reforms on the part of the Bahraini government. It has instead contributed to the deterioration of political freedoms there in recent years. Unsurprisingly, the Bahraini government has been subject to increasing criticism from Amnesty International and Human Rights Watch in the past four years. On the economic front, by contrast, its economic reforms are considered credible and receive favorable ratings.

Credibility

Bahrain was a founding member of the Gulf Cooperation Council (GCC). As a rule, it implements GCC resolutions quickly. However, it was the first GCC country to sign a bilateral Free Trade Agreement with the United States in 2004 (implemented in 2006), and voiced its doubts in January 2007 about the introduction of the GCC common currency originally scheduled for 2010. It is otherwise active in promoting regional integration. Following the settlement of its dispute with Qatar over the Hawar islands in 2001 by the International Court of Justice, its relations with this emirate have continually improved. Construction for a causeway linking both countries began in 2009 that has led to rising tensions with Saudi Arabia which fears the strategic consequences of Bahraini and Qatari nationals no longer being forced to travel through Saudi territory to reach the other country. Also, the “Shi’a question” described above remains an issue of major concern between Bahrain and Saudi Arabia.

Regional
cooperation

Strategic Outlook

The reform process in Bahrain has reached a critical stage. Earlier achievements in civil and political liberties are at serious risk of being squandered, and Bahrain could enter into yet another downward spiral of unrest and repression. It is therefore of prime importance that the government deflates current tensions by addressing concerns regarding: legislation on civil and political rights; the rule of law; the discrimination of Shi'ite citizens; and a comprehensive dialogue on the reform project's aims.

Transforming constitutionally guaranteed rights into legislation: Throughout the reform process, the Bahraini government has failed to provide a legal framework that would establish legal certainty for political activism. The following laws need to be reconsidered:

- Law of associations (1989): Amendments should be made to enhance NGO independence and significantly reduce the executive's powers over them.
- Law on political societies (2005): Amendments should be made to permit training by foreigners and to narrow the definition of illegal aims. Campaigning for constitutional change or religious aims have to be allowed in order to create basic legal security for existing societies.
- Anti-terror law (2006): The definition of terrorist activity is unacceptably vague and should be brought in line with international practice.
- Media law (1965, 2002): The 2002 law is too restrictive as it renders criticism of the king or Islam paramount to undermining state security and a criminal offense punishable with imprisonment. Moreover, legal certainty has to be enhanced for Internet activities.
- Law on public gatherings and demonstrations (1973, amended 2006): The latest amendments force the organizers of demonstrations to assume full civil and criminal responsibility for any damage to private and public property during a demonstration. Obviously, the amendments are designed to curb demonstrations rather than regulate them.

Strengthening the rule of law: During the period under review, the executive branch has interfered with the judiciary on several occasions. Moreover, there have also been credible reports on the re-emergence of torture in detainment facilities during this period. The government should work toward making the judiciary more independent by appointing non-ruling family members to important positions such as the office of the public prosecutor and by establishing a role for elected deputies in the appointment of judges. Additionally, the Bahraini government should strive to conduct thorough and impartial investigations of torture allegations, and provide human rights training to staff in detainment facilities, prisons and the security forces.

Discrimination of Shi'ite citizens: This issue has not been addressed in a comprehensive manner.

The government should consider the following:

- Electoral law (2002) reform: Constituencies should be redrawn to ensure a similar weight for each vote.
- Investigating past and current human rights abuses: The general amnesty (legislative decrees 10/2001 and 56/2002) granted to political prisoners and state security staff alike needs to be repealed or amended. A process of compensation should be instituted for those individuals subject to torture in the 1990s.
- Transparent processes for government recruitment: Transparency in all sectors should be introduced to counter discriminatory practices (or perceptions thereof). This would also help to counter discriminatory practices against women.
- Transparency in issuing passports: The government should exercise transparency in granting Bahraini passports in order to clarify the issue of alleged political naturalizations (the opposition claims that the authorities have changed Bahrain's confessional demographics).
- Comprehensive dialogue on the reform project's aims: The high hopes generated by the initiation of the reform process have been dashed. To prevent a relapse into the unrest and violence that characterized Bahrain during the 1990s, the government should initiate a sincere dialogue on the country's long-term political aims and reanimate the reform process. Since 2004, mutual mistrust has steadily grown between rulers and ruled, and among different confessional and political groups. A comprehensive dialogue that engages all stakeholders is needed to combat this atmosphere of mistrust. The most pressing subjects include:
 - Develop the legislative branch: A substantial part of the Bahraini population does not accept the current institutional set-up in which elected deputies are not solely responsible for passing legislation. The Bahraini government should consider and discuss how to enhance the powers of elected representatives in the long term.
 - Civil, political and human rights: The Bahraini government should commit itself to the protection of these rights and enter into a dialogue with all stakeholders to work out the means of guaranteeing and strengthening them. In terms of monitoring human rights and providing human rights education, collaboration between government agencies and civil society organizations should be explored.