The Politics of Labor Policy Reform in Bahrain
by Laurence Louër

In 2006, Bahrain launched an innovative and much debated labor market reform program. Debates about the reform, and in particular about its financing mechanism, shows how much labor policy is embedded into wider political developments and is affecting key legitimization processes in the Arab Gulf states.[1]

Political debates about unemployment

In the course of the 1990s, the rise of mass unemployment among Bahraini nationals made employment a major bone of contention between the regime and its opposition. The Shia Islamic movements, the dominant force of the opposition since the 1980s, promoted a sectarian approach to unemployment, underlining that it affected mostly if not exclusively Shias. The movements portrayed Shias as victims of an overall policy of discrimination by the Sunni-controlled regime, which purposely deprived them of many opportunities in the public bureaucracy, the military, and in state-controlled companies.

But in the mid-2000s, that began to change. In a context of heated debates about the political and economic reforms promoted by King Hamad bin Isa Al Khalifa, the positioning of the Bahraini opposition on the unemployment issue underwent an important shift.

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The main opposition movement, Al Wefaq, suffered a scission when one faction opposed the decision to participate in the 2006 Council of Representatives election. The Council of Representatives is the local parliament which is constitutionally deprived of effective powers to enact laws without the king's approval.

Al Wefaq then underwent a double process of institutionalization and gentrification.

By becoming an opposition bloc in a weak assembly, it became a co-opted opposition engaging in piecemeal politics rather than struggling for ambitious reforms that questioned the supremacy of the ruling dynasty. Because the debates at the parliament chiefly concerned complex economic reforms, technocrats trained in engineering and business administration were empowered, becoming the dominant component of the movement's parliamentary bloc, especially in the aftermath of the 2010 elections.

The transformation of Al Wefaq was fostered by the remaking of intra-dynastic power relations, which saw the rise of a faction headed by Crown Prince Salman bin Hamad Al Khalifa. Supported by his father the king, the young prince made economic reform his domain of expertise. He became a much appreciated figure among middle class educated Shias, reputed for his liberal and non-sectarian approach. Many Al Wefaq officials, including its general secretary Ali Salman, pushed to participate in the parliament as part of a strategy to consolidate Prince Salman's position.

The labor market reform plan which the Crown Prince launched in 2006 is probably the best example of the functioning of this alliance. The reform plan was shaped by Bahraini and foreign experts who articulated an essentially technical diagnosis of unemployment, far from the sectarian framework of analysis that Al Wefaq previously asserted. The reform emphasized the need to make Bahrainis more attractive for employers over expatriates, by improving professional training and increasing the cost of expatriate labor. It also created the Gulf Cooperation Council's (GCC) first unemployment insurance. The reform aroused intense debates, mostly concerning its financing mechanism, which consisted in levying fees and contributions on both employers and employees. Professional training was financed by fees paid by employers on each one of their expatriate employees, which also served as a way to reduce the labor cost differential between nationals and expatriates. As for the unemployment scheme, it was mostly financed by contributions paid by employees and employers (plus a 1 percent contribution by the state).

The business community en bloc rejected the financing mechanism, arguing that the rise of labor costs it entailed was economically unbearable. Many also argued that unemployed Bahrainis were actually unwilling to work, with some even contending that unemployment was an imaginary problem invented by the Shia opposition to pressure the government.

But dissent also came from within the opposition. Hence Isa Qasem, the most influential of the Shia clerics and a figure close to Al Wefaq, argued against the unemployment insurance scheme on the basis that Islam only permits taxation of wealth and not of wages.

Moreover, the new Al Haqq movement—composed of Al Wefaq defectors—refused to embrace the technocratic diagnosis of unemployment implicit in the reform plan and instead stuck to the sectarian frame work of analysis. It was supported by the Committee of the Unemployed and the Low Paid Citizens, an unlicensed association which specialized in organizing demonstrations that often degenerated into riots in front of the Ministry of Labor and the Civil Service Bureau, the institution that manages manpower in the public bureaucracy.

In this context, the support of Al Wefaq was essential for the reform. A sign that the alliance with the Crown Prince was a priority for the movement, it chose to endorse the reform, disregarding the opinion of Isa Qasem and of the radical wings of the opposition.

Labor, distribution, taxation: The rentier social pact in question

Disputes about the labor market reform program reveal the extent to which this reform affects existing social and political compromises. The social pact on which much of the political equilibrium is based in Bahrain and other GCC countries rests on two main pillars. On the one hand, since the 1970s oil boom, states have engaged in a policy of guaranteed employment for nationals in the bureaucracy and public companies, in particular for graduates. On the other hand, the private sector was protected from international competition, was given access to government tenders and was guaranteed a very low level of regulation, in particular a minimal pro-employers labor code tailored for expatriates mostly coming from poorer countries.

This political economy equilibrium was not disturbed as long as workforce nationalization policies mainly targeted the public sector, as was the case in the 1990s. It is different now that the private sector is the target. Not only does it entail a departure from the policy of guaranteed public employment, it also has an impact on the rules and norms regulating the private sector. Because nationals generally reject the often unfair and lowly paid working conditions experienced by most expatriates, governments have undertaken to renovate labor legislation, making it more protective of workers' rights in order to attract nationals to the private sector. In Bahrain where trade-unions were legalized in 2002, employers have also to deal with organized labor, a significant break with established practices of labor resources management.

Moreover, the reform program disturbed the private sector's existing norms and expectations. Hence the fees levied on expatriate workers are considered by many as a form of taxation. This is clearly the perception of the Committee of the Employers, an unlicensed association gathering small entrepreneurs who oppose the fees. They not only criticize the rise of labor costs, but also the absence of transparency in the management of the fees by Tamkeen—a government agency established in 2006 as part of the reforms "to enhance the productivity and growth of enterprises and individuals."[2] Managed by a tripartite board where government, employers and employees are represented, Tamkeen receives 80 percent of the fees, the remaining 20 percent being allotted to the state's general budget. Funds are spent for various types of professional training projects, to help entrepreneurs start a business and to help private companies facing difficulties.

Taxation in any form remains a widely controversial and opposed idea throughout the Gulf. In March 2012 in Bahrain, a dispute occurred which further confirmed the depth of opposition to the very principle of taxation. The Council of Representatives vetoed a bill by the king which changed the allotment of the fees on a 50 percent-50 percent basis between the state and Tamkeen.[3] Showing that on such matters as taxation, regime supporters can transform into opponents, the assembly which vetoed the bill was considered pro-regime, as Al Wefaq had left it to protest the repression of the 2011 uprising.

Furthermore, in December 2013, the project was also rejected by the Consultative Council.[4] Mostly composed of liberal-minded businessmen and technocrats appointed by the king, this assembly was created to control the Council of Representatives, having the power to veto its bills. It was the first time that the Consultative Council opposed a bill issued by the king since its establishment in 2002. The argument put forward by the two assemblies, that the money paid by the private sector should return to the private sector, shows that the members were willing to accept the fees as a contributory redistributive mechanism but not as a direct tax to be managed by the state, an entity perceived as plagued by corruption and incompetence.

These developments show that the labor market reform tends to blur the classical political lines. Businessmen of all religious persuasions and Sunnis from different ethnic backgrounds, who dominate the two assemblies since the repression of the 2011 uprising and whom the regime tends to see as a reliable constituency in front of the Shia-dominated opposition, are emerging as a new type of opposition when economic reforms are at stake. In the domain of economic reform, this opposition may be more difficult to manage than the Shia Islamic opposition if one refers to the wide support Al Wefaq gave to the Crown Prince's economic reform plan prior to 2011.

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1 Unless otherwise mentioned, the information provided in this article comes from several fieldworks I did in Bahrain between August 2002 and December 2013, which included interviews with various stakeholders of the reform process, including officials from various state institutions, businessmen, trade unionists and political activists of all persuasions.

2 Tamkeen, http://www.lf.bh/en/about/?p=Profile#.VW3kfkZSLQR [accessed 2 June 2015].

3 Ahmed al-Mulla and Sama Abd al-Jalil, "Al-Niyabi fi Jalsah Sakhinah Rafada Marsum Istiqta' 50% min 'al-Khass' ila Muwazanat al-Dawla," *Al Ayyam*, March 7, 2012.

4 Hussein al-'Abid, "Al-Shura Yusajjil Sabiqa Barlamaniyya wa-Yardfud Taqlis Iradat Tamkin ila 50%," *Al Ayyam*, December 24, 2013.