

AGENCY FOR INTERNATIONAL DEVELOPMENT PPC/CDIE/DI REPORT PROCESSING FORM

ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

1. Project/Subproject Number

279-0083

2. Contract/Grant Number

P.O. 279-1-0014 dtd 12/15/90

3. Publication Date

December 1990

4. Document Title/Translated Title

THE OTHER UNIFICATION: ECONOMIC PROSPECTS IN A UNITED YEMEN

5. Author(s)

1. Addleton, Jonathan S.
2.
3.

6. Contributing Organization(s)

7. Pagination

12, BIB, AN, GR

8. Report Number

One

9. Sponsoring A.I.D. Office

Program Office

10. Abstract (optional - 250 word limit)

"The purpose of this series is to air the views and insights of developmentalists on what they believe the future portends for Yemen and the region are". "This paper examimes the economic prospects in a united Yemen.

11. Subject Keywords (optional)

1. Economic policy
2. Economic sector
3. Economic regions
Economic forecasting
4. Economic analysis
5. Republic of Yemen
6. Yemeni unification

12. Supplementary Notes

This publications is the first of a series which will hopefully be produced by USAID/Yemen.

13. Submitting Official

PBenGabr

14. Telephone Number

231-215 ext.502

15. Today's Date

01/07/91

16. DOCID

17. Document Disposition

DOCRD [] INV [] DUPLICATE []

.....DO NOT write below this line.....

THE OTHER UNIFICATION ECONOMIC PROSPECTS IN A UNITED YEMEN



by Jonathan Addleton

THE OCCASIONAL PAPER
SERIES

USAID SANA'A

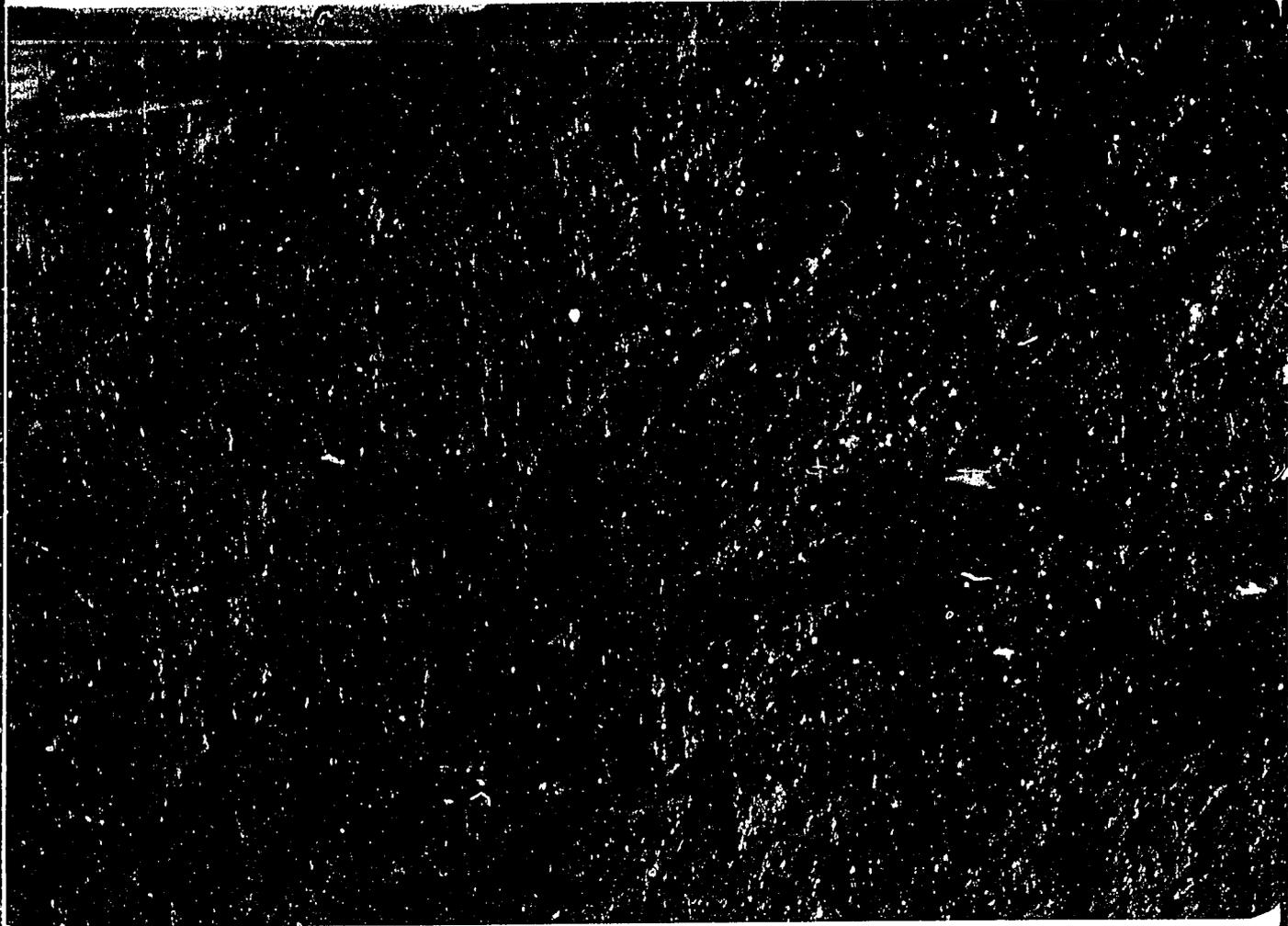
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
P.O. BOX 1139 Sana'a REPUBLIC OF YEMEN
Telephone 231-213 Telex 2844 AIDSAN YE Telefax 251-478

U S A I D

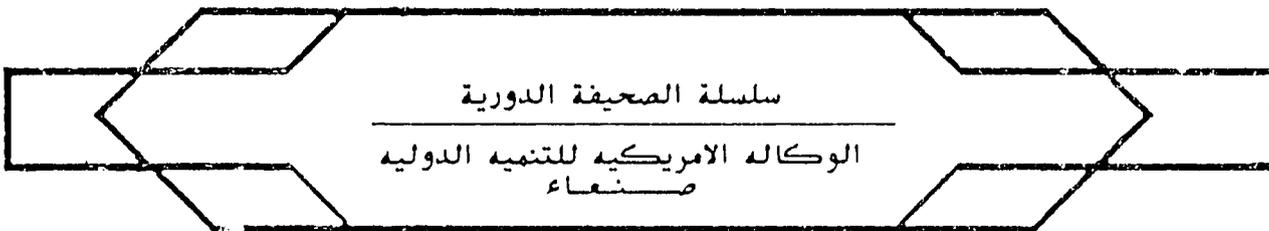
PHOTCS Viviann Pettersson
SPECIAL THANKS Taha Mahyoub, Jamiel Al'Magaleh, Ali A. Amer,
Mansour Shamiri and Abduali Alshami
Shaker-Press, Sanaa, Republic of Yemen (December 1990)

الاتحاد الأخر

توجهات اقتصاديه في ظل اليمن الموحد



اعداد جوناثان اديلتون



صحيفه رقم ١

ديسمبر ١٩٩٠

This monograph is the first in USAID/Yemen's occasional paper series.

The events in Yemen and in the region in 1990 have been dizzying. In January President Saleh visited President Bush in Washington. In May, North and South Yemen became one country. In August Iraq invaded Kuwait and since that time a half million Yemenis have returned from Saudi Arabia, where they traditionally have formed an important part in the work force.

Traditional balances are being thrown into disarray and the economic outlooks for many countries programmatic. The Middle East, especially the Arab world has historically held the interest of scholars, businessmen, politicians and developmentalists. It has also been of keen interest to the layman who easily recognizes the importance of this volatile corner of the world.

The purpose of this series is to air the views and insights of developmentalists on what they believe the future portends for Yemen and the region. Some papers will be prescriptive, others descriptive. Some will be provocative, some applicative. We hope they will all be useful.

The first paper, by Jonathan Addleton, Program Officer, USAID/Sanaa examines the economic prospects in a united Yemen.

The views expressed in the paper as in all the papers in this series are solely those of the author and do not necessarily reflect the views of USAID.

Philip-Michael Gary
Acting Director
USAID/Yemen

**THE OTHER UNIFICATION:
ECONOMIC PROSPECTS IN A UNITED YEMEN**

by Jonathan Addleton

INTRODUCTION

The formal unification of the two Yemens into a single Republic of Yemen (ROY) on May 22, 1990 confounded many diplomatic observers, who believed the differences separating the two countries were too deep to be resolved in so short a time. Although difficulties lie ahead and formal declarations must still be followed by substantive change, progress so far has been remarkable. The political structure now in place seems relatively firm, even if the economic and institutional mechanisms needed to bring about complete unification have yet to be fully put into place.

The manner of Yemeni unification is all the more remarkable when set against the history of the region and more recent events in the Gulf. The sharp historical differences between the Yemen Arab Republic (North Yemen) and the People's Democratic Republic of Yemen (South Yemen) are well known. The former emerged from its historic isolation only in 1962, with the overthrow of the Imam and the installation of a military-led revolutionary government. Nearly a decade of civil war followed pitting the Republicans supported by Nasser's Egypt against the Saudi-backed followers of the Imam. A period of "national reconciliation" involving both groups only began in 1969, concluding with an agreement in April 1970 to formally end the civil war. In a real sense, this reconciliation--and the "moderate Republicanism" which followed--marked the beginning of the modern North Yemeni state.¹

In contrast, South Yemen was colonized by a European power, emerging as an independent entity only in late 1967 with the withdrawal of the last British forces from Aden. More than two decades of comparative isolation followed as the new Marxist regime--the only Marxist government in the Arab world--consolidated power and initiated an experiment in social and

¹*For a good overview of political developments in North Yemen, see Robert Burrowes, The Yemen Arab Republic: The Politics of Development, 1962-1986 (Boulder, Colorado: Westview Press, 1987).*

economic planning which in the view of many observers utterly failed. Fratricidal in-fighting within the regime occurred from time to time, culminating in the 1986 coup attempt in which at least 5,000 Yemenis were killed. Fallout from the ideological collapse of Eastern Europe also affected Yemen, with commentators on both sides of the border suggesting that if the two Germanies could unify, so could Yemen. In the end, the much less populous South Yemen was more or less simply absorbed into the North.²

Although both North and South have always advocated the ultimate goal of a single Yemen, the path to unification was long, difficult and occasionally violent. One agreement on unity, signed in Cairo in October 1972, got nowhere. Border clashes in 1972 and again in 1979 suggested that both sides retained a military option. Internal politics in one country inevitably spilled into the other, with each side supporting rival factions with a view toward intimidating and undermining the other. Still, in the end, consensus prevailed. In sharp contrast to the Iraqi takeover of Kuwait, Yemen represents the possibly unique case of an instance where borders inherited from a colonial past were peacefully altered with the full support of substantial constituencies on both sides of the frontier.

The new parliament meeting in Sanaa in the wake of unification consists of 301 members--159 from the old North Yemeni Consultative Assembly, 111 from the old South Yemeni Supreme People's Council and another 31 members appointed at large. The North Yemeni president, Ali Abdullah Saleh, remains as president of a united Yemen, the entire unification process being widely regarded as a personal triumph for him. The Adeni President, Haider Abu Bakr al Attas, was appointed as Prime Minister. The 38 ministerial appointments have been divided roughly fifty-fifty between North and South, with a North Yemeni responsible for foreign affairs (Abdel-Karim al-Iryani) and a South Yemeni (Saleh Obeid Ahmad) serving as Deputy Premier for Security and Defense.

Televised parliamentary proceedings each afternoon provide the entire country with a ring-side seat for the lively political debates now underway. Elections are anticipated by 1992. Nearly two dozen political parties have already been established, in keeping with President Saleh's admonition that "we welcome a multi-party system provided it is of Yemeni origin."³

² For a sympathetic account of political developments in South Yemen, see Fred Halliday, *Revolution and Foreign Policy: The Case of South Yemen, 1967-1987* (Karachi: Cambridge University Press, 1990).

³ *Middle East Economic Digest (MEED)*, 13 April 1990

Numerous new newspapers have also been founded, reflecting the greater range of public opinion now heard in the country. Remarkably, Yemen has now emerged as the only country on the Arabian Peninsula with a national parliament--and the only country where women have been given the right to vote.

Political and diplomatic concerns relating to Yemeni unification receive the most attention. This interest stems partly from the Kuwaiti crisis in which Yemen emerged as one of Iraq's few apparent supporters, a position heightened by Yemen's own highly visible tenure as the sole Arab representative on the United Nations Security Council. Nonetheless, economic concerns are also paramount and will play an important role in determining future developments in Yemen in the coming years. The purpose of this brief article is to examine the economic shape of a united Yemen, and comment on its future prospects, particularly in relation to neighboring countries on the Arabian Peninsula.

ECONOMIC OVERVIEW

Each Yemen joined unification with differing assets and liabilities. The North represents nearly four-fifths of a total estimated population of more than ten million. The South represents nearly two-thirds of an estimated total land area covering 528,000 square kilometers, about the size of France. The North also brought greater agricultural and industrial potential into the union, along with a fairly well developed transportation network, port facilities at Hodeidah on the Red Sea, and the substantial revenues generated by an oil pumping capacity now estimated at 200,000 barrels a day.⁴

In contrast, the South brought with it a somewhat more educated and urban workforce, the port of Aden, and the possibly significant if up until now only minimally exploited oil resources of its large and relatively unexplored land mass. Only one percent of South Yemen's

⁴ *Though dated, the best single overview of North Yemen's historical development experience is the World Bank country study, Yemen Arab Republic: Development of a Traditional Economy (Washington, DC: Europe, Middle East and North Africa Office, 1979).*

total land area is believed to be cultivable (in North Yemen, the comparable figure is 25 percent)--and only one-third of that one percent is actually under cultivation. On the other hand, South Yemen's 1,383 kilometer coastline, two and a half times the length of North Yemen's coast, has significantly greater fisheries potential. The island of Socotra and a united Yemen's commanding position at the southwest corner of the Arabian Peninsula and at the southern end of the Red Sea also have a certain strategic value which may well increase in importance in the coming years.

By all accounts, the treasuries of both North and South were virtually empty on unification. "Gifts" from friendly Arab donors such as Iraq provided some short-term budgetary support. But the external debt burden of a united Yemen is estimated at between \$5-\$7 billion, roughly equal to the combined annual GDP of the two countries. Between 40 and 60 percent of this debt was inherited from the South. Taken together, well over half of the debt is owed to the Soviet Union, with various Arab states and China emerging as other major creditor nations.

Another immediate result of unification was to make Yemen the second largest country on the Arabian Peninsula after Saudi Arabia in terms of population as well as land area. The combined population of a united Yemen is smaller than Saudi Arabia's estimated fourteen million only when foreign workers and their families are taken into account. Up until August 1990, many foreign workers in Saudi Arabia were in fact Yemeni. Although firm figures are unavailable, it is almost certain that Yemen's national population exceeds that of Saudi Arabia's and may be as much as the rest of the Arabian Peninsula combined. As for land area, a united Yemen is about one-fourth the size of Saudi Arabia and more than twice the size of Oman.

Economically, of course, Yemen is far overshadowed by its neighbor to the north. In 1988, the GDP of a combined Yemen was nearly \$7 billion compared with \$72 billion for Saudi Arabia; Yemen's oil earnings were less than \$500 million compared with \$28 billion for Saudi Arabia; and Yemen's foreign exchange reserves were less than \$500 million compared with \$65 billion for Saudi Arabia. The size of Yemen's national economy is also slight in comparison with those of its much less populous Arab neighbors such as Oman (\$18 billion), the United Arab Emirates (\$24 billion) and a pre-Iraqi invasion Kuwait (\$20 billion).

⁵ *These comparison figures are taken from the World Bank Development Report 1990 (New York: Oxford University Press, 1990).*

Similarly sharp differences are evident in the leading social indicators. Life expectancy in Yemen is approximately 50 years compared with 64 in Saudi Arabia and Oman and more than 70 in the Emirates. Child mortality rates in Yemen are several times that of its Arab neighbors. There is approximately one doctor for every 5,600 Yemenis, compared with one for every 690 in Saudi Arabia, one for every 1,020 in the Emirates and one for every 1,700 in Oman.⁵ These vast differences partly explain the enthusiasm in Yemeni public opinion for the Iraqi invasion of Kuwait. As more than one Yemeni has privately acknowledged, the Iraqis simply did to Kuwait what Yemen has long wanted to do to Saudi Arabia, which in the 1930s took over Najran and Jizan, regions which the Yemenis regard as rightfully belonging to them.⁶ The border between Yemen and Saudi Arabia has still not been properly demarcated, a issue which is almost certain to be exacerbated in the coming years.

SECTORAL CONCERNS

NATIONAL ACCOUNTS: The economic position of both Yemens has always been precarious. A large, traditional subsistence sector, combined with a thriving underground marketplace historically offered some cushion, a critical factor given the bleak end-of-year macroeconomic figures which Yemeni policymakers must inevitably face each December. The usual response by private Yemenis to foreign exchange shortages which limit the import of desired consumer goods is simply to buy them on the black market. Major smuggling routes include by boat across the Red Sea from Djibouti and by Toyota landcruiser across the Saudi frontier. Official figures from the Japan Automobile Manufacturers Association suggest that the two Yemens imported only 1,500 Japanese vehicles in 1988, a ludicrously low figure as any one who has travelled in either Yemen will attest. Most vehicles, along with large quantities of other imports, are simply never recorded in government statistics.

Officially, Yemen is dependent on three main sources for scarce foreign exchange: oil exports, remittances, and foreign aid. The long-term outlook for each is problematic. Higher

⁶*For the best single account of the difficult history of relations between the two Yemens and Saudi Arabia, see F. Gregory Gause III, Saudi-Yemen Relations: Domestic Structures and Foreign Influence (New York: Columbia University Press, 1990).*

oil prices as a result of the Gulf crisis represent an unexpected windfall for the Yemen government. On the other hand, these higher prices will be offset to some extent by an almost certain decline in aid receipts. The Kuwaiti aid program, estimated at between \$20 and \$50 million a year, has already been terminated. Future commitments on the part of other donors, particularly the oil-rich Arab states, are uncertain. In any case, by some accounts net aid (aid receipts minus debt repayment) from all Arab sources to North Yemen had already declined to less than \$20 million in 1988, down from a high of \$351 million in 1980.

Falling remittances are also an increasing concern. Like donor assistance, these declined dramatically throughout the 1980s, from nearly \$2 billion for both Yemens at the beginning of the decade to less than \$700 million in 1988. The bulk of the remittances have always come from Saudi Arabia. Up until August 1990, an increasing part of the Yemeni community in Saudi Arabia was made up of women and children, a sign of a "settling in" which normally reduces future remittance inflows. In the wake of the Gulf crisis, the position of the Yemeni workers became more precarious and an estimated half million Yemenis have already returned home. Unlike in earlier years, the government of a united Yemen will no longer be able to Yemenis have in the past established themselves as successful businessmen and entrepreneurs depend on remittances to finance imports and resolve short-term financial difficulties.

SERVICES: Yemen is primarily a service economy, with services accounting for well over half of its total GDP. The ubiquitous weekly markets scattered throughout the country,⁷ the widespread interest on the part of returnee migrants in setting themselves up as traders, restaurant operators, or taxi owners,⁸ the smuggling underway on a vast scale--all this contributes to an impressive trading network which covers virtually every area of the country. According to one local account, the first American visiting the moon back in 1969 was in fact met by a Yemeni trader who got there first. This apocryphal story only illustrates the very real truth that Yemenis have in the past established themselves as successful businessmen and entrepreneurs in all parts of the world, from Vietnam to India, from the United States to Saudi Arabia.

⁷ See Gunther Schweizer, "Social and Economic Change in the Rural Distribution System: Weekly Markets in the Yemen Arab Republic" in B.R. Pridham, ed., *Economy, Society and Culture in Contemporary Yemen* (London: Croom Helm, 1985), pp. 107-121.

⁸ Many publications have appeared on Yemens migration experience. See, for example, Jon C. Swanson, *Emigration and Economic Development: The Case of the Yemen Arab Republic* (Boulder, Colorado: Westview Press, 1979).

Government officials are increasingly aware of the dangers of excessive reliance on the service sector. President Saleh and various government ministers frequently announce that Yemenis must learn to produce more and consume less, timely advice given the extent to which Yemen has become dependent on outside suppliers for so much of its requirements. At the same time, services are likely to continue to represent the single largest sector of Yemen's economy for years to come. If attempts to develop Aden as a free port are successful, the importance of services may increase still further. Prior to the Gulf conflict, tourism was also emerging as a surprisingly important element in Yemen's service sector. Nearly 50,000 tourists visited North Yemen in 1988, one-fifth of them from Germany and one-fifth of them from other Arab countries. Tourism also contributed more than \$17 million in foreign exchange. In the same year, approximately 30,000 foreign tourists visited the South.

AGRICULTURE: Agriculture has always been a mainstay of Yemen's economy in both North and South. Its place in North Yemen is especially important, where it continues to employ 60 percent of the workforce and represents about one-fifth of total GDP, excluding cultivation of the mildly narcotic and extremely popular qat leaf. In contrast, about 40 percent of all South Yemenis work in agriculture and its share in total GDP has declined to only 16 percent.

Coffee production in a land once renowned for its coffee is now negligible. The major cash crop is qat, now legalized in both South and North (prior to unification, qat was banned for five days each week in Aden). The afternoon qat chew is a firmly established social tradition at all levels of Yemeni society, with export prospects limited mainly to Yemeni communities in East Africa and, to a more limited extent, in the United Kingdom. By some estimates, inclusion of qat in national accounting would add another \$1 billion to Yemens domestic economy and increase annual average per capita incomes by 15 or 20 percent.⁹

Agriculture in South Yemen is limited to only a small land area centered in the southwest and in the Hadhramawt. North Yemen boasts a much more diverse agricultural economy, including some highland regions where rainfall is relatively plentiful. Major constraints in both

⁹ For an interesting discussion of the role of qat in the local economy, see Shelagh Weir, "Economic Aspects of the Qat Industry in Northwest Yemen" in B.R. Pridham, ed., Economy, Society and Culture in Contemporary Yemen (London: Croom Helm, 1985), pp. 64-82.

North and South include limited arable land, water scarcity in some areas, periodic drought, difficult terrain, and a great variety of mini climates and soils which make nation-wide crop planning, forecasting, and extension difficult. On the other hand, the wide variety of agroclimatic zones does mean that Yemen can grow almost anything. The high cost of labor--for the past decade, local wage rates have in fact been largely determined by wage rates in Saudi Arabia--creates further difficulties, especially for the labor-intensive agricultural technologies needed to maintain Yemen's ancient and impressive system of terraces.

Cropping decisions over the past ten years have resulted in a shift away from traditional cash crops such as cotton and traditional cereals such as sorghum. At the same time, wheat production has increased in importance. There have also been substantial increases in the production of all varieties of fruits and vegetables, including the introduction of some new varieties. Over the long-run, Yemen seeks to fill certain niche markets in neighboring countries for high value fruits and vegetables, a strategy followed with some success by Tunisia and Jordan. But Yemen's late entry into the market and the high quality demands in Saudi Arabia and elsewhere in the Gulf limits this prospect. The first priority will inevitably be to simply meet domestic demand in a country which already imports much of its food requirements. Total cereal imports in 1988 alone exceeded 1.2 million metric tons, a figure which is likely to grow in the coming years as Yemen's population continues to rapidly increase.

MANUFACTURING: Despite a legacy of public sector factories established with aid from Eastern Bloc sources in both North and South, the most vibrant part of Yemen's industrial sector rests in private sector hands. Public sector plants in cement, textiles and other areas are notoriously inefficient. Ironically, many of Yemen's most prominent private entrepreneurs are from Aden, having fled North in the years since 1967. There is some hope that these entrepreneurs will now return home, expanding investment into the Southern part of the country. On the eve of unification, almost all Yemen's manufacturing capacity was concentrated in Sana'a, Hodeidah, Taiz and Aden.

Manufacturing represents 12 percent of the domestic economy in the North and an unknown but probably comparable figure in the South. A negligible proportion of the work force in both countries actually works in the sector. Privately-held factories are generally small but modern, producing primarily consumer goods, food products and building materials. Technical expertise is often imported from outside, but the bulk of the work force is Yemeni.

In recent years, foreign exchange has more and more become a critical constraint to industrial development in Yemen. Machinery and most factory inputs must be imported from outside. As licensing arrangements are imposed to try and cope with growing foreign exchange shortfalls, factories are forced to shut down or run at greatly reduced capacity. While consumer goods can be smuggled freely across the border, it is much more difficult to bring in through alternative routes the heavy machinery and raw materials needed to expand Yemen's small manufacturing base.

OIL AND GAS: Most of Yemen's hopes for future development are firmly fixed on a rapid expansion of the oil and gas sector. Although Yemen's known oil reserves are fairly limited, the country has enough natural gas to meet energy requirements for many decades to come. Development of these natural gas reserves as a source of industrial energy should eventually allow Yemen to compete more effectively with its neighbors and help in expanding its own manufacturing base.

The development of a petroleum industry in Yemen represents a stark contrast in development styles between North and South. South Yemen's petroleum reserves are estimated at more than three billion barrels, compared with only one billion barrels in the North. Nonetheless, exploitation of oil reserves in the South has lagged far behind. Quantities of oil have been known to be present in the South for years, but have still not been exploited in commercially significant quantities. The Soviet companies charged with developing the reserves have moved very slowly and even at unification exports were minimal. Even Aden refinery, built more than three decades ago by the British, depended on oil imports from Iraq, the Soviet Union and elsewhere for its operations.

From the perspective of the South, the effectiveness with which a Texas-based company, Hunt Oil, first found and then marketed North Yemeni oil was a powerful incentive for unification. The Hunt group first struck oil in Marib in July 1984, after more than two decades of unsuccessful exploration by a series of other foreign companies. In just over three years, the 430-kilometer pipeline from Marib to Salif near Hodeidah was complete and North Yemen entered the ranks of the oil-exporting nations. The Marib discovery resulted in a flurry of other oil exploration activity in the Red Sea (Total, Exxon and Texaco), the Central Highlands (Texaco), the Tihama (Texaco and Hunt) and areas around Marib (Exxon and Hunt), often with disappointing results. Nonetheless, the example of Yemen Hunt Oil in finding and then exporting oil provided an impressive example of commercially driven efficiency and resolve which has been widely appreciated in both Yemens.

FUTURE PROSPECTS

Yemen's economic prospects on the eve of unification in May 1990 were fairly bright. Despite the bankruptcy of the South Yemen economy, the addition of Aden port, a much larger coastline and potential for oil exploration in South Yemen's vast interior were all assets that could ultimately benefit both North and South. The North in turn had agriculture potential, a substantial population by regional standards and close and effective links with Western oil companies. Most importantly, unification resolved immediately the long-standing dispute over oil exploration rights in the disputed but potentially very promising Shabwa border region between North and South.

At the same time, unity had been achieved with the support of virtually the entire Arab world. The Arab Cooperation Council (ACC) involving Egypt, Iraq and Jordan along with North Yemen provided immediate regional support. Simultaneously, even Saudi Arabia, long concerned with Republican developments on its southern borders, had given its blessing.¹⁰ Within the Arab world, Yemeni unity seemed more natural and achievable than previous and unsuccessful attempts at unification involving more unlikely partners such as Egypt and Syria or Libya and Sudan. Successful unification of the Yemens could set a precedent with obvious implications for future developments elsewhere.

This guardedly optimistic assessment of Yemen's economic future changed radically in August 1990 with the Iraqi invasion of Kuwait. The invasion polarized Arab countries almost immediately, placing Yemen in the difficult position of having to choose sides. The fact that Yemen was also represented on the United Nations Security Council meant that high profile political decisions with clear economic consequences had to be made almost immediately. The result was a wave of what seemed to some outsiders to be contradictory votes, placing the country under an even brighter spotlight. In the end, Yemen's assertions of neutrality based on an Arab solution notwithstanding, Yemen was placed along with the PLO, Sudan, and much of North Africa as being firmly in the Iraqi camp. Popular opinion in Yemen itself strongly supported Iraq and in the days following the arrival of Egyptian and Western troops in Saudi

¹⁰King Fahd reportedly told President Saleh in February that Saudi Arabia "has in the past stated that it supports Yemeni unity. Now it supports it even more, totally, without limit, because it is of benefit to Islam, to Muslims and to the two countries." See Middle East Economic Digest (MEED), 9 March 1990.

Arabia, demonstrations were organized outside the Saudi, Egyptian, American and British embassies in Sanaa. For Saudi Arabia in particular, the popular reaction was profoundly illuminating, a test of friendship and goodwill which, from a Saudi perspective, Yemen appeared to have miserably failed.

The invasion adversely affected Yemen's short and medium-term economic prospects on several counts. First, long-term donor relationships were immediately threatened. The Kuwaiti aid program which had helped build and operate Sanaa University and one of Sanaa's major hospitals concluded on September 1, 1990, despite the fact that Kuwait aid programs elsewhere were maintained as planned. Yemen itself had to move quickly to provide salaries for several dozen of the Kuwaiti-funded faculty at Sanaa University in order to allow the facility to stay open. Iraq's aid also was placed on immediate hold, including a promised \$25 million budget support check and a \$70 million "conference palace" in Sanaa. The position of other Arab donors such as Saudi Arabia and the UAE is less clear, but the extensive support received in the past and anticipated in connection with unity is unlikely to be forthcoming.

Second, remittance income was threatened and will almost certainly decline in coming years. Though not large by regional standards, the Yemeni community in Kuwait and Iraq had been sending back remittances each year. More importantly, a shadow was cast over the long-term future of Yemeni communities in Saudi Arabia and elsewhere in the Gulf. Historically, Yemenis had been in the unique position of being able to travel back and forth to Saudi Arabia without having to obtain sponsorship from a Saudi. In the weeks following the Iraqi invasion of Kuwait, Saudi Arabia withdrew special privileges for Yemenis, mandating that all Yemenis wishing to work in Saudi Arabia now required visas and sponsorship like everyone else. Regulations which had allowed private Yemenis to open businesses in Saudi Arabia were also tightened.

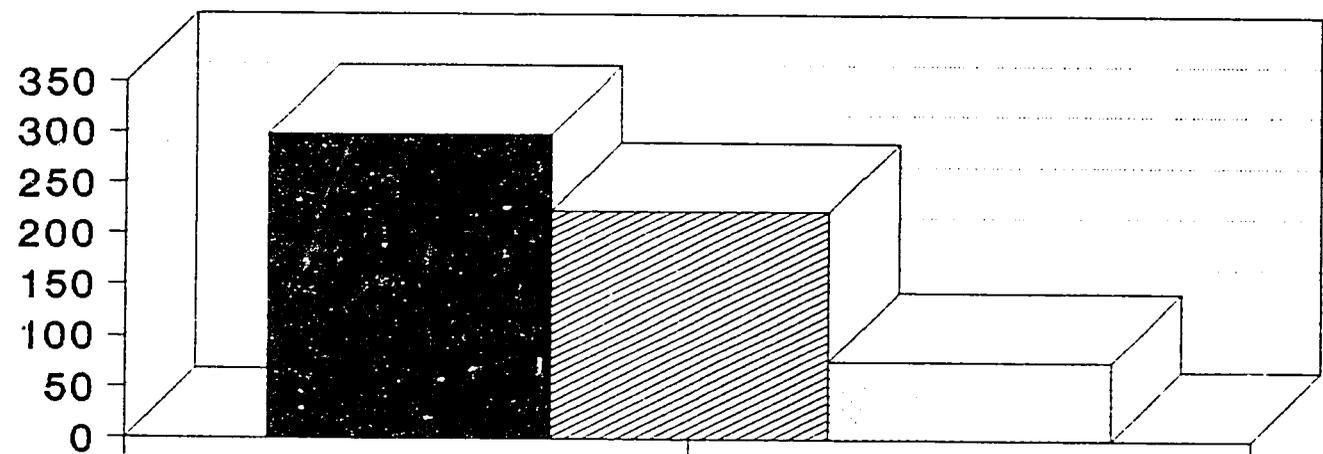
The result of this tightening in Saudi migration regulations was a wave of returning Yemenis estimated at more than half a million, in United States terms the equivalent of as many as 15 million expatriates suddenly returning home. Despite complaints of border harassment, most Yemenis returned with cars loaded down with household goods and electronic equipment. Many of these goods and vehicles were auctioned off in Sanaa and Hodeidah in the weeks following the return. Employment and inflation pressures are almost certain to follow. Even beyond the immediate economic effects, the event is bound to have an important and long-lasting impact on the national imagination and on attitudes and perceptions between the two countries.

Third, sanctions threatened a small but in Yemen's view significant trade relationship with Iraq and Kuwait. The \$1.6 billion bill presented by Yemen to the United Nations as their claim for abidin, by sanctions imposed against Iraq is undoubtedly exaggerated. Particular claims include anticipated losses in aid and remittances, both of which appear to have been inflated. References were also made to the termination of oil contracts aimed at supplying the Aden refinery with Iraqi crude. Yemen's claim also referred to anticipated increases in exports of fruits, vegetables, fish and other commodities to Iraq, exports which will not now be realized. The "common market" arrangements envisaged under the ACC are also now in tatters.

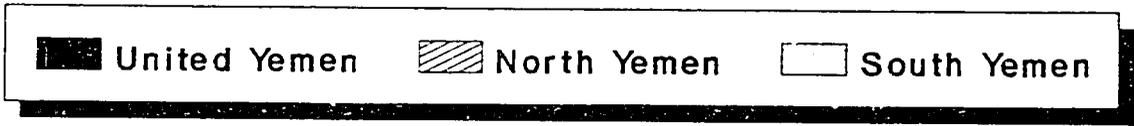
Fourth, the regional crisis threatened Yemen's long-standing hopes of attracting new private investment from expatriate Yemenis, Arab entrepreneurs and other business interests into a unified country with one of the largest markets and labor forces in the region. Considerable attention had been given to a new private investment law under discussion in both North and South touted as the most liberal in the Arab world. Regardless of the final shape of the law, Yemen's own attractiveness as a new investment opportunity has been severely diminished, a particularly bitter blow for the South which had high hopes for developing Aden into a commercial and industrial free port competing directly with Dubai in the Gulf and Djibouti on the Red Sea. Until expatriate Yemenis are convinced enough to invest in their own country, the prospects for extensive additional foreign investment outside the oil and gas sector seem bleak.

More than ever, Yemen's own economic future now hinges on the successful development of its oil and gas reserves. From Yemen's point of view, the one positive development coming out of the Gulf crisis is the rapid rise in oil prices. If these are sustained, Yemen's own oil earnings in 1991 will exceed \$1 billion, a substantial increase over previous levels. These revenues will help compensate for losses in remittances income and aid as a result of the Gulf crisis. At the same time, the higher prices make further oil exploration and development in the country more attractive than ever. Neither the Yemen government nor foreign oil companies have shown any indication that the Gulf crisis will affect their own commitment to further petroleum exploration and development. Although the long-term political impact of the Gulf crisis on Yemen is still unclear, Yemenis openly acknowledge that their own economic future rests almost entirely on the successful development of these oil and gas reserves.

Net Aid Disbursements (US\$ Million)

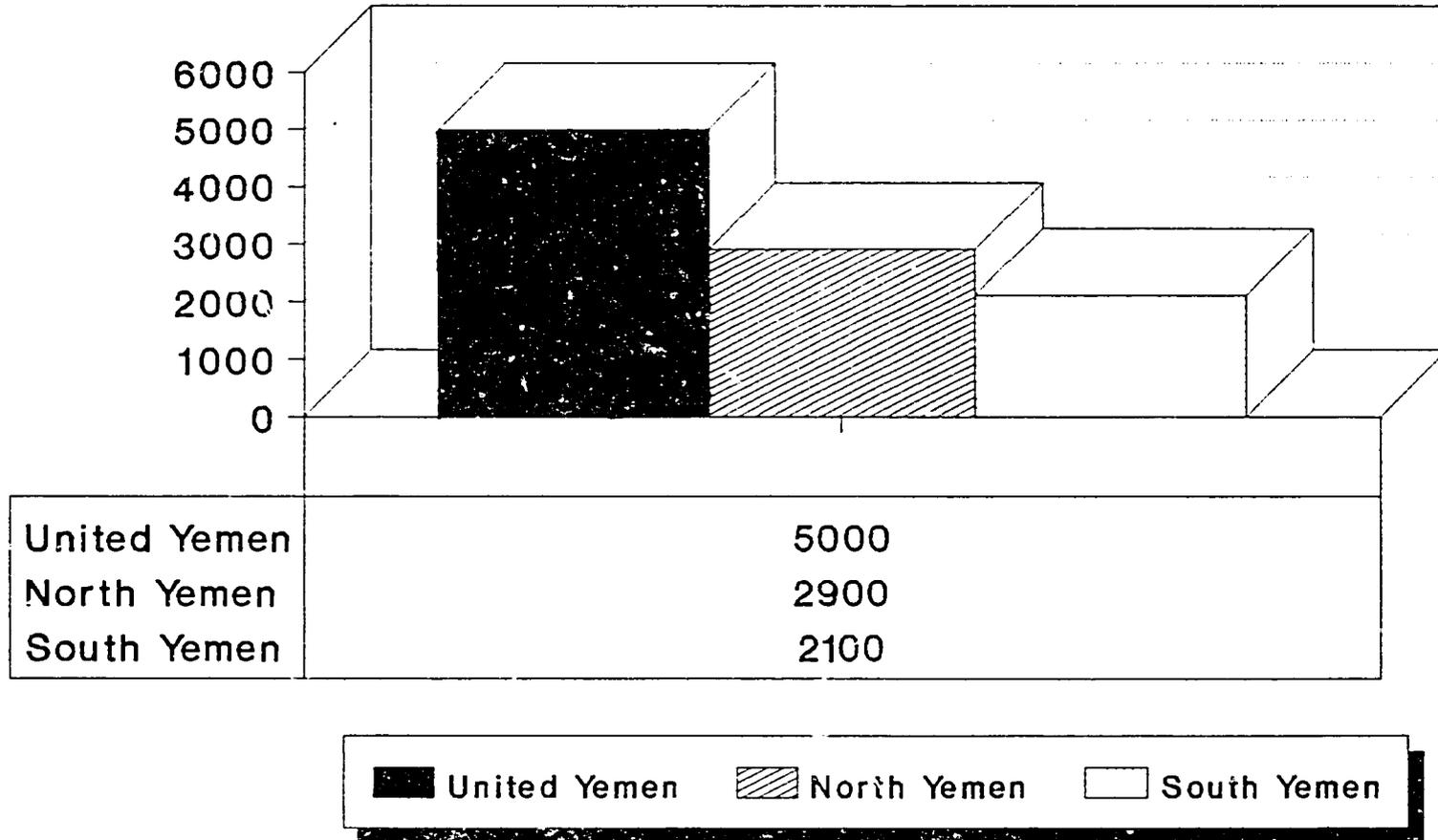


	United Yemen	
United Yemen		299
North Yemen		223
South Yemen		76



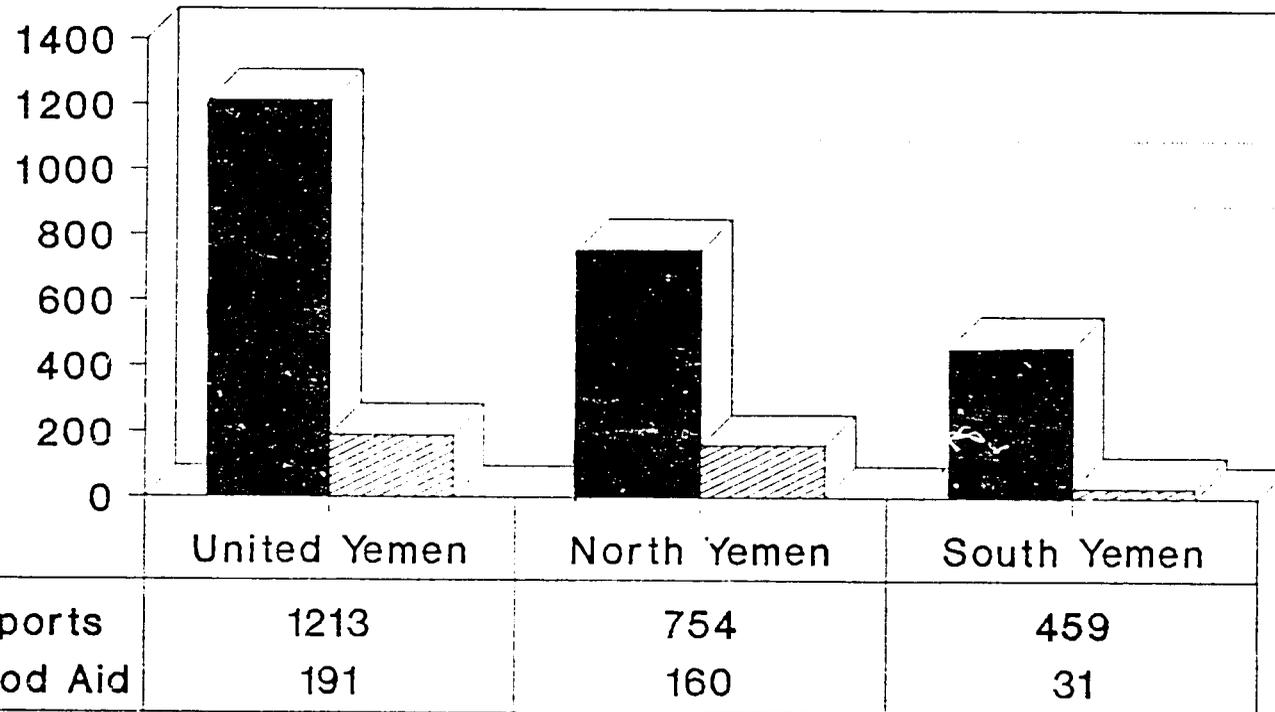
Source: World Bank, 1988

External Debt (US\$ Million)



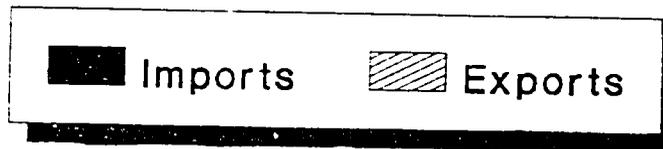
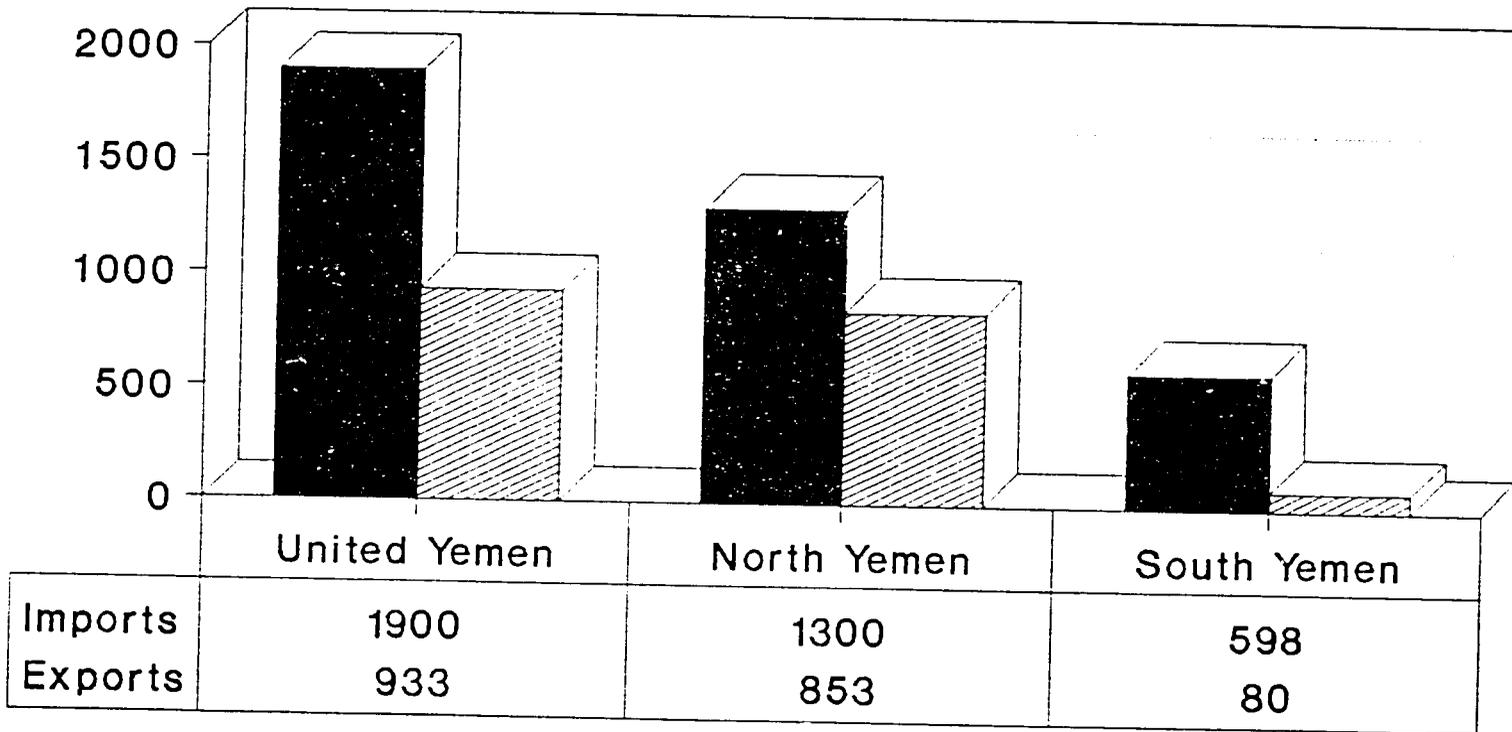
Source: World Bank, 1988

Cereal Imports (1,000 Metric Tons)



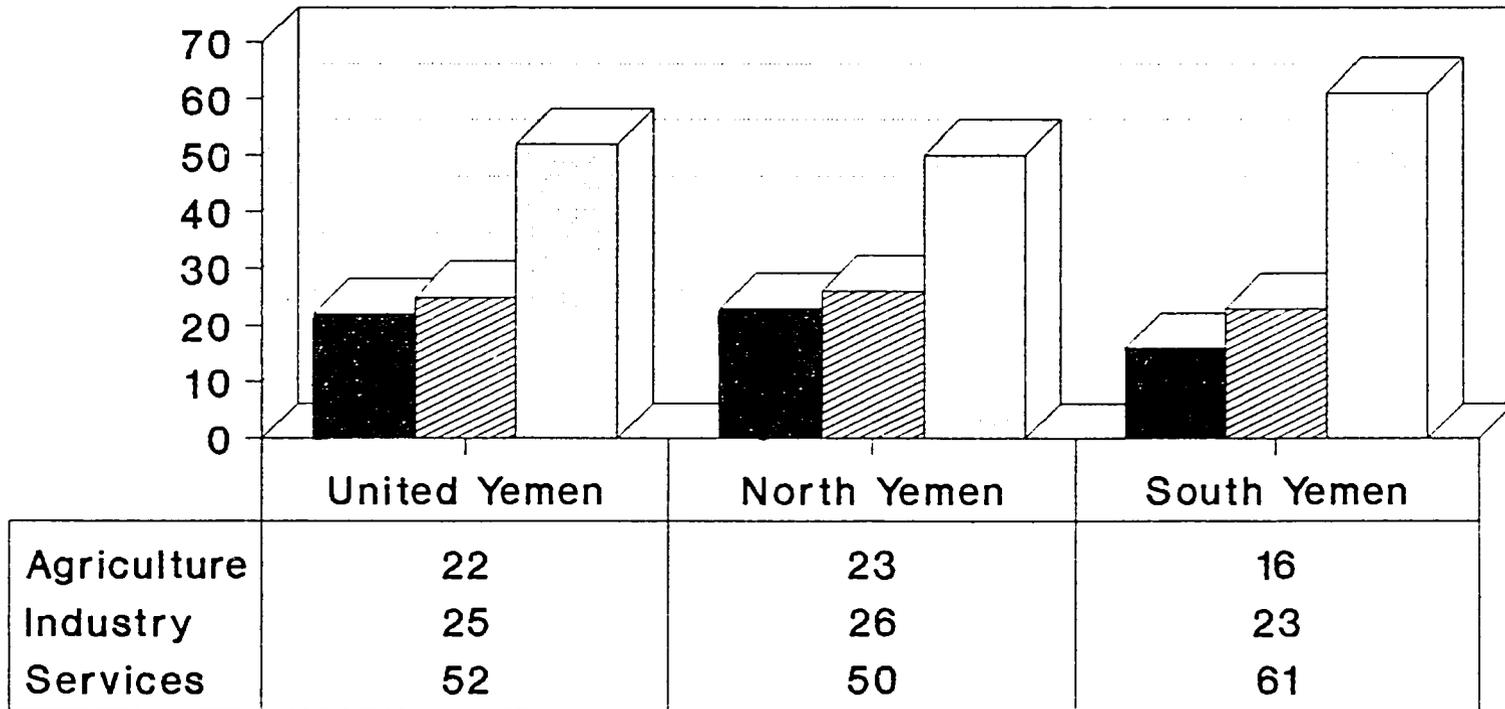
Source: World Bank, 1988

Imports and Exports (US\$ Million)



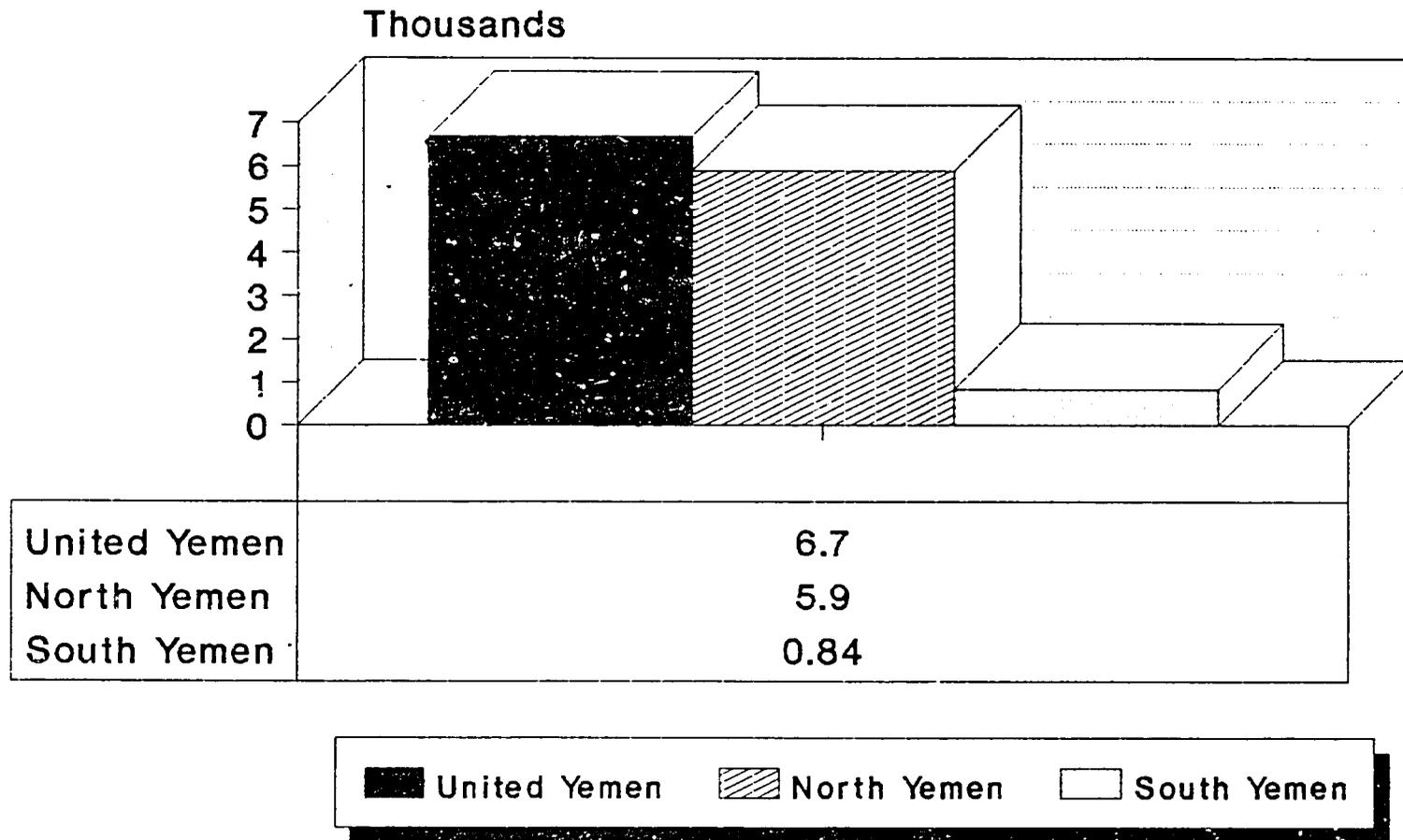
Source: World Bank, 1988

GDP by Sector (Percentage of Total)



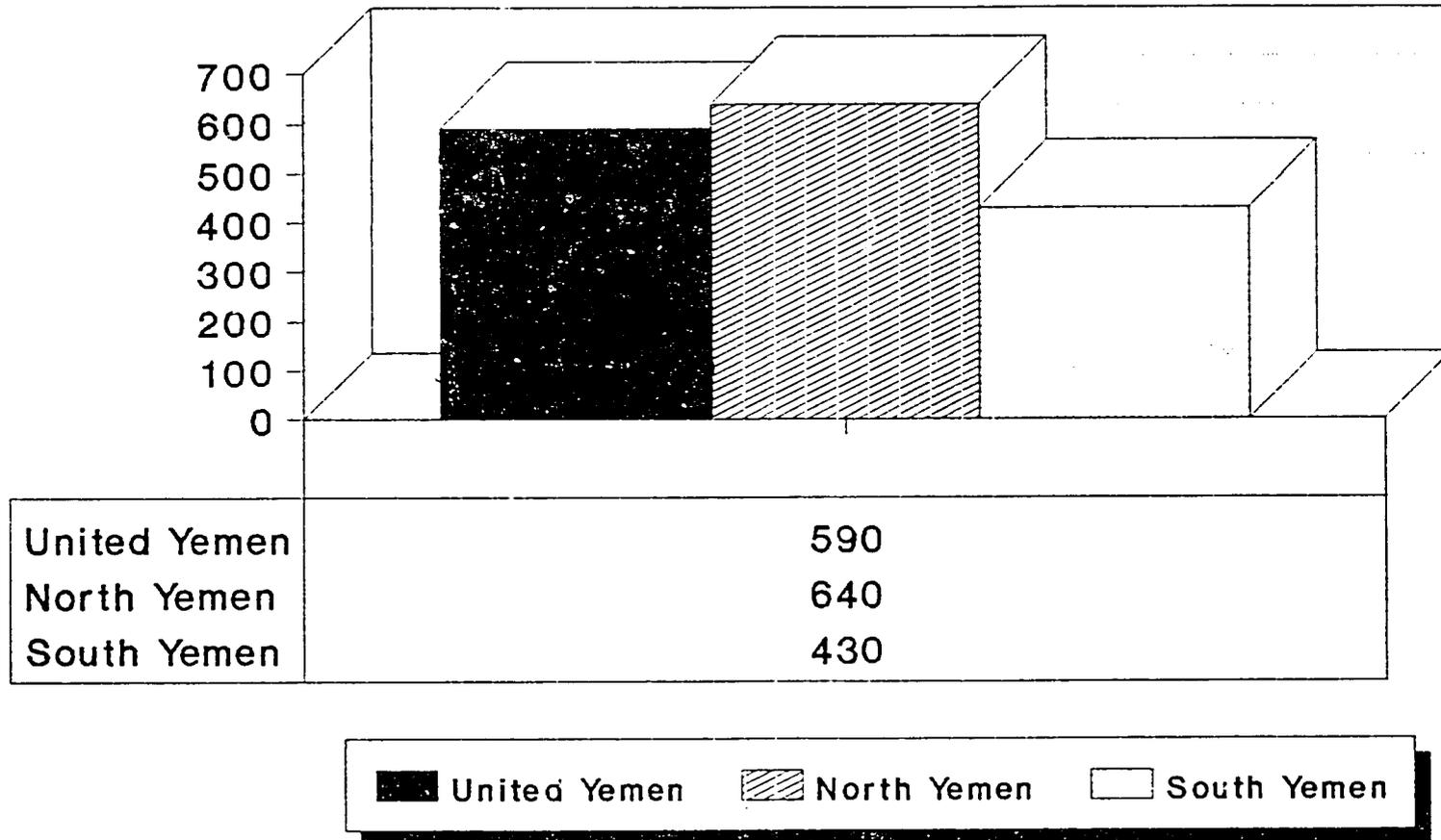
Source: World Bank, 1988

Total GDP (\$ Million)



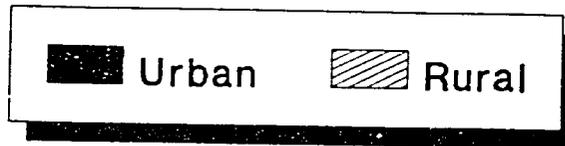
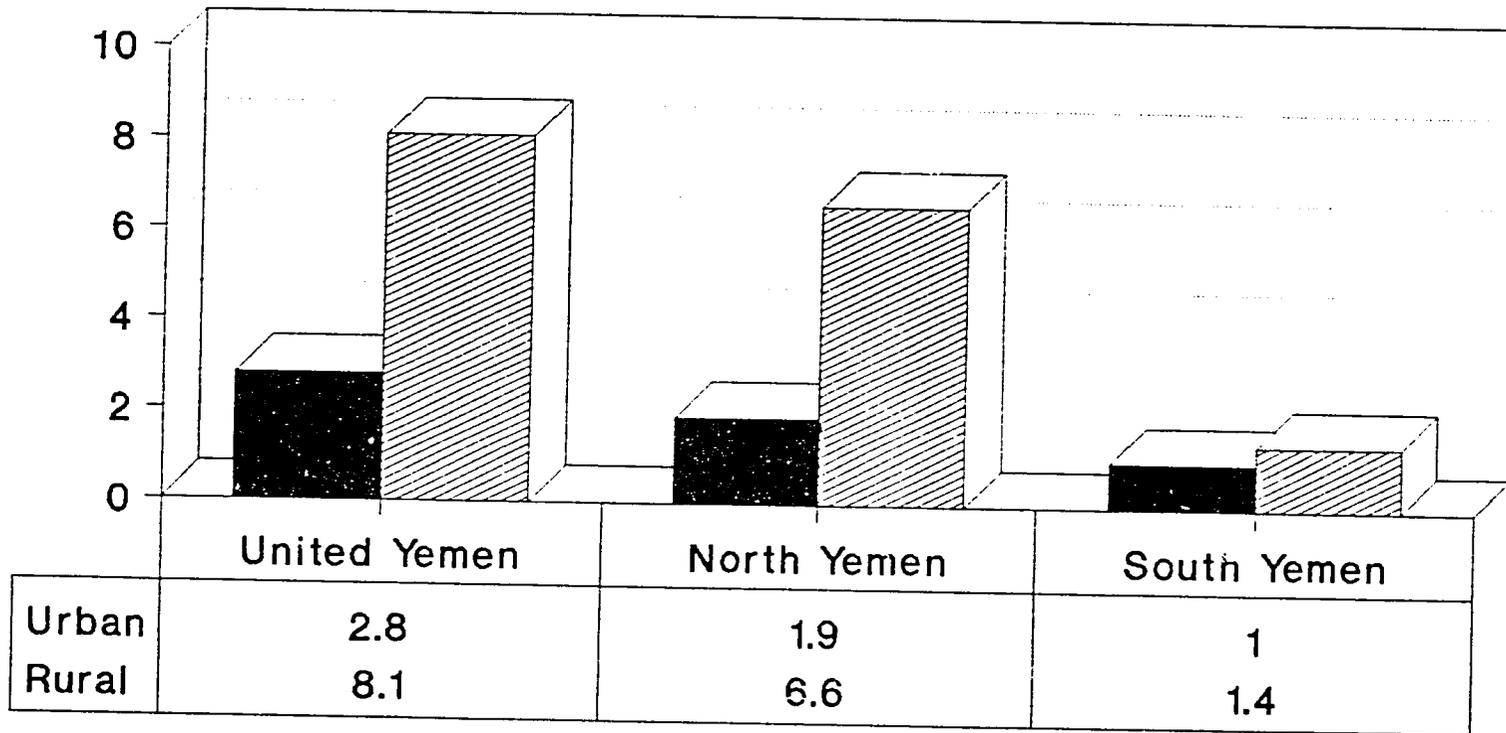
Source: World Bank, 1988

Per Capita GNP (US\$)



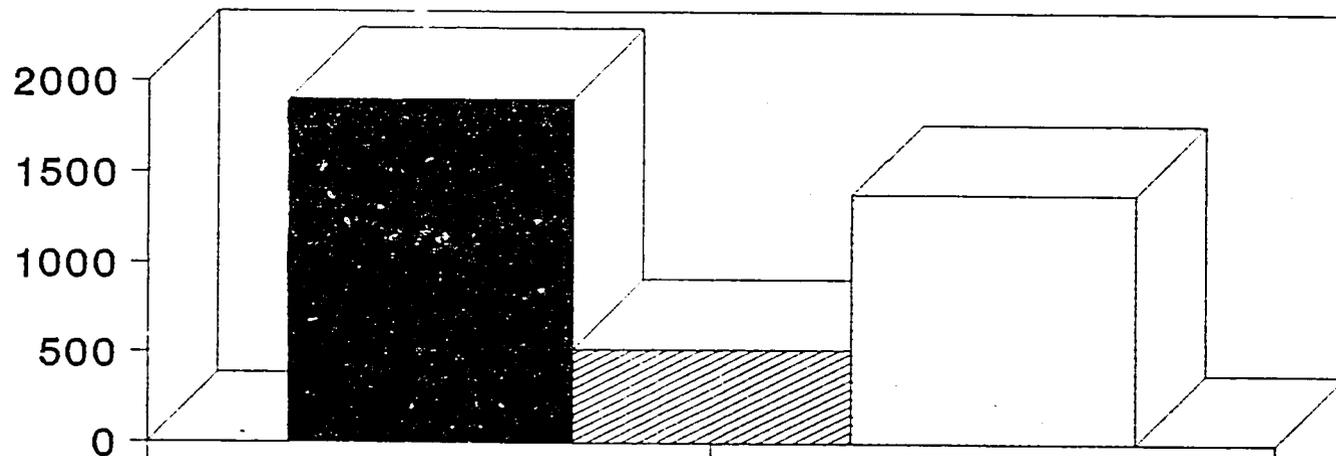
Source: World Bank, 1988

Total Population (Millions)



Source: World Bank, 1988

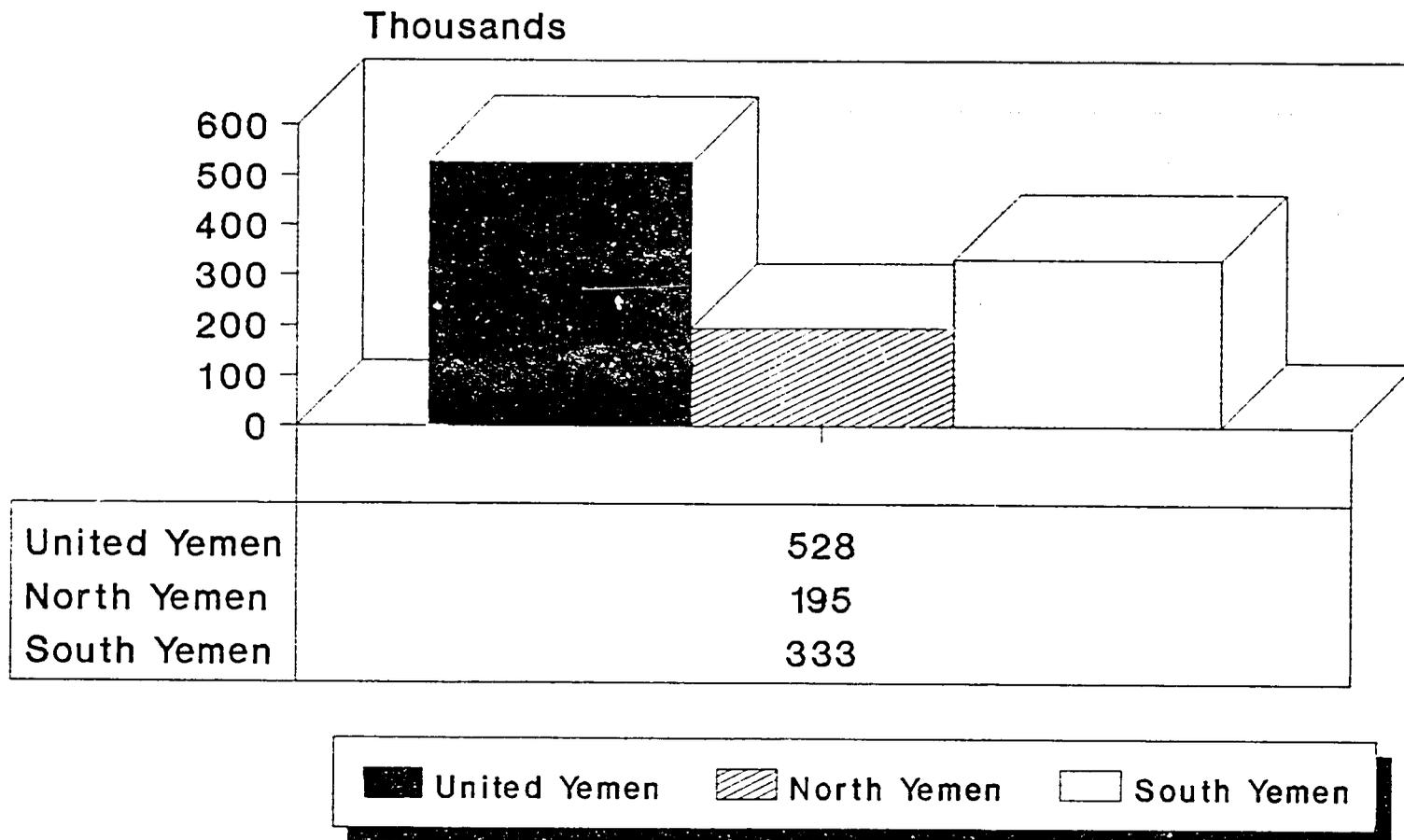
Length of Coastline (Kilometers)



United Yemen	1906
North Yemen	523
South Yemen	1383

■ United Yemen ▨ North Yemen □ South Yemen

Total Land Area (Square Kilometers)



ANNEX I:

BASIC INDICATORS

Indicator	North Yemen	South Yemen	United Yemen
Land Area	195,000 sq km	333,000 sq km	528,000 sq km
Coastline	523 km	1,383 km	1,906 km
Population	8.5 million	2.4 million	10.9 million
Urbanization	23 percent	42 percent	26 percent
Per Capita GNP	\$640	\$430	\$595
Total GDP	\$5.9 billion	\$840 million	\$6.7 billion
(% Agriculture)	23 percent	16 percent	22 percent
(% Industry)	26 percent	23 percent	25 percent
(% Services)	50 percent	61 percent	52 percent
Cereal Imports	754,000 MT	459,000 MT	1,213,000 MT
Food Aid	160,000 MT	31,000 MT	191,000 MT
Imports	\$1.3 billion	\$598 million	\$1.9 billion
Exports	\$853 million	\$80 million	\$933 million
Net Aid Disbursed	\$223 million	\$76 million	\$299 million
External Debt	\$2.9 billion	\$2.1 billion	\$5 billion

Sources:

World Bank Development Report 1990 (New York: Oxford University Press, 1990)

World Resources 1987 (New York: Basic Books, 1987)

ANNEX II:
SELECTED BIBLIOGRAPHY

Burrowes, Robert, The Yemen Arab Republic: The Politics of Development, 1962-1986 (Boulder, Colorado: Westview Press, 1987)

Gause, F. Gregory III, Saudi-Yemen Relations: Domestic Structures and Foreign Influence (New York: Columbia University Press, 1990)

Halliday, Fred, Revolution and Foreign Policy: The Case of South Yemen, 1967-1987 (New York: Cambridge University Press, 1990)

Pridham, B.R., ed., Economy, Society and Culture in Contemporary Yemen (London: Croom Helm, 1985)

Swanson, Jon C., Emigration and Economic Development: The Case of the Yemen Arab Republic (Boulder, Colorado: Westview Press, 1979)

World Bank, Yemen Arab Republic: Development of a Traditional Economy (Washington, DC: Europe, Middle East and North Africa Office, 1979)

World Bank, World Bank Development Report 1990 (New York: Oxford University Press, 1990)