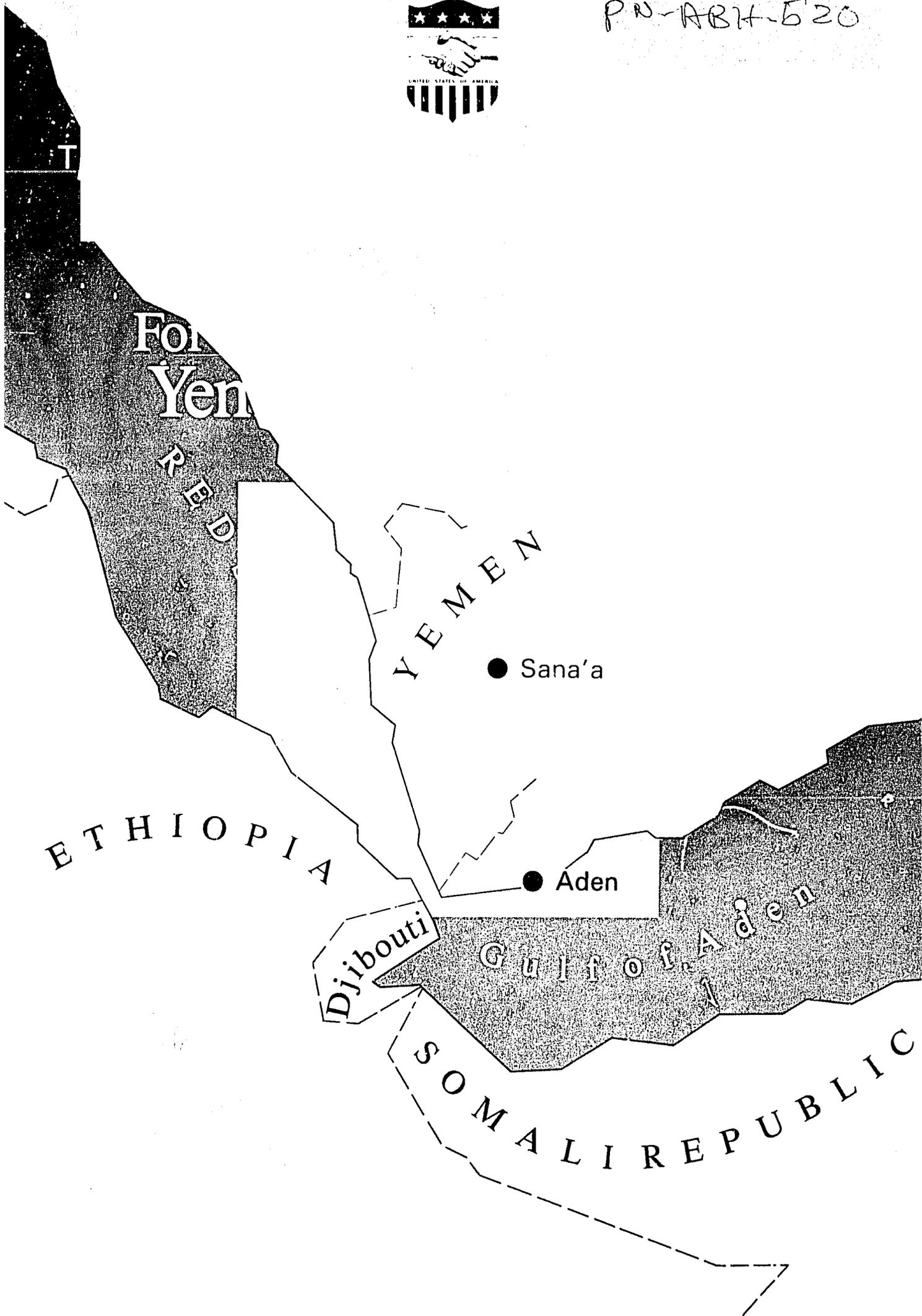




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THE AGENCY FOR INTERNATIONAL DEVELOPMENT
PRESENTS

Critical Issues For American Investors in the Yemen Arab Republic

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لا يَب من صنعاء
وإن طال السفر

I have to get to Sana'a, even if it takes me a long time.

(Yemeni proverb)

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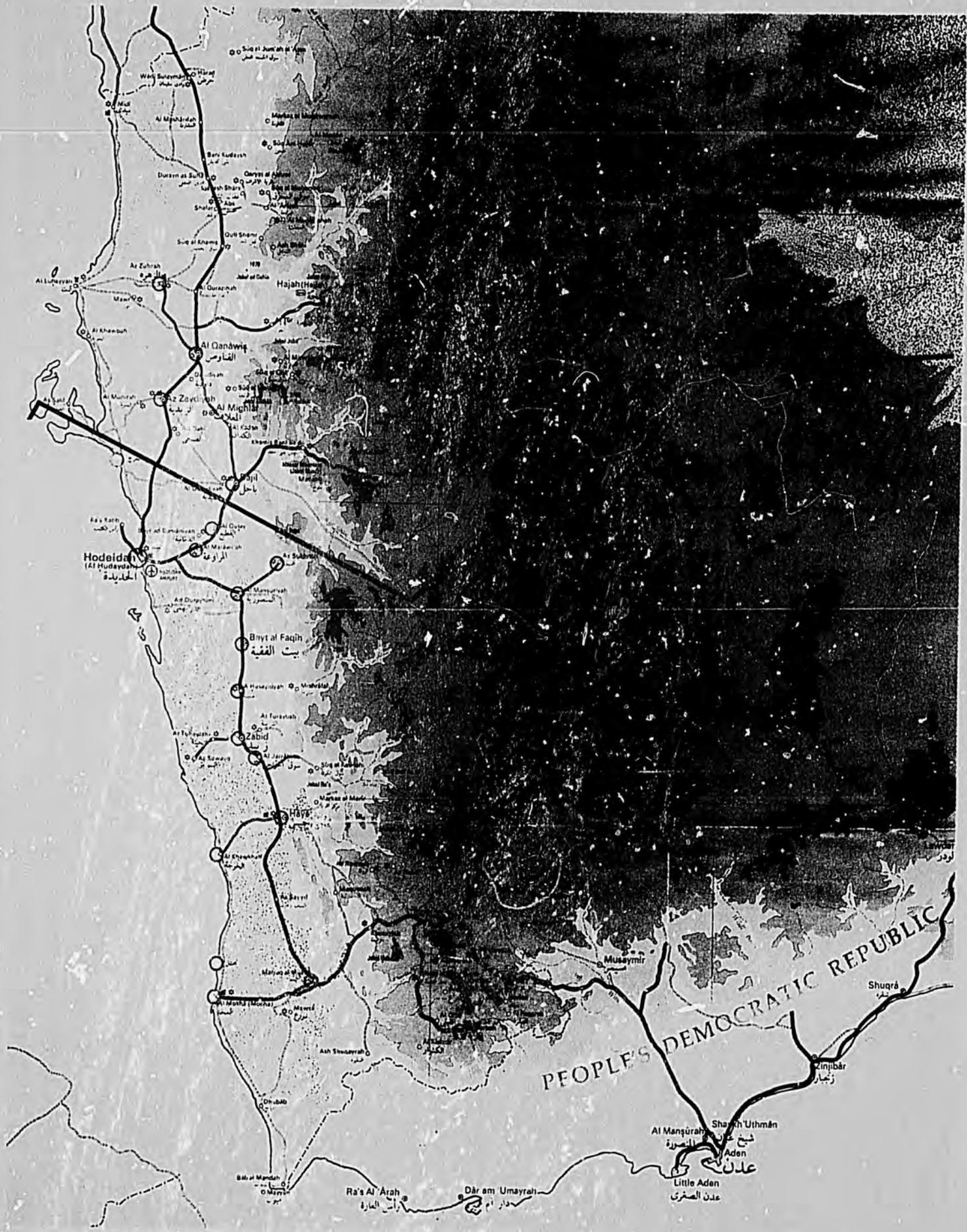
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A number of Yemeni businessmen were open and frank in their assessment of the opportunities today for American business in their country, as were American businessmen and representatives of the Yemeni government, private agencies and financial institutions.



Yemen Arab Republic
Business International

Introduction

Why Yemen? Why should an American company consider selling to and ultimately investing in the Yemen Arab Republic? Why, indeed, should an American company think about business in any Third-World market when there are ample business opportunities in the domestic economy and when high volume, relatively profitable and hassle-free business is possible in major markets such as Western Europe and Japan?

The general answer to this last question is that there are always profitable business opportunities in small, marginal markets for those companies prepared to seek niche markets and to develop a dominant share in these markets.

In Yemen today there are examples of foreign companies that recognized several years ago the potential of this relatively small but growing market. These companies got in on the ground floor. Their reward today is that their brand name has become synonymous in Yemen with the product: Yemenis don't ask for cigarettes, they ask for Rothmans, they don't drive pickups, they drive Toyotas. Yemeni farmers use Yanmars, in other words, Japanese pumps.

There are still such opportunities in Yemen today. The purpose of this report is to introduce the Yemeni market to American companies. In general, companies ask three questions about a new foreign market: can I sell my product in the market? If so, how do I enter the market? And how do I ensure that I get paid? A fourth question relates to the operating environment.

Specifically, the United States Agency for International Development, having built up a record of achievement in Yemen over a number of years, seeks now to broaden its strategy. To be fully effective, the international economic development assistance programs undertaken by the government of the United States must address the complete economic system of a recipient country, that is, the public and capital market sectors.

This leads logically to a fully coordinated effort to stimulate and foster US private-sector participation in economic development efforts. These efforts must have as their ultimate goal increasing the availability of goods and services, creating jobs and increasing individual incomes in targeted countries.

An essential argument in this report is that the Yemen Arab Republic today presents an excellent opportunity for concentrated American efforts to bring the American and Yemeni private sectors together for mutual benefit. The Yemen Arab Republic has a dynamic private sector seeking to expand its natural markets beyond Yemen's fron-

tiers, wishing to obtain new technologies and wanting to forge relationships with US firms.

The report seeks to be practical and realistic. That there are significant constraints to profitable business in the Yemen Arab Republic is not denied. These constraints are normal in any developing-country market. The competition to American companies in Yemen today is meeting these constraints, overcoming them and making profits.

Executive Summary

Yemen is a market of eight million consumers. The population is growing at an annual rate of over 3% and national income is slated to grow at a significantly faster rate. The country has a need for private-sector investment, both local and foreign. Investors entering the market today can reasonably expect continuing economic and market expansion.

Note: The Yemen Arab Republic is referred to simply as “Yemen” throughout the report.

Major Conclusions:

There are interesting and profitable opportunities for trade, licensing and franchise operations and joint venture investment for American corporations in the Yemen Arab Republic.

The report says:

“In brief, these are in the agricultural, agro-industrial, tourism and health sectors. For agriculture and food production, Yemen offers comparative advantages greater than any other country in the Arabian Peninsula and Red Sea region. In some favored regions there is a climatic environment and enough rainfall to permit it to provide seasonal fresh fruit and vegetables to markets within 1,000 miles or more from its frontier. For tourism, Yemen offers magnificent scenery and an intriguing ancient history. For health, Yemen has a small but affluent element in its population which leaves the country for health care because insufficient high-standard local facilities are available” (Chapter 4, page 19).

Effective and profitable business in Yemen requires a Yemeni partner

The report says:

“In the Yemeni private sector there are some extremely capable individuals of substantial net worth who are actively seeking foreign investment partners in general and American investment partners specifically” (Chapter 4, page 19).

The most critical decision to be made by an American corporation entering the Yemeni market is the choice of a local partner (Chapter 2, page 10).

The next critical decision is the choice of a project manager to ensure that excellent relations are maintained with the Yemeni partner and the Yemeni authorities, that operations in Yemen are managed productively and that acceptable and competitive levels of profitability are ensured (Chapter 4, page 20).

Background Information:

Part I considers the business environment. It supplies an overview of the opportunities (see above and Chapter 1); it describes how to enter the market through distributorship, agency and licensing agreements; it stresses the importance of the choice of a Yemeni partner (see above and Chapter 2).

It looks at the payments and capital market situation. Most trade with Yemen is under irrevocable letter of credit arrangements and no problems have been reported. There is no evidence of foreign corporations having problems with receivables in Yemen. The domestic capital market is institutionally underdeveloped, though the Yemeni private sector is affluent (Chapter 3). Two foreign banks left Yemen—one American, one British. A consensus suggests that part of these banks' problems were management problems.

The investment option for US corporations in Yemen is considered (see the major conclusion above and Chapter 4). The report looks briefly at the operating environment, which offers no special problems.

Part II of the report looks at US-Yemeni relations and especially at the achievements of the United States Agency for International Development. Over almost 20 years since 1958, USAID has implemented programs totaling \$358 million in the Yemen Arab Republic including food aid under Public Law 480. The report says that:

“USAID’s strategy in Yemen has focused on institutional and human-resource development in four key sectors: agriculture, education, health and water resources” (Chapter 7, page 35).

Part III of the report considers the Yemen Arab Republic today. The country is larger than the state of Missouri but smaller than the state of Kansas. Chapter 8 describes the location and climate and the natural resources; it outlines a little of the history. It points to a major problem: water supply. Yemen has more rain than any other country in the Arabian Peninsula, but it remains in general an arid land.

Opportunity: There is a great need for water resource management technology

Yemen is resource poor but people rich. The population today is about 8 million resident in the country. This figure will be 12 million by 2000. The average age of the population is about 16. In spite of substantial achievements in education, the general level of attainment is comparatively low (Chapter 9).

This creates at once an opportunity in terms of education and manpower development techniques and a constraint in terms of labor costs and labor productivity.

Yemen has a more democratic system of government than any nation in the Arabian Peninsula. But it is a developing country and decision making in government can be slow. There is often a distinct gap between the policy environment and the regulatory environment (Chapter 10).

A major issue for the government in managing the economy is the generation of foreign exchange. The implication for business is that the government will look favorably on any project that earns foreign exchange through generating exports or saves foreign exchange through import substitution. Oil revenues are helping, and exploration for both oil and gas is continuing. But expectations are modest and Yemen cannot look to the oil sector for the solution to its foreign exchange problems.

There are a number of critical issues facing the government. These include:

- developing natural resources;
- earning foreign exchange;
- mobilizing private-sector capital; and
- manpower development and job creation.

These critical issues will increasingly shape government policies in the future and will consequently create issues for business in Yemen (Chapter 12).

Part I

Critical Issues for American Business

Chapter 1

The Opportunities in Yemen Today

Approaching the Market

Any entrepreneur or business executive who relies on published lists of projects for strategic market development is likely to find the competition way ahead of him. There can be no short cut: the only way for an American – or any other – company to get to know the detail of possible opportunities in Yemen is to go there and assess the market on the ground. This report can give no more than a broad indication of the priorities and of the consequent opportunities in the Yemeni market.

A useful starting point is the Yemeni Ministry of Economy's statement of its own assessment of investment opportunities in the country at the present time. The Ministry of Economy says that it would like to direct potential investors to the following:

- Industry:
 - production of steel bars;
 - production of agricultural implements and equipment, specifically tractors, cultivators, greenhouse building equipment and materials, various spare parts;
 - medicines and pharmaceuticals;
 - marble and granite;
 - production of ready-made clothing;
 - production and refining of sugar;
 - production of food oil;
 - production of starch and glucose from potatoes;
 - industrial oils and lubricants;
 - paper pulp.
- Agriculture:
 - poultry production;
 - livestock, specifically sheep and cattle;
 - catching and marketing fish;
 - fruit production, specifically citrus, mangos, grapes, pawpaws, guavas, water-melons;
 - maize and oil seed production;
 - production of fresh milk and dairy produce.

Chapter 1

- Tourism:
 - tourist parks, tourist villages, health resorts and motels.
- Other:
 - hospitals.

A useful start. This list can be no more than that. It is the Yemeni government's view of its own priorities, expressed in terms of foreign-exchange-saving domestic investment projects.

Another way to make a useful start is to consult the lists of official Yemeni government tenders that appear in the trade press. We spent a couple of hours leafing through what the government wants to buy. There is a large number of small construction and supply contracts, for example, building schools in rural areas or supplying desks, chairs and Arabic keyboard typewriters to government offices. Few, if any, US companies would find even bothering to think about such contracts worthwhile.

But there are some interesting contracts which any company looking at the Yemeni market might find worth considering. Electric generators and air conditioners for hospitals, or a video-audio distribution switching system, or water projects, or water pumps and motors, or medical supplies, or civil aviation communications equipment, or agricultural and insecticide spraying equipment, or microwave links, or, indeed, a number of similar opportunities could provide American high-technology companies with interesting opportunities. We have to emphasize that the contracts are small – there are no mega-buck projects in Yemen. Again, we have to emphasize that foreign companies already in the Yemen market generally have an advantage in that they know the market and can price their bids accordingly. But neither smallness of contract or a lack of familiarity with the market is the same as saying that there is no money to be made in Yemen.

We asked American companies already in the market for their views. A selection of responses:

"I spent two years in Yemen before I moved to Turkey. Frankly, I was shocked when I moved to Turkey. Turkey's operating environment is a disaster when compared to Yemen. The Yemenis want the latest technology and are prepared to pay for it. Yemenis say that because they have come relatively late to international business, they need the best if ever they are to catch up. The half dozen or so leading business families are very serious about procuring the best and about training their own employees to operate the latest equipment." – *Manager of a food-processing operation.*

"We have an excellent distributor in Yemen and sell through him about half a million dollars' worth of our canned milk and dairy products. We are considering expanding our business with a new manufactured line in the country and have conducted a market survey. We believe that the growth potential is there and that the market has nowhere to go but up." – *An international executive of Borden International.*

"I set up a joint venture in Yemen to produce eggs. We imported chicks, bred them and sold the eggs. We were able to get exemption from customs duty for our imports of equipment, but we did get hit for sundry customs taxes, amounting to about 7%, for defense, earthquake relief, whatever. I am confident about the Yemeni market. In a way, they are lucky not to have too much oil, because that way development will proceed more slowly, at a pace that the country can absorb. But you have to look at Yemen as a market on its own. Far too many American companies look on the Yemeni market as an extension of their Saudi operations and throw it into the same bag. I believe that Yemen should be judged on its own merits and treated as a separate market. One word of advice: don't expect too much of the government, develop the market through your private-sector contacts." — *American venture capital entrepreneur.*

"The past five years have not been good ones in Yemen for the soft-drink industry. But things are looking up in 1988, and we are optimistic about the future, though we look to a three-to-five year time horizon for the sort of market share and profitability which we want." — *An international executive of Pepsi-Cola International.*

These quotations give us another dimension to approaching the Yemeni market: that of the private sector and of the Yemeni consumer market. The comment above, "don't expect too much of the government," is clearly not meant as a criticism of the government. It is a highly realistic comment. Although a company may get into the market through bidding for a public-sector contract, **a sustained presence in the market, with all that that means in terms of ultimate profitability, can only be achieved in collaboration with a Yemeni private-sector partner.**

A wide range of individuals to whom we spoke about the Yemeni market echoed the sentiment that the Yemeni private sector has a great dynamic. It follows that any approach to the Yemeni market should include a close assessment of the interests of the private sector. The important Yemeni private-sector companies with their existing American agency and distributorship relationships are listed in Chapter 6 (pages 29, 30).

Yemeni businessmen look to the United States above all for technology. Many lamented the fact that often they have the impression that American companies are not really interested in the Yemeni market because it is too small.

A final way to approach the Yemeni market is through the work of the United States' Agency for International Development (USAID). We discuss the achievements and challenges of the USAID Mission in Sana'a in Chapter 7. The overall strategy of USAID in Yemen is to focus on institutional and human-resource development in four key sectors: agriculture, education, health and water resources. Many of the higher technology contracts on offer are in one way or another linked to either agriculture, or education, or health or water resources. Many American companies approach the Yemeni market under the aegis of USAID.

We outline four elements in an initial approach to the Yemeni market:

- studying the government's lists of approved investment projects;
- examining the government's regular announcements of calls for bids;

- seeing what other companies are doing and, through these contacts, developing a feel for Yemeni private-sector initiatives;
- being aware of the work of USAID and entering the market through aid projects.

Individual American companies will find one or more of these broad strategies an appropriate way of approaching the market. An approach to the market is one thing, a strategy for development of the Yemeni market is another. We look at some possibilities in the next section.

Strategies for Market Development in Yemen

We asked the question in the introduction to this report: “Why Yemen”? We can imagine it being said: “I have followed the argument so far. I can see that there are some small opportunities in this market for American companies. But there are dozens of developing countries like Yemen. Maybe the US government does have significant strategic interests in the area, maybe we are trying to ensure that the Soviets don’t get a bigger toehold in the southern corner of the Arabian Peninsula. But you have not convinced me that I should give Yemen priority over Liberia, or the Philippines, or Morocco, or Bolivia, or El Salvador.”

We cannot pretend that there is an easy answer to this point. But any American company prepared to invest time and effort into developing a significant market niche in developing country markets should consider Yemen. There are some significant comparative advantages that we have not yet spelled out. For example, the mountains provide a temperate belt for fruit growing, especially grapes, which has no comparison in neighboring countries. Enough fruit could be grown to supply the local market and to have a sizeable export surplus to other Arabian Peninsula countries, where there is a wealthy consumer market, and across the Red Sea, where the markets are decidedly less affluent. There is also a seasonal advantage: Yemen can produce grapes at a season when other producers cannot.

Grapes are the most obvious example of a product which could be made to capitalize on this climatic belt and seasonal comparative advantage. But so could watermelons, sweet melons, okra, potatoes, carrots and onions, tomatoes, peppers and cucumbers. Requirements for the development of such an industry start with growers: growers need technical advice, fertilizers and, above all, good advice on how to use fertilizers, they need effective irrigation systems, they need insecticides and advice on how to use them, they need advice on quality control and quality standards, they need packing equipment and storage equipment and greatly improved farm-gate-to-market distribution.

From the government point of view, such a project—or series of projects—would be welcome. So many of the national priorities would be met: substantial added value in the agricultural sector, improvements in water supply and irrigation, job creation, foreign exchange earning potential. The necessary investment approvals, import licenses and foreign exchange availability should present no problem.

From the US point of view, there is a significant advantage in such a project – or again, series of projects. The efforts of USAID, as we shall see in Chapter 7, have been concentrated in the agricultural and water-conservation and management sectors (as well as in education and health care). This means that there is significant professional expertise and experience available for US companies to draw upon.

Naturally, any such projects would have to be developed with the Yemeni private sector, with specific Yemeni joint venture partners. As we have already seen, one of the strengths of modern Yemen is its small but highly effective and entrepreneurial private sector.

In Yemen in the past, some excellent projects have in the longer term yielded disappointing results because of the interface between sub-sectors. Top-quality vegetables and fruit have not got to the market in a satisfactory condition, or at an acceptable price, because of the absence or inadequacy of packing, grading and storage facilities. Monopolistic transport practices make the cost of moving commodities from farm gate to market too high.

One answer to this problem would be a form of vertical integration, with a unified management stream running from farm to market via packaging, storage and transport. If a number of American companies in the agricultural, agricultural chemical, rural water supply and irrigation, agricultural inputs, packaging, storage, transport and even supermarket businesses were to form a consortium for developing business in Yemen, if this consortium concluded a number of joint venture agreements with Yemeni businessmen, if the joint ventures acquired farms, built packaging plants, set up a transport fleet, invested in supermarket and other modern retail outlet chains, it is possible to envisage a substantial and highly profitable American investment in Yemen. Such investment would at the same time make profits for the Yemeni investors, provide jobs and earn foreign exchange for the nation and, finally, make extensive use of USAID inputs.

Another idea. Yemen is a wild and beautiful land. Already, small parties of affluent European tourists are discovering what the land of the Queen of Sheba has to offer. From the point of view of sophisticated tourism, Yemen has a distinct comparative advantage. Tourism provides jobs, tourists spend money, creating and stimulating demand for local produce, earning foreign exchange. A chain of small, relatively modest but comfortable tourist hotels situated in carefully selected sites across the country, built, as always, in a joint venture with a Yemeni partner, should be highly profitable.

And another. Yemen has today only a state-run medical service. This may offer a service which is less than perfect, but even with its imperfections, it is infinitely in advance of the situation even as recently as 10 or 15 years ago, when much of the country had virtually no medical service.

The Yemeni private sector is relatively affluent and tends to seek medical attention outside the country, thus spending hard-to-come-by foreign exchange. There could be a case for a privately funded fee-charging hospital, set up in a joint venture between an American hospital-management company and a Yemeni partner.

Finally, in the outline map on the cover of this report we show Yemen and its neighbors, especially the poorer neighbors: South Yemen (population in 1986 2.2 million), Somalia (5.5 million), Ethiopia (43.5 million) and Djibouti (361,000). None of these neighboring markets is affluent, but they are already trading partners with Yemen and could absorb more exports from Yemen. So could the rich neighbor, Saudi Arabia. In the agricultural sector, well-managed Yemeni operations should be able to compete on price with Saudi food production, which tends to be high cost.

And Yemen offers today possibilities as a base for operations in the region of southern Arabia. These possibilities will become even more interesting in the future as communication links are improved.

In summary, an approach to a market such as Yemen, if confined substantially to desk research, is unlikely to bring the country to life. We suspect that few entrepreneurial, venture capital decisions are made on the basis of desk research alone. **An investor needs to get into the marketplace himself**, to smell the air. Moving from an approach to the market to the development of a dynamic strategy for entering the market and finding the undoubted market niche that exists for many products and many companies means going to Yemen. It means being prepared to invest a relatively modest amount in in-country market research, it means making contact with the Yemeni private sector, it means letting natural business-development instincts react to the Yemeni market.

Table 1.1

**FORECAST CONSUMPTION OF OIL PRODUCTS
IN NORTH YEMEN, 1985-2000**
(^{'000 tons})

	1985	1990	1995	2000
Gasoline	350.0	420.2	436.9	481.4
Kerosene & Jet fuel	113.0	136.9	172.6	207.9
Middle distillates	556.0	2,689.9	3,013.5	3,354.9
Heavy fuel oil	42.0	36.1	42.3	47.4

Source: Kuwait Institute for Scientific Research.

Chapter 2

Entering the Market

First Steps: Distributorship and Agency Agreements

The great majority of American companies selling to Yemen today do so through distributorship or agency agreements. Although there can be differences in detail according to specific agreements, the major difference is that a distributor seldom gets involved in marketing, whereas an agent normally would work closely with his principal to ensure that the latter's products are actively marketed.

There are no special problems about establishing a distributorship or agency agreement. The legal provisions are covered by Yemeni Law No. 6 On Organization of Branches & Agencies of Foreign Companies & Houses in the Yemen Arab Republic (see Appendix 1). Normally, the distributor or agent in Yemen handles the actual work of registering the distributorship or agency agreement. There are competent Western-trained lawyers in Yemen and we have no evidence of any special difficulty.

The step beyond a distributorship or agency agreement is to have a representative or branch office in Yemen. The procedures for setting up a representative or branch office are set out in Law No. 6. So far, the only American companies that we were able to identify with a formally established office in Yemen were the oil companies, Hunt Oil and Exxon. Some European companies have either representative or branch offices.

Briefly, a representative office permits a foreign company to have one expatriate employee, with the remainder of the office staff being Yemeni. A branch office may be staffed with 20% expatriates and 80% local Yemeni staff. Neither a representative office nor a branch office may engage directly in business operations, be these trading or direct sales. Only the Yemeni partner – or an approved joint venture – may engage in trading or selling. The expenses of either a representative office or a branch office must be covered by hard currencies brought into Yemen. Representative and branch offices are regarded strictly as service and training operations and their activities will be monitored carefully by both the Yemeni partner and the government to ensure that the rules are not infringed upon.

The local manager of a European company having a highly profitable business in partnership with a leading Yemeni merchant family told us:

“There were no special problems in registering our branch office but it was a relatively complex procedure and the formalities took six months to complete. Yemen is an Arab country and you

Chapter 2

have to be prepared to let dealings with the bureaucracy take their natural course. There is no point in getting impatient and in trying to hurry things up.

“We set up our branch office so that we could have direct contact with our customers. Service is an essential element in our business and, although we have to leave direct selling to our agent, we do not like to delegate the service element.

“We employ Yemeni staff wherever possible and train them to be effective service agents.”

Every executive of a foreign company to whom we spoke – and Yemeni businessmen as well – made the point that import licenses can be difficult to obtain. In principle, of course, you leave the question of obtaining an import license to your Yemeni distributor or agent. In practice, it is wise to understand the procedures and to know what difficulties your Yemeni partner may encounter. But a golden rule stated and restated by a number of foreign executives:

“It is important to understand the official decision-making environment and to know just what your Yemeni distributor or agent has to do to get an import license. But never try to bend the rules or misinterpret the laws. The wisest course is to comply without making any fuss. In this regard, Yemen is just like most developing countries.”

Licensing and Franchise Arrangements

Some foreign companies operate in Yemen under license or franchise arrangements. Again, we detected no special difficulties or problems. One well-known American company told us that there had been some business problems due to the fact that the “Yemeni partner” was a consortium of Yemenis, with one Yemeni businessman having a major share. Decision making between the Yemeni partners became a problem, a problem that was solved when the majority Yemeni partner bought out the minority holdings. This resulted in increased investment in the business and permitted also a price increase which worked wonders for profitability. This seemed to us like a normal business problem, one which could be encountered anywhere and not having a specifically Yemeni flavor.

Choice of a Yemeni Partner

Without exception, everyone to whom we spoke engaged in business in Yemen – Yemenis as well as foreigners – emphasized that **THE most important, most critical decision for any foreign company entering the Yemeni market is the choice of a Yemeni partner.** An American executive whose company has substantial business in Yemen told us:

“The Yemenis are shrewd, clever and not to be underestimated. It is important to work with one of the well-established families with known foreign business connections and a record of achievement in developing profitable business with foreign companies. There is one golden rule: the success of your operations in Yemen will hinge directly on the quality of your working relationship with your Yemeni partner.”

The same sentiment, but from a different viewpoint, was put by another foreign manager:

“I must stress the importance of extreme care in choosing your Yemeni partner. He may have an excellent reputation and an impressive record of working with foreign companies. But can you work with him and can he work with you? These are questions of personal chemistry, if you like, but they can be of the greatest importance. You have to remember that it is virtually impossible to break a partnership agreement in Yemen. Therefore, spend all the time you need in getting to know your prospective Yemeni partner before you sign the agreement.”

It is important to know what your Yemeni partner will expect of you and what you can expect of him. Again, let us quote a foreign executive with some years' experience in the Yemeni market:

“A good Yemeni partner will be aggressive in the market. He will also deal with and generally facilitate all bureaucratic approvals and procedures. You will find him a good businessman, easy to work with. But you must stick to your side of the agreement too. Your Yemeni partner expects you to provide expertise, technology, training for his people and effective technical support. He will look after marketing and administrative questions.”

Given the great importance of choosing the right Yemeni partner, how does an American company, new to Yemen, go about finding the right partner? Initial contacts through commercial officers in the Embassy are generally a starting point. An early call should be on the various Chambers of Commerce and Industry in the major Yemeni cities. A prospective Yemeni partner who is not a member of a Chamber of Commerce and Industry is not worth considering.

Approached with care and common sense, banks can generally provide some additional information. But at the end of the line, it remains a personal judgment: will you be able to work with your Yemeni partner over a period of years and will he be able to work with you? As another executive told us: “Both sides have to start off with a commitment to make the agreement work.”

A carefully drafted distributorship or agency agreement is also important. Such an agreement should set out the objectives of both sides in unambiguous language, it should be precise on products and geographical area covered. A comprehensive nationwide agency agreement may not be in your best interests. The agreement should have a time limit with a renewal option. If at the end of the agreed time span of the agreement, you decide not to continue, be very clear in your mind about any inventory your ex-agent may be still holding.

Be clear also about possible disputes. There will always be some differences of opinion. It is wise to try to solve these reasonably and amicably. Arbitration through Chambers of Commerce is possible and in general is much to be preferred to seeking legal redress through the courts. Courts in Yemen do their best to be seen to be fair, but the process can take years and, rightly or wrongly, if the foreign party in a dispute loses, he tends to have a doubt in his mind about the balanced administration of justice. In other words, litigation should be the last resort in the settlement of any commercial dispute between an agent and his principal in Yemen.

Chapter 3

The Financial Environment

Getting Paid

We have no evidence of any foreign company having serious payment problems in Yemen. The EXIM Bank offers a maximum discretionary limit of \$50,000 and no excess political coverage. Special buyer credit limits for short- and medium-term credits can be negotiated.

As Yemen is a recipient of a significant volume of multilateral and bilateral aid, many foreign companies find that operating under an aid agency aegis removes any question of payment risk.

As we have already said, the main problem is in getting an import license and, after the import license, getting the Central Bank to release foreign exchange. Security is required for irrevocable letters of credit, the normal method of trade finance in Yemen. Nonrecourse finance can be arranged for trade. No significant delays have been reported.

Most companies work with 360-day letters of credit, though there have been some reports of requests for 540-day letters of credit. Letters of credit are normally confirmed by European banks. We repeat: we have no evidence of any foreign company having difficulty in collecting receivables in Yemen.

The Banking Sector

Yemen has an underdeveloped banking sector. The Central Bank operates under the direct control of the Ministry of Finance. Also government owned and under government control is the country's principal commercial bank, the Yemen Bank for Reconstruction and Development (YBRD). YBRD has an estimated 80% of the national banking business, that is, deposit taking and commercial lending.

But the banking habit is not widespread in Yemen. One estimate puts domestic liquidity at 65% cash. The relative ineffectiveness of controls along the often ill-defined or undefined frontier with Saudi Arabia means also that much cash—generally in Saudi riyals, which are freely convertible—moves in and out of the country outside the banking system.

There are also eight foreign-owned and managed commercial banks that have to struggle in the marketplace for the 20% or so of Yemeni banking business outside the

orbit of YBRD. There are three Arab banks, one Yemeni-Kuwaiti joint venture bank, two Pakistani banks (which are planning to merge their operations), one French bank and one international joint venture bank in which the Bank of America has a 20% share and the Saudi Arabian National Commercial Bank a 25% share. In both this international bank and the Yemeni-Kuwaiti bank, Yemeni investors have a majority shareholding.

The Yemeni financial scene is characterized by a significant degree of conservatism and by institutional weaknesses. Trained, experienced and self-confident bank officials are, understandably, thin on the ground. Until November 1986, private money changers handled most foreign currency transactions; in that month, their operation was banned by the government.

Most banking business is trade related and banks accept deposits, of course. A formal capital market does not exist. As there are virtually no financial instruments in the market other than trade paper, there has been no need for a money market or any form of secondary financial market.

In addition to the commercial banks, there are three specialized banks, all with a majority of their equity in the hands of the government. The three are the Industrial Bank of Yemen, the Cooperative and Agricultural Credit Bank and the Housing Bank. In each case, the name of the bank gives a broad indication of its functions.

The Industrial Bank of Yemen is majority owned by the Yemeni government. The International Development Association (the World Bank's soft-loan arm), the Kuwait Fund and the West German International Development Bank (DEG) also have shares in the bank. The bank exists to help finance Yemeni private-sector investment in industry. It is professionally managed and maintains conservative lending standards, insisting on 125% security backing for loans.

To the end of 1987, the Industrial Bank of Yemen had lent a total of YR1.2 billion (about \$120 million at present rates of exchange) to 225 medium-to-small projects. But the bank is short of funds for lending. It is not allowed to accept commercial deposits in Yemeni rials. Its foreign currency funds are used to pay for imports connected with the projects it supports.

The Industrial Bank of Yemen is the main – almost the only – institution in the Yemeni capital market. It can set up companies and offer the shares in these companies to the private sector. Most buyers seem to be institutional.

In short, it can be said that the Yemeni banking system today demonstrates most of the characteristics of the financial sector of a developing country which is in mid-stream of evolution from a subsistence/cash economy to a cash/credit economy. One of the issues facing the government of Yemen is the need to mobilize the significant volume of private-sector capital in the country. Because of an innate conservatism in many cases, but also due in no small part to the weaknesses in the banking sector, this capital is very often kept in relatively liquid forms.

A capital market in an accepted Western sense does not exist in Yemen, a factor which has to be recognized as a major constraint to the stimulation of private-sector investment and to the mobilization of private-sector capital. In spite of their undoubted business acumen and shrewdness, Yemeni entrepreneurs prefer always to keep capital "in the family," and their business operations are closely managed to ensure that control is maintained. Accounting is in its infancy and the publication of audited accounts or public disclosure of corporate sales and net worth is unknown.

If the owners of a private-sector corporation are prepared to consider selling shares in these corporations, it would be unusual for such shares to be made available on the open market. Share transactions tend to take place privately between family members, close friends and trusted business associates. There is no legal framework governing such transactions.

Like many governments, the Yemeni government is considering privatization as a means of deploying private-sector capital more effectively in the overall national interest. There are today 28 public and mixed-ownership corporations. Most of these public-sector corporations are well managed and are surprisingly profitable. Given Yemeni's recent political history, some of these corporations, for example, the Military Economic Corp, have a certain ideological justification and are unlikely to be offered for sale to the private sector. But privatization, like any other capital market development, requires high accounting standards and a readiness to disclose financial information on the open market to attract potential private-sector investment.

Two banks—one American, one British—used to operate in Yemen and no longer do so. Both banks cited falling margins and adverse nonperforming loan portfolios as reasons for getting out. We asked some foreign businessmen who were in Yemen at the time of the departure of these banks for their views. The comments that follow clearly have to be taken with care. But they reflect informed business opinion on the reasons that these two banks left Yemen, opinion that is not without importance in any consideration of what foreign companies need to do to operate profitably in Yemen.

1. "If foreign banks went out of business in Yemen, it was due to mismanagement and overextension. This is a problem not confined to Yemen. There are foreign banks who would gladly get out of Saudi Arabia if they could. Banks have to avoid competitive lending sprees, they cannot afford to be superficial, they have to oversee meticulously all operations on a continuing basis.

2. "People say that these banks were overextended and that the reason for the overextension was that their managements had not been careful and prudent enough. I have sympathy with the local management of these banks. They were under pressure from their head offices to build market share aggressively."

Chapter 4

The Investment Option

Why Consider Investment in Yemen?

Broadly, an American company operating internationally will invest in a foreign market for one of two reasons: either to build a platform for future growth or to defend an existing market share. As market share of most—but by no means all—American companies in Yemen is small, a majority of companies would be interested in investment for the first reason: to build a platform for future growth.

The government of Yemen says that it is seeking to encourage foreign private-sector joint venture investment in the country. There is no doubt that this is a sincere statement on the part of the government. Yet, compared to other developing countries seeking foreign investment, the range of incentives in Yemen is low. There are no direct incentives, no industrial parks or estates, little to create what one potential European investor termed “an investor-friendly environment.”

The Yemeni government is currently revising its investment law (Law No. 18 of 1975—Regarding the Promotion and Organization of Investment in the Yemen Arab Republic, included as Appendix 2 in this report). We are told that the revisions, which may not become law for 12 months or more, will seek to provide greater incentives and to make the whole process of winning government approval for investment projects very much simpler.

At the present time, the only incentive to foreign investment is in the form of a five-year tax holiday and a five-year exemption from taxes and import duties on machinery, equipment, spare parts and building materials imported for the project. Local charges are not included in the exemption. A foreign investor is expected to finance his project from external sources. He has no privileged access to Yemeni capital sources.

On the other hand, there are no restrictions on the rights of a foreign company to repatriate net profits. But foreign exchange transfers require the specific authority of the Central Bank and the Bank has the right to request a foreign company to defer transfers of foreign currency out of the country if such transfer would “affect the monetary position of the state.” Foreign currency transfers out have to be made in the currency in which the original inward transfer was made.

The Yemeni Ministry of Economy has the authority to monitor and to audit the accounting records of a foreign investment project in order to satisfy itself that the

amount of profit being remitted is reasonable. Experience to date is meager, but we have no evidence of unreasonableness on the part of the ministry in this regard.

Other details of importance to a potential investor: under Yemeni law, any investment project approved by the government can be neither nationalized nor confiscated; there is a commercial legal system for the settlement of commercial disputes; recourse to litigation in the courts can be time consuming and commercial disputes are better settled by arbitration under the aegis of a chamber of commerce.

Given the history of the country (Chapter 8) and its educational base (Chapter 9), it is not surprising to find a generally low level of skill and productivity. On the other hand, given the population of the country, it is surprising to discover that there is a labor shortage and that wage costs are high. The explanation of the latter point is that, first, there is still a significant number of Yemeni workers in Saudi Arabia, where, even after the collapse of the oil boom, they can earn far more than they can at home. Second, a corollary to the first point, wage rates are to a great extent influenced by wage rates in Saudi Arabia.

Many foreign companies and operations in Yemen therefore employ third-country nationals. The Yemen government is unhappy with this situation, for all the obvious reasons. Thus, a key element in its approach to approving a new joint venture investment will be to what extent the proposed investment will employ, train and develop Yemeni workers.

Approval for a foreign investment project has to come from the Ministry of Economy (full title: Ministry of Economy, Supply & Trade). Although in theory a foreign company may make a direct investment in Yemen in certain sectors involving the exploitation of natural resources, in practice, any American investor should think in terms of a joint venture with a Yemeni partner. Although again in theory, the foreign partner may have a majority shareholding, in practice, he should be prepared to settle for a minority shareholding and a carefully drafted management contract. The major American investment in Yemen at the present time is that of Hunt Oil, which clearly is a special case. More typical, perhaps, is the investment of Pepsi-Cola International, already referred to in Chapter 1, page 5. Pepsi-Cola told us that their franchise partner in Yemen:

“ . . . is investing in his plant . . . and we are sharing in the investment in Pepsi glass . . . We anticipate continuing this joint investment to regain [market] share and expand the industry as import licenses become more available.”

This example underlines our statement above that companies invest in markets such as Yemen to either defend market share or provide a platform for growth. Pepsi is in a niche market and is one of those few foreign companies in Yemen whose brand name is synonymous with the product it sells.

Which brings us back to the question: “Why invest in Yemen”? We outlined briefly in Chapter 1 some of the general business opportunities open to American companies in Yemen today. **In brief, these are in the agricultural, agro-industrial, tourism and**

health sectors. For agriculture and food production, Yemen offers comparative advantages greater than any other country in the Arabian Peninsula and Red Sea region. In some favored regions, there is a climatic environment and enough rainfall to permit it to provide seasonal fresh fruit and vegetables to markets within 1,000 miles or more from its frontier. For tourism, Yemen offers magnificent scenery and an intriguing ancient history. For health, Yemen has a small but affluent element in its population which leaves the country for health care because no high-standard local facilities are available.

Thus, Yemen is a small but significant niche market capable of interesting longer-term development. Although formal investment incentives are not substantial, the government welcomes foreign joint venture investment. **In the Yemeni private sector there are some extremely shrewd and capable individuals of substantial net worth who are actively seeking foreign investment partners in general and American investment partners specifically.** What they seek from potential American partners is, above all, technology and technical management skills.

Investing in Yemen: Essential First Steps.

By far the most important decision facing any American company entering the Yemeni market is the choice of a Yemeni partner. We discussed this question in Chapter 2, page 10. Here we need only to stress the great importance of getting to know your Yemeni partner. Spend time with him in Yemen, see for yourself his existing business operations, be prepared to relax with him. Invite him to the United States. Be very clear in your mind what you expect from him and be certain that you understand what he expects from you.

Having chosen your partner, work closely with him on the preparation of a detailed feasibility study to be submitted to the Ministry of Economy in support of your joint venture's application for formal investment approval. It goes without saying that your project must be consistent with the guidelines of Yemen's development objectives as set out currently in the third five-year plan. Specifically, the Ministry of Economy will want to be convinced that the proposed investment will:

- either itself earn foreign exchange or save foreign exchange by reducing import demand;
- employ appropriate modern technology;
- have a clearly defined investment and production plan;
- have experienced and effective technical and administrative management;
- be supported by a detailed feasibility study;
- create jobs for Yemenis and provide them with training and career-development opportunities;

Chapter 4

- be economically viable; and
- be not “contrary to general order and public morals.”

The Ministry of Economy, in considering your application for investment approval, will not pay lip service to any of the above considerations. It is important to remember that the ministry does not have a substantial and highly experienced cadre of experts on which to draw. Thus, every page, every paragraph, every sentence, indeed, every word, of your submission must be clear and relevant.

Again it goes without saying that your application for investment approval and all the supporting documentation, including the feasibility study, must be written and submitted in impeccable Arabic. Check the Arabic of any translations with your Yemeni partner to ensure that usages conform to Yemeni idiom. If you employ an Egyptian or a Lebanese translator, this point could be of some importance. The golden rule is: **make it easy for the Yemeni officials in the ministry to understand every detail of your project and its objectives.**

We emphasize again the great importance of working closely with your Yemeni partner on every stage of the preparation of the submission to the ministry for investment approval. Your Yemeni partner will also help by cultivating contacts with the ministry. For an agricultural, or agro-industrial project, the support of the Ministry of Agriculture will be required as well, for a tourism project the support of the Ministry of Tourism, for a health project the support of the Ministry of Health. In each case, a formal letter from the appropriate minister should be enough. But careful lobbying by your Yemeni partner is essential.

Give yourself time. The approval process can take from six to 12 months to complete. Approval should ensure that you get all the import licenses you need for the project. As you will be providing the foreign exchange yourself, there should be no problem with the Central Bank.

The Next Critical Decision: The Project Manager

Having gone to considerable trouble with the choice of your Yemeni partner, **the next extremely important decision is the selection of your own project manager.** The title is not important, but what is critical is the selection of an executive who has your complete confidence, who has the personality and the ability to win the complete confidence of your Yemeni partner, who is technically competent and above all who has the experience and the self-confidence necessary to manage project implementation and startup without the need for constant recourse to corporate headquarters for decisions. From a personal point of view, your project manager must be able to project an affinity for Yemen. If he is married and his wife is with him, she, too, needs to be able to project this affinity.

An immediate dilemma for international management can present itself. An executive with all the qualities necessary to make him a success in implementing, starting up and managing a joint venture investment in Yemen may be so good that he can contribute

more to profitability in a major external market such as western Europe or northern Asia. This is a frequent problem. One solution, favored by a number of companies, is to regard developing country markets such as Yemen as proving and career-development postings for younger executives who are regarded as having more than average career potential.

What Return on Our Investment Can We Expect in Yemen?

Clearly a critical question for any company contemplating an investment in any developing-country market is the probable rate of return on the investment before tax. A general criterion is that in developed markets such as North America or western Europe, a return on investment of 14% to 18% before tax would be expected if an investment is to be competitive. In developing-country markets, because of generally higher operating costs, such margins may be difficult to achieve. On the other hand, generally higher business risks in such markets would argue for a rate of return before tax in the range 25-30%. Such a rate of return can sometimes be achieved by an intelligent approach to pricing.

In Yemen, there are price controls on a few key foodstuffs and staples, specifically, milk, bread, rice and a few other similar commodities.

In the absence of a business environment with public corporations being required to disclose financial details of their operation and the understandable desire for discretion and privacy on the part of the Yemeni business community, corporate experience on rates of return on investment in Yemen is difficult to obtain. Some companies to whom we spoke suggest that it is important to price machinery and equipment supplied to a joint venture aggressively and that, ideally, a management contract with an appropriate fee should be negotiated.

Patents and Trademark Protection

Yemeni legislation on patent and trademark protection is encapsulated in Law No. 45 of 1976 Regarding Trademarks and Names (included in this report as Appendix 4).

The important consideration is that a trademark must be registered in Yemen. Once registered, it can be protected by law. The law stipulates that anyone who registers a trademark or patent is to be the sole possessor of the trademark or patent and that he is protected by the law for five years from the date of registration, provided that he use the trademark or patent continuously during this period.

Registration is effected by the "Office of Commercial Marks" in the Ministry of Economy.

A registered trademark will be protected for 10 years from the date of application for registration and thereafter protection continues if the registration is renewed.

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Finally, a foreign company may negotiate the licensing to manufacture in Yemen by a Yemeni company, specified products bearing the foreign company's trademark. The licensee may not grant a sub-license.

Chapter 5

The Operating Environment

Yemen is not especially different to most developing countries as far as the operating environment is concerned. For expatriate managers and their families, the environment is friendly and tolerably healthy. In Sana'a there are American and international schools up to ninth grade. Costs of imported foods can be high and the range of locally produced foods can be limited.

There is little crime and no problem of security in major towns. In some of the more remote tribal areas, some tribesmen have been known to "borrow" motor vehicles driven by foreigners as a way of registering their dissatisfaction with government policies. This can be somewhat tedious for the foreigners, but no more than that; there are no reports of foreigners being harmed or threatened in these cases.

The government, like most governments in the Middle East, is extremely sensitive to photographs being made of key strategic infrastructure, such as airports, harbor facilities and oil installations. Normal prudence and common sense on the part of expatriates ensures that problems are avoided.

Yemen is an Arab and an Islamic country, with all that that means in terms of personal behavior and a sensitivity to local customs and mores on the part of expatriates. Yemenis are deeply sincere in their religious beliefs and practices. A businessman or a government official will break off a business meeting to go to pray at prayer times. The public consumption of alcohol is forbidden. Women should dress discreetly in public places.

Yemen is also an extremely interesting country and any American family having an interest in history, archeology, anthropology or simply traveling in wild and dramatic country will never find time hanging on its hands in Yemen.

Every expatriate living in Yemen should make an effort to learn some Arabic. Even a command of basic greetings and politenesses helps. Yemenis appreciate the fact that a foreigner has bothered to try to learn their language. Arabic is a difficult language and foreigners should not expect to achieve great fluency without many months' full-time study.

By and large, expatriates have to make their own entertainment. Given the will to do so, this is not difficult. We conclude with a couple of quotations from expatriate managers who have lived several years in Yemen:

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“Yemen is a country of contradictions. On the one hand, it is the deep heart of the Arab world, traditional, tribal and religious. On the other hand, there is the fascination of new gadgetry for Yemenis. It is not unusual to see a Yemeni returning from the *sug*, dressed in traditional garb with his traditional dagger in his belt, an AK-47 rifle in one hand and a transistor radio in the other.”

“Life as an expatriate can be boring, unless you like traveling around the country, or archeology. If you don't like music or reading (I am always surprised at the numbers of expatriates who don't seem even to own any books), time can hang heavily on your hands. Wives can have major problems unless they can find a satisfying activity. But like all such countries, Yemen is what you make of it. Expatriates who go with the intention of making Yemen an enriching personal experience will enjoy the country. People with a propensity to moan and complain at the slightest difficulty would be wiser to stay at home.”

Part II

**The United States and the Yemen Arab
Republic**

Chapter 6

US-Yemeni Political and Commercial Relations

An Important Strategic Location

Commanding the mouth of the Red Sea, Yemen has always had an important strategic location. The British government established its colony and base in neighboring Aden in the early part of the 19th century to protect the then vital sea route to India.

In the last years of the 20th century, the Red Sea has become an important alternative route for international oil movements. Substantial and increasing volumes of both Saudi Arabian and Iraqi oil are exported from Red Sea terminals. Although not as sensitive a choke point today as the Strait of Hormuz at the mouth of the Arab Gulf, Yemen's Bab al-Mandab at the entrance to the Red Sea could become a focal point of international interest in the 1990s. The Red Sea leads, of course, to the Suez Canal, it leads to Israel's back door through the port of Eilat and to Jordan's only port, Aqaba. Saudi Arabia's important port, Jeddah, is on the Red Sea. On the other shore is Port Sudan, Sudan's only seaward export outlet and the important small state of Djibouti, which provides access to Ethiopia (see map on page iii).

After the British departure from Aden in November 1967, the Soviet Union built a base there. This has developed into a significant presence, and Aden has become the principal Soviet outpost on the Red Sea. In spite of *perestroika* and top-level summits between the United States and the Soviet Union, it is not possible to state that international rivalry between the US and the USSR is a matter of history. Given the strategic importance of the Red Sea, no American administration can afford to be insensitive to the location of Yemen and hence to the importance of US-Yemeni political and diplomatic relations.

American-Yemeni diplomatic relations date from 1946, but from 1946 to 1959, the US Ambassador in Saudi Arabia had responsibility for Yemeni affairs. From 1959 to 1962, the period of the short-lived United Arab Republic of Egypt and Syria, the American Ambassador to the UAR included Yemen in his diplomatic responsibilities.

A formal US diplomatic presence in Yemen dates from March 1959, when a legation was opened in the then capital of Yemen, Taiz. This legation handled consular matters only and was under the control of the Embassy in Cairo.

Table 6.1

YEMEN'S IMPORTS (\$ million)							
	1981	1982	1983	1984	1985	1986	1987
From:							
World	1,758.3	1,521.1	1,592.8	1,685.0	1,637.2	1,411.8	1,294.0
US	23.6	30.7	55.7	76.8	46.5	87.5	128.0
Japan	284.3	202.6	295.4	196.6	139.4	137.3	67.9
EC	505.3	469.2	494.4	555.0	548.8	485.3	426.8

Source: IMF Direction of Trade Statistics Yearbook, 1988.

Following the overthrow of the Imamate in September 1962, the US recognized the new government in December of that year. Early in 1963 the legation in Taiz was upgraded to embassy status. The embassy moved to Sana'a in 1967. There was then a five-year hiatus in US-Yemeni relations, following the June, 1967 Arab-Israeli war. This ended in July 1972 with the reopening of the American Embassy in Sana'a.

Commercial Relations

From an American point of view, trade with the small Yemeni market has not been significant. From the Yemeni point of view, however, the United States, although not the largest trading partner, is important. Many Yemenis in government and in the private sector look to a strengthening of US-Yemeni commercial relations.

We summarize Yemeni imports over the years 1981-87 in Table 6.1. As the foreign exchange crisis has fluctuated, so has the level of imports, from a peak of \$1.76 billion in 1981 to a low over the seven-year period of \$1.29 billion in 1987. We have been informed that the government planned to make some \$1.5 billion available in 1988 for imports.

In summary, the US share of the Yemeni commodity import market has moved from a minimal 1.3% in 1981 to a significant 9.9% in 1987. Over the same period, the Japanese share of the market fell from 16.1% in 1981 to 5.3% in 1987 while that of the European Community (EC) has risen from 28.7% to 33%.

According to Yemeni import statistics, which, having a different data base, do not correspond with precise arithmetic accuracy to the IMF figures which form the basis of Table 6.1, the largest single element in Yemeni imports from the US was in SITC category 0 Food and Live Animals (in other words, grain), followed by SITC category 7 Machinery and Transport Equipment (Table 6.2).

(In parentheses, it can be added that one of the greatest banes in the life of an international analyst is the reconciliation of foreign trade figures prepared by different institutions. In this case, what we are concerned about is a relative dimension, not pre-

Table 6.2

YEMENI IMPORTS BY COMMODITY, 1987
(Yemeni Riials '000)

SITC CODE	Description	Total	Of Which From US
0	Food & live animals	2,885,500	607,087
1.	Beverages & tobacco	675,600	1,257
2.	Raw materials, Inedible	112,500	8,202
3.	Mineral fuels & lubricants	259,700	7,979
4.	Animal & vegetable oils & fats	188,600	1,360
5.	Chemicals	843,900	11,086
6.	Manufactures classified by material	3,072,600	67,524
7.	Machinery & transport	2,009,900	262,705
8.	Miscellaneous manufactures	569,800	21,832
9.	Other	5,900	1,808

Source: Central Planning Organization.

cise arithmetic accuracy. It will be noticed also that the figures quoted for imports in Chapter 11 on the economy are different again.)

US Companies in Yemen

Many American companies have distributor and agency relationships with Yemeni companies at the present time. Apart from the oil companies, Hunt Oil and Exxon, no American company has established a branch office in Yemen.

Following is a list of some of the major Yemeni companies with an indication of the US companies they represent. This list is meant to be indicative only; we have made every effort to ensure its accuracy but we would not wish to guarantee precision.

- Hayeel Saeed Anam & Co., Taiz.
— Aladdin, Lever Bros, Borden International;
- Elaghil Group, Sana'a,
— Irridelco Corp, White Westinghouse International, ITT, Singer Co, John Deere;
- Tihama Trading Co, Hodeidah,
— Caterpillar Overseas, Elorcol;
- Adhban Group, Sana'a,
— Mack Trucks, American Express, Gould Inc, Kelvinator;
- Al Rowaishan Establishment, Sana'a,
— Pillsbury Co, Oil Tools International;
- Shaher Trading Co, Sana'a,
— General Electric, Ebasco, Xerox;
- At Wataary Industrial & Trading Corp, Sana'a,
— Ingersol Rand, Bucyrus Erie Co, Harnishfeger International, Detroit Diesel Allison, Ramp Co, Tait Inc, American Motors;

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- Abdullah H. Al Sonidar & Sons, Sana'a,
– J.I. Case;
- Juma'an Trading & Industrial Corp, Sana'a,
– Allis Chalmers;
- Mohammed S.G. El Soffary & Sons, Sana'a,
– Eli Lilly, Amana Refrigeration Inc, Speed Queen, ICI America;
- Tihama Tractors & Engineering Co, Sana'a,
– Snap On Tools, Peabody Tectank;
- Al Shagga & Co, Sana'a,
– International Harvester, International Dresser;
- Al Thor Trading Corp, Sana'a,
– Irridelco Corp, General Motors;
- Yemen Trading & Marketing Co, Sana'a,
– Philip Morris, Chlorex, Procter & Gamble;
- Amin Kassem Sultan & Co, Sana'a,
– British American Tobacco, Abbott Laboratories, Benson Pharmaceutical, Evenflo, Wyth International, Champion Sparkplugs, The Shutland Co, Westinghouse;
- Ba Lahom International Trading Co, Sana'a,
– Peavy Grain International;
- Mohammed Ali Alawdi & Sons, Hodeidah,
– Export Trade of America Inc;
- Al Mohdar Corp, Sana'a;
– Merck, Sharp & Dohme, Charles E. Frost, Bristol-Myers International, Mead Johnson International;
- Hurab Medical Corp, Sana'a;
– Ahesco, 3M;
- Khirbash & Majid Trading Co, Sana'a;
– IBM, Otis, Mobil;
- Ali Hiba Muslot & Sons, Hodeidah,
– FMC (Agricultural Chemicals Division);
- Zabara Trading Center, Sana'a,
– Eastman Kodak Co;
- Al Hussaini Motor Agencies, Hodeidah,
– Ford Motor Co;
- Ahmed A. Sheibani & Co, Taiz,
– Union Carbide, Cheeseborough Pond, ATM Enterprises of America;
- Yemen Computer Co, Sana'a,
– Wang;
- Brothers International Co, Sana'a,
– Barber Green, Apple Computers.

Chapter 7

USAID – Achievements and Challenges

American economic assistance to Yemen dates from late 1959, when an office of the International Cooperation Administration, the predecessor of the Agency for International Development, was opened in Taiz. In the early days, to 1967, American economic assistance focused on infrastructure projects, on training and on food aid. With the rupture of diplomatic relations in 1967, this activity ceased.

In April 1974 the US and Yemeni governments signed an Economic, Technical and Related Assistance Agreement. Following this, a USAID mission was established in Sana'a in March 1975.

Aid projects in the 1960s included assistance for the completion of the roads linking Sana'a and Taiz and Taiz and Mocha. An urban water system was installed in Taiz and significant training and technical assistance was supplied in the water supply and sanitation sector. At the same time scholarships were provided for some 100 young Yemenis to study at the American University in Beirut where they followed courses in agriculture, engineering, education and business administration.

Overall, since the early days in 1959 to the end of US fiscal year 1988, a total of over \$358 million has been provided through grant, loan and food assistance programs. This includes disbursements under the Public Law 480 food programs. Details are summarized in Table 7.1.

This represents a substantial achievement. We are indebted to the USAID Mission in Sana'a for the following summary of the achievements of American technical assistance in the Yemen Arab Republic from its inception in 1959 to the present time. The projects listed are completed projects; there are a number of on-going projects as well.

In the period from 1959 to 1967:

- + 400 km of the Sana'a-Taiz and Taiz-Mocha roads were planned, designed and constructed with US assistance;
- + wheat was provided under the P.L.480 Title II program;
- + assistance was provided in establishing the National Department of Water Supply & Sanitation. Nearly 250 personnel were trained to manage, operate and maintain the Taiz water system;

Table 7.1

**US ECONOMIC ASSISTANCE
TO YEMEN USAID ANNUAL FUNDING LEVELS
(\$ 000)**

Year	Bilateral Grant	Bilateral Loan	Regional/ Central Funds ⁽¹⁾	PL 480 ⁽²⁾	Total
1959-1967	32,200	—	—	10,500	42,700
1970	—	—	—	—	—
1971	—	—	—	—	—
1972	—	—	—	—	—
1973	1,708	—	—	—	1,708
1974	2,157	—	—	—	2,157
1975	2,449	1,350	—	—	3,799
1976	5,991	—	400	2,600	8,991
1977	15,319	—	500	1,100	16,919
1978	6,245	—	700	200	7,145
1979	16,553	—	1,100	300	17,953
Total	50,422	1,350	2,700	4,200	58,672
1980 ⁽³⁾	11,568	—	1,000	700	13,268
1981	14,200	5,000	—	300	19,500
1982	23,216	—	—	1,200	24,416
1983	26,755	—	—	—	26,755
1984	27,324	—	125	3,000	30,449
1985	27,448	—	200	12,000	39,648
1986	23,549	—	737	10,000	36,286
1987	22,000	—	305	15,000	37,305
1988	20,725	—	289	10,000	31,014
Total	196,785	5,000	2,656	52,200	256,641
Grand Total	279,407	6,350	5,356	66,900	358,013

(1) Complete data not available.

(2) Title I Loans since 1984; previous year totals include World Food Program.

(3) Annual obligations have been reduced to reflect prior year adjustments for terminated projects.

- + Yemen's first modern water system was completed in Taiz in 1965 for a population of 65,000 with US assistance for planning, design and construction;
- + scholarship funds were provided for approximately 100 Yemenis to be trained and educated at the American University in Beirut in engineering, agriculture, business administration, education and communications;
- + 85 self-help projects relating to potable water and feeder-road development were completed with US assistance.

In the period from 1973, significant achievements include:

- + a 10-year program for the rehabilitation and expansion of the Taiz water and sewage system was begun in 1973 and completed in 1983 to provide more water and sewerage facilities for the expanding population of Taiz;
- + allied to the above, funds were provided for the construction and installation of new systems, pumps and disinfection equipment;
- + over the five-year period 1973-78 in Sana'a a 420,000-gallon water storage tank was repaired, three deep wells were drilled and 20 public hydrants were installed, the overall purpose being to provide additional drinking water;
- + over the six-year period 1973-79 household water for 24 villages was provided and villagers were trained to maintain the systems;
- + from 1974 to 1979 staff salaries, project vehicles, maintenance and supplies were provided for the Yemeni Rural Water Division's village water-system construction program;
- + from 1978 to 1984, technical training and assistance in water resources planning and management, specifically on the collection, analysis and dissemination of hydrological information was provided to the Yemen and Mineral Research Corp;
- + from 1973 to 1977, satellite imagery was used to obtain a primary data base for ground water resources. Several Yemenis were trained in water surveying and topographic maps were produced;
- + from 1973 to 1977, improved sorghum and millet varieties were adapted to local agricultural conditions. A research station was developed, new varieties were introduced and personnel were trained;
- + from 1977 to 1981, new varieties of sorghum and millet grain were introduced and provided to Yemeni farmers;
- + from 1975 to 1980, two demonstration sites—one in Sana'a, one in Taiz—for poultry development were established and information on poultry production was provided to producers. The center in Sana'a is still in service;
- + from 1977 to 1981, a tropical and subtropical fruit-improvement project identified species and varieties of horticultural crops adaptable to Yemen's climate and soil conditions. This activity is being continued;
- + from 1978 to 1983 a land classification and soil survey was carried out, comparing land-use studies completed in 1973 with satellite photographs taken in 1977 in order to determine land use changes. A soil map of Yemen was completed;

- + since 1973, under three successive programs, 775 Yemeni government personnel have received sustained academic training in management, administration and technical fields, while many others have benefitted from short-course technical training;
- + from 1976 to 1979, a project provided funding for expatriate personnel and training programs for Yemeni medical personnel in a Yemeni hospital;
- + from 1976 to 1982, Yemeni women were given teacher training in health, nutrition, sanitation and child care under a nutrition education program carried out in Hodeidah and Sana'a;
- + from 1979 to 1985 assistance was provided to local sections of the Confederation of Yemeni Development Associations to help villagers complete community service projects. Completed projects include construction of a primary school, installation of a well and solar pump, and setting up a mobile workshop. Funding was provided for seven Yemenis to complete their academic training in Jordan, for a further 11 to complete a five-month primary health care training course, for four agricultural extension agents to receive telecommunications training in Egypt and for 45 trainees to receive short-term vocational training in equipment maintenance.

disaster relief amounting to \$2.9 million was provided as disaster relief following the 1983 earthquake. Tents, blankets, water tanks, generators and medical kits were provided through UNICEF. An additional \$300,000 worth of tents, clothing, utensils and medical assistance was provided by US voluntary agencies;

- + from 1977 through 1986, assistance was provided to the National Water and Sewerage Authority to help develop it into an effective entity capable of managing, planning, constructing and operating water and waste water systems.

We believe that this list, which, we repeat, is of completed projects only and does not include ongoing projects, demonstrates just how much USAID is focusing on the real problems of Yemen today. Miracles are not possible, progress is inevitably always slower than many people would wish, but there can be no doubt that substantial progress is being made.

As far as the current program is concerned, again we are indebted to the USAID mission in Sana'a for details.

There are four different sub-projects in agriculture. The first provides technical assistance and support for the Ministry of Agriculture & Fisheries in agricultural development planning, management training and the establishment of a documentation center. The second is concerned with the development of the secondary agricultural school system. A third involves horticultural improvement and training and the fourth is concerned with the development of the Faculty of Agriculture at Sana'a University.

There is a substantial program of education and human resource development. A total of 929 Yemenis from both the government and the private sector have completed academic and technical training in the United States and in Arab countries. An additional 220 began training in fiscal year 1988.

Assistance is being provided to the Yemeni Ministry of Health for the establishment and management of 70 primary-health-care units and the training of primary-health-care workers.

We have stressed the vital importance of water resource management in Yemen. USAID, under a small rural water systems project, is providing technical assistance and support to the Yemeni Ministry of Public Works for the construction and management of approximately 170 rural water systems throughout the country.

Finally, food aid has been provided under P.L.480. Under the terms of this Public Law, the US provides agricultural commodities on highly concessional loan terms in return for the importing country's agreement to use the local currency proceeds from the sale of these commodities to support mutual development objectives. Since 1984, the Yemeni riyal proceeds of these sales have been used to reconstruct housing after the 1983 earthquake, to develop additional facilities for the Faculty of Agriculture in Sana'a University, and small infrastructure projects, macro-economic and agricultural sector research, supporting English language teaching programs and providing temporary financial support to Yemeni ministries.

Broadly, and in summary, USAID's strategy in Yemen has focused on institutional and human-resource development in four key sectors: agriculture, education, health and water resources. For the future, it is our understanding that efforts will be made to integrate the undoubted achievements of the aid programs more into private-sector investment projects, thus to play an even more significant role in Yemen's overall development.

Part III

The Yemen Arab Republic Today

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Chapter 8

The Land: Natural Resources

Overview

The Yemen Arab Republic is a small country situated in the southwest corner of the Arabian Peninsula. It is bordered to the north and east by the Kingdom of Saudi Arabia and to the south by the People's Democratic Republic of Yemen, known in Yemen as "the southern part of the homeland." The Red Sea forms the country's western boundary. Neighbors across the Red Sea are Ethiopia, Djibouti and Somalia. The narrow entrance to the Red Sea, the Bab al-Mandab ("gate of lamentation" in Arabic) is potentially as strategically important as the Strait of Hormuz.

A significant stretch of the frontier with Saudi Arabia and a part of the frontier with the southern neighbor have not been officially delineated. Official publications give the area of the country as some 200,000 sq km (77,200 sq miles), which makes Yemen rather larger than the state of Missouri but somewhat smaller than the state of Kansas.

Yemen is a harsh and arid land. Better watered than any other country in the Arabian Peninsula, the country remains one in which the major constraints to food production are water shortages and a general absence of good soil. There are, however, pockets of high fertility in which a wide range of fruits and vegetables may be grown (see Table 8.1, pages 44, 45).

The heart of the country is extremely mountainous, with land rising to 3,000 meters (10,000 ft). The highest mountain in Arabia, Nabi Shu'ayb, southwest of the capital, Sana'a, is 3,760 meters high (12,335 ft). The mountains attract seasonal rains from the monsoons of the Indian Ocean in April and May, and again from July through September. Up to 1,000 mm (39 in) falls on a small area of the southern-facing slopes in the Ibb region in a year. From this maximum, precipitation falls away to under 100 mm annually along the coastal strip, known as the Tihama, and on the inland side of the mountains, where Yemen merges with the sands of the empty quarter of Arabia, the 'Rub al-Khali.

There are four major geographic regions. The heart of the country is formed by the central highlands, 1,500 meters and above in height. The highest land lies between Ibb and Sana'a. Surrounding this heart are foothills and lower mountain ranges, with heights ranging from 1,500 meters down to 200 meters. This country is extremely rugged, cut by deep and narrow gorges. A third natural geographic area is formed by the coastal lowlands, stretching along the Red Sea coast and averaging 30-60 km wide.

Finally, there is the eastern plateau, where the central highlands drop to a plateau of average height 1,000 meters. The eastern plateau merges into the desert.

A population census conducted in 1986 put the total population resident in Yemen as about 8 million people. A significant element of the population is resident outside Yemen, mostly in Saudi Arabia (see Chapter 9 for details). Main towns are Sana'a, the capital, Taiz, Ibb, Dhamar, Hodeidah, and Sa'adah. These towns are linked by modern, surfaced roads. Away from the main roads communication is often hindered by the rugged terrain.

The Historical Background

An understanding of the present in any society demands an understanding of that society's history and traditions, of its folk memories and of the influences that have brought the society to its present status.

Yemen was part of the Kingdom of Saba', whose queen, Bilqis, (the Queen of Sheba) went to see King Solomon in Jerusalem in about 1,000 B.C. The name "Yemen" is thought to be an ancient pre-Arabic south Arabian word. Scholars, whose knowledge of the south Arabian language was limited until very recently, give two alternative explanations of the meaning of the word "Yemen": depending on stresses and vowels, which are often not written, the word can mean either "on the right hand," in other words, south of Mecca, the holy city, or it can mean "prosperous" or "happy." The latter could be explained by the fact that, unlike almost all the rest of the Arabian Peninsula, Yemen has enough water to permit a varied cultivation of food.

The ancient civilization that lured the Romans south was that of the Sabaeans. Saba' (or Sheba) centered around the Marib Dam, one of the genuine wonders of the ancient world. The city of Marib itself has been called "the Paris of the ancient world." Marib lay astride the ancient trade route from the east to the Mediterranean, the route of frankincense and myrrh which came from Dhofar and the Hadramawt as well as silks and spices from India and beyond.

The Sabaean civilization was replaced by that of the Himyarites, which lasted from about 115 B.C. to about 525 A.D. The Marib Dam, which permitted an intensive irrigation-based agriculture, was probably silting up by this time. Whether it was destroyed by an earthquake or burst following a flood is uncertain. The fact is that by the last decades of the sixth century A.D. it was no longer able to sustain the communities that had relied on it for centuries, a fact that caused the migration of Yemenis throughout the Arabian Peninsula, a process that has not really stopped.

Islam burst on Yemen in the seventh century. But even before Islam, Yemeni society was divided, as was all society in the Arabian Peninsula since the earliest days, between the settled communities of towns and villages and the nomadic communities that roamed the countryside. Many of today's differences in the Arab world have at their root these bitter age-old divisions between peoples fighting to survive in a harsh environment.

Islam, for all its strengths, added to the divisions in Yemeni society. In the words of an eminent American scholar, Professor Manfred W. Wenner, in his book, *Modern Yemen, 1918-1966*:

"The conquest of Yemen by Islam produced the second great division in the population, for religious schisms soon fractured the unity of Islam throughout the Muslim world, dividing it into major sects: Sunni and Shi'a. The best estimates that can be made today indicate that these two sects are almost evenly represented within Yemen, although both the Sunnis and the Shi'as claim over half the inhabitants as adherents of their sect.

"Because Yemen early revealed its sympathy for 'Ali, the son-in-law of the Prophet, many of those Muslims who believed that only descendants of 'Ali should succeed to the Caliphate took refuge in its mountain fastnesses. These adherents to the 'Alid claim (the Shi'a) . . . [included] the Zaydis . . .

"The rise of the Zaydi Imamate in the ninth century A.D. was undoubtedly the most important event that occurred in Yemen after the coming of Islam. The establishment in the Yemeni highlands of the religious and later political overlordship of the Zaydi sect influenced the social struc-

OIL

When the price of oil was under \$3 a barrel, there was little incentive for anyone—oil companies or governments—either to search for new oil in territory where initial exploration and production costs would be high or to invest in new and advanced exploration and production technology. Also, it can be said that major oil companies did little to encourage smaller oil companies to acquire access to crude oil sources.

The discovery of oil in Yemen by the Hunt Oil Co. in 1984, was a tribute, first and foremost, to the imagination and boldness of Hunt Oil's management and the extremely positive experience in dealing with the people and the government of the Yemen Arab Republic. Between 1981 and 1983 Hunt Oil conducted a number of very complex field operations which would have been extremely difficult from a logistics point of view no matter where in the world they would have occurred.

The facts of Yemeni oil production are well known:

- + some 190,000 barrels of oil a day (bpd) are being produced from the Alif oil field near the ancient city of Marib. Production began in December 1987;
- + a 10,000 bpd domestic refinery built near Marib will supply between one third and one half of Yemen's petroleum products needs;
- + a 440 km (263 mile) pipeline takes the crude oil to a new oil export sea terminal at As-Salif on the Red Sea;
- + the pipeline has an operating capacity today of 200,000 bpd. This could be increased to 400,000 bpd with a modest investment in pumping capacity;
- + at current rates of production, present oil fields will be nearing exhaustion by the mid-1990s, but exploration, both onshore and offshore, is continuing;
- + Yemen's resources of natural gas—both associated and non-associated—are thought to be as important as its oil reserves.

ture, the attitudes and the life of the people there and has continued to do so into the 20th century.”

Orthodox, or Sunni Islam, is represented in Yemen by the Shafi’i school of law. Sunnis predominate in the coastal region, the Tihama and in the southern part of the country.

Until well into the 20th century Yemen remained remote and closed to the wider world. The British journalist, David Holden, writing in the late 1950s, could say of the Arabian Peninsula generally that:

“ . . . their governments were a function of individuals rather than institutions, and instability was endemic.”

Geology and Mineral Resources

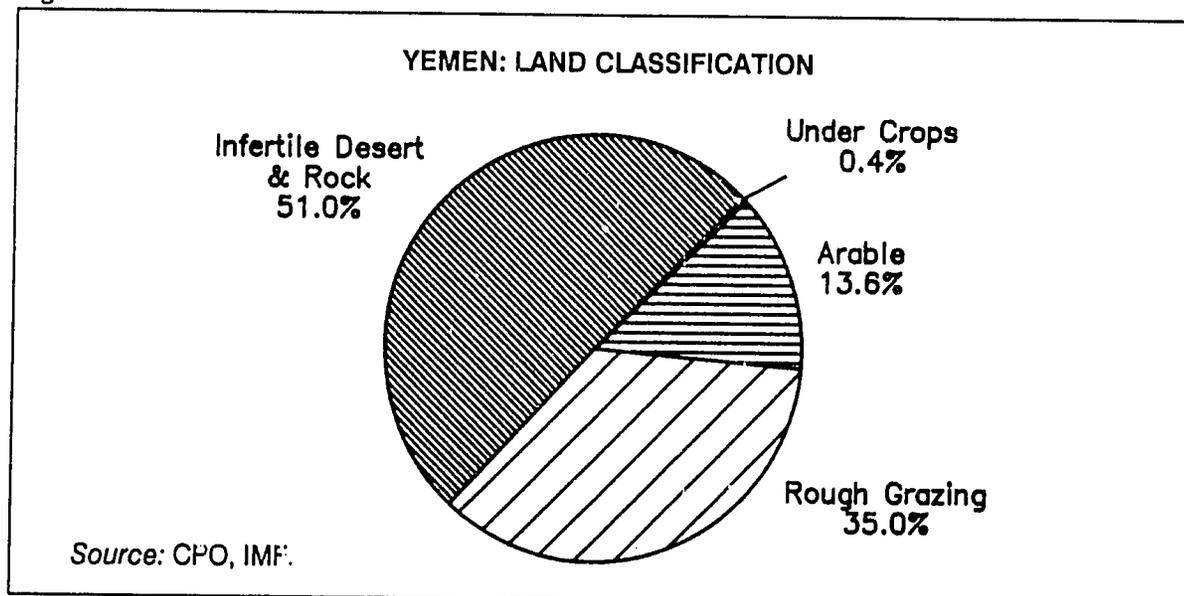
The mountains of Yemen, the country’s backbone, are an extension of the Arabian shield, which runs parallel with the Red Sea coast through western Saudi Arabia. There has been very little detailed survey of Yemen’s geology.

There is a need for a detailed survey aimed at assessing Yemen’s mineral resources. Yemen is believed to have deposits of lead as well as substantial and quarriable deposits of marble and gypsum, probably silver, zinc, copper, tin, tungsten, iron, nickel, phosphates, potash, bauxite and rare metal deposits as well.

Climate and Rainfall: Water Supply – A Major Problem

As mentioned before on page 39, in spite of having some well-watered pockets, Yemen is in general a dry country. There are no flowing rivers. Summer temperatures in the mountainous regions are equitable, but in the humid coastal strip along the Red Sea, the Tihama and in the eastern deserts, summer temperatures are extreme.

Figure 8.1



The fact that rainfall is in general sparse is a major constraint to agricultural development. **There is an increasing scarcity of water, arising from increased usage both for irrigation and for domestic use.** In the Sana'a region demand for water has increased sharply due to both urban growth and increased market opportunities for vegetable production. The problem is exacerbated by occasional droughts. One estimate from a normally reliable source is that around Sana'a some 30% of water taken from the aquifer is not replenished. The fact is that in the area of the capital, the water table is falling by five or six meters a year.

The government is understandably concerned about the water problem. A Higher Council for Water Resources under the chairmanship of the prime minister was established in January 1982. But in addition to policies, **there is a need for investment in modern water resource management techniques and in the associated technology.**

Land Use—Agriculture

The nature of the Yemeni natural environment becomes very relevant in a consideration of the use of land. Of the officially stated total national land area of some 200,000 sq km, less than half, about 98,000 sq km is regarded as being agricultural land. The remainder is infertile desert or bare rock. Of the total of agricultural land, some 70,000 is officially described as being “permanent meadows and pastures,” this description could be misleading. “Rough grazing” would be a better term.

Finally, between 800 and 850 sq km (800,000/850,000 hectares or 2 million plus acres) is under crops (see Table 8.1).

The main crops are cereals—sorghum and millet (“duru” in Arabic), wheat, barley and corn (maize). Alfalfa is an important fodder crop. Other crops are legumes, vegetables, potatoes, grapes, other fruits, coffee, cotton, tobacco and sesame.

The agricultural sector employs some 58% of the labor force and contributes over 28% to GDP. Agriculture is heavily dependent upon rainfall, with less than a quarter of the land under cultivation being irrigated. Farms are small and fragmented and yields are in general low. Modern farming technology and the use of inputs such as good seed stock and fertilizers are in general notable by their absence. There are major distribution problems, due in part to the absence of good roads. **The need for quality control, storage and packaging of delicate products such as fruit and vegetables may not be given appropriate attention.**

A bright spot on the overall agricultural horizon is provided by the growing poultry industry. This sub-sector has been by far the most dynamic in the agricultural economy. Production increased fivefold between 1982 and 1987 and national per capita consumption increased by 40% over the same period. Given that poultry is generally regarded as among the most efficient forms of food conversion and production, this is an encouraging trend.

Table 8.1

YEMEN ARAB REPUBLIC:
PRODUCTION, AREA AND YIELD OF MAJOR CROPS 1982-87 ¹
 (Production in thousand metric tons; area in thousand hectares; yield in tons per hectare)

	1982	1983	1984	1985	1986	Est. 1987
Cereals (total)						
Production	760	364	372	419	666	665
Area	830	826	834	833	844	808
Sorghum and millet						
Production	581	268	268	281	491	477
Area	681	681	694	690	690	653
Yield	0.85	0.39	0.39	0.41	0.71	0.73
Wheat						
Production	67	35	37	63	85	100
Area	61	61	58	59	65	67
Yield	1.10	0.57	0.64	1.08	1.31	1.50
Barley						
Production	53	30	28	32	41	40
Area	52	50	48	46	48	47
Yield	1.02	0.60	0.59	0.69	0.85	0.86
Maize						
Production	59	30	39	43	49	48
Area	36	36	34	38	41	41
Yield	1.63	0.84	1.13	1.14	1.20	1.19
Legumes						
Production	75	40	38	44	47	39
Area	70	70	23	25	27	24
Yield	1.08	0.57	1.67	1.77	1.73	1.63
Potatoes						
Production	150	164	195	196	208	110
Area	12	12	8	9	9	9
Yield	12.36	13.43	24.34	24.47	24.50	12.79
Vegetables						
Production	305	326	346	370	432	455
Area	31	34	18	19	22	24
Yield	10.00	9.71	19.25	19.50	19.65	18.94

The same encouraging trend is noted in egg production and consumption. Increasing investment by Yemenis has resulted in a sevenfold increase in the number of commercial egg farms between 1984 and 1987 and a doubling in egg production.

Fisheries

The Red Sea is relatively rich in fish, but the fisheries sub-sector is so far underexploited. The industry is organized largely on traditional lines with little innovation.

<i>(continued)</i>	1982	1983	1984	1985	1986	Est. 1987
Grapes						
Production	68	72	82	81	103	129
Area	13	14	14	14	15	15
Yield	5.18	5.25	5.83	5.75	7.10	8.86
Other fruits						
Production	85	85	88	92	104	121
Area	15	15	15	16	16	17
Yield	5.64	5.64	5.86	5.95	6.50	7.33
Coffee						
Production	3	3	4	4	4	4
Area	8	8	16	16	16	17
Yield	0.44	0.42	0.26	0.25	0.25	0.24
Cotton						
Production	7	7	4	4	4	4
Area	7	7	6	6	6	6
Yield	0.88	0.88	0.66	0.71	0.75	0.75
Tobacco						
Production	7	6	4	5	5	5
Area	6	6	3	3	3	3
Yield	1.05	0.89	1.54	1.55	1.55	1.54
Sesame						
Production	6	4	3	4	4	4
Area	10	10	10	10	10	11
Yield	0.55	0.42	0.33	0.42	0.43	0.35
Alfalfa						
Production	49	49	49	53	60	68
Area	4	4	11	11	11	14
Yield	12.30	12.30	4.32	4.69	4.85	5.03

Source: Ministry of Agriculture and Central Planning Organization, IMF.

¹ Area estimates were revised in 1984 without corresponding adjustments for earlier years.

Communications

Twenty years ago, Yemen had rudimentary communications: few paved roads, modest airstrips, old-fashioned and ill-equipped ports. The result was that the government had difficulty in governing, markets were small, regional and fragmented, the economy was little more than subsistence.

HOW TO GET THERE

There are no direct flights from the United States to Yemen. Yemenia, the Yemeni national airline, operates bi-weekly services from London-Gatwick, Paris-Orly, Frankfurt and Rome, using Boeing 727s. The Saudi Arabian national airline, Saudia, has a substantial minority shareholding in Yemenia, which is a reliable international carrier.

Lufthansa operates a bi-weekly service from Frankfurt, using Boeing 727s. Air France operates a weekly service from Paris-Charles de Gaulle using Airbus A-300s.

Today, there is a national trunk road network of paved highways linking the main cities, in general well constructed and adequately maintained. **There is still a great need for a secondary road network, providing feeders for the main highways.** There is now some 2,300 km of hard-surface roads and a further 1,550 km of natural surfaced roads. Given the terrain, Yemeni roads are minimally adequate.

There are three seaports. Potentially the most important is Salif, the new oil port and the only Yemeni port with sufficient deep water to permit it to accommodate larger vessels. Hodeidah has been the main port in the past and remains important. Mocha is the third port, small and ill equipped.

Yemen now has a modern international airport at Sana'a and other airports at Taiz and Hodeidah.

Telecommunications are to an acceptable international standard and are managed by the British company, Cable & Wireless, plc.

Chapter 9

The People: Human Resources

Population

Yemen has a young and fast-growing population. The World Bank, which put the population living in the country at 8.2 million in 1986, projects an annual rate of population growth of 3% to 2000. On this basis, the population will exceed 12 million by the end of the century. By that time, the average age of the population will be well under 15.

Already today the trends are emerging. In 1985, according to the World Bank, when the population in the country was just under 8 million, some 3.6 million were aged between 0 and 14 years (see Table 9.1). This fact underlines the very great importance that the government must give to **manpower development and job creation in the years ahead.**

Table 9.1

YEMENI POPULATION: AGE AND SEX BREAKDOWN, 1985

Age	Male	Female	Total
0 - 14	1,827,325	1,774,578	3,601,903
15 - 64	1,852,626	2,269,772	4,122,398
65 - over	124,002	141,698	265,700
	3,803,953	4,186,048	7,990,001

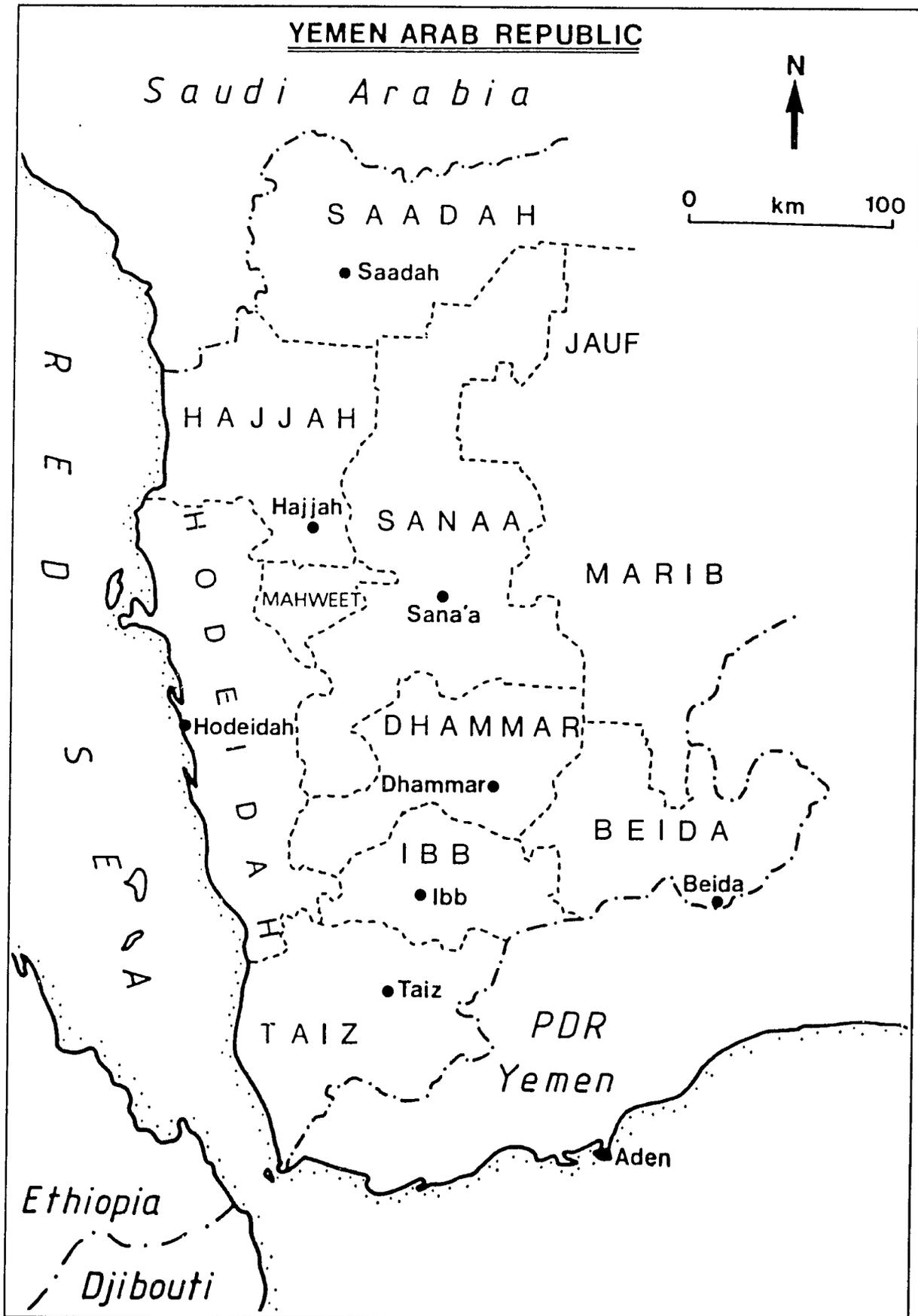
* Note: The gap of 400,000 + between males and females in the 15-64 age group is explained by the numbers of Yemenis working in Saudi Arabia.

Source: World Bank.

Education

We referred above to the dimension of the government's challenge in manpower development and in job creation. An examination of the actual education position today brings this problem into even sharper relief.

In the academic year 1985/86, the last period for which statistics are available, some 1.03 million children were in full-time primary, preparatory or secondary education, 839,000 boys and 188,000 girls. This figure alone tells much about the society. But if we



compare it with the numbers of children in the 6-17 age bracket (a total of some 2.51 million) the dimension of the government's challenge becomes apparent (Table 9.3 refers).

Yemeni education is built around a system offering six primary years, three preparatory years and three secondary years. The secondary stage offers a degree of specialization, in that there are two secondary technical schools and six secondary commercial schools. Table 9.4 details the numbers of schools and classes in each of the three categories in the academic years 1985/86. As a postscript it may be added that in 1988, the Ministry of Education was allocated some 15.8% of the national budget.

Yemen's only university is located in Sana'a. There are seven faculties offering four-year courses to first degree standard and one, medicine, offering a six-year course. In 1985/86, there were 12,589 students, 10,964 males and 1,625 females. By far the greatest number of males were studying Shari'a and Law, with a second large group studying economics and commercial science. Of the 184 students studying engineering, 119 were females (Table 9.5 refers).

Health and Nutrition

That Yemen is a developing country is underlined by basic figures for health and nutrition. We set out in Table 9.6 populations per physician and per nurse in 1981 (the latest year for which we have statistics), daily calorie supply per capita for 1985 and make a comparison with the United States, for the sake of supplying a dimension.

Table 9.2

YEMEN: POPULATION BY GOVERNATE, 1986
(Includes unenumerated and migrants outside country)

Governate:	Population
Sana'a	1,856,876
Talz	1,643,901
Hodeldah	1,294,359
Ibb	1,511,879
Dhamar	812,981
Hajja	897,814
Sa'adah	344,152
Mahwelt	322,226
Belda	381,249
Marib	121,437
Jauf	87,299
Total	9,274,173

Source: CPO

Table 9.3

YEMEN: THE EDUCATION CHALLENGE			
	Male	Female	Total
Students, 1985/86			
– Primary	728,931	175,556	904,487
– Preparatory	87,188	9,319	96,587
– Secondary	22,629	2,706	25,355
	838,748	187,581	1,026,429
Children Aged:			
– 6 - 11	687,510	667,192	1,354,701
– 12 - 17	584,808	568,893	1,153,701
Total 6-17	1,272,318	1,236,085	2,508,402

Source: Ministry of Education, World Bank.

Table 9.4

YEMEN: NUMBER OF SCHOOLS AND CLASSES, 1985/86			
	Schools	Classes	Pupil : Teacher Ratio
Primary	5,792	28,615	60 : 1
Preparatory	745	2,835	26 : 1
Secondary	197	638	16 : 1

Source: Ministry of Education, 1987.

Table 9.5

YEMEN: UNIVERSITY OF SANA'A 1985/86			
Number of Students			
Faculty	Male	Female	Total
Agriculture	107	6	203
Engineering	65	119	184
Medicine	178	28	206
Education	1,315	353	1,668
Economics & Commerce	3,150	397	3,547
Science	301	95	396
Literature & Arts	1,230	510	1,740
Shari'a & Law	4,528	117	4,645
Total	10,964	1,625	12,589

Source: Ministry of Education, 1987.

Table 9.6

YEMEN: HEALTH AND NUTRITION			
Population per:	Physician (1981)	Nurse (1981)	Daily Calorie Supply per capita (1985)
	7,120	3,450	2,266
	(for comparison: United States)		
	500	180	3,682

Source: World Bank, World Development Report, 1988.

Table 9.7

DISEASES REPORTED DURING 1982-86					
Disease	1982	1983	1984	1985	1986
Cholera	—	—	—	—	—
Typhoid	3111	2349	3482	2089	3501
Infectious Hepatitis	7779	9986	14111	1112	9689
G.S. Meningitis	180	337	849	1226	682
Measles	20045	25707	34389	9387	10849
Chicken Pox	936	2301	6141	2808	3680
Poliomyelitis	211	542	692	310	579
Diphtheria	605	967	827	394	141
Mumps	5131	7134	9533	4831	5809
Whooping Cough	25490	27534	20309	16053	9753
Scarlet Fever	—	—	—	—	—
Tetanus	182	361	421	219	520
Puerperal Fever	1330	1095	1178	807	1162
Relapsing Fever	11	—	4	—	—
Malaria	—	179155	180104	13677	15712
Filariasis	—	6	—	12	—
T.B.	18561	32755	24130	2078	2175
Leprosy	371	306	284	47	124
Amoebic Dysentery	71828	69986	95928	42494	40492
Enteritis	169978	15177	221111	116262	92795
Leshmania	264	688	475	491	584
Rabies	147	1658	727	191	391
Bilharziasis	34044	27439	35961	43754	43634
Syphilis	229	503	358	310	153
Gonorrhoea	427	557	64	62	131

Source: Ministry of Health

Chapter 10

The Government

The Evolution of Government

Yemen is more genuinely democratic than any state in the Arabian Peninsula. This is not to say that the country is fully democratic in a Western sense. But the government does seem determined to push ahead with the gradual introduction of democratic processes.

President of the Republic Colonel Ali Abdullah Saleh emphasized the move toward democracy in his National Day speech on Sept. 26, 1988:

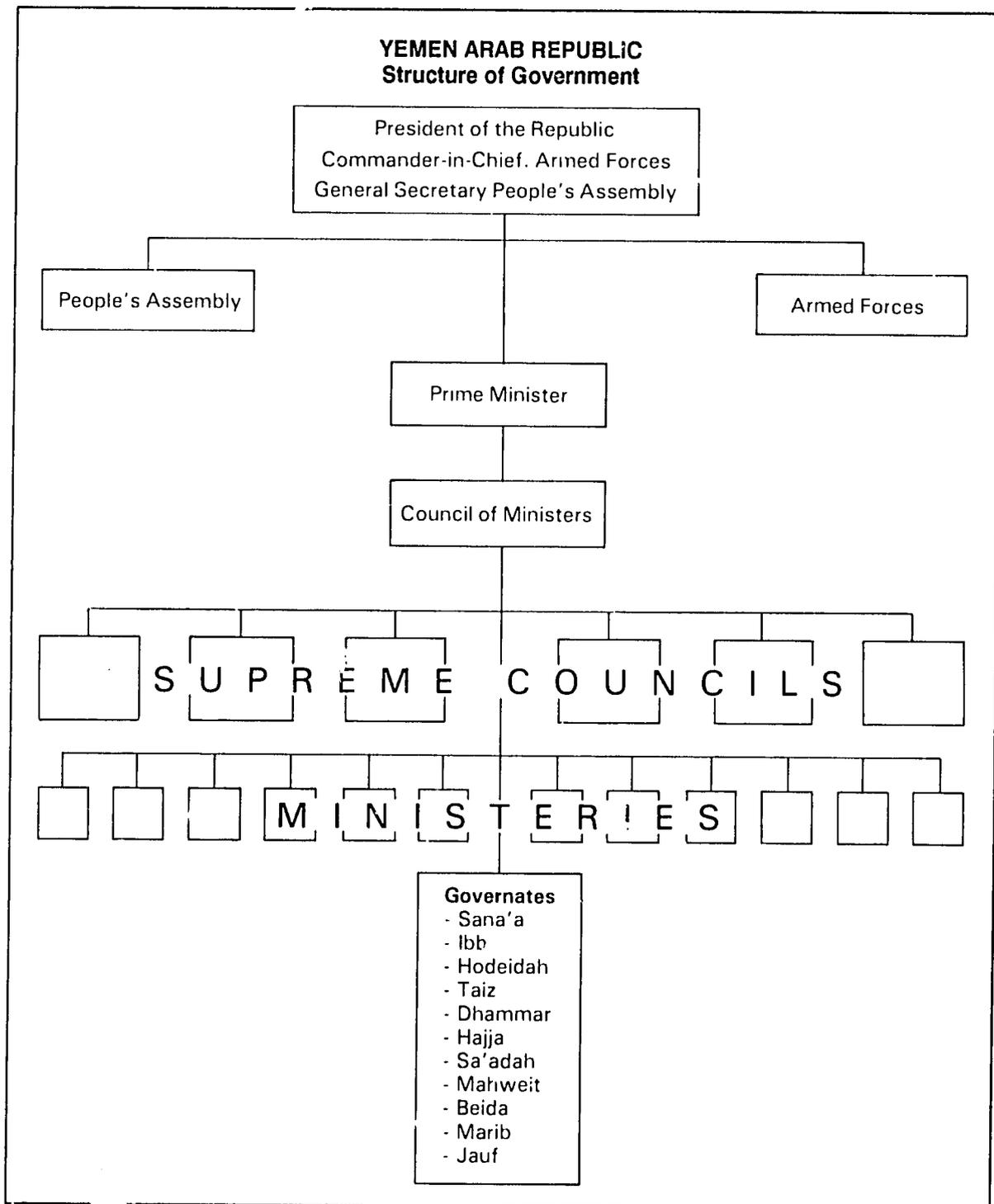
“The establishment of democratic institutions is an integral part of the operation to complete the building of the modern centralized state, the state of order and law under whose canopy all the institutions and bodies pool their efforts to build a strong and prosperous society.”

Earlier in his speech President Saleh had referred to the national elections which took place on July 5, 1988, for the election of a popular consultative assembly *majlis ash-Shura*. He cited the fact of the elections as one of the major achievements of the government in the preceding 12 months. A total of 128 members of the people’s assembly was elected in 128 constituencies from over 1,200 candidates. Formal political parties were not permitted, but a particularly vigorous political nationwide debate preceded the elections.

The President himself personally appointed an additional 30 members of the people’s assembly. These include former ministers and diplomats as well as some members of the former constituent people’s assembly, a largely nominated body now replaced by the new assembly.

These developments in democracy are of some significance in Yemen. In Chapter 8 we outlined the harshness and the repression of the long period of the Imamate. When the Imamate was overthrown in September 1962, there were no institutions of government and very few people trained and experienced in government. From 1962 to 1969 a bitter civil war raged, with substantial Egyptian participation until 1967. During this time, there were a number of attempts at creating formal constitutions, generally following an Egyptian model.

At the end of the civil war, the nation was divided, embittered and exhausted. However, a number of factors helped the process of nation building. One was the influx of able individuals, businessmen and administrators, refugees from the People’s Democratic Republic of Yemen, to the south. Another was the growing tide of remittances of foreign



exchange from the hundreds of thousands of Yemenis who migrated temporarily to Saudi Arabia to supply labor to the oil boom of the middle and late 1970s.

In spite of these windfalls, the task of successive Yemeni governments was not easy throughout much of the 1970s. Distances, poor to nonexistent communications, a society fragmented with ancient divisions between urban and rural societies all contribute to the major challenge to government. Powerful local leaders, as well as gover-

nors of remote or relatively wealthy provinces tended to be a law unto themselves. It was extremely difficult for the central government to impose its will on all corners of the country.

That the government has to a very great extent succeeded in its task of bringing a significant degree of central control and coherence to a historically fragmented society is a matter of record and commendation. The government has been, and still remains to a significant extent, a military government. Only the army has the power and the ability to use force, the discipline and the equipment required to impose the will of the central government on the remotest areas. Thus the army's role in government has been, and remains, significant. The President himself came to power through the army. As of today, end-1988, it is difficult to think of a president of Yemen remaining in power and being effective without the support of the army.

The Structure of Government

The formal structure of government in Yemen is outlined in the chart opposite. We emphasize that this chart is intended to show the main relationships only. Western expressions such as "the sovereignty is with the people" are not easily translated into developing country environments which do not have a long democratic tradition. Probably the locus of sovereignty in Yemen today is with the army, and probably again this is the most realistic place for it to be.

Within the system, the president has substantial executive powers. President Saleh has earned himself a greatly respected reputation as a conciliator and an arbiter of disputes. The traditional Arab system of government, one which remains essentially valid in most Arab countries today, is one of finding a consensus between opposing views. Time tends to have less importance in decision making; the consensus is the most important consideration. No leader risks facing strong criticism for as long as he is seen to be working in a determined fashion toward seeking and establishing a consensus. President Saleh is respected for being both firm and fair in seeking the necessary consensus.

The role of the people's assembly is evolving. In theory it may amend or even reject legislation, but may not itself propose legislation. Against that, one member of the assembly told us that he could envisage a situation in which the assembly itself would propose legislation if, in its collective view, the government was being slow in the preparation of a piece of legislation which the assembly regarded as vital for the national interest. (See also section below on decision making.)

The assembly debates the annual national budget and the various longer-term development plans. It considers and approves major government development contracts. It has the formal responsibility of electing the president. One of the first tasks of the new assembly was to reelect President Saleh for a third five-year term on July 17. Voting was 152 in favor, with two abstentions and five absentees.

The president names the prime minister. After his election, President Saleh asked Prime Minister Abdul-Aziz Abdul-Ghani to continue in office on a caretaker basis until a new government is formed.

The ministers meet formally in the Council of Ministers, which is the executive arm of the government. To facilitate decision making, there are a number of supreme councils, which are in essence sub-committees of the Council of Ministers with some outside co-opted members.

The National Budget

The Yemeni government has major problems on the revenue side of the budget equation. In 1987 budgeted revenues were only 41% of budgeted expenditures. In 1988, the position looked brighter at the beginning of the year, when there were hopes of significant oil revenues. For all that, budgeted revenues for the current year are only 70% of budgeted expenditures. The government closes the gap by the simple expedient of borrowing from the Central Bank. Clearly, this has marked inflationary effects.

Government revenues come from taxation, customs revenues and foreign aid.

The expenditure picture for the years 1982-88 is set out in Table 10.1, page 57. Defense is the largest single element in budgeted government expenditures over the period 1982-87 inclusive. Government salaries took a further 22%. More specifically, in 1987, the defense allocation was 20% of the annual budget, education 13% and health 3%.

Decision Making

A Yemeni businessman seeking an import license has first to approach the Ministry of Economy, which has the responsibility of controlling imports and the authority to issue import licenses. If he is wise, he will have established beforehand the government's priorities and will not waste the Ministry's or his own time by applying for a license to import commodities which have a low priority. If he is subtle as well as wise, he will know which official in the ministry is responsible for issuing the license he wants and will go to some trouble to cultivate this official.

At the present time, the Yemeni businessman has to make a cash deposit to cover his letter of credit, once he has obtained the necessary foreign exchange clearance. He will have to deposit 25% of the value of his letter of credit if he is importing food, medicines or petrochemicals and 35% for anything else he is importing.

A second area of government decision making relevant to business is the process of applying for official permission to invest in an industrial, agro-industrial or tourist project, for example. Again, formal application has to be made to the Ministry of Economy. The ministry will want to know above all the demands on foreign exchange likely to be made by the project during the construction, startup and operating stages. It will be particularly interested if it can be demonstrated that the project can earn foreign exchange rather than ultimately just save foreign exchange. Above all, the minis-

Table 10.1

YEMEN ARAB REPUBLIC:
FUNCTIONAL CLASSIFICATION OF TOTAL EXPENDITURES, 1982-88
(In millions of Yemen rials)

	Actuals				Budget 1986	Prov. 1987	Budget 1988	Adjusted
	1982	1983	1984	1985				
General administration	1,733.1	1,700.2	1,956.4	1,955.4	2,315.0	2,500.1	3,173.2	3,396.6
General administration	1,120.7	1,064.5	1,097.5	1,046.8	1,255.0	1,344.7	1,989.8	1,875.9
Public order and safety	612.4	635.7	858.7	908.6	1,006.0	1,155.4	1,183.4	1,520.7
Defense	3,083.3	3,253.7	2,784.8	2,856.3	3,057.9	3,702.6	3,596.0	4,656.3
Education	1,352.6	1,399.5	1,415.7	1,806.3	2,120.7	2,638.0	2,480.2	3,129.2
Health	371.7	411.3	342.3	369.7	443.4	488.8	544.0	656.5
Community & social services	159.5	169.7	140.1	217.9	253.7	280.7	285.8	366.6
Recreational and related activities	66.8	76.9	48.9	121.8	136.7	163.5	151.4	201.7
Broadcasting, press, and information	92.7	92.8	91.2	96.1	117.0	117.2	134.4	164.9
Economic services	714.0	724.0	715.5	739.5	746.3	958.7	944.9	1,416.6
Agriculture	106.7	109.0	153.4	206.7	215.0	227.3	273.5	297.5
Mining	—	—	—	—	4.6	69.8	40.5	105.4
Electricity and water	0.8	9.3	0.9	1.0	1.2	1.4	1.5	1.5
Construction	465.8	477.4	476.4	444.8	57.1	536.1	540.8	876.8
Transport & communication	124.0	111.9	70.0	60.1	37.6	86.6	48.7	94.7
Commerce	16.7	16.4	14.8	26.9	30.8	37.5	39.9	40.7
Unallocable	3,546.9	2,409.0	2,692.9	3,086.6	3,895.0	—	7,461.0	5,971.4
Interest on public debt	53.8	59.5	50.3	84.4	123.0	100.6	125.2	373.3
Capital transfers ¹	795.5	548.4	601.9	438.4	654.8	771.7	996.5	873.1
Capital expenditures financed by external loans ²	933.8	878.9	1,063.5	889.9	951.7	—	4,153.3 ³	2,450.0
Extrabudgetary expenditure ⁴	763.8	922.2	977.2	1,673.9	2,165.5	—	2,186.0	2,275.0
Total⁵	10,961.1	10,067.3	10,047.5	11,031.7	12,832.0	—	18,485.1	19,593.2

Sources: Ministry of Finance and Central Bank of Yemen.

- ¹ Differs from the official budget presentation because of the exclusion of defense capital transfers.
² Counterpart of project and commodity loans, which is not included in the official budget presentation and final accounts. ³ Includes special equipment expenditures. ⁴ Includes interest on the Government's domestic debt and interest and principal repayment of public-sector loans by the Government. ⁵ Exceeds budget presentation by the inclusion of externally financed capital outlays and extrabudgetary outlays.

VISAS – THE QUESTION OF RECIPROCITY

An American businessman who wants to go to Yemen will need a sponsor in Yemen to arrange visa formalities for him. And if it is a first-time visit and he has no Yemeni sponsor? Then he risks having problems. In general, a resourceful businessman can find, in one way or another, someone in Yemen to sponsor him. But the process can be time consuming.

We asked Yemeni officials what could be done to alleviate the problem. We were told that Yemeni businessmen often have major problems in getting visas for the United States. The principle of reciprocity was emphasized.

try will find decision making easier if it is presented with a detailed feasibility study of the highest quality, submitted, of course, in impeccable Arabic.

Sometimes in Yemen it is claimed that officials are called upon to make judgements on potential investment projects about which they have very little professional knowledge. Again, the quality of the feasibility study is important: it should be written and presented so that it can be understood by a layman and should not rely on a mass of technical detail to make the case for the project. Officials in the Yemeni government may not have advanced technological degrees but they can all count. The bottom line is always important.

If the project involves more than one ministry, for example the Ministry of Agriculture for an agro-industrial project, then the Yemeni businessman will be wise if he makes use of all his contacts in the Ministry of Agriculture to obtain from that ministry a formal letter supporting the project to be attached to the application being lodged with the Ministry of Economics.

A third aspect of government decision making of vital interest to business is concerned with the revision of Law No. 18 of 1975 regarding the promotion and organization of investment in the Yemen Arab Republic. (The implications of the possible revision of this law for foreign business are considered in Chapter 4.) There has been something of a national debate among concerned parties on this issue. Conservatives have been heard to grumble that they see little wrong with the existing law. The protagonists of change argue for a new law which will provide greater incentives and which will make the whole process of seeking investment approval very much simpler. The army has a voice in the debate, as through the Military Economic Corp it has its own stake in Yemeni industry. The people's assembly has a great interest in that many of its members are themselves involved in business. Other members, the Islamic brethren, tend to look askance at foreign investment as a means of bringing unwelcome Western materialism to the country.

There is nothing especially Yemeni about this national debate. Let the US administration propose an amendment to any legislation which is in any way controversial, and immediately there is a coast-to-coast debate. We are considering decision making in Yemen and specifically we are considering a proposed revision to legislation which

will almost certainly have a substantial effect on the business community. It follows that we can only applaud if the question is being debated nationally, because, in theory at least, the final legislation will have been thoroughly considered and hence, again in theory, will therefore be implemented without excessive difficulty.

When the Ministry of Economy has heard all sides of the debate, and when it believes it has something approaching a national consensus, it will submit a draft of the revised law to the Council of Ministers. Before that stage, it will have certainly sought the support of the powerful Central Planning Office (CPO), the arbiter in questions of national development.

The Council of Ministers, having possibly amended and ultimately approved the draft law, will in turn submit it to the people's assembly, where it will be debated. It is possible, but by no means certain, that the assembly would send the draft law back to the government for revision. Ultimately, if and when the law is passed by the assembly, it will go to the president for signature, be published in the official gazette and thus become law. We repeat: there is nothing specifically Yemeni about this procedure. Most governments in the world with any degree of participation have similar systems. But naturally it takes time.

Chapter 11

The Economy

People Rich – Resource Poor

The World Bank puts Yemen toward the bottom of its list of lower-middle-income countries. In the 1988 World Development Report, the bank lists 39 countries in its list of low-income economies, that is, countries with a per capita gross national product (GNP) of \$450 or under in 1986. Yemen is fourth from the bottom of the list of the lower-middle-income group; below it, in descending order, are Indonesia, PDR Yemen and Liberia; above it, in ascending order, are the Philippines, Morocco and Bolivia.

According to the World Bank, the per capita GNP of these seven countries at the bottom of the list of 29 lower-middle-income countries in 1986 was as follows: Liberia \$460, PDR Yemen \$470, Indonesia \$490, Yemen \$550, Philippines \$560, Morocco \$590 and Bolivia \$600. (To give a dimension to these figures, the per capita GNP of the United States in 1986 was \$17,480.)

The World Bank arrays its list on the basis of per capita GNP in 1986 in dollars. People who know Yemen well say that the official GNP figures are wrong for two reasons: first, it is said, the national statistical base is imperfect.

The first caveat is easily disposed of. We have heard it said in virtually every developing country in which we have worked that the national statistical base is wrong. Yemen's statistical base almost certainly does have imperfections, but it is the best statistical base we have.

Although this is a consideration not without a certain importance, it takes nothing away from the basic point: Yemen is a poor country. Its population is growing at a rate of 3% annually; the expectations of its population are growing at a much faster rate. Its natural resource base cannot be described as well endowed. The economic challenge to its government is to encourage by every practical means investment in Yemen to maximize the exploitation of the natural resource base and thus to increase gross national product.

For the record, we include, as Table 11.1, details of Yemeni gross domestic product and gross national product for the years 1982-87 inclusive at current prices. These details demonstrate the importance of agriculture in the Yemeni economy and demonstrate also the potential importance of the industrial sector. In reviewing the elements of Yemeni gross domestic product, it is important to bear in mind that in 1986,

Table 11.1

**YEMEN ARAB REPUBLIC:
GROSS DOMESTIC PRODUCT BY ECONOMIC SECTORS, 1982-87**
(in millions of Yemen rials)

	1982	1983	1984	1985	1986	Prel. 1987
	(At current prices)					
Agriculture, forestry and fishing	5,035	5,224	6,236	8,033	10,680	12,163
Mining and quarrying	168	190	210	241	506	659
Manufacturing	1,720	2,258	2,683	3,465	4,620	5,012
Electricity and water	138	173	226	257	320	465
Construction	1,215	1,255	1,367	1,541	1,285	1,426
Housing and business services	1,536	1,811	2,178	2,817	3,270	3,955
Trade	2,349	2,458	2,866	3,911	4,573	5,199
Transportation and communication	2,209	2,346	2,781	3,489	4,106	4,766
Financial services	363	440	582	773	930	1,097
Other private services	378	397	436	538	659	762
Government services	2,996	3,145	3,177	3,643	4,088	5,336
Less-accounted-for banking services	-246	-260	-406	-651	-524	-540
GDP at factor cost	17,861	19,437	22,336	28,057	34,513	40,300
Customs duties/indirect taxes	2,071	2,433	2,420	2,912	3,876	3,159
GDP at market prices	19,932	21,870	24,756	30,969	38,389	43,459
Net income from rest of the world ¹	6,773	5,998	6,119	6,270	7,255	6,850
GNP	26,705	27,868	30,275	37,329	45,644	50,309

Source: Central Planning Organization IMF.

over 58% of the workforce was employed in agriculture and only 3.6% in industry. In other words, in 1986, some 58% of the workforce contributed 28% to GDP while 3.6% of the workforce contributed 11.5% of GDP.

The implication is clear: as important as the agricultural sector is for Yemen, it is a sector of low productivity. Genuine and sustained economic growth means increasing efficiency and hence productivity in the agricultural sector as well as developing the industrial sector.

Earning Foreign Exchange

A country with as meager a natural resource base as Yemen is clearly going to have to import many basics if it is to improve the standard of living of its people. Before 1962, Yemen was little more than a subsistence economy. Foreign trade was minimal and internal trade was severely inhibited by poor communications. Entering the modern world means trading, it means importing that wide range of commodities and services

which are not available locally. But importing in turn means earning enough foreign exchange from exports to pay for the necessary imports.

And that is Yemen's problem. Before oil exports began in December 1987, commodities available for export were a modest amount of coffee, cotton and hides and animal skins. Over the five-year period, 1982-86, commodity exports from Yemen averaged little more than \$9 million annually, whereas imports ranged from a high of \$1.95 billion in 1981 to a low of \$851 million in 1987. The gap was made up by remittances from Yemenis working in Saudi Arabia and from foreign aid payments. As the numbers of Yemenis working in Saudi Arabia fell, so naturally did the totals they sent home and so in turn did the nation's foreign exchange earnings.

The recent history of Yemeni foreign exchange earnings and disbursements is shown in detail in Table 11.2, pages 64-65. The important new factor is, of course, the impact of oil revenues on the balance of payments.

The other important sources of foreign exchange income are workers' remittances and foreign aid. The substantial fall in workers' remittances ("unrequited transfers—private") from a peak of \$1.24 billion in 1982 (the year the construction boom in Saudi Arabia peaked) to \$669 million in 1986 is another demonstration of the Yemeni government's foreign exchange considerations. The same trend is observable in aid receipts ("unrequited transfers—official"), which fell from a peak in the period of \$469 million in 1982 to just over \$105 million in 1985, again reflecting the adverse fortunes of the Arab Gulf oil producers.

At the same time, although Yemeni foreign debt is small in absolute terms, in terms of a debt servicing obligation as a percentage of foreign exchange earnings, the government is having to pay out increased amounts to service its foreign debt. The debt servicing ratio rose from 9% of foreign exchange earnings in 1986 to 25% in 1987. A significant part of this debt is nonproductive military debt to the Soviet Union.

The problem is more complicated than a simple foreign exchange debit and credit equation. We have emphasized above the importance both of improving the productivity of the agricultural sector and of developing local industry. Both sectors required substantial imported inputs, seeds, fertilizers, irrigation equipment, transport equipment and storage facilities in the case of agriculture; raw materials and machinery in the case of industry. In other words, to both earn and save foreign exchange, the government has to spend foreign exchange. It is a classic developing country "catch 22" situation: if foreign exchange was available, the government could import all it needed—and could permit the private sector to import all it needed—to modernize the agricultural sector and to encourage rapid growth in the industrial sector. The result would be a substantial increase in domestic production, a consequent saving of foreign exchange and, indeed, the possibility of earning additional foreign exchange through the export of surpluses. But because the government is short of foreign exchange, it has to rearrange its import priorities to bring into the country those products which could be manufactured locally if only the constraints to doing so were removed. And it has to impose swingeing import controls.

Table 11.2

YEMEN ARAB REPUBLIC: BALANCE OF PAYMENTS, 1982-87
(In millions of US dollars) ¹

	1982	1983	1984	1985	1986	Prel. 1987
Trade balance	-1,947.5	-1,786.2	-1,404.7	-1,097.9	-851.3	-1,301.8
Exports, f.o.b.	4.9	9.8	9.0	8.2	16.4	69.0
Oil	—	—	—	—	—	37.8
Other	4.9	9.8	9.0	8.2	16.4	31.2
Imports, f.o.b. ²	-1,952.4	-1,796.0	-1,413.7	-1,106.1	-867.7	-1,370.7
Government	-521.1	-436.0	-298.7	-251.2	-227.9	-565.2
Private	-1,431.3	-1,360.0	-1,115.0	-854.9	-639.8	-805.5
— Petroleum ³	-215.3	-203.9	-205.2	-198.3	-125.7	197.0
Services (net)	-37.3	-51.5	-45.8	-71.6	-77.0	-184.9
Receipts	338.2	299.6	242.9	189.1	171.5	183.5
Official ⁴	86.4	60.4	40.1	38.6	58.5	75.4
Private	251.8	239.2	202.8	150.5	113.0	108.0
Payments	-375.5	-351.1	-288.7	-260.7	-248.5	-368.4
Government	-93.8	-70.4	-59.5	-51.4	-103.2	-198.0
— Gvt. interest payments	(-10.6)	(-12.4)	(-15.7)	(-18.8)	(-41.6)	(-48.0)
Private	-281.7	-280.7	-229.2	-209.3	-145.3	-162.0
Oil company profits	—	—	—	—	—	-8.4
Unrequited transfers (net)	1,392.7	1,293.1	1,137.3	850.2	835.9	879.8
Receipts	1,660.1	1,433.8	1,210.4	912.0	909.5	923.9
Official	468.7	189.4	143.4	102.8	240.5	162.2
Private ⁵	1,191.4	1,244.4	1,067.0	809.2	669.0	761.7
Payments (private)	-267.4	-140.7	-73.1	-61.8	-73.6	-44.1

¹ Converted at YR4.5 = US\$1 through 1983; YR5.31 = US\$1 in 1984, YR6.42 = US\$1 for transactions concluded with the Central Bank of Yemen, and YR7.44 = US\$1 for transactions concluded with commercial banks in 1985; YR7.398 = US\$1 for transactions concluded with the Central Bank of Yemen, and YR9.31 = US\$1 for transactions concluded with the commercial banks in 1986; and YR8.99 = US\$1 for transactions concluded with the Central Bank and YR10.2 = US\$1 for transactions concluded with commercial banks in 1987.

² Includes some service payments.

Multilateral and bilateral aid is supposed to be able to help developing-world governments overcome this sort of structural problem. Yemen has received a significant amount of foreign aid over the last two decades, not least from the United States (see Chapter 7).

Yemen's financial reserves, specifically foreign currency assets, are modest and at some \$600 million are about enough to cover six-months' imports.

Part of the foreign exchange management equation consists of exchange rate management. There has been a progressive slippage in the dollar:Yemeni rial exchange rate during the 1980s. The rate was \$1:YR9.75 as at June 6, 1988. Some observers suggest that the Yemeni rial is still overvalued at this rate.

<i>(continued)</i>	1982	1983	1984	1985	1986	Prel. 1987
Current account	-592.1	-544.6	-313.2	-319.3	-92.4	-606.9
Nonmonetary capital	192.9	282.5	115.3	147.8	225.7	493.8
Drawings on loans	231.8	234.3	226.6	167.4	142.0	472.1
Repayments of loans	-43.8	-23.6	-63.7	-48.0	-61.7	-110.2
Oil investment repayments	—	—	—	—	—	-11.8
Suppliers' credit	—	—	—	10.7	130.0	264.7
Repayment of suppliers' credit	—	—	—	—	—	-123.0
Other ⁶	4.9	71.8	-47.6	17.7	15.4	2.1
Net errors and omissions ⁷	88.7	45.7	76.6	10.4	60.9	60.2
Overall balance	-310.5	-213.4	-121.3	-161.1	194.2	-52.8
Monetary movements (increase in assets)	310.5	216.4	121.3	161.1	-194.2	52.8
Central bank net foreign assets	407.1	226.0	-20.4	-22.9	-243.4	-100.6
Valuation adjustments	-42.9	8.0	106.3	70.6	144.5	36.9
Commercial banks' net foreign assets	-53.7	-17.6	41.4	113.4	-95.3	116.5

Sources: Central Bank of Yemen, IMF.

³ Excludes liquid petroleum gas (LPG).

⁴ Consists mainly of investment income from official reserves and consular fees.

⁵ Includes sales of foreign exchange by the oil company and some grants received by the private sector in 1986.

⁶ Includes direct investment, private short-term loans and portfolio investment.

⁷ Includes some private trade credit, as well as some imports financed by returning migrants.

The view has been expressed that Yemen could absorb more long-term concessional debt, provided that such debt is firmly linked to developing the country's productive capacity. A bold new initiative by a partnership of concerned foreign investors, international banks, the government of Yemen and the Yemeni private sector intended to define, invest in and promote productive projects could make a dramatic difference in the longer term to Yemen's foreign exchange management problems.

Chapter 12

Priorities and Issues for the Government

Priorities

There is no doubt the Yemeni government is clear minded about the problems and challenges facing it. In his address to the nation on the occasion of National Day on Sept. 26, 1988, President Saleh said:

“ . . . development is our people’s main issue . . . National duty calls upon everyone to do his best to achieve the objectives of the third five-year plan, which is aimed at implementing productive industrial and agricultural projects to achieve the highest level of self-sufficiency, tackle economic problems, stabilize prices, improve the living standards of all the people, encourage and protect national industries and handicrafts, develop the nation’s resources, develop civil administration and achieve administrative progress . . .

“ . . . On this occasion, I would like to emphasize the importance of national [private-sector] capital increasing its role in development both to strengthen the national economy and to create new jobs . . . At the same time we urge the government to offer all facilities and assistance to private-sector farmers and investors in the field of agriculture and those industries which depend on national raw materials. We also urge the government to revise [its] investment policy in the light of new changes and developments so that investment procedures will be clearly defined to investors.”

More specifically, the government has spelled out its detailed objectives and priorities in the third five-year plan, due to run from 1988 to 1992. Although this plan was approved by the Council of Ministers in September 1987, and was subsequently approved by the constituent people’s assembly (the old, pre-election assembly, see page 55) at the end of June, 1988, it has not, as of mid-October 1988, been published. It is understood to call for the expenditure of \$3.8 billion over the five-year period. Some 60% of the plans’ funding will be generated locally, and the balance is to come from foreign sources, mostly in aid.

The following statement of the plan’s overall objectives is taken from a presentation that Yemeni government officials made to a United Nations Development Program seminar:

“The program of economic austerity, initiated during the second plan, will be extended to the third five-year plan (1988-92). The strategy is to:

- a. mobilize private and public resources and foreign investment to increase productivity in the agricultural, energy and manufacturing sectors;

- b. decrease imports and promote self-sufficiency by concentrated efforts to identify and exploit national natural resources; and
- c. develop human resources at all levels.”

The government has set a medium GDP growth scenario of 8.1% per annum for the third plan.

“Agriculture has been given top priority in the plan, with special emphasis on production. Incentives will be provided to encourage cash crops, agro-business, livestock production and fisheries. The surplus is to be exported. New integrated agricultural projects, especially in the northern and eastern regions, will bring new lands under the plow. Research will be promoted to define better methods of production and animal husbandry. As access to water is a major constraint on agricultural improvement, small dams will be built and low-cost irrigation methods will be introduced to improve the distribution of water. The aim is to generate a 3% growth rate in the sector.

“Water, which is scarce and vital to all aspects of development in Yemen, will see renewed concentration in the third plan. Rural water supply, with the help of local cooperative councils, will be extended to cover 60% of the population. Under the auspices of the High Council for Water, a secretariat will be established to help devise a national water-management plan, which will include water laws, policies and implementation plans.

“In the energy sector, high priority is given to petroleum, with continued exploration of energy and mineral resources. The government will promote the exploitation of gas and liquid propane gas found in commercial quantities in the Marib oil fields to generate electricity for running large industries like the cement industry, and for domestic consumption. Small-scale downstream petroleum-related industries are also contemplated.

“In the industrial sector, the plan calls for a major effort to stimulate private investment in manufacturing industries through a variety of tax and other incentives. Main emphasis is placed on developing industries based on locally available raw materials, achieving a better balance between capital-goods and consumer-goods production as a basis for future industrial expansion and improving the efficiency of existing industries. The generation of investment on the scale required will obviously depend upon a number of factors outside the government’s control, but performance of the manufacturing sector during the current plan is encouraging.

“A fifth priority area is human resources development. Major emphasis is given to the expansion of teacher training to replace the large number of expensive expatriates on which Yemen is over dependent, and to vocational and technical training to build up the skilled workforce required for sustained development. Primary health-care services will be expanded significantly, with the goal of covering 50% of the population by 1995. Finally, to ensure more effective direction of the development process, high priority is placed upon strengthening the government agencies and the institutions responsible for planning and management . . . ”

Any reasoned analysis of Yemen today would support the government’s assessment of its priorities as set out in the above statement. The government is saying that it has to develop its resources to the maximum; agricultural development is a key to this, but water is a major constraint. Hydrocarbon – oil and gas – reserves may not be great, but every effort must be made to mobilize these resources in the grand strategic design of nation building. Industry is important as a means of adding value to natural resources, saving foreign exchange and, ultimately, earning foreign exchange through the export

of surpluses. And finally, the nation's manpower has to be developed so that the national objectives may be met without recourse to expensive foreign manpower.

Critical Social and Economic Issues Facing Yemen

We see at least three critical social and economic issues facing Yemen over the next decade. These issues are in one way or another at least touched on in various public statements of the government's priorities. We are not suggesting that the government is not aware of these issues or that it is not shaping its policies to meet them. Our point is that these three issues present critical challenges to the nation and that every foreign company involved in Yemen — as an exporter to Yemen, as a trader or as an investor in Yemen — has to be sensitive to these issues and to their implications, and especially their implications for business.

The three issues are:

- the population explosion and the consequent need for major manpower development and job-creation investment programs;
- substantial private-sector liquidity and the consequent need to mobilize this private-sector capital into profitable domestic investment;
- the chronic shortage of foreign exchange and the consequent need to both save and earn foreign exchange.

In the baldest terms, failure by the Yemeni government to make effective progress on any one of these issues over the next decade could create major political problems. Failure on two of the three issues would risk making these political problems dramatic. It follows that an American investor in Yemen today has to review his investment plans in the light of these three critical issues and ask himself to what extent his proposed investment will create productive jobs, will help mobilize private-sector capital and will either make substantial savings of foreign exchange or contribute significantly to Yemeni foreign exchange earnings.

We believe that by far the most important issue facing Yemen — the government, the business community, the people — in the next decade will be the population explosion. This judgment touches every nation in the Arabian Peninsula, not just Yemen. The numbers may not be great on a continental scale — approximately eight million people today rising to 12 million people in 2000 — but the vital fact is that this population will be young, increasingly urban, with high expectations and generally low attainment levels.

Even if the very high rates of economic growth postulated in the third five-year plan are attained, and even if such a rate of growth can be sustained through to the end of the 1990s, the demand for jobs from young Yemenis entering the labor market is likely to increase at a faster rate than the supply of these jobs. In Western economic forecasting circles, it has become fashionable to scoff at the specter of unemployment. But

Western economies and societies have in general a padding of social benefits which makes unemployment sustainable. Yemen does not have this padding.

The implication for business is that increasingly the Yemeni government, when reviewing investment proposals, will expect these proposals to contain an element of job creation, training and development for Yemeni workers. Such a requirement could have a significant impact on the bottom line of an investment proposal. In some ways, it could run counter to the government's often-stated preference for high-technology investment. High-technology investment means, in general, capital intensive investment in machinery, which requires small numbers of highly skilled operatives to manage and maintain it, rather than the larger numbers of less-skilled workers who will be seeking jobs in Yemen in the 1990s.

Our second major issue, the need to mobilize private-sector capital, is also fully recognized by the government. Again, it is a problem not confined to Yemen; in most countries in the Arabian Peninsula there are relatively substantial volumes of private-sector capital. In these countries there tends to be an absence of investment projects. There is also a tendency for high-net-worth individuals to place their capital in relatively high-yield low-risk bank deposits and similar instruments outside the country rather than tie up their capital in industrial and similar investments at home with the possibility of higher risks and lower returns.

On the other hand, in Yemen, as in these other countries, there is a significant number of private-sector investments, many of them of undoubted viability, earning competitive profits. The problem of mobilizing private-sector capital is, to a certain extent, it has to be admitted, a question of confidence. But to a far greater extent it is a problem because no means exist to define investment projects and because there is not in any sense a developed capital market. An entrepreneurially managed development bank with a well-developed project definition function and the ability to attract private-sector capital through, for example, the sale of development bonds and debentures, ought to be able to make a substantial contribution to genuine economic development in Yemen.

From the point of view of an American investor in Yemen, the approach to demonstrating a sensitivity to the issue of mobilizing private-sector Yemeni capital has to be through his Yemeni partner. We develop this theme in Chapter 4, the Investment Option (page 19).

Our final critical issue, the vital task of managing foreign exchange earnings, requires little elaboration. Oil revenues, even if they are relatively modest and even if they last only until the mid-1990s, should permit Yemen to make the necessary structural adjustment to climb out of the developing world "catch 22" danger zone.

Appendices

Appendix 1

Law Number 6

Chapter 1

On Organization of Agencies and Branches of Foreign Companies and Houses in the Yemen Arab Republic

Article No. 1

- (a) All companies or corporations exercising commercial activities in the commercial, industrial, insurance and financial fields, etc., established or having central offices outside the Yemen Arab Republic.
- (b) **Foreign Establishments**
Establishments or investors whose central offices are outside the Yemen Arab Republic.
- (c) **Branches of foreign Establishments or Premises**
All offices or commercial establishments which operate in the Yemen Arab Republic in the name of any foreign corporation or commercial establishment, which operate on their behalf, represent or work for same.
- (d) **Agencies of Foreign Corporations or Companies**
Any contract that permits foreign companies, corporations or foreign houses (or any of the aforementioned who have established headquarters in the Yemen Arab Republic), the right to sell, deal with products, operate on their behalf, or gain any import contracts whether the agent operates as a distributor using his own capital or by commission, using another party's capital. Or whether the agent operates on behalf of a foreign corporation, commercial establishment etc., or as a representative agent for a certain owner, or a particular product, or as the investor within a number of other agents.
- (e) **the Representative**
Any person of real and considerable character acting on behalf of a company, corporation or foreign house and/or responsible for production, sales or any other work.
- (f) **The Agent**

Any person of real and considerable character responsible for production sales or works of a company, corporation or foreign house in the Yemen Arab Republic, and functions in the following areas:

- (i) **Commission Agent**
The agent who undertakes production sales or works of a company, corporation or foreign house in the Yemen Arab Republic on a commission basis from them.
 - (ii) **Distribution Agent for the company or foreign house**
The person who carries out production sales on behalf of one of them.
 - (iii) **Private Distribution Agent**
The agent who undertakes production sales or works of the company or corporation or foreign house on his own account.
 - (iv) **Insurance Agent**
Agent of foreign insurance company or foreign insurance intermediaries who carries out the job of obtaining insurance contracts in the Yemen Arab Republic on behalf of the company or foreign intermediaries.
 - (v) **Transport Agent**
Agent who obtains transport contracts on behalf of a foreign company, corporation, house or transport intermediaries.
 - (vi) **Aviation Agent**
Agent of foreign aviation companies or corporations who undertakes sales of air tickets and air transport.
 - (vii) **Films and Features Agent**
The distributor of foreign films and features in the Yemen Arab Republic.
 - (viii) **Other Agents**
All commercial agents and other similar agents.
- (g) The Minister: Minister of Economy.
 - (h) The Ministry: Ministry of Economy.

Chapter 2

On Agency for Foreign Companies and Houses

Article 2

The person who takes the responsibility as agent for any foreign companies and houses, should be of Yemen Arab Republic nationality, resident and registered in its commercial registration and have commercial premises registered in the area of the practicing agency, either a Yemeni company with its headquarters registered in the Yemen Arab Republic and have branches in the area of the practicing agency.

Article 3

The agent company is considered to be a Yemeni company if it fulfills the following conditions:

- (1) If two-thirds of the capital at least is owned by Yemeni subjects.
- (2) If most of the partners and directors of joint ventures are of Yemeni nationality.
- (3) If most of the members of the board of directors in capital companies are of Yemen Arab Republic nationality.
- (4) If it is a corporation and its headquarters are in the Yemen Arab Republic.

Article 4

The agent who undertakes an agency in the Yemen Arab Republic, should be a direct agent for a foreign company or house for which he carries out their sales and works in Yemen. The minister may accept registration of an agent linked to the general agent of the company or house if the agency of the general agent includes many countries.

Article 5

The agent who wishes to take an agency for any foreign company or house in the Yemen Arab Republic should not carry out works unless he obtains a license from the Ministry of Economy.

Article 6

The agent should submit a registration application in duplicate on the form prepared for that purpose by the ministry and same should be signed by the agent and include the following statements:

- (a) Name of company or commercial house which he represents.
- (b) Headquarters address of the company or the commercial house.
- (c) The country in which the company or commercial house is established.
- (d) Subject of agency.
- (e) Kind of agency (e.g. commissions, private distributive agency, insurance agency, aviation agency, transport agency, films and features agency, etc.).
- (f) Date of licensing the agency and its duration.
- (g) Full commercial name of the agent.

- (h) Nationality of the agent. If the agent is a Joint Venture Company, give nationalities of both partners and directors: if the agent is a company of shareholders or Limited Company, give the nationalities of all the members of the Board of Directors.
- (i) Address of agent's commercial work place.
- (j) Capital assets of the agent, if it is a company, the distribution of capital among partners.
- (k) Portrait of commercial registration of the agent.
- (l) Any additional and necessary statements requested by the Ministry.

Article 7

The registration application should be attached to a copy of the agency contract approved by the agent himself, that it is a copy of the original before the person responsible for registration. Official agency contracts approved by the agent should be translated into Arabic if the original is in any other language.

Article 8

Stamp duties should be put on two copies of the registration applications submitted: the minister will issue a decree on the duty which should be fulfilled by any agency registered in terms of money or stamps put on the registration certificate.

Article 9

The agency should not be registered unless it qualifies with the required conditions in the previous Articles of this Chapter.

Article 10

The competent central administration will register the agency which fulfils the required legal conditions in the registration book of commercial agencies, after the agency has provided the necessary statements and approved copy required for agency contracts including proper translation into Arabic.

Article 11

The director or competent authority will give a copy of the submitted form, together with the attached registration certificate, and payment of duties should be made within two weeks from the date of submitting the application together with the required documents, or from the date of completing these documents.

Article 12

If the period specified for granting a certificate of registration to the agency passes without the agent being granted such certificate, for reasons given by the director of the administration, the agent has the right to submit the case to the Minister who has the authority to order registration of the agency if all legal conditions are fulfilled.

Article 13

The agent should submit an application for registering any amendment or change that may occur to statements related to a registered agency to the ministry within one month from the date of amendment; the competent administration will give notice on registering the amendment within one week from the date of application.

Article 14

Any agent in the Yemen Arab Republic, whether a single person or considered body, should obtain a stamp containing his name and the following quotations:

(Name of the Company)
(Agency Registration Number)
in printed letters to be used for stamping applications of imports in the specialized field, whether the agent is the direct importer of the commodity or only an intermediary in imports.

Article 15

Any person importing goods from a foreign company or house, that has a registered agent in the Yemen Arab Republic, must declare the agency number and name of the agent on the license application, and should request the agent to stamp and sign the import application with the stamp mentioned in Article 14 of this Law, and sign after declaring the company and the number of agency.

Article 16

The following import applications will be exempted from conditions of the agent declaring registration:

- (a) Applications of imported commodities direct from political organizations, consuls or international organizations and their staff.
- (b) Applications of imported commodities, specimens and gifts, if the value does not exceed YR1,000.
- (c) Applications of imported materials which have no agent such as army surplus goods, second-hand materials, etc.

Article 17

Mechanical means of transport, agricultural machines, highway machines and similar goods should not be imported without the availability of an agent in the Yemen Arab Republic who is registered according to the rules of this Law.

Article 18

Applications for an import license may be exempted from the stamp of an agent if it is certain that direct communication for import has not been carried out through the registered agent or without an intermediary of any other agent from any other country, or if the registered agent refused to stamp the application without justification.

Chapter 3

On the Branches of Foreign Companies and Houses within the Yemen Arab Republic

Article 19

- (a) Foreign companies and houses may be permitted to carry out the following works in the Yemen Arab Republic:
- (i) **Banking**
In accordance with suggestions made by the Minister of Economy and approved by the Council of Ministers with the principle of equal treatment.
 - (ii) **Industrial Activities**
For the purpose of constructing industrial projects and their production sales.
 - (iii) **Petroleum and Mining**
For the purpose of explorations, exploitation in the metal and petroleum industries.
 - (iv) **Agricultural Activity and Animal Resources**
To work in the areas of land reformation, production and internal and external marketing.
 - (v) **Technical Services**
To provide consultant, scientific and accountancy services in accordance with conditions in the regulations and Laws of the Yemen Arab Republic.
 - (vi) **Contractors**
To work in construction of highways, harbors, airports and public utilities.
 - (vii) **Tourism**
To construct projects and carry out tourist services.

- (b) Foreign companies and houses wishing to open branches in the Yemen Arab Republic and to work under their name and on their own account, should each obtain a license for same, granted by the Minister of Economy.
- (c) If the foreign company or project is governmental or contributing in foreign government, the license will be issued according to a decision by the Prime Minister supported by suggestions made by the Minister of Economy.

Article 20

The foreign companies or houses mentioned in Article 19 of this Law, should submit the registration and license application to the Ministry of Economy showing the name, place of establishment, headquarters, type, subject or field of work, capital and headquarters in the Yemen Arab Republic and any branches in existence, works carried out, and any additional information required by the Ministry prior to License.

Article 21

Registration and license application should be attached with the following:

- (1) A copy of commercial registration for the foreign company or house, rules of procedures, establishment contract if the company is a Capital Company (Sharing Company or Limited Company or Cooperative Association) and a copy of the establishment contract if such is a Partnership (Joint Venture of recommendation company) signed by the plenipotentiary director or approved by the competent authorities.
- (2) Certificate of commercial registration from the headquarters of the foreign company or house with the capital which should be equivalent to capital required in Banking Law for banks or Investment Law for the other foreign companies and houses.
- (3) A copy of the company budget for the previous financial year prior to the date of submitting the registration and license application, signed by head of the Board of Directors or his legal representative.
- (4) Delegated regular contracting document from the headquarters of the foreign company or house approved by the competent authorities, including appointment of foreign company or house, its representative and resident director of the branch headquarters in the Yemen Arab Republic and should be in direct contact with the headquarters of the foreign company or house.
- (5) Official approved translation of the above mentioned documents into the Arabic language.

Article 22

- (a) If the representative of the foreign company or house is the Director General of their branch and is of Yemeni nationality, he must be registered in the commercial register according to regulations and must submit an approved copy of this registration.
- (b) If the Ministry accepts that the said representative is a foreign subject of the nationality of the State in which the headquarters of the foreign company or house is located, he should reside in the place of the company or house branch in the Yemen Arab Republic.

Article 23

The representative of a foreign company or house in the Yemen Arab Republic when appointed may obtain the terms of reference of contracts and sign any document relating to the works of the branch; the representative also has the right to represent a foreign company or house in government departments and courts of any kind and will receive all information and correspondence directed to the branch in the Yemen Arab Republic or to the original company or house. He also has the right to obtain accounts payable and receivable, to issue receipts and accounts concerning the operations undertaken by the branch.

Article 24

- (a) The Ministry of Economy may give the branch director of a foreign company or house, or its representative, the registration and license certificate within two months from the date of submitting the application together with documents provided for in Article 21 of this Law or after its completion, that is after payment of the duty mentioned previously by a decision from the Minister.
- (b) If the branch of a foreign company or house is not given the registration and license certificate in the specified time provided for in this Article, the application is considered nonacceptable.

Article 25

- (a) The above mentioned registration and license certificate provided for in the previous Articles should be published in the official newspaper.
- (b) The original certificate or certified copy should be fixed to a notice board in the branch center in the Yemen Arab Republic to show the completion of all legal procedures.

Article 26

Foreign companies or houses with registered branches in the Yemen Arab Republic have no right to represent other foreign companies or houses, or act on behalf of their agencies.

Article 27

- (a) The foreign company or house that has a registered branch in the Yemen Arab Republic has to submit a statement regarding all amendments to the basic system of the company or to the establishment contract, capital or the personality of the branch director.
- (b) The warrant should be attached with a copy of any amendment decisions signed by the director or copied from the commercial registration and documented by the competent authorities.
- (c) The director of the company will be given a receipt for warranted amendments accordingly.
- (d) Amendments made by the corporation or company to its basic system or any previous statements will not be effective with respect to contractors or others unless declared and in accordance with previous paragraphs of this Article.

Article 28

- (a) The branch of a foreign company or house must keep in order all its business transactions in the Yemen Arab Republic including Profit and Loss Accounts.
- (b) The foreign company or house has no right to introduce shares or special bonds on loans for public shareholding in the Yemen Arab Republic, unless specified by a decision from the Minister of Economy.
- (c) Banks that have branches in the Yemen Arab Republic must submit to the Ministry of Economy a copy (in Arabic) of its approved budget for the previous year, within six months from the end of the financial year.

Article 29

The foreign company or house branch center and its departments in the Yemen Arab Republic are considered as legal places, and information may be sent to all these centers with respect to all disputes concerning the foreign company or house.

Article 30

Every foreign company or house that has branches in the Yemen Arab Republic should mention in their correspondence, vouchers, import license applications, export

applications and all other printed papers the address of the branch and registration number in the Yemen Arab Republic.

Article 31

- (a) If the company or house ceases trading in the Yemen Arab Republic or becomes bankrupt, or affiliated to another foreign corporation, company or house, it should inform the Ministry of Economy of these changes.
- (b) The Ministry of Economy will issue receipt for the warrant after payment of the fees mentioned and specified by a decision from the Minister.

Chapter 4

Legal Arguments and Penalties

Article 32

- (a) Any person who undertakes any commercial job or work on behalf of a foreign company, corporation or house which the Law states for registration in the Yemen Arab Republic before obtaining registration and a license certificate will be penalized and fined between YR5,000 and YR10,000.
- (b) Any person who undertakes any commercial work as an agent of a foreign corporation, company or trader in the Yemen Arab Republic without submitting a registration application for the agency to the Ministry of Economy by the due date mentioned in this Law, will be penalized and fined between YR250 and YR5,000.
- (c) Any person who deviates from the rules of this Law will be penalized and fined between YR100 and YR5,000.
- (d) Fines may be doubled in cases where repetition of the offense has occurred.
- (e) Any false statement made, or any alteration or deletion to documents and statements provided for in this Law, will be penalized by a term of imprisonment between one month and six months or fined between YR1,000 and YR10,000.

Article 33

In addition to the penalties provided for in this Chapter, the Minister of Economy may order by decision, closure of the branch or the department or the agency, if any deviation occurs to the rules of this Law. The Minister in this case may also stop issuing import licenses to the company or trader guilty of such an offense.

Article 34

Minutes prepared by Ministry of Economy personnel may be used in executing the rules of this Law to record deviations to this Law, unless the reverse is proved.

Chapter 5

General and Provisional Rules

Article 35

Agents and registered branches in accordance with this Law have to make available commodities, materials, spare parts and necessary maintenance works for the imported machines in accordance with the country's needs.

Article 36

The Minister of Economy has the right to issue regulations, resolutions and necessary instructions to execute the rules of this Law and its objectives.

Article 37

All corporations, companies and owners of commercial houses mentioned in Chapter 3 of this Law, who form branches in the Yemen Arab Republic before the issuance of this Law, should submit a registration and license application together with the necessary documents according to rules of this Law within four months from the date of publication.

Article 38

Commercial agents mentioned in Chapter 2 of this Law, working in the Yemen Arab Republic before the issuance of this Law and whose agencies are not registered according to its rules, should apply to register their agencies with the required documents according to executive rules within two months from the date of its publication.

Article 39

If the corporations, companies, foreign traders, their agents or representatives, ignore the rules of previous Articles in this Chapter, they will all be subject to such penalties provided for in the previous Chapter of this Law.

Article 40

The Presidential Decree cancels Law Number 20 for 1963 concerning the organization of commercial agency works.

Article 41

This Law is effective as from the date of its issue and will be published in the official newspaper.

Appendix 2

Law Number 18 of 1975

Regarding Promotion and Organization of Investment in the Yemen Arab Republic

In the Name of the People:
Chairman of the Command Council:

Following perusal of the Permanent Constitution and the Declaration of the Command Council Number 1 of 1974, the Constitutional Proclamation of October 22, 1974 and the Republican Decree Promulgating Law Number 13 of 1970, in connection with the investment of national and foreign capital in the field of economic development and in pursuance of the proposals of the Minister of Economy and the approval of the Council of Ministers and the Command Council, the Majlis Al-Shoorah (Consultative Assembly) has approved the following Law which is hereby promulgated.

Chapter 1

Definitions

Article 1

The terms used hereafter are intended to refer to the following:

- (a) The "Minister" means the Minister of Economy.
- (b) The "Ministry" means the Ministry of Economy.
- (c) The "Competent Authority" means the Ministry of Economy or the administrative authority or the organization which is responsible for the implementation of the provisions of this Law.
- (d) The "Capital Employed" means the total fixed assets owned by the project which include the fixed assets owned as a result of the reinvestment of the profits and the other capital, the ownership of which can be proved by the project and which may be in the form of liquid cash, primary products used by the project, ready made products, stored stocks, spare parts or other property of commercial value used in the project.
- (e) "Foreign Capital" shall be composed of the following:
 - (i) Cash, foreign bills of exchange, convertible and transferable from a real or legal foreign person or persons nonresident in Yemen to an economic pro-

ject in the Yemen Arab Republic through a recognized Bank in accordance with the terms and conditions of the prevailing exchange control.

- (ii) Machinery equipment and the material required for the economic project or for expansion of the project owned by nonresident foreigners and imported for the benefits of the project in the Yemen Arab Republic.
- (iii) Incorporeal rights resulting from patent rights distinct commercial trademarks and the right to use these and other incorporeal rights owned by nonresident foreigners and which are specified to be used in the economic project in the Yemen Arab Republic.
- (iv) Profits and Reserves accruing from the investments of foreign capital in approved projects and which are transferred and reinvested in Yemen Arab Republic.
- (v) The "Project" means an establishment or organization with a real name or the legal name founded with national or foreign capital or with both, and operating in the industrial, agricultural or touristic fields, or in any other economic field contributing to the increase of national production and having been established in accordance with the provisions of this Law.
- (vi) The "National Project" means any project in which the domestic capital share of the project is 90 percent or more.
- (vii) The "Mixed or Joint Project" means any project in which the foreign capital share is 90 percent or more.
- (ix) "Nonresident" means any individual whose ordinary place of residence or head office is outside the Yemen Arab Republic.
- (x) The "Committee" means the Investment Exemption Committee constituted *in accordance with this Law*.
- (xi) The "Competent Administrative Authority" means the authority controlling the economic sector under whose jurisdiction the Investment Project falls.

Chapter 2

State Guarantees of Investment Projects

Article 2

The state guarantees freedom of investment for Yemeni and foreign nationals, in economic projects which contribute to the development of the national economy.

Article 3

The state guarantees foreign capital invested in approved economic projects, in accordance with the provisions of this Law, will be accorded the same treatment enjoyed by National Capital Project, whether the Foreign Capital is invested independently or jointly with Domestic Capital.

Article 4

The state guarantees the transference abroad of the net profit accruing from the investment of Foreign Capital, following payment of all taxes, duties, charges and any other financial liabilities provided for in operative laws and in compliance with the provisions of any other payment required by the law to meet commitments for the personal rights of those persons employed in the project.

Article 5

In the event of the liquidation of the project, the nonresident owner or owners of the foreign capital are permitted to repatriate his or their share of foreign capital abroad in the same currency in which it was originally imported, provided that the said capital was registered with the competent authority.

In the event that the repatriation of such capital is likely to affect the monetary position of the state, the competent authority is empowered to require that such repatriation be made in annual installments, but not exceeding three equal installments.

Article 6

It is not permissible to confiscate or nationalize any investment project approved and registered by the government. If for some unavoidable reasons relating to the public interest, the government finds it necessary to confiscate or nationalize the project, it will be bound to pay justified compensation to the owners and give permission for transfer of such compensation abroad, provided the capital funds of the projects are foreign in origin.

Article 7

In compliance with the Labor Law and the Law governing the residence of foreigners, the state guarantees all foreign nonresidents, administrative and technical personnel, working in an approved project or participating in its management, the granting and renewal of visas and residence permits and individual travel within the Yemen Arab Republic in the interest of the project.

Chapter 3

Permits for Establishment of Investment Projects and their Registration

Article 8

- (a) All National Investment Projects (other than agriculture) and investment projects, which have a foreign capital input, should obtain official permission to begin operations before commencing to operate in the Yemen Arab Republic. These projects should also be registered in the special register of development projects maintained by the competent authority within one month after the date of the issuance of the establishment permit.
- (b) It is not permissible to import machinery or equipment or to assemble such machinery or equipment or to conduct construction of any building for a project prior to obtaining the appropriate project permit.

Article 9

Applications for grant of permits for the projects should be submitted to the Ministry of Economy together with all relevant documents and statements as required by the Ministry.

Article 10

The Minister of Economy is empowered to authorize an investment permit after satisfying himself that the proposed is not contrary to general order and public morals and that the proposed project will be economically viable. The provisions of the permit shall stipulate the date on which the project should commence and also note a reasonable period of time during which the project shall be completed. It shall also notify other conditions deemed necessary for execution of the project.

Article 11

The project owners shall, within a maximum period of one month from the date of the issuance of an investment permit, register the project with the competent authority of the Ministry of Economy after paying in the appropriate registration fees.

Article 12

Investment projects may be expanded with the prior approval of the Ministry of Economy provided that the cost of such expansion exceeds half of the capital costs of the original project. In such cases the same procedure, as noted above, for obtaining a permit and for registration of the investment shall be followed.

Article 13

The project shall be granted the exemptions and concessions provided for in this Law subject to the completion of the formalities of permit and registration.

Article 14

- (a) The decision of the Minister of Economy shall specify the details of the application for registration and the contents, which shall be endorsed in the Register of Investment Projects including the title of the approved project, the objectives, the amount of foreign capital involved (stated in both original and local currency denominations) and any other information or statement which will assist in explaining and processing of the proposed project.
- (b) All the statements and information provided will be treated as confidential and used by the competent authority for the purpose of this Law only.

Chapter 4

Exemptions and Concessions Granted to Investment Projects

Article 15

- (a) Beginning from the date an investment permit is approved, exemption from payment of all kinds of taxes, custom duties and import duties on machinery, equipment, spare parts and building materials for tourism projects and necessary for the execution or expansion of an investment project shall be granted for a period of five years.
- (b) The exemption period specified in subparagraph (a) of Article 15 may be further extended for an additional period of three years (maximum) subject to the concurrence of the Council of the Ministry is obtained on the reference made by the Minister of Economy.
- (c) The exemptions mentioned in Article 15 (a) shall not be applicable to local service charges imposed in return for a particular service or use, such as port duties, storage charges and so forth.

Article 16

- (a) Reduction of custom duties, taxes and import duties in all their forms on raw or primary products for the production of the project will be granted as agreed upon by the Committee, to the extent of 25 percent of their c.i.f. value at the port of arrival during the period of five years beginning from the initial production of the project.
- (b) The Committee shall specify the raw materials and primary products essentially required for the production of the project, in connection with reduction of the above fees.

Article 17

- (a) All investment projects, approved in accordance with the provisions of this Law, will be exempted from commercial, industrial or business taxes etc. for a period

of five years commencing from the date of commercial production, as decided by the Ministry of Economy.

- (b) In addition to the exemption in above Article 17 (a), the same project will on expansion be granted the same exemptions to the extent of additional capital added to the existing capital costs of the project.
- (c) By a resolution of the Committee, the Industrial Project may be exempted from export duties and taxes on their production.

Article 18

Exemptions and concessions mentioned in this Chapter will be granted by a decision of the Minister in connection with the recommendations of the Committee, as provided for in Chapter 6 of this Law.

Chapter 5

Conditions for the Utilization of Exemptions and Concessions Allowed in this Law

Article 19

The investment projects enjoying the exemptions and concessions provided for in Chapter 4 of this Law shall operate in the industrial, agricultural, touristic or animal resources fields or in any other political or economic fields, which are deemed to contribute or promote the Yemeni economy or add to national income, whether such projects are already existing or are about to be established or expanded. Such projects should satisfy the following conditions:

- (a) That the project will contribute to the increase in production of commodities and services and assist in their export, or eliminates or reduces the import of such commodities and services thereby effecting reasonable savings in foreign exchange.
- (b) That the project will use suitable modern scientific machinery, equipment and methods of production.
- (c) That the project has a clear and defined production plan and an investment program.
- (d) That the project will be managed by an appropriate administrative and technical body.
- (e) That the project is supported by an appropriate feasibility study underscoring the soundness of the project.

- (f) That the project will employ the largest possible number of Yemeni administrative and technical personnel and that it will manage to train them so that they should replace the foreign administrative and technical personnel.
- (g) That the project is properly authorized by the competent authority and that it is registered in the special register of development investment projects.
- (h) That the following conditions are fulfilled with respect to capital and other holdings.
 - (i) **An Industrial Project**
The cost of machinery and equipment necessary for production, apart from the cost of land and buildings, should not be less than YR250,000 (two hundred fifty thousand) only in case of National Capital Project; US\$250,000 (two hundred and fifty thousand) or its equivalent for a Foreign Capital Project or US\$125,000 (one hundred and twenty five thousand) for a Joint Capital Project.
 - (ii) **An Agricultural Project**
The costs of technical equipment and machinery excluding transportation costs shall not be less than YR500,000 (five hundred thousand) in case of a National Capital Project; US\$1,000,000 (one million) or its equivalent for a Foreign Capital Project, or US\$500,000 (five hundred thousand) for a Joint Capital Project.
 - (iii) **An Animal Resources Project**
The costs of the assets, equipment and machinery excluding land shall not be less than YR500,000 (five hundred thousand) in case of a National Capital Project; US\$1,000,000 (one million) or its equivalent for a Foreign Capital Project, or US\$500,000 (five hundred thousand) for a Joint Capital Project.
 - (iv) **A Tourism Capital Project**
The capital costs employed in the project, excluding the costs of land, shall not be less than YR5,000,000 (five million) in case of National Capital Project; US\$5,000,000 (five million) or its equivalent for a Foreign Capital Project, or US\$2,500,000 (two million five hundred thousand) or its equivalent for a Joint Capital Project.
 - (v) At least half of the amounts explained above should be utilized for expansion of existing projects.

Chapter 6

Committee of Investments Exemption and its Powers

Article 20

A permanent committee hereafter to be known as “Investment Exemption Committee” shall consist of the following:

- (1) The Minister of Economy, *Chairman*
- (2) The Deputy Chairman, GPO, *Member*
- (3) The Under Secretary, Finance, *Member*
- (4) Deputy Governor, Central Bank, *Member*
- (5) Under Secretary, Ministry of Economy, *Member*
- (6) Commissioner of Customs, *Member*
- (7) The Under Secretary, Director of relevant Government Dept or Ministry, *Member*

Article 21

The permanent Committee shall undertake the following duties and responsibilities:

- (i) To study the applications for exemptions and concessions for development – investment projects referred to and in accordance with the provision of Chapter 4 of this Law, after their submission to the Ministry and study by the appropriate department.
- (ii) To ensure that the requirements for the grant of exemption and concessions allowed under the provisions of Chapter 5 of this Law are fulfilled.
- (iii) To ensure that the requisite permits granting exemptions and concessions to Development Investment Projects are in accordance with the terms and conditions provided for in this Law.

Article 22

Applicants for Investment Projects or their representatives may lodge an appeal with the Prime Minister and the Council of Ministers against the resolution of the Committee regarding grant of exemptions and concessions provided for in this Law, requesting that the matter be resolved within one month from the date of submission of the appeal. The decision of the Council of the Ministers will be final.

Article 23

- (a) The Minister of Economy will convene the meeting of the Committee, but no meeting and the proceedings thereof will be legal unless such meeting is attended by majority of the original members.
- (b) The valid resolution of the Committee shall be carried out by the majority votes of the members present. In the event of an equal vote, the side on which the Chairman votes will predominate.

Article 24

The Minister may refer to the Committee for appropriate discussion any matter relating to the investments, which he feels would benefit from study.

Chapter 7

Obligations of Project Owners

Article 25

In addition to submission of applications and obtaining the necessary permits for the establishment of development projects or expansion thereof as required under the provisions of this Law, the project owners shall undertake the following:

- (a) Furnish to the competent authority any information requested on the project within a maximum period of thirty (30) days from the date of the receipt of the request by registered post.
- (b) Submit to the competent authority once every six months a report on the progress of work and any changes which may have taken place.
- (c) Permit officials of the Ministry of Economy, who are authorized in writing, to enter project sites and offices for inspection of records, documents, accounts, production operations and services and any other activities of the project.

Article 26

It is prohibited to use equipment, machinery spare parts, tools and raw materials etc. which are covered by exemptions and concessions provided for in this Law, for any purpose other than those for the Investment project for which these exemptions and concessions were assigned. Any violation of the above provision will be considered a punishable offense in addition to pecuniary penalties laid down in this Law and any other Law or laws in force. Sale of machinery and equipment etc. covered by exemptions and concessions also prohibited without the prior permission from the Ministry in writing and in accordance with custom rules and regulations.

Article 27

The owners of the production projects, where necessary, will undertake to sell their products in the local markets at the request of the competent minister at the conditions and prices laid down by law.

For a Foreign or Joint Capital Project the foreign partner is permitted to dispose of his share of the product, to the extent of his participation in the capital costs of the project, outside the local market, provided the local sales as stated in this paragraph are oppressive and not sufficiently economically profitable.

Chapter 8

Penalties

Article 28

Any project owner, director or partner, giving false information or statement to the Ministry, to competent authority or to any other official source, or who records untrue information or statement in his books, accounts or statements submitted to official sources, or who submits false or fraudulent information, resulting in securing of concessions and exemptions provided for in this Law, shall be punished retroactively for all the gains he obtained out of concessions and exemptions and will be fined not less than YR10,000 (ten thousand) and not exceeding YR20,000 (twenty thousand) and will be given a prison term ranging from one month to six months in addition to any other penalty provided for in any other law in force.

Article 29

Any project owner, director or partner, contravening the provisions of Articles 25 and 27 of this Law will be punished by a term of imprisonment ranging from one month to six months, or with a fine ranging from YR3,000 (three thousand) to YR18,000 (eighteen thousand). Both the punishments will not be imposed concurrently.

Article 30

Any project owner, director or partner contravening either in person or through an intermediary, the provisions of Article 26 of this Law shall be punished by a term of imprisonment ranging from one month to three months, or with a fine ranging from YR1,000 (one thousand) to YR10,000 (ten thousand) in addition to the cancellation of the exemptions and concessions granted to the machinery and equipment which has been misused.

Article 31

Any project owner, director or partner of an Investment Project, liable to the procedures of obtaining permission and registration of the projects under this Law, who fails to meet the requirements of the provisions of Chapter 3 of the Law, will be liable to be

punished with a fine ranging from YR1,000 (one thousand) to YR10,000 (ten thousand) depending upon the size of the projects.

Chapter 9

Miscellaneous Provisions

Article 32

In addition to the responsibilities laid down in this Law, the Ministry of Economy will also be responsible for the following:

- (a) To supervise the registration of the foreign capital in the currencies in which it was imported, if it is imported in cash it will be converted into the national currency in accordance with a certificate from an accredited Yemeni Bank, duly authenticated by the Central Bank.
- (b) To supervise the valuation and thereafter registration of the foreign capital imported in kind or in incorporeal rights in the currencies of the foreign countries of which an investor is a citizen and conversion of such currencies in the national currency in accordance with the documents submitted, at the advice of appropriate experts and authentication of the same by the Central Bank.
- (c) To ascertain the financial position and the actual profits made by the projects and to determine the amount of profit which will be remittable abroad in proportion to the foreign capital invested in the project in accordance with the provision of Article 4 of this Law.
- (d) To communicate with respective government authorities in order to facilitate the issuance of Entry Visas, Residence Permits and their renewals etc. for businessmen, administrative personnel, technicians and the staff recruited abroad for work in projects, which have foreign capital participation.
- (e) To make available information, statistics and various economic, financial and administrative legislations to all those interested in investment in economic development projects in the Yemen Arab Republic.
- (f) To give counsel in all matters relating to investments in the Yemen Arab Republic as and when requested to do so by the higher authorities.

Article 33

The Minister may specify any conditions which, in his opinion, he deems necessary to be fulfilled before issuing a permit for establishment of a project, and he may also specify a reasonable time limit within which a project should be completed in all respects and within which the project should commence its activity of commercial production.

Article 34

The Minister may, after consultation with the Council of Ministers for such an action, revoke the permit granted for establishment of a project, if it is proven that the beneficiary or beneficiaries therefrom have failed without satisfactory cause or causes to take positive action to fulfill the provisions of the permit within the specified period or, if it has been proven, that the owners of the project have intentionally failed to comply with the provisions of this Law.

Article 35

The Minister may, if an Investment Project registered in accordance with the provisions of this Law ceases production, or if the owners fail to complete a project in accordance with the provisions of the permit allowing its establishment, take all necessary steps to remove all the causes of stoppage or failure to complete the project and may contact the respective banking authorities for providing credit facilities to such projects, or he may decide to buy the project at its current "Cost Price" after obtaining the approval of Council of the Ministers.

Article 36

The Minister may, after consultation with the Council of Ministers and with a view to implementation of the provisions of this Law, suspend, ban or limit the import or export of such materials with the objects of protecting newly established investment projects and, in the meanwhile, guaranteeing regular supplies for the local market consumption.

Article 37

The Minister may issue any rules, regulations or orders which, in his opinion, are deemed necessary for the smooth implementation of the provisions of this Law.

Article 38

This Law hereby repeals Law Number 13 of 1970 and all other laws or provisions contrary to it.

Article 39

This Law shall be published in *Official Gazette* and comes into force from the date of its issuance.

Issued in Sana'a on August 7, 1975
Corresponding with Rajab 30, 1395 Hijri

Appendix 3

Law Number 20 of 1976 Regarding the Arrangement and Encouragement of Industry in the Yemen Arab Republic

Chapter 1

Organization of Industry

Licenses and Registration

Article 1

It is not permitted to set up an industrial project, either public or private, to extend or combine it with another industrial unit, or to transfer such project from its original place, or alter the purpose unless such be in accordance with the Economic Development Plan of the State in the framework of permitted investment. It is not permitted to implement a private industrial project unless a License is obtained from the Minister of Economy.

Article 2

- (a) It is not permitted to establish a private industrial project which (including equipment and machinery) exceeds a total of thirty thousand Yemeni Rial. It is also to be noted that no change to capacity is allowed, nor should the size of a project be expanded or the industrial purpose changed, or the transfer of same be made, unless a License is obtained from the Minister of Economy after said License being examined by the License Committee.
- (b) The total value of an industrial project will be specified by the Minister of Economy.
- (c) If any industrial project commences production before the issuance of a License, such activity will be in default of the Law. All Licenses must be issued in accordance with the foregoing instructions and will thereafter be considered a licensed project in accordance with this Law.

Article 3

In observing Article 2, the License Committee, before accepting any application for the establishment of an industrial project, funded by foreign capital, will ensure that the owner of the project has obtained the necessary authority from the concerned departments dealing with investment of foreign capital.

Article 4

- (a) Applications for an Industrial License should be submitted on the forms supplied by the Ministry of Economy. The Ministry will issue a decree document regarding the application which should be enclosed.
- (b) The Ministry of Economy will study all License applications and will take note of the location of the project.
- (c) The Ministry of Economy will submit all applications to the License Committee who will prepare their recommendations and put forward a proposal for rejection or acceptance to the Minister of Economy.
- (d) The Minister of Economy will issue his rejection or acceptance according to the recommendations of the License Committee.
- (e) Each License will contain certain provisions appertaining to the period of establishment, period for modification and the date the project was assigned. The Minister of Economy has the authority to extend the period of License if the owner applies for an extension period, provided the owner supplies positive reasons for such an extension.
- (f) The owner will be informed of the decision of the Minister of Economy. If the project is accepted, the defined period will commence from the date of issue of acceptance by the Minister and the owner will be informed by registered letter.

Article 5

The owner is required to abide by the regulations prevailing in respect to the selection of the site of the project, the establishment of buildings, supply of electricity, water, gas, ventilation, public health requirements, etc.

The owner will be required to take the necessary preventive measures to protect water tanks from dust and contamination. The owner should ensure that noise levels from machinery, etc. do not contravene local regulations in force in the district. The concerned authorities in the Ministries of Public Works, Health and Labor will make certain, before the project commences, that the owner has obtained the necessary License from the Ministry of Economy according to Article 2 of this Law.

Article 6

The License will be canceled if the owner of the project, for unacceptable reasons, is unable to promote the establishment or expand it, or fails to change its industrial purpose (if such clauses have previously been specified) within the period of the License, or after the extension period granted to the owner by the Minister of Economy. The License will also be canceled if the owner suspends work for a period of more than one year without the written permission of the Ministry of Economy. The License will not be valid if it does not adhere to the conditions contained therein.

Article 7

The owner of the project is required annually (or periodically, whichever is stated) to submit to the Ministry of Economy detailed information regarding activities associated with the said project.

Article 8

It is not permitted for any industrial establishment, which has commenced work, to stop production, or decrease same, unless written permission is obtained from the Ministry of Economy. To obtain such permission, the owner should submit an application by registered letter, enclosing a document supporting the application. The owner will be informed by registered letter of the Minister's decision within one month of the application's receipt.

Article 9

The existing industrial establishment must forward a registered application to the Ministry of Economy within three months of the issue of this Law, which will be recorded in the Industrial Register.

Article 10

The Ministry of Economy will make any amendments to incorrect information given by the owner of the project.

Article 11

The owner of the project should consult the Minister of Economy in respect to decisions issued in the light of this Law. Within two months from the date of the notice given to the owner, the Minister will issue his decision and thereafter consult with the Adjudication Committee. The decision of the Minister will be final and binding.

Article 12

The applications and certificates which are necessary for implementation of this Law are subject to specified fees not to exceed more than one thousand Yemen Rial.

Article 13

According to a Ministerial Decree, officials of the Ministry of Economy will have the authority to examine the accounts, registers and documents of the industrial establishment according to this Law. The officials will examine such documents at the location of the establishment within normal office hours. Any owner who refuses such examination will be subject to a penalty (fine) not less than two hundred Yemen Rial and not more than ten thousand Yemen Rial.

Article 14

The Ministry of Economy will cooperate with the concerned authorities to put forward unified specifications and measurements for all industrial establishments. Moreover, the Ministry will ensure that specifications regarding production and materials will be kept to a certain standard by:

- (a) Setting unified measurements required by the industry in regard to products.
- (b) Defining the materials to be used in industry.

Article 15

The Ministry of Economy will establish centers or institutes for industrial research whose aim will be to foster and develop the existing industry and pave the way for promotion of industry. Research Centers will be able to give advice and may be consulted regarding problems concerning industrial planning, marketing, administration, product control/quality and investment of natural resources in the Yemen Arab Republic. A part of the Centers' work will be to train Yemenis who are interested in the industrial field. It is hoped that an exchange of expertise with industrial centers in other Arab countries will be encouraged. Cooperation with Universities and Institutes for the common interest of the Yemen Arab Republic will also be undertaken by the Industrial Centers.

Chapter 2

Encouragement of Industry

Article 16

The Ministry of Economy will supply Industrial establishments with the required information, technical maps etc. which are necessary to establish, expand and develop the scheme. The fee applicable for this service will be determined by the Minister with a condition that this fee will not be more than five thousand Yemen Rial. The Ministry will publish data relating to industry to assist investors and will brief them on the aims of the industrial development plan and other pertinent factors.

Article 17

The Ministry of Economy will grant the scientific institutions and specialist institutes financial aid toward research and also for publications relating to the industry.

Article 18

Governmental concerned parties will determine with the Ministry the necessary facilities for the establishment of such industrial projects according to this Law.

Article 19

Local banks and financial institutions will be required to consult the Ministry in respect to the financing and credit policy of the industry.

Article 20

A new department will be formed in the Ministry of Economy which will deal with the registration of existing and new industrial projects according to this Law.

Article 21

In regard to Article 19 the decisions of the Ministry of Economy will be noted.

Article 22

The owner of a project will be required to apply for registration to the Ministry within one month of the completion of his project.

Article 23

If an owner makes any amendments or modifications to his establishment, he will be required to apply for registration of the revised information.

Article 24

The Ministry will verify the information supplied by an owner and will follow up registration of the industrial establishment.

Article 25

All information relating to registered industrial schemes will be published in a Bulletin issued by the Ministry of Economy.

Article 26

The registration of the scheme will be canceled if it contravenes the Articles contained in this Law. Any such cancellation will be published in the periodic Bulletin.

Chapter 3

General Provisions

Article 27

Any owner who contravenes the Articles of this Law will be fined a sum not less than one hundred Yemen Rial and not more than ten thousand Yemen Rial. A similar penalty will be imposed if false information is entered in an owner's accounts. It is also

to be noted that incorrect information supplied by an owner, which is subsequently published in the periodic Bulletin, will be subject to a fine.

It is the responsibility of each owner to adhere to the Articles contained in this Law. All documents relating to industrial projects may be examined by an owner but should be protected as confidential matter. Any owner who contravenes this Article will be subject to the criminal laws prevailing at the time.

Owners of projects will be required to abide by the relevant price control in force at the time of the sale of goods and to conform with the specifications as limited by the Ministry. Representatives from the Ministry may, from time to time, verify the price of goods sold by examining the accounts of an owner.

Article 30

The Minister of Economy will issue regulations and execute decisions necessary for the implementation of this Law.

Article 31

The Ministry of Economy is the sole Government Department responsible for the implementation of this Law.

Article 32

All decisions, decrees or disagreements appertaining to this Law may be canceled at any time as required by the Ministry of Economy.

Article 33

This Law will be in force from the date of issue and will be published in the *Official Gazette*.

Appendix 4

Law Number 45 of 1976 Regarding Trade Marks and Names

Chapter 1

General Provisions

Article 1

- (a) **Trade Mark:** Applies to any mark used to distinguish products originating from one manufacturer from those of another manufacturer.
- (b) **Service Mark:** Applies to any tool or medium used to distinguish the products of a certain project from those of other projects.
- (c) **Collective Mark:** Mark owned by an organization, syndicate or any other group with a common interest between members. This Collective Mark is used to guarantee the service and type of product.
- (d) **Bound Mark:** Mark specified for a certain owner to distinguish his goods from similar products, on condition that the manufacturer submits an application for each Bound Mark.
- (e) **Group of Marks:** If an applicant has a group of marks specified for goods or products, he should submit only one application for registration.

The marks will be considered as one group if they are similar in design, regardless of difference in color, list of products, value, numbers, type, name or place of production.

- (f) **Trade Name:** Refers to the name given by an owner of a project to distinguish his product from that of others.
- (g) **Commercial Manifestation:** Applies to any explanation or definition of the product, either directly or indirectly, to define its quantity, measurement, weight, source or nature of manufacture or name of manufacturer.
- (h) **Place of Importation:** Producing country. Not necessary to mention the geographic environment on the product.
- (i) **Place of Origin:** Name of country or region, i.e. country of manufacture.
- (j) **Drawing:** Applies to any visible design or group of designs.

- (k) **Symbol:** Any visible symbol or drawing.
- (l) **Paintings/Scenes:** Any visible marks applicable.
- (m) **Pictures/Photographs of Manufacturer:** Pictures/Photographs of manufacturing agent or any other person.
- (n) **Invention Certificate:** Certificate issued by any competent authority specifying the description of the scientific invention.

International Agreements and Conventions

Article 2

According to this Law all international agreements and conventions approved by the Yemen Arab Republic will apply. Also included are conventions organizing the rights of people of the State.

Rights of Foreigners

Article 3

Foreigners who are not included under Article 2 have the same rights of citizens of the Yemen Arab Republic, on condition that they reside in a country which affords similar rights to citizens of the Yemen Arab Republic.

Chapter 2

Trade Marks – Absolution for Inventions Applicable for Registration

Article 4

Names, signatures, words, figures, drawings, symbols, stamps, seals, posters, paintings or any other mark used, or to be used, will be considered a Trade Mark if such is used to distinguish industrial work, agricultural investment, etc. Absolution for inventions will be considered under this Law as defined in Article 1.

Owners of Trade Marks

Article 5

A register will be prepared in the Ministry of Economy to be named "Register of Trade Marks." All trade marks, certificates of invention and amendments to marks will be entered in the Register.

Rights of Owners of Trade Marks

Article 6

A person who registers a Trade Mark or Certificate of Invention will be the sole possessor of same and thereafter the mark may not be removed or taken from the owner, provided he uses it continuously for five years from the date of registration.

Rights of Registration

Article 7

- (a) Any owner of any factory or any merchant of the Yemen Arab Republic.
- (b) Any other person who owns a factory or store or a merchant provided such person resides in the Yemen Arab Republic.
- (c) Nonresident from a foreign country who owns a factory or a foreign merchant, provided his country of residence affords the same rights to citizens of the Yemen Arab Republic.
- (d) Committees or groups of businessmen, producers or merchants owning corporations in the Yemen Arab Republic, or in the above foreign countries.
- (e) Governmental departments.

Marks which may not be Registered

Article 8

In the following cases marks will not be registered:

- (a) Marks not easily distinguishable.
- (b) Marks or drawings not in accordance with the norms or traditions of the Yemen Arab Republic, or any mark which contravenes the Law.
- (c) Flags, emblems and other signs relating to countries whose policies may not be recognized by the Yemen Arab Republic, or any other emblems not allowed by the concerned authorities.
- (d) Official stamps and seals of the aforesaid countries used to protect or control goods.
- (e) Marks and symbols of a religious nature.
- (f) Symbols of the Red Cross or Red Crescent or any other similar marks.
- (g) Geographic names if such usage will affect the source of origin.

- (h) Marks and Emblems belonging to others unless an agreement is made to use same.
- (i) Marks or seals depicting educational degrees, etc. unless the applicant proves himself legally free to use same.
- (j) Marks which may mislead or which include false information, marks of unknown origin, faked marks.

Chapter 3

Procedure of Registration

Article 9

Application for mark registration will be submitted to the relevant Ministry for Trade Mark registration on the conditions mentioned in the executive regulations after payment of the required fee.

Right of Priority

Article 10

If an applicant desires the right of priority according to a previous application deposited in another country whose laws are in accordance with those of the Yemen Arab Republic, he should attach to the new application a document or letter showing the date and number of his previous application and same should be attested by the concerned authority in the country of origin within six months from the date of submission of application in the country of origin.

Examination of Marks

Article 11

The Office of Commercial Marks will examine the mark according to the following:

- (a) First examination.
- (b) Application to be submitted by the owner of the work or by one of his representatives, provided he has power of attorney.
- (c) All applications to be submitted on the forms supplied by the Ministry.
- (d) If a mark is submitted by a company, a copy of the registration should be enclosed.
- (e) Required stamps and fees should be paid.

- (f) All documents should be in Arabic and certified by the concerned authority.
- (g) Separate applications should be submitted for each product.

The following should also be noted:

- (a) Marks submitted should be in accordance with the Law.
- (b) Marks should not be the same/similar to any mark previously registered or in use.
- (c) Marks should not be the same/similar to a commercial name previously used.

Restrictions and Amendments Applying to Marks

Article 12

The Office of Commercial Marks has the authority to impose any restrictions or amend any mark. In this event an applicant will be given a period of six months to make such amendments, thereafter the application will be canceled. In the case where the Office of Commercial Marks rejects an application, the office will inform the applicant in writing giving the reasons for the rejection.

Similar Marks Submitted by more than One Person

Article 13

If two or more persons apply for registration of similar marks the Office of Commercial Marks will decide which applicant may register his mark. The losing applicant will then be required to submit an alternative mark.

Complaints Against Decisions Issued by the Office of Commercial Marks

Article 14

Any applicant may complain within thirty days regarding any decision made by the Office of Commercial Marks. The complaint will be submitted to a Committee formed for this purpose according to a decision made by the Minister. This Committee will comprise of three members: one dealing with aspects of the Law, one with commercial marks and the third will be a Deputy Minister who will chair the Committee. The decision of the Committee will be final unless Article 16 is applicable.

Rejection of Application

Article 15

If the Committee supports the decision issued by the Office of Commercial Marks, the applicant will not be permitted to register his mark unless a judicial decision was issued against an applicant of registration. If the decision of the Committee opposes

the decision of the Office of Commercial Marks, the decision of the Committee will be final.

Announcement of Application

Article 16

The Office of Commercial Marks is bound to announce the acceptance or rejection of a mark according to executive regulations in force. The owner of the mark is required to submit to the Office a written notice at the time regarding his opposition to the decision and stating his reasons for same. A time period will be given for the written notice to be submitted according to executive regulations, and if same is not received within such time period, the application will be deemed null and void. The applicant may submit a complaint regarding any decision to a Court within ten days of notification to him by the Office of Commercial Marks.

Application for Amendments and Additions

Article 17

Any owner of a registered mark may submit an application to the Office of Commercial Marks at any time to make additions or to make an amendment to a mark. A decision will be issued accordingly from the Office after perusing the original mark.

Commencement of Registration

Article 18

Registration will be in force from the date of submission of the application and same will be announced according to the executive regulations of this Law.

Registration Certificate

Article 19

The owner of a mark will be given a certificate containing the following information:

- (a) Serial number of mark.
- (b) Date of application.
- (c) Name, title, etc. of owner, his address and nationality.
- (d) Copy of the mark.
- (e) List of products applicable to the mark.

Copies

Article 20

Each owner of a registered mark will have the right to apply for a copy of the registration certificate after paying the required fees according to executive regulations.

Chapter 4

Submission and Transfer of Registered Marks

Article 21

- (a) It is not permitted to submit or transfer a registered mark, unless same is to the commercial house or the investment project which previously used the mark.
- (b) If the ownership of the commercial scheme has been transferred or given up, the owner of the mark has the freedom to produce the same goods or continue with the same services for which the mark was registered, unless otherwise stated.
- (c) The transfer of ownership or relinquishing of a mark will not come into force unless announced in the Register according to executive regulations.

Chapter 5

Renewal and Cancellation

Article 22

- (a) The period of protection of registration of a Trade Mark is ten years, commencing from the date of submission of application. The owner of the mark will have a guarantee of protection for a further term (to be determined), if he applies for renewal within a period of one year.

It is not allowed to renew a mark for the same period upon the expiry of the first period of protection, unless the same terms have been adhered to as mentioned above.

Prior to the six month period before the expiry of protection the Office of Commercial Marks will inform the owner of the mark, in writing, of the date of expiry at the owner's last known address in the Register.

- (b) Renewal will be announced according to executive regulations.
- (c) It will not be permitted to renew a mark used previously, unless a period of three years has expired.
- (d) Renewal of marks will be made without any new examination and without any opposition.

- (e) It is not permitted to add any modification to a mark or to a list of products or services, except to products or services, as canceled on the list.
- (f) The protection period for the registration of inventions is ten years and this period may be extended for a further five years upon application to the Office.

Cancellations

Article 23

Registration of marks will be canceled under the following circumstances:

- (a) If the owner of the mark has not applied for renewal after the expiry of the protection period.
- (b) If the owner of the mark has given up same due to completion of projects or closure of his factory or business.
- (c) If a judicial decree was issued for cancellation due to non-usage of the mark for five successive years.
- (d) If a judicial decree was issued according to the request of the Office of Commercial Marks relating to a mark which was registered illegally.
- (e) Cancellation of registration will be proclaimed according to executive regulations.

Chapter 6

Registration of Investment of License

Article 24

- (a) The owner of a registered mark is permitted to give to any person or group a license for investment of the mark, or part of the products or services according to a contract.
- (b) The License should be drawn up in writing and all contracted parties should sign.
- (c) The License contract should be registered at the Trade Mark Office after payment of the required fees mentioned in the executive regulations, and after ensuring that the products will be of the same quality as those of the previous owner. A certificate will be issued by the official authority supervising the matter. A license will not be effective unless it has been registered and announced officially.
- (d) Registration of a License will be canceled according to the request of the owner if proof is provided that the license has expired.

- (e) The owner of a mark has the liberty to grant a License to another party to use the same mark. The new owner may only use the mark in the country of origin and registration unless otherwise agreed.
- (f) The License once registered may not be yielded and the licensee is not permitted to grant a sub-license.

Licenses which Include Payment from Abroad

Article 25

- (a) Licenses between foreign corporations and Yemeni corporations for manufacture of specified products, with distinguishable marks on the products, will be subject to the acceptance of the Ministry of Economy or any other authority according to the prevailing Laws.
- (b) Modification of Licenses mentioned above are subject to the same acceptance.
- (c) The Ministry of Economy, or the authorized body for the acceptance of the said License, will take into consideration the needs of the country requesting the License and the needs of the Yemen Arab Republic. Tax paid by national firms or foreign corporations will also be taken into account in an endeavor to achieve a common interest between the two countries and to ensure that the Yemen Arab Republic obtains the best technology.
- (d) All License Contracts will be deemed null and void if the authorities concerned oppose same or if the Contract is not in agreement with the provisions of the Law. If a License is used without the acceptance of the authorities, same will have the right to confiscate the License in the interests of the Yemen Arab Republic Treasury, and a penalty may be imposed as defined by the Law.

Trade Names

Article 26

- (a) A Trade Name is the name of the invested project.
- (b) A merchant is permitted to use a name if it is the name recognized as being in use by that merchant's company.
- (c) Small companies associated with a larger holding concern are not permitted to use a name which does not include the name of the parent company.
- (d) It is not permitted for the owner of a License to use the name of his predecessor.
- (e) It is not permitted to use a trade name in a way which would mislead commercial circles, etc. in respect to the nature of the project.

Commercial Prospectus

Article 27

Any definitions relating directly or indirectly to the following will be considered as a Commercial Prospectus:

- (a) Number of goods, quantity, measurements, weight, etc.
- (b) Country where the goods were produced.
- (c) Nature of manufacture.
- (d) Component parts.
- (e) Name, description or producer.
- (f) Invention Licenses or any privileges relating to industrial or commercial privileges.

Name of Product

Article 28

- (a) Trade Lists should concur with the products, invoices, letters, advertisements, etc.
- (b) If the quantities, measurements, capacity, weight, source of the product were specified by a decision from the Minister of Economy, same will be banned if the above is not adhered to.

Chapter 8

Illegal Competition

Article 29

Any competitive work against the prevailing norms of the commercial and industrial sector will be considered illegal, such as:

- (a) Incorrect usage, incorrect listing, false source.
- (b) Direct or indirect usage – incorrectly named or from a fake source.
- (c) All work which intends to mislead in any way concerning the product.
- (d) Incorrect propaganda relating to the commercial field.
- (e) Definitions and expressions which aim to mislead the community.

Chapter 9

Crime and Penalties

Article 30

Regarding the protection of Trade Marks, and the Law:

- (a) A mark should only be used if it conforms to the Law.
- (b) Marks should be used for the specific registered purpose.
- (c) Marks should be registered in accordance with the Law.

If the above terms are infringed, a fine or period of imprisonment will be imposed according to the Law.

Imitated or Counterfeit Marks

Article 31

- (a) Any person who imitates or counterfeits a registered mark in a way meant to mislead or misinform will be subject to a term of imprisonment for a period up to two years, or alternatively be fined a sum to be determined by the Court, not less than one thousand Yemeni Rial and not more than ten thousand Yemeni Rial.
- (b) A similar penalty will be imposed on any person who uses a registered mark on his products which belongs to another person.
- (c) A penalty will also be imposed if a person sells products which contain a false mark.

Registration of False Information

Article 32

- (a) Any person who contradicts the provisions of Laws 25-31 will be imprisoned for a period of not more than one year, or will be fined a sum to be determined by the Court but not less than one thousand Yemeni Rial and not more than ten thousand Yemeni Rial.
- (b) Any person who uses an unregistered mark (as mentioned in Article 8) will be imprisoned for a period of one year or will be subject to a fine of not less than one thousand Yemeni Rial and not more than ten thousand Yemeni Rial.
- (c) Any person who provides false information regarding the registration of a mark, or uses a false mark on his commercial paper, will be subject to a similar punishment.

Precautions Procedure Prior to the Allegation

Article 33

The owner of a mark can, at any time before the allegation, appeal to a Magistrate to take precautional procedures as follows:

- (a) Prepare minutes regarding the machines or instruments used in committing the crime, or products and commodities, or any papers on which the mark had been stamped as well as goods imported from abroad.
- (b) Seizure of the above will take place after the applicant has paid a fine determined by the Magistrate. Following the above, assurance will be required from the applicant that he will adhere to the codes of practice in force. The Magistrate may deputize an expert to assist him with seizure of the goods.

In all cases the precautional procedure taken will be void unless the owner of the mark supports the above allegations and files a report to that effect within ten days. Compensation may be granted by the Court to the injured party, if the injured party requests such compensation within a period of ninety days.

Procedures of Confiscation

Article 34

In any civil or criminal case the Court may confiscate the seized items at a time to be determined by the Court, such seized items to be used in any way that the Court proclaims. The Court may also order the publication of the judgement in a newspaper at the expense of the guilty party. The Court has the authority, if it so desires, to order the cancellation of illegal marks or the destruction of products containing an illegal mark, and the destruction of any equipment used to produce the illegal mark.

Punishment in the Event of Recurring Crime

Article 35

In the case where crime is repeated in regard to Articles 31 and 32, the offender will be imprisoned and a decree will be published. The offender's factory will be closed for a period of not less than 15 days and not more than six months.

Article 36

The injured party will have the right to take legal proceedings as previously stated in this Law.

Chapter 10

Final Provisions

Article 37

It has been defined in the executive procedures of this Law, the provisions for protection of Trade Marks, commodities, products, public exhibitions, international fairs organized in countries aligned with the Yemen Arab Republic.

Article 38

The employees of the Office of Trade Marks appointed by the Minister have authority equal to that of a Magistrate to enable them to execute the Law.

Article 39

This Law will be in force from the date of issue and will be published in the *Official Gazette*.