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The Economy

Yemen (Aden)

July 1973

NATIONAL INTELLIGENCE SURVEY

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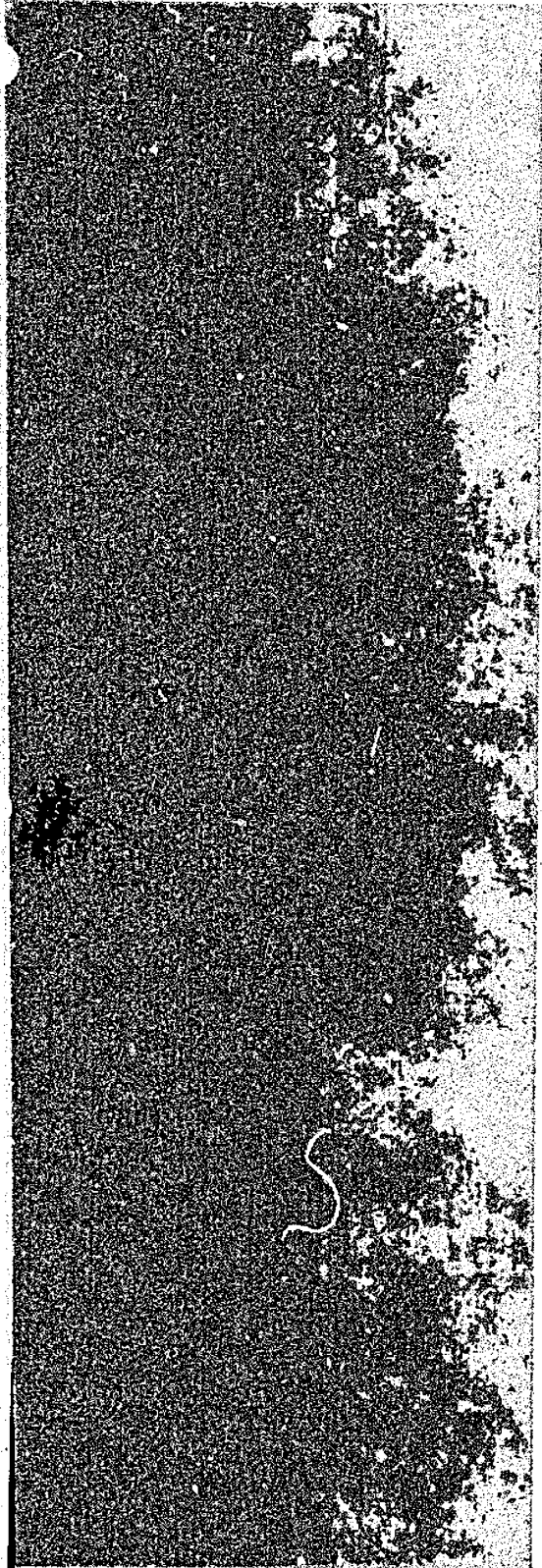
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YEMEN (ADEN)

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The Economy

A. Economic appraisal (U/OU)

Yemen (Aden)—the People's Democratic Republic of Yemen (P.D.R.Y.)—is one of the most backward states in the Middle East. Its land area of 111,000 square miles consists mainly of inhospitable terrain and is poor in mineral resources. The country's climate is oppressive and arid, and most of its 1.5 million people are unskilled and illiterate.

The location of the port of Aden near the mouth of the Red Sea made it a center of international trade for centuries. It is the capital and largest city in the country. Its economy, however, was suddenly disrupted in 1967 by two major events—the closing of the Suez Canal as a result of the Arab-Israeli war, and the granting of independence by the United Kingdom. Former trade routes through the Suez Canal were abandoned, and shipping through Aden fell precipitously. With independence, U.K. aid and military expenditures were cut back, further undermining the economy.

The P.D.R.Y.'s economic life is divided sharply between the urban and rural communities. Since independence, many foreign residents have left Aden, and many Yemenis have returned to the hinterland. Nonetheless, Aden remains the center of economic activity, based on its domination of the surviving foreign trade and on its role as the commercial hub of the surrounding countryside. The rural economy consists largely of subsistence farming by peasants and grazing by nomadic tribesmen. Cotton is grown for export in small areas in the southwestern plains near the coast.

With the diminution of its once flourishing trade sector, Yemen (Aden) depends to an increasing extent on agriculture and a small manufacturing sector for

economic growth (Figure 1). The government commands few resources with which to carry out its basic development plan to convert the country from a service-oriented to a production-oriented economy. The expansion of agriculture is limited by the scarcity of arable land and of water. The country is not self-sufficient in any of its basic food requirements, and crop yields fluctuate sharply with variations in rainfall. Political instability, an unskilled labor force, and an unfavorable investment climate for foreign entrepreneurs limit the chances of developing new industries. The British Petroleum Company (BP) oil refinery in Aden, which processes imported crude, accounts for nearly three-fourths of the value of industrial output.

The present government of Yemen (Aden), headed by the National Front, subscribes to the general concepts of Arab nationalism, anti-imperialism, and socialism. Most industries have been nationalized, as was residential and commercial property in the summer of 1972. As a result, the flight of business and of capital has been considerable. In keeping with its Marxist orientation, the P.D.R.Y. receives most of its military and economic assistance from the U.S.S.R. and other Communist countries.

One factor in the failure to stabilize the economy has been the guerrilla warfare that has persisted since independence along the borders with Oman, Saudi Arabia, and Yemen (San'a').¹ In November 1972, under pressure from other Arab states, the two Yemens officially agreed to unite, but opposition from tribal and dissident groups in both countries, as well as ideological differences with the more moderate Yemen

¹For clarities on place names see the list of names on the apron of the Summary Map in the Country Profile chapter, the map itself, and the map in this text.

Land Use and Economic Activity

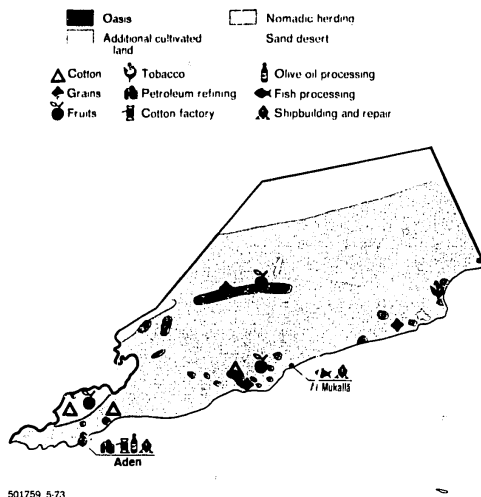


FIGURE 1. Land use and economic activity (U/OU)

(San'a') government, will make achievement of unity difficult at best. The economies of the two countries are not complementary; the principal economic advantages of the merger would appear to be the saving of funds now spent on border warfare and the improved prospects for increased foreign assistance if peace prevails.

B. Structure of the economy

The economy of the P.D.R.Y. is based largely on entrepot trade and on financial, bunkering, and other services offered at the port of Aden. Together these activities contributed about a third of the estimated \$160 million gross national product (GNP) in 1972. Although they contributed a smaller share of GNP before independence (about 25% in 1966), the GNP at that time was almost double what it is now, and U.K. military spending made up a large part of it. Production in Yemen (Aden) centers around small-scale agriculture, fishing, and oil refining; combined, these activities accounted for about one-third of the 1972 GNP. Local government expenditures made up about a fifth of GNP, and most of the remainder was accounted for by construction and transportation. One of the major goals of the Three Year Development

Plan (FY72-74)² is the gradual transformation of the economy from one based on services to one based on production. (C)

I. Agriculture, fisheries, and forestry (U/OU)

a. Agriculture

Agriculture is severely limited by rugged terrain and meager water resources. The terrain consists of a dissected narrow coastal plain, steep hills, rugged mountains, and an extensive interior desert plain. Less than half of the 500,000 acres of arable land is cultivated, the amount varying with the annual rainfall. Of the cultivated land, 80% is irrigated by simple impoundment devices and most of the remainder by wells. Under drought conditions, such as those that prevailed in the 1969/70 crop year, the area of cultivated land drops to as little as 150,000 acres, and crop output suffers accordingly. Moreover, agrarian reform legislation and the expropriation of some land have set back farm production. Yemen (Aden) is not self-sufficient in any of its basic foods; the country often imports more than 50% of its grain requirements.

²The fiscal year extends 1 April through 31 March and is designated by the year in which it concludes.

Agrarian reform laws in 1968 and 1970 limited the size of privately owned acreage to a total of 40 acres per family for irrigated land and 80 acres for nonirrigated land. The typical farm size in coastal areas is about 5 acres, although a few farms are larger.³ In the hilly areas, farms average 1 to 1½ acres. Before the agrarian reforms, tenant farming was common in the coastal regions, whereas most of the farms in the interior highlands were worked by their owners.

Under the 1968 reform law, land in excess of prescribed ceilings was sequestered by the state from private holdings, from land held in religious trust (the *waqf* land), and from the holdings of former sultans and amirs. In 1970, this land was made available to farmers through cooperatives, while ownership remained with the state. An estimated 65,000 acres were distributed to about 19,000 families. In addition, 12 state farms were organized on public land. The government set up 15 agricultural cooperatives to distribute seeds and fertilizers, provide farm machinery, and drill wells. The cooperatives have been extended loans through the Yemen National Bank, amounting to about YD0.5 million (roughly US\$1.3 million) since its establishment in April 1970.

Most farmers follow age-old practices—with little mechanization, little or no rotation of crops, and a minimum use of fertilizers. Only a small portion of cultivated land is double cropped, generally those acres irrigated from underground water. The government has taken measures to stabilize agricultural output. One of the objectives of the Three Year Development Plan is to increase agricultural production by about 20%, mainly by drilling wells, constructing canals, and expanding existing irrigation systems. The traditional form of irrigation consists in the control and use of the rain and stream water that occasionally floods some of the valleys; earth banks are constructed to divert the water to the fields.

Under the development plan, 85 new wells have been drilled. A bilateral agreement with the U.S.S.R. provides for 20 more wells to be drilled and 8 flood-control dams to be constructed, 5 of which are to be completed by 1974. A nationwide agricultural survey is underway, sponsored by the Kuwait Fund for Arab Economic Development (KFAED). The United Nations Development Program (UNDP) is sponsoring an agricultural and hydrological survey of the Tuban valley. Bilateral agreements have been concluded with the U.S.S.R., East Germany, and the People's

³Before the enactment of the agrarian reform laws, some coastal farms were over 1,000 acres in size.

Republic of China for the construction of agricultural workshops in total areas and the establishment of an agricultural research station.

(1) *Major crops*—The major crops are cotton, wheat, barley, sorghum and other millets, and sesame. Some fruits and vegetables and tobacco are grown also. Cotton is the only crop grown for the export market. Sorghum, millet, and cotton generally are grown on flood-irrigated land, wheat, fruits, and vegetables are raised on land irrigated by wells or underground water.

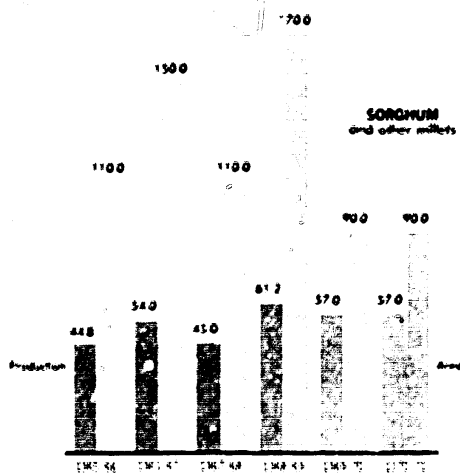
Cotton, mostly long-staple, accounts for over one-third of the value of output of the agricultural sector and over one-half of the total value of local exports. Cotton is exported mainly to Europe, Japan, and India. The production of cotton varies widely from year to year depending on rainfall (Figure 2). Output in the drought year 1969/70 was about 5,200 tons compared with 8,200 tons the preceding year. Output has remained at the lower level because of continuing adverse weather and destruction of part of the crop by pests. Government efforts to increase cotton yields per acre through the expanded use of fertilizers and pest control have not been effective. Production is managed by government development boards, and since February 1972 the responsibility for marketing and export of cotton has been vested in a committee in the Ministry of Agriculture and Agrarian Reform. Farmers are paid a guaranteed price fixed at the beginning of each season. Profits realized by the boards after taxes and other expenses are returned to farmers in the form of dividends; losses are borne by the government boards.

Annual production of grains, heavily dependent on rainfall, dropped to about 72,000 tons in 1969/70 and 1970/71 from a high of 86,000 tons in 1968/69. Grain production currently meets less than 50% of domestic requirements.

Yemen (Aden) produces about 100,000 tons annually of fruits and vegetables, mainly dates, bananas, tomatoes, melons, pawpaws, lettuce, and cabbage. Dates, the most important, are grown primarily in Wadi Hadhramaut in the Fifth Governorate. Although the output of some fruits and vegetables exceeds local requirements, export is hindered by inadequate marketing facilities and poor roads in the interior.

Production of tobacco, which is grown on a small scale in the Fifth Governorate near Al Mukalla, averaged 1,300 tons a year in the late 1960's. The importance of tobacco as a cash crop will be enhanced with the building of a cigarette manufacturing plant

COTTON			WHEAT		
Production	Area		Production	Area	
3.8	194.42	40.0	19.6	194.42	240
4.7	194.47	35.1	21.0	194.47	230
2.0	197.48	14.8	18.0	197.48	220
8.2	198.43	50.0	21.0	198.43	240
5.2	199.77	28.6	12.5	199.77	180
5.2	197.77	29.1	12.5	197.77	180



BARLEY			SESAME		
24	197.44	30	28	197.44	90
35	194.47	35	29	194.47	95
30	197.48	20	20	197.48	70
35	198.43	30	30	198.43	100
20	199.77	30	34	199.77	100
20	197.77	30	34	197.77	100

Note: Crop year begins in July for cotton. October for wheat, barley and grain, and February for sorghum.

FIGURE 2. Production and acreage of principal crops (U O U)

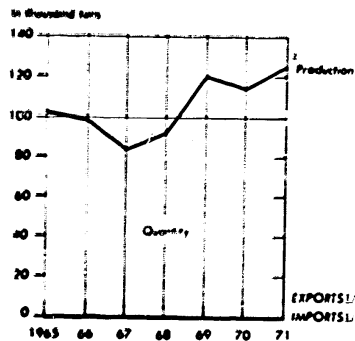
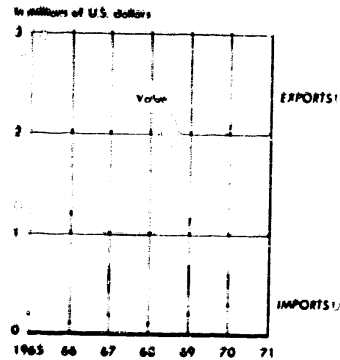
(now in the planning stage) at Aden. Coffee is also grown, but output has been declining because of the preference of farmers for producing *qat*, a chewable narcotic leaf.

(2) *Livestock*—Goats, sheep, cattle, and camels are of considerable importance to the rural population for farm work and transportation and for meat, milk, and hides. Animal production contributes an estimated one-third of the value added in the agricultural sector. The 1972 livestock population was estimated at about 3 million, of which 60% were goats. Before mid-1970, when shipments from Yemen (Soc.) were cut back, Yemen exported an average of 1 million hides and skins per year, one-half of these were re-exports of skins originating in Somalia and Yemen (Soc.). Despite its large livestock population, the country remains a net importer of livestock, livestock products, and dairy products.

B. Fisheries

Fishing is a traditional occupation for 10,000-13,000 persons along the 750-mile coastline of Yemen (Aden). Waters in the Gulf of Aden abound in many varieties of fish, mainly sardines, kingfish, shark, and tuna. The government has given priority to the development of fishing since the slowdown in trade and banking activities in Aden. Development has been hampered by a lack of modern fishing equipment and methods and by marketing problems. Fishing boats are small and inefficient; the average annual catch per fisherman is low. As only a few cooperatives are available to help fishermen market their catch, most sell directly to retail merchants for credit. The lack of adequate refrigeration and cold storage facilities makes disposal of the catch landed at isolated villages particularly difficult. Most of the fresh catch is consumed locally in areas close to the coast or is dried and salted for transport inland or for export to markets in east Asian and east African countries. Yemen imports canned fish for consumption in the interior. Although net exports of fish more than doubled in value during the 5 years ending in 1971, the annual value was still less than \$2.5 million (Figure 3).

A survey of the extent and types of fish, their processing and marketing, has been underway in the PDRY since 1969. The UNDP, the KAAD, the USSR, Denmark, and South Korea are providing technical and financial assistance. The International Bank for Reconstruction and Development (IBRD) is exploring the possibilities of participation in financing fish processing projects and refrigeration units.



1. Includes canned fish but includes some fresh fish exports to neighbors.
2. Data for 1971 estimated.

FIGURE 3. Production, exports, and imports of fish (U O U)

In 1970 the government established the Public Corporation for the Development of Fish Wealth to promote the fishing industry. The new corporation is to set up fishermen's cooperatives, train local fishermen, and represent the government in negotiating international fishing agreements. The corporation has succeeded in improving the fish catch and storage methods and has sponsored 11 fishing cooperatives, providing training for their members. The corporation realized a net profit of US\$1 million in 1971. \$0.8 million was paid in to the treasury.

c. Forestry

There are no forests in Yemen. The natural vegetation, consisting of scrub bushes, scattered trees, and a meager amount of tough grass, serves primarily for animal forage.

2. Fuels and power (C)

a. Fuels

Yemen has no commercially exploitable deposits of liquid or solid fuels. Most rural communities use animal dung as the primary fuel. Exploration for oil has been conducted by both U.S. and Algerian companies, but no exploitable deposits have been found. Petroleum is imported for the British Petroleum Company refinery at Aden, and all but about 400,000 tons of the annual output of the refinery is exported.

The BP refinery (Figure 4) accounts for 73% of the value of industrial output. The Yemen (Aden) government receives refining fees, income taxes, and rental fees, as well as indirect benefits from the wages and salaries and other business generated by the refinery operations. BP has agreed to a minimum annual payment to the government of US\$1.6 million. Payments by the refinery directly to the government in 1971 totaled \$4.4 million; total local cash outlay to the Yemen (Aden) economy equaled \$12 million.

The BP refinery, which has an annual capacity of 8.9 million tons, processes crude oil from Iran, Kuwait, Iraq, Qatar, and the United Arab Emirates (U.A.E.). Products include fuel oil, kerosene, gasoline, and butane. In 1971, major maintenance and overhaul required a slash in output of 50%, to about 3 million tons (Figure 5). All but 7% of the output is exported. Major markets are the United Kingdom, Japan, Australia, South Africa, and Thailand.

Aden's flourishing bunker trade, one of the largest outlets for refinery production, dropped drastically after the Suez Canal was closed. Before June 1967 about 2.8 million long tons of the refinery's output and 1 million to 1.5 million long tons of imported fuels were sold as ships' fuel at Aden's bunkering facilities. Ship arrivals fell from about 500 to about 50 per month between 1966 and 1968; and the bunker fuel sold fell from an estimated 3,600,000 long tons in the former year to 430,000 in the latter. The amount has increased only slightly since that time.

Distribution of refined oil products in the country was taken over from foreign companies by the Yemen National Oil Company (YNOC), established under the government's Petroleum Board in 1969. The YNOC has opened several new stations to sell oil products and has expanded marketing operations

throughout the country. In FY71 the company imported 140,000 tons of refined and other oil products valued at US\$4 million. Domestic sales in the same year amounted to about \$9.6 million.

The Petroleum Board represents the government in the joint Yemen-Algerian Petroleum Company (YAPCO), established in 1968 with the Algerian National Oil Company (SONATRACH) to carry out oil exploration in Yemen (Aden). YAPCO began a seismic survey in late 1970, but by mid-1972 had not started deep drilling. The major part of the cost of exploration, estimated at \$10.4 million, will be borne by SONATRACH.

b. Electric power

The principal consumers of electric power in the P.D.R.Y. are the petroleum refinery, the city of Aden, and a few smaller urban areas. At the end of 1971, estimated installed capacity was about 128,000 kilowatts (kw.), of which more than three-fourths was in or near Aden. Production during the year was about 378 million kilowatt hours (kw.-hr.), less than 40% of capacity. Per capita production was 250 kw.-hr.

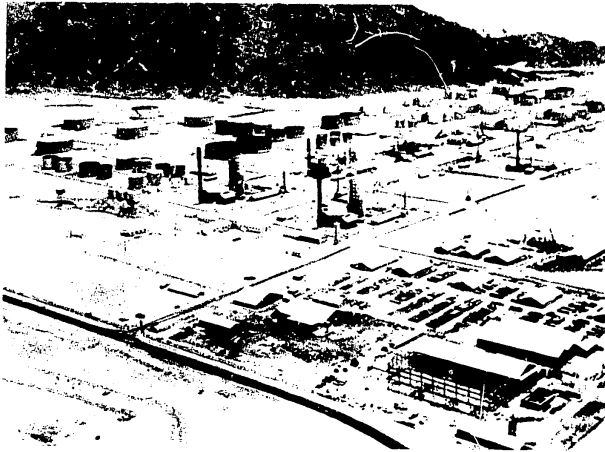
Control of Yemen's electric power industry is split among the Aden Electric Company (AEC), the Ministry of Public Works and Communications, and British Petroleum (BP). The AEC is responsible for government-owned electric facilities, which include the largest installation in the country—the 56,180-kw. Ra's Hedjuff powerplant.

All electricity in Yemen is generated by thermal powerplants, using oil and gas from the BP refinery. In addition to the Ra's Hedjuff powerplant, important facilities include the 22,500-kw. BP refinery powerplant and an aggregate of 25,000 kw. in powerplants formerly owned by the British armed forces. The Ministry of Public Works and Communications has a number of generating plants, the two most important being the 13,200-kw. Khormaksar and the 6,320-kw. At Tawahi powerplants. A 2,400-kw. plant supplies local needs at Al Mukalla; Perim Island has a 2,000-kw. powerplant; and smaller plants of less than 300 kw. are scattered in a number of locations outside Aden.

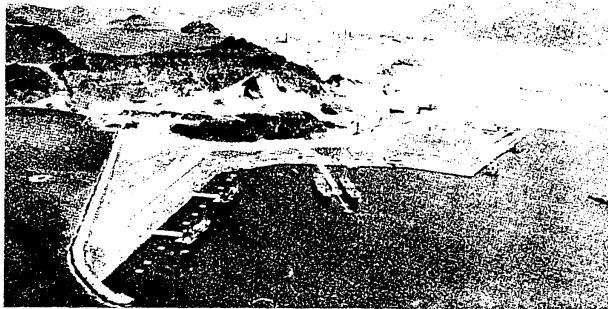
Transmission and distribution networks are small; 11 and 6.6 kilovolt (kv.) lines—both overhead and underground—lead from individual powerplants to nearby distribution points. Consumer current is 1 and 3 phase, 50 cycles, at 220 volts.

3. Metals and minerals (U/OU)

Comprehensive studies underway have revealed no exploitable mineral resources in Yemen (Aden) except

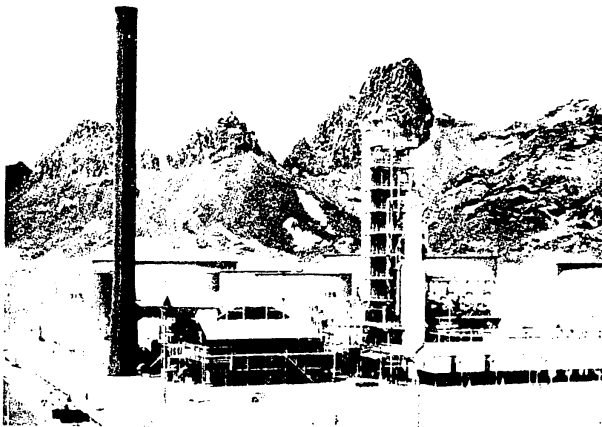


Refinery area, with tank farms on the left



Crude oil is piped to the refinery from adjacent tanker unloading facilities

FIGURE 4. The British Petroleum refinery at Aden, which had been in operation since 1954 (U/OU)



Distillation unit at the refinery

FIGURE 5. Petroleum refining and use (U O U)

	1965	1966	1967	1968	1969	1970	1971
Imports of crude oil - million U.S. dollars*	na	86.2	65.1	61.1	86.0	86.8	62.7
Production - million long tons	7.1	7.1	5.9	5.0	6.5	6.2	3.1
Exports of refined products - Million U.S. dollars	81.7	80.1	82.0	89.3	116.1	117.1	76.2
Exports of refined products - Million long tons	1.2	1.0	1.3	1.1	5.6	5.6	3.1
Bunker trade** - Million U.S. dollars	53.0	58.3	22.2	7.0	9.7	10.5	8.5
Bunker trade** - Million long tons	1.0	3.5	1.1	0.1	0.6	0.6	0.5
Domestic consumption - million long tons	0.5	0.5	0.1	0.3	0.3	0.3	0.1

na - Data not available

*Quantity breakdown not available

**Includes fuel oil sold to ships from sources other than BP refiners

salt, which is extracted from seawater by solar evaporation. About 71,000 tons were exported on the average, during 1967-70. Exports in the first 9 months of 1971 were 52,000 tons, 7% below the corresponding period for 1970. The decline in salt production resulted from high costs that make the salt noncompetitive in foreign markets.

Further exploration for minerals is provided for in the Three Year Development Plan (1972-74), as well as in aid programs offered by Eastern European countries. The development plan calls for expenditures of US\$68 million on geological surveys and mineral exploitation. The country's copper and iron deposits are being surveyed with technical assistance both from the USDP and from Romania.

4. Manufacturing and construction (U/O U)

a. Manufacturing

Almost all of the few manufacturing enterprises in the P.D.R.Y. are located in Aden; these include shipbuilding and repair facilities and factories turning out consumer goods (furniture and aluminum ware, for example; cement blocks, tiles, and agricultural products). The shipbuilding and repair yards build small dhows up to 1,500 tons, which are used for the coastal trade and for fishing. Since 1965 the output of these yards has been declining (Figure 6).

Output of most manufacturing plants dropped during 1966-68. Some improvement occurred in 1969-70, particularly in newly established manufactures, but little growth has been registered overall. New plants starting up in 1970 and 1971 included a clothing factory, a nail factory, a plastics plant, and a match plant. In 1972 several other projects were under construction, including a tannery, a plant manufacturing plastic household items, and a cigarette factory.

Capital for most of these projects came in varying proportions from the government and the private sectors.

Industry is to be given a boost under the Three Year Development Plan, which calls for a total investment of US\$254 million in the industrial sector. A total of 51 industrial enterprises are to be built, mostly in the food processing and light industries. During the first year of the plan, however, little progress was made on industrial projects because of administrative, technical, and financial problems.

Investment by the private sector declined sharply after the nationalization measures of 1969. To revive private investment in industry the government in 1971 enacted legislation that offers wide concessions—mainly on the purchase of land—and exemptions from taxes and customs duties for specified periods. The laws also liberalize regulations governing the transfer of profits and repatriation of capital.

b. Construction

Construction activity is centered around Aden and is linked closely to overall economic activity. Construction of residential, commercial, and industrial buildings plummeted during 1965-68 and continued in a depressed state through 1969, although residential construction picked up somewhat. Roadbuilding and other public sector projects have gained construction since 1970. The Ministry of Public Works and Communications in 1970 started a 28-mile road linking the First and Third Governorates.

The Three Year Development Plan provides for sizable investment in highway construction—US\$21.9 million or 21% of the total investment. According to the plan, nearly 200 miles of paved roads are to be built, financed largely with foreign loans and grants. In addition a 120-mile road linking Aden with Al

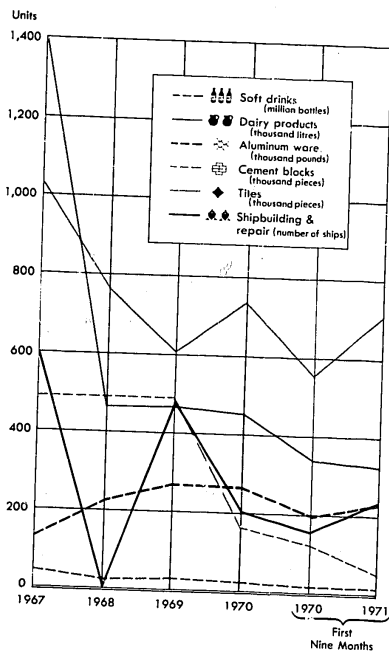


FIGURE 6. Major manufacturing output in the First Governorate (Aden), where the country's economic activity is concentrated (U/OU)

Mukalla, the provincial capital of the Fifth Governorate, is to be completed by 1976; its cost of about \$34 million will be financed by a long-term loan from China.

5. Domestic trade (U/OU)

Aden has for centuries been a famous international trading center and under British rule provided modern international commercial services as a leading free port area. The country's outlying areas, on the other hand, still follow the age-old traditions of the village marketplace. Since independence, Aden has continued to be the country's major trading center, although diminishing in importance as an international port.

In Aden, the Central Wholesale Market regulates the sale of nearly all agricultural products. Farm produce is brought in daily from the area around

Aden. Such trade has been reduced since independence by the departure of European customers and the decline in ships' trade. In addition to the Central Wholesale Market, Aden has numerous specialty shops offering European clothing and other luxury goods as well as simple household goods, yardgoods, and groceries.

The government has increased its controls over domestic trade, and registration of both personal and financial data by businessmen is now required by law. In 1970 the National Company for Home Trade was established to act as the sole importer of motor vehicles, of goods required by the government, and of certain other items, including pharmaceuticals, soap, powdered milk, butter, building materials, and agricultural machinery. At the same time the government set up the National Company for Foreign Trade to handle the importation of a number of consumer goods, including sugar, tea, cigarettes, wheat, and rice. Within the Ministry of Economy and Industry, the Department of Home Trade administers prices on all essential imported and locally produced consumer goods at the wholesale and retail levels. Profit markups for wholesalers and retailers are presently set at 5% to 6% and 10%, respectively. Because of higher international prices and higher freight rates, the national trading companies and the wholesale market have had to absorb some cost increases in order to prevent consumer prices from increasing further.

In villages and outlying urban centers such as Al Mukalla, business and social exchanges are carried out in the *suaqs*, native shopping centers. Barter transactions are common and dominate trade in the hinterland. The rural economy probably has reverted even further to barter trade after the loss of British support payments to the local rulers.

C. Economic policy and development (U/OU)

1. Policy

Beginning in late 1969, the government took steps to organize the economy along socialist lines. Many of the country's businesses were nationalized and cooperatives were set up, particularly in agriculture and fishing. The law effecting nationalization gave to the public sector the primary leadership role in building up the economy's productive capacity. The Economic Organization for the Public Sector was established to control the public sector institutions operating nationalized businesses.

Nationalized concerns include the National Bank of Yemen, the Yemen National Oil Company, the National Insurance and Reinsurance Company, the National Shipping Company, and the National Dockyard Company. The National Company for Foreign Trade handles the export business of all nationalized companies.

a. Public finance

The national budget provides for the central government and for each of the governorates, except the Fifth Governorate which has its own budget. The public enterprises—Yemen Port Corporation, Public Corporation for the Development of Fish Wealth, Aden Electric Company, Aden Public Corporation for Water, Public Corporation for Salt, and Public Corporation for Cement—have separate budgets, deriving revenues mainly from levies and commercial activities. The nationalized companies are budgeted in the separate budget of the Economic Organization of the Public Sector. The separate budgets of the 15 cities and towns considered municipalities, whose revenues come from local taxes and funds transferred from the national budget, are small and of little importance.

The national budget covers current transactions and some capital and development expenditures¹ financed from current revenues. Since independence, only small amounts of current revenue have been used for development expenditures. Development projects financed by foreign aid under bilateral agreements are not reflected in the budgetary accounts, except for receipts from the sales of commodity aid.

The national budget is ineffective as an instrument of fiscal policy. Since the decline in external receipts beginning in 1968, the budget has been drawn up in two stages, monthly and yearly. Monthly allocations are based on anticipated current revenue collections and actual expenditures in the previous fiscal year. The annual budget is not formulated until the actual results are in for the first 9 months of the fiscal year which ends 31 March.

The Fifth Governorate prepares its annual budget well before the beginning of the fiscal year. Before December 1976, the Fifth Governorate, which includes part of the Hadhramaut and has a large Bedouin population, maintained its own customs system, collecting duties on imports (except foodstuffs) from the rest of the country. Such duties comprised about 60% of the revenue of the governorate. In

¹The distinction between capital and development expenditures is one of amount; those in excess of YD12,000 (about US\$3.1 million) are classified as development expenditures.

December 1970, the introduction of the general import tariff removed customs barriers between the Fifth Governorate and the rest of the country. The budget of this governorate, however, remains separate, although it is now subsidized from the national budget.

Domestic revenues of the national government covered only about 40% of total expenditures before 1968, the remainder being covered largely by British budget support payments. Since that time, domestic revenues have been increased by additional taxes and the introduction of a general import tariff. Revenues now cover over 75% of total budgeted expenditures, with the remainder coming from foreign aid and government assets (Figure 7).

Indirect taxes, primarily import duties and excise taxes, have become the largest source of government revenues, accounting for about 40% of the total.

Direct taxes consist mainly of taxes on business income and on wages and salaries. Although these tax rates were raised in 1969, the substantial increase in revenues realized in FY70 fell in FY71 because nationalization measures resulted in a drop in business incomes and in wages. Import duties alone accounted for 28% of the total revenue in FY71, the year following the introduction of the general tariff. Nontax revenues include receipts from the sale of government properties, profits of the Yemen Currency Authority, departmental revenues, and miscellaneous receipts.

Government expenditures in FY69 were cut by a third from the FY68 level when British budget support was discontinued; development expenditures were slashed 85%, while current expenditures dropped about 25%. More than half of the cutback was in defense and security expenditures, but outlays for health, education, public works, communications, and pensions also declined noticeably. In FY71 expenditures were increased to cover costs of expanded government administration and greater expenditures on education and social services. Capital and development expenditures financed from the current budget average about 10% of the pre-1968 level and are confined to minor projects and maintenance.

The treasury is responsible for executing the national budget and managing the cash resources of the public sector. To finance government operations, the treasury is authorized to use not only budget revenues but also holdings on account of the post office savings fund, the pension fund, and other funds. The treasury also may draw on advances from the Currency Authority. Such advances, together with the authority's holdings of securities issued or guaranteed

FIGURE 7. Government budget (U/OU)
(Millions of U.S. dollars)

	FY68	FY69	FY70	FY71	REVISION SAR FY72
Domestic revenue:					
Direct taxes.....	5.0	5.3	7.8	6.8	10.4
Indirect taxes.....	6.0	8.1	10.2	13.5	18.7
Other.....	9.2	6.9	8.6	12.3	6.4
Fifth Governorate.....	3.1	3.1	2.4	1.9	2.4
Total.....	23.3	23.4	29.0	34.5	37.9
Expenditures:					
Current.....	18.2	35.3	38.3	42.6	41.7
Capital and development*.....	9.3	1.1	0.7	0.8	0.6
Fifth Governorate.....	4.3	4.6	1.3	2.1	5.0
Total.....	61.8	41.3	40.3	45.5	50.3
Surplus or deficit (-).....	38.5	17.9	11.3	11.3	12.4
External financing:					
Foreign aid:*					
United Kingdom.....	13.0	5.1	0.0	0.0	0.0
Other.....	0.0	0.8	0.5	1.8	1.0
Settlement with East Africa Currency Board.....	7.0	6.9	0.9	0.0	0.0
Total.....	13.0	12.8	1.5	1.8	1.0
Surplus or deficit (-) requiring domestic financing (-).....	1.5	5.1	10.8	6.5	11.4
Domestic financing:					
Changes in government deposits, net increase.....	7.3	5.2	6.7	8.0	9.0
Changes in government foreign assets, increase.....	1.0	1.1	3.2	0.2	0.1
Total.....	6.3	6.6	9.9	8.2	10.0
Discrepancy (+/-).....	2.8	1.5	0.9	1.7	1.4

na Data not available.

*Excludes development expenditures financed by foreign aid.

by the government, may not exceed YD5 million (US\$13 million) or 35% of the average domestic revenue during the previous 3 years, whichever is greater.

b. Monetary and banking institutions

The Yemen Currency Authority issues the Yemeni dinar,⁵ manages external reserves, and promotes monetary stability and a sound financial and credit structure in the country. The authority has limited supervisory power over banks; sets ceilings on interest rates; handles bills of exchange, promissory notes, and treasury bills of short-term maturity, and holds securities issued or guaranteed by the government up to US\$1.3 million. Legislation in 1971 empowered the authority to guarantee loans and investments contracted by the government and to grant

⁵No par value has been established, all conversions in this chapter are based on a rate of YD1 = US\$2.61, effective 12 January 1972.

exceptional loans to meet the liquidity requirements of the economy in times of financial crisis or other emergencies.

In April 1970, foreign banking interests were excluded from Yemen (Aden), and the National Bank of Yemen became the country's only banking institution. The National Bank maintains seven branch banks in Aden and seven others in the major towns of the governorates. Plans call for establishing several branch banks in rural areas.

c. Monetary policy

Since February 1969 the Yemen Currency Authority has set ceilings on interest rates, provided loans to commercial banks, and discounted commercial paper. The interest rate on savings deposits at commercial banks has been maintained since 1969 at 3½% per annum, the range of interest on time deposits has been increased from 3½% to 5% to 2% to 6%. Ceilings on

advance, to finance imports were increased to between 8% and 9% from the previous 6% to 8% per annum.

The country's money supply (including time and savings deposits in banks) contracted between 1967 and 1970 at an average annual rate of 5%, reflecting the sharp decline in economic activity and the resulting decline in net foreign assets. Beginning in 1970, overall liquidity increased by about 15%, and money supply alone rose by over 8% per year. This increase came partly from the new demand of the public sector enterprises and partly from the rise in domestic prices, particularly of imported goods. Demand deposits continued to decline in 1970 as public preference for holding currency increased.

2. Development

Prior to independence, most economic development in Yemen (Aden) was undertaken on an *ad hoc* basis, supported by grants from the United Kingdom. Two rudimentary development plans for Aden Colony and the other states of the Federation of South Arabia were only partially implemented between 1960 and 1967. After independence, a succession of planning organizations finally evolved in 1971 into the Central Planning Commission, which draws up short- and long-term plans, evaluates projects, and supervises their implementation. It may conclude bilateral economic and technical agreements and prepare and implement U.N. aid programs.

In August 1971 the Three Year Development Plan for FY72-74 was drawn up encompassing both public and private sectors and calling for a total investment of about US\$105 million. Broad objectives of the plan are to increase the GNP, to reorient the economy from services to production, to increase employment opportunities, and to raise the standards of living in rural areas.

The plan gives priority to transport and communications, followed by agriculture, fisheries, and industry (Figure 8). These sectors account for over 80% of the projected investment. Of the planned investment, about 40% is to be financed from external sources, mainly through bilateral arrangements already established. About 15% of planned investment is to come from profits of the nationalized sector, from local sales of commodities received under bilateral aid agreements, and from budget allocations.

In the first year of the plan, available data suggests a substantial shortfall in actual investment, primarily because of bottlenecks during preparation and implementation of projects. Shipments of equipment from donor countries have been late, and administrative problems have hindered the utilization of bilateral

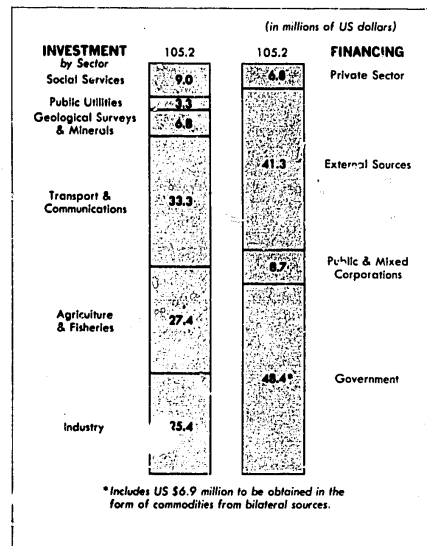


FIGURE 8. Three Year Development Plan (FY72-74) (U/OU)

aid. The main achievements so far have been in roadbuilding and in establishing small-scale irrigation projects.

3. Manpower

Manpower data are available only for the former Colony of Aden, where the number of those economically active between the ages of 15 and 65, i.e., the labor force, was about 100,000 in 1965. By 1970 the labor force had dropped to an estimated 75,000. Before the British withdrawal, the labor force in Aden included a large number of workers from Yemen (Sana'a) as well as Indians, Somalis, and other foreign nationals attracted by work opportunities. Between 1965 and 1969, and especially after 1967, the depressed economic conditions caused many foreign workers to return home and many Yemeni laborers to go back to the farms; still others—primarily owners of small businesses—emigrated to Yemen (Sana'a), where the climate for private investment appeared more attractive.

Estimates of the labor force of the P.D.R.Y. place it at about 300,000. These estimates, however, are only rough approximations, based on the ratio of the labor force to population in Aden and extending it to the

rest of the country. In addition to those considered to be on working age, many children are unpaid family workers, for most of the people outside Aden are engaged in subsistence agriculture or nomadic herding.

Unemployment in Aden was estimated at about 25,000 in 1970. Underemployment also exists, as many workers share the reduced volume of work. Unemployment and underemployment are problems in the rural areas too, although seasonal shortages of labor occur in some areas at harvest time.

Skilled labor is scarce, particularly in the professional and technical groups. The illiteracy rate of about 90% is one of the highest in the Middle East, and the country has only about 16 secondary schools. Few people have had the opportunity to acquire technical skills, and training facilities are inadequate to develop the skills needed to fill existing job openings. The Three Year Development Plan calls for improved training opportunities, scholarships for higher education, and 9,000 additional jobs for laborers and clerks. The government has not

been able to move ahead on these plans because of budgetary constraints.

D. International economic relations

I. Foreign trade (C)

The P.D.R.Y.'s foreign trade is shaped largely by the role of Aden as an entrepot, the presence of a British-owned oil refinery, and bunkering activities. Transit trade and reexports predominate, and petroleum products are prominent both as imports and exports. A large volume of unrecorded trade results from lack of restrictions on the movement of people and goods in parts of Aden, and consequently official recordings of imports and exports are understated. The trade balance, even after taking into account this factor, has shown a persistent deficit.

Petroleum products and ships' bunkering dominate exports, traditionally accounting for about 80% of the total. Exports of indigenous goods have been small, representing only about 5% of the total of exports and reexports (Figure 9). Cotton, the leading indigenous

FIGURE 9. Exports and reexports by commodity, 1966-71 (U/OU)
(Millions of U.S. dollars)

	1966	1967	1968	1969	1970	1971 (PRELIMINARY)
Petroleum exports:						
Refined products.....	80.6	81.9	89.2	114.8	117.4	76.1
Ships bunker fuel oil.....	58.3	22.2	7.0	9.7	10.5	8.5
Total.....	138.9	104.1	96.2	124.5	127.9	84.6
Nonpetroleum exports:						
Dried fish.....	1.2	0.9	1.0	0.6	1.4	1.9
Hides and skins.....	1.9	1.0	1.1	0.7	1.1	1.3
Cottonseed.....	0.4	0.1	1.5	0.1	1.0	0.2
Raw cotton.....	2.8	3.1	3.1	5.6	4.6	3.9
Salt.....	0.3	0.3	0.4	0.4	0.4	0.6
Other.....	0.0	0.0	0.0	2.0	2.7	1.8
Total.....	6.6	5.4	6.1	9.4	11.2	9.7
Nonpetroleum reexports:						
Foodstuffs, beverages, tobacco.....	9.6	7.1	6.7	6.3	6.0	3.4
Hides and skins.....	2.1	1.4	1.9	2.8	2.1	1.0
Textiles.....	3.3	2.0	1.8	3.3	4.2	6.1
Consumer durables.....	1.8	2.2	0.5	0.3	0.1	0.1
Ships' stores*.....	1.4	0.2	0.1	0.1	0.5	0.3
Investment goods**.....	1.9	0.6	0.4	0.1	0.1	0.1
Other.....	12.3	8.6	5.9	7.3	6.5	8.3
Total.....	31.5	22.1	17.3	20.5	19.5	19.3
Grand total exports and reexports.....	177.0	131.6	119.6	154.4	158.6	113.6

*Goods sold to ships calling in Aden, mainly foodstuffs.

**Includes cement, iron and steel, trucks and buses, and construction and industrial machinery.

export, has made up about half of the value of such exports since 1967. Wide fluctuations in cotton output and world market preference for types of cotton not grown in Yemen (Aden) have precluded long-term export contracts. Exports of dried fish are increasing because of government sponsorship of investment in the industry.

Aden as an entrepot has traditionally supported a flourishing transit and reexport trade. Reexports include foodstuffs, textiles, hides and skins, consumer durables, and machinery. Recorded reexports have declined substantially since 1966. Part of the decline since the second half of 1970 has resulted from the increasing use by Yemen (San'a') of its own port of Al Hudaydah. Other negative factors have been the P.D.R.Y.'s introduction of a general tariff and the change of Aden from a free port to a port with free trade zones. Both measures created administrative problems that have impeded the growth of free-zone trade. Business in the free zones also has been limited by the requirement that all transactions be conducted in convertible currencies.

Imports of crude petroleum for the refinery make up more than a third of annual imports (Figure 10). Of the nonpetroleum imports, foodstuffs account for 25% to 30% and textiles 15%; machinery and appliances and other manufactured products make up the remaining imports. The quantity of nonpetroleum imports that is retained and not reexported fluctuates according to overall business conditions but has fallen since 1966 (Figure 11).

Major suppliers to Yemen (Aden) of crude petroleum are Iran, Kuwait, Iraq, and Qatar. The major markets for Yemen's petroleum products are the United Kingdom, Japan, Thailand, Australia, and South Africa. Nonpetroleum products come from Western Europe, Japan, the countries of the Council of Economic Mutual Assistance (CEMA), the People's Republic of China, India, and Hong Kong. The principal markets for the indigenous exports and reexports are Yemen (San'a'), Japan, Somalia, India, Sri Lanka, and Ethiopia. The geographical pattern of trade since 1968 has changed little except for a gradual increase in the share of trade with the CEMA countries and China, largely at the expense of the United Kingdom (Figure 12).

The government has licensed imports and exports since September 1969. Imports of crude petroleum, the overland trade with Yemen (San'a') and other neighboring countries are exempt from licensing but are subject to special provisions issued by the Ministry of Economy and Industry. An annual import plan was

first drawn up in May 1971, establishing quotas for several groups of imports. In practice, the plan has had little or no impact as the quotas are flexible. Trade with Israel and Rhodesia are prohibited, as are imports of some commodities. Foreign exchange received for exports must be sold to an authorized bank within 6 months after the shipment of goods.

The Foreign Exchange Committee administers exchange controls through authorized dealers. Only the National Bank of Yemen is authorized to exchange prescribed currencies (U.S. dollar, pound sterling, French franc, West German Deutsche mark, Swiss franc, Belgian franc, Italian lira, Netherlands guilder, Swedish krona, and Canadian dollar). Other dealers in foreign exchange are classified as ordinary money changers or as secondary dealers. The money changers, whose principal business is the sale and purchase of foreign exchange for their accounts or for the account of the National Bank, are permitted to deal only in currencies not on the prescribed list. Secondary dealers, such as hotels, travel bureaus, and retail stores selling tourist goods are permitted to accept payment in foreign exchange from their customers, but they are required to surrender their receipts in foreign exchange to the National Bank within 1 day.

2. Balance of payments (U/OU)

Yemen (Aden) has experienced a current account deficit each year since independence. Up until 1967, large trade deficits were more than offset by net receipts from services and transfers. In 1968, the deficit on current account reached US\$21 million, but it dropped in 1969 to \$4.2 million as transfers from Yemenis working abroad increased. By 1971, the current account deficit was back up to \$11.6 million, mainly because of a growing trade deficit. The services sector was much improved by a decline in the transfer of profits abroad by the British Petroleum Company. Transfers and inflows of capital equipment and supplies from bilateral aid sources also increased. As a result the foreign assets of the monetary sector increased by \$8 million (Figure 13).

Official reserves are held almost entirely by the Currency Authority, which is required to maintain a 50% backing of gold and convertible currencies for all notes in circulation and other demand liabilities. Government foreign assets were liquidated after 1968 to finance budget deficits. Total foreign assets of the banking system at the end of March 1972 were equal to about US\$74 million, sufficient to cover approximately 10 months of retained imports at the 1971 level. Total foreign assets at the end of the years

FIGURE 10. Imports by commodity, 1966-71 (U/OU)
(Millions of U.S. dollars)

	1966	1967	1968	1969	1970	1971 (PRELIMI- NARY)
Petroleum imports:						
Crude oil.....	86.2	65.4	64.4	86.9	86.8	62.7
Refined products.....	16.9	5.3	7.0	4.0	1.4	4.4
Total.....	103.1	70.7	71.4	90.9	88.2	67.1
Nonpetroleum imports:						
Foodstuffs, beverages, tobacco and other agri- cultural products.....						
Sheep and goats.....	3.0	2.8	2.9	3.1	3.7	3.0
Rice.....	3.9	7.7	5.6	9.6	7.7	3.0
Wheat flour.....	4.4	3.9	4.0	3.8	5.6	2.7
Sugar.....	3.0	2.5	5.3	3.8	4.0	4.1
Coffee.....	2.2	1.0	1.1	0.7	0.4	0.5
Tea.....	2.4	3.0	3.0	3.4	2.8	1.7
Qat.....	3.3	3.0	3.6	3.4	3.3	2.4
Tobacco.....	4.8	3.4	6.9	3.2	3.3	2.6
Hides and skins.....	2.2	1.3	1.9	2.9	2.1	1.0
Oilseeds.....	1.9	1.6	1.6	1.6	0.9	0.7
Other*.....	7.9	5.4	5.3	3.5	6.2	2.7
Textiles.....	21.0	17.8	25.0	26.5	18.4	15.3
Consumer durables.....	11.6	4.7	4.9	4.4	3.0	2.4
Automobiles.....	4.3	1.2	2.1	2.0	1.1	1.2
Other**.....	7.3	3.5	2.8	2.4	1.9	1.2
Investment goods.....	29.3	6.5	9.4	10.6	8.6	7.8
Trucks and buses.....	1.7	1.0	1.3	0.8	0.8	0.6
Machinery and appliances.....	25.0	3.8	6.4	7.9	5.7	5.3
Other***.....	2.6	1.7	1.7	1.9	2.1	1.9
Other manufactures.....	61.8	52.9	68.5	66.1	60.5	51.9
Total.....	162.7	117.5	149.0	146.6	130.5	101.8
Total imports.....	265.8	188.2	220.4	237.5	218.7	168.9

*Includes dried fish, pulses, wheat, beverages, gums, and resins.

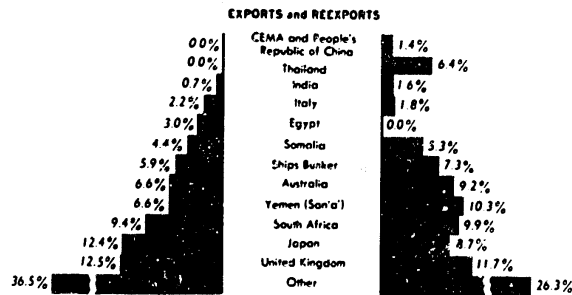
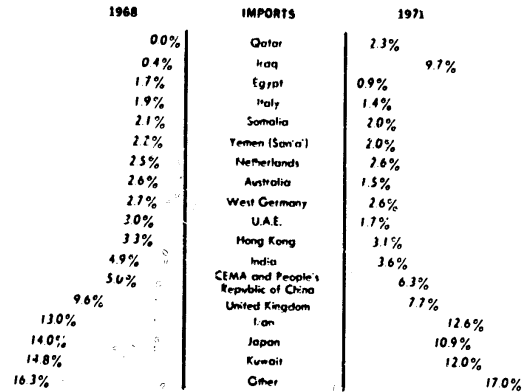
**Includes sewing machines, radios, cameras and watches, washing machines, refrigerators, TV sets, electric-mechanical appliances, heating equipment, and electric fans.

***Includes cement and iron and steel.

FIGURE 11. Value of nonpetroleum imports retained (U/OU)
(Estimates in millions of U.S. dollars)

	1966	1967	1968	1969	1970	1971
Nonpetroleum imports.....	162.7	117.5	149.0	146.6	130.5	101.8
Adjustments*.....	0.0	0.2	-12.0	-11.7	8.1	7.8
Adjusted nonpetroleum imports.....	162.7	117.7	137.0	134.9	138.6	109.1
Adjusted nonpetroleum reexports*.....	31.6	32.9	43.8	49.3	40.2	22.2
Retained nonpetroleum imports.....	131.1	84.8	93.2	85.6	98.4	86.9

*Customs data have been adjusted to account for unrecorded trade and for overvaluations and undervaluations that are used by traders to circumvent exchange control regulations.



NOTE: Percentages may not add to 100% because of rounding

FIGURE 12. Direction of trade (C)

1967 through 1971 and the first 3 months of 1972 were as follows (in millions of U.S. dollars):

	DECEMBER				MARCH	
	1967	1968	1969	1970	1971	1972
	79.3	78.5	72.4	67.9	72.2	74.1

3. Foreign aid (\$)

Since 1968 Yemen has concluded economic and technical cooperation agreements and other loan protocols with a total value of more than US\$130 million. Of this total, about \$39 million has been drawn, about a fourth of it from the Communist countries. During this period, Communist countries alone extended credits amounting to \$106 million, the

major donor being the People's Republic of China. U.S. aid between 1959 and 1971 totaled over \$10 million, and since U.S. FY70 the United States has extended aid valued at \$2.6 million under the Food for Peace program. Multinational assistance, mostly from the United Nations, has amounted to \$9.1 million since FY61.

Most of the economic aid, particularly from the Communist countries, has been for constructing factories and roads or for technical assistance. Thus far, the U.S.S.R. has completed a fish processing plant, wells for irrigation, dams, and maintenance workshops for agricultural equipment. Projects completed or underway from other Communist lenders include flour mills, roads and wells, and a geological survey.

FIGURE 13. Balance of payments (U O U)
(Millions of U.S. dollars)

	1967	1968	1969	1970	1971 PROVI- SIONAL
Current account:					
Exports and reexports*	112.2	116.1	181.0	179.1	116.7
Imports*	188.1	208.5	225.7	226.8	176.2
Trade balance					
Services net	46.2	62.4	11.7	17.7	59.5
	22.0	13.7	21.7	17.5	0.6
Shipping, aviation and insurance	1.8	0.5	1.0	1.6	2.9
Interest, profits and dividends**	27.6	11.9	21.0	21.3	5.0
Trading companies and banks	0.8	3.9	5.2	6.0	3.6
Petroleum companies	28.1	18.8	29.2	30.3	8.6
Other services	15.1	0.3	0.3	1.8	1.6
Government not indicated elsewhere ***	32.1	1.0	1.6	3.1	3.1
Goods and services net	21.2	75.5	63.1	65.2	60.1
Transfers					
Private	52.5	51.5	59.2	56.6	48.5
Public†	12.0	37.3	37.9	56.6	47.5
Balance on current account	10.5	17.2	1.3	0.0	1.0
	28.3	21.0	1.2	8.6	11.6
Capital account:					
Nonmonetary capital	0.5	1.0	7.3	17.7	2.6
Official	0.5	1.0	7.3	17.7	2.6
Foreign loans	0.0	0.0	5.7	13.3	2.6
Central government investments††	0.5	1.0	1.6	0.3	0.0
Claims on nationalized banks	0.0	0.0	0.0	1.7	0.0
Private	na	na	na	na	na
Monetary movements: increase in assets	1.1	7.6	6.2	3.6	0.8
Currency Authority assets: net †††	6.3	5.5	0.8	0.3	3.6
Government foreign assets: net	3.1	8.1	3.6	0.3	0.3
Commercial banks' foreign assets: net	10.2	2.1	1.8	3.6	1.7
Other	3.6	6.8	0.0	0.0	0.0
Net errors and omissions	32.9	12.1	9.3	12.7	9.8

na Data not available.

*Trade figures have been adjusted to account for unrecorded trade and/or over- and undervaluation of goods and do not agree with trade data, based on customs statistics.

**Debit entries cover tourism expenditures abroad by Yemen (Aden) nationals and payments for miscellaneous services.

***Expenditures of foreign embassies and U.N. agencies in Yemen (Aden). Ex. P.D.R.Y. Embassy expenditures abroad.

†Consisting entirely of British grants in support of the budget in 1967 and 1968.

††Includes changes in long-term assets held by the government.

†††Excluding SDR's.

Communist countries maintained in 1972 an estimated 600 to 700 technicians in Yemen (Aden) implementing aid projects. The largest contingent was from China, working on road construction.

Military aid extended to Yemen (Aden) through mid-1972 totaled about \$36 million in value. The United Kingdom provided military equipment for the country's indigenous ground forces until independence. Since that time the United Kingdom has delivered a small number of jet trainer aircraft, the

cost being covered by financial aid granted before 1968. The U.S.S.R. has supplied to Yemen (Aden) the bulk of its military equipment—about three-fourths of it by value. Soviet military aid has included fighter and transport aircraft, light jet bombers, medium tanks, naval craft, and helicopters. Hungary and East Germany supplied small amounts of ground force equipment in 1972. Algeria presented a gift of arms and quartermaster supplies in 1968, valued at less than \$1 million.

SECRET

Glossary (u/ou)

ABBREVIATION	ENGLISH
AEC.....	Aden Electric Company
BP.....	British Petroleum
KFAED.....	Kuwait Fund for Arab Economic Development
P.D.R.Y.....	People's Democratic Republic of Yemen
SONATRACH.....	Algerian National Oil Company
U.A.E.....	United Arab Emirates
YNOC.....	Yemen National Oil Company
YAPCO.....	Yemen-Algerian Petroleum Company