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Yemen (Şan'a)

April 1973

NATIONAL INTELLIGENCE SURVEY

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The Economy

NATIONAL INTELLIGENCE SURVEY PUBLICATIONS

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This chapter was prepared for the NIS by the Central Intelligence Agency. Research was substantially completed by January 1973.

YEMEN (SAN'A')

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The Economy

A. Economic appraisal (U/OU)

Yemen (San'a'), now the Yemen Arab Republic (Y.A.R.), has the dubious distinction of being one of the least developed countries in the world. The primitive economy depends almost entirely on agriculture, but even in good harvest years some food must be imported to satisfy domestic needs. With no proven oil resources and little other fuels or minerals, Yemen has a very limited resource base for developing industry. Since 1956 foreign economic aid from both

Western and Communist countries has provided Yemen with a few roads, a modern port, schools, hospitals, irrigation, and some small factories. In the few major cities a money economy has been developed, based on trade and small-scale manufacturing of consumer goods; however, the life of the rural Yemeni is much as it has been for the last 1,500 years.

Yemen has a land area of about 75,000 square miles, occupying a little more than 6% of the total land area of the Arabian Peninsula. The population of about 6



million is almost 40% of the estimated total population of the peninsula. City dwellers make up about 12% of the population, and include a number of expatriates from Yemen (Aden), or the People's Democratic Republic of Yemen (P.D.R.Y.). Many of the rural people still live in a tribal environment, owing allegiance first to tribal leaders rather than to the central government. Thus, effective economic control by the central government is restricted largely to the urban areas.

Farm production varies widely from year to year because of irregular rainfall. An average of about 3.2 million acres are cultivated annually, of which only about 247,000 acres are irrigated. The major food crops are wheat, corn, millet, pulses, and vegetables. The principal commercial crops are cotton and coffee, but production of these has been declining. In addition to the lack of irrigation, Yemen's agriculture suffers from the usual deficiencies in an underdeveloped country—little machinery and fertilizers, inadequate credit facilities for farmers, and few roads for transporting the produce to markets and the needed inputs to the farms.

Until the late 1950's the Y.A.R. had limited contacts with the outside world, and little or no economic development was underway. The major cities were virtually isolated from each other, and the country had little economic infrastructure. Following the revolution in 1962, which replaced the Imamate with a republican form of government, considerably more money and technical assistance flowed into the country. Development projects, however, were interrupted almost immediately by a long civil war. Although Egypt and Saudi Arabia—supporting the republican and royalist factions, respectively—agreed to disengage from the war in 1967, the internal situation remained unsettled for 2 more years and tribal strife continued to be a drain on the country's limited resources until the final settlement in mid-1970.

Toward the end of 1970 prospects for the economy began to improve, and a few of the main economic indicators showed definite improvement in 1970-71 (Figure 1). The end of the 8-year civil war in July 1970 resulted in recognition and immediate financial assistance from Saudi Arabia. About the same time, agricultural output improved when the rains of late summer ended a 5-year drought. The rapprochement with Saudi Arabia stimulated increased inflows of foreign capital, and the annual increase in the rate of inflation decelerated. Although Yemen is still faced with budgetary and balance-of-payments problems and the economy is heavily dependent on continued



FIGURE 1. Selected economic indicators (U/OU)

outside assistance, the atmosphere, at least in the cities of Al Hudaydah and San'a',¹ is one of a mini-boom. Moreover, the resumption of diplomatic relations with the United States and the receipt of new aid from the People's Republic of China suggest a continuing availability of funds for development of the country's economy.

B. Structure of the economy

The economy is dominated by agriculture, which accounts for about 70% of the gross national product (GNP)² and almost all exports. The Y.A.R. has a moderate amount of fertile, arable land, compared with other Arab countries, and agriculture has been augmented by a fairly well-developed system of terrace farming. Cultivation methods are still primitive, and yields are highly dependent on the

¹For diacritics on place names see the list of names at the end of the chapter and the map in the text.

²The GNP was roughly estimated in 1971 at US\$240 million.

adequacy and pattern of rainfall. Manufacturing activity and the exploitation of limited fuel and mineral resources play only minor roles in the economic life of the country and account for less than 3% of GNP. Manufacturing consists mainly of small-scale plants producing consumer goods. Wholesale and retail trade and other services are important areas of economic activity in the cities, contributing between 15% and 20% of GNP. Construction and public administration account for the remaining 7% to 12% of GNP. (C)

1. Agriculture, fisheries, and forestry (C)

a. Agriculture

Agricultural production in the Y.A.R. is largely dependent upon the adequacy and distribution of rainfall. In some years Yemen can satisfy most of its basic agricultural needs, but in other years substantial food shortages occur. From 1965 through mid-1970, the country suffered from drought, and agricultural production throughout that period declined accordingly, with the sharpest decline taking place in the 1969/70 growing season (Figure 2), when output was estimated at about two-thirds of the average production level in the predrought years. The drop in output of grains, intensified by the internal strife during the period, resulted in famine in many areas of the country in late 1969 and early 1970. Output of grains and cotton improved markedly in crop year 1970/71, however, mainly because of late summer rains in 1970 and partly because of more stable political conditions. Besides drought, locusts are a continual threat to agricultural output.

Arable land in the Y.A.R. is estimated at 12 million acres, of which about 3.2 million acres, or about 7% of the total area of the country, are normally cultivated. Of the cultivated land, less than one-tenth is irrigated. Four distinct agricultural regions are distinguished by patterns of land use, crops, and water availability. These regions correspond more or less with four distinct topographical zones, namely the Tihamah (the lowlands), the Middle Heights, the Central Highlands, and the Eastern Slopes. The Tihamah, which extends along the Red Sea, receives relatively little rain, and farming depends mainly on irrigation. Major crops in the Tihamah are cotton, corn, tobacco, sesame, and olives (Figure 3). The Middle Heights region varies in altitude from 2,000-4,900 feet and benefits from fairly abundant and regular rainfall. The main crops of this region include cereals (predominantly corn and sorghum), coffee, *qat* (a

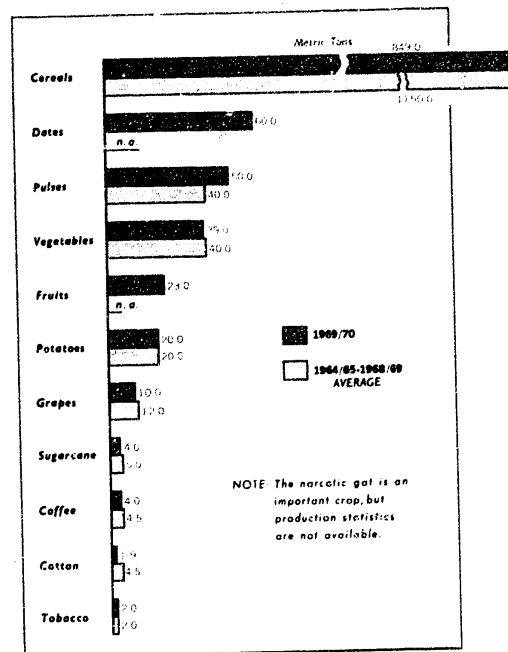
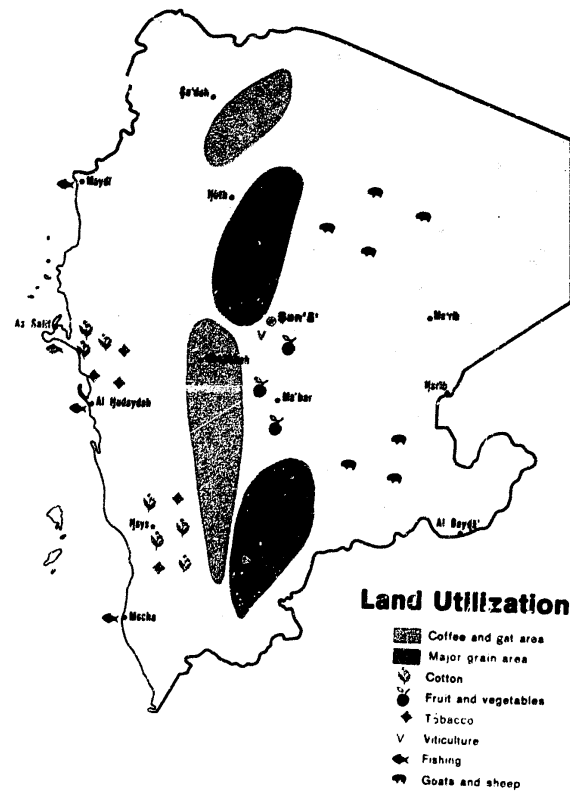


FIGURE 2. Agricultural production (U/OU)

mild narcotic plant), fruits, and vegetables. The Central Highlands cover a mountainous area varying between 4,900 and 11,500 feet in altitude. The region receives considerable, albeit irregular, rainfall. Crops grown in this region include cereals (largely wheat and barley), coffee, fruits (particularly grapes), and alfalfa. In both the Central Highlands and the Middle Heights regions, the soil is fertile, and the system of bench terracing is prevalent and well developed (Figure 4). The Eastern Slopes cover the desert areas to the east of the mountainous region. This region is extremely arid and has no agricultural significance.

The size of farms varies considerably from region to region, with the largest in the Tihamah (average size about 8.5 acres) and the smallest in the Middle Heights region (average size about 1.8 acres). Much farming is done on small plots owned by the farmers. Large holdings of arable land (both under cultivation and fallow) are generally controlled by religious institutions or the government and leased to tenants. The share-cropping arrangements for these plots vary, depending mainly on the crop and the mode of



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FIGURE 3. Land utilization (U/OU)

irrigation. In general, the tenant receives one-third of the crop on irrigated land and one-half of the crop in rainfed areas. The tenant's share also tends to be lower for coffee, cotton, and *qat* than for cereals.

Since much farming is done on terraces or narrow strips only a few feet wide on the sides of mountains or in the wadies, modern implements cannot easily be used. Land is still tilled by wooden plowshares, and most of the power is provided by cows and camels. Native tools, however, are highly developed. Yemeni wooden plows are equipped with steel points, which give excellent tilth to the soil. Cultivator and seeder attachments also have been devised for the plows. The combination of these three instruments achieves

excellent results. Locally designed scrapers for moving dirt and floats (or soil smoothers) also are used.

In areas where irrigation is employed, water use is a highly skilled operation. The landscape is covered with canals and dikes that lead to the fields or to storage tanks and ancient cisterns. Most systems are for individual or small community use, and water is used as near as possible to the area where it falls and is collected. Ditches are run through uncultivated land to bring water to the terraces below, which have rock or grassed banks to prevent erosion. Over the centuries, land erosion has been minimal because of the careful use of water resources.

Aside from the major problem of water availability, further agricultural development in the Y.A.R. has

been obstructed by the absence of institutional arrangements for credit extension and by an ill-organized agricultural marketing system, particularly for the two major export products—coffee and cotton. Plans for establishing a government agricultural credit institution are under consideration, but the major problem seems to be the source of capital. Apart from the General Cotton Company, which advances credit to cotton growers, money lenders are the only major source of agricultural credit, providing loans at high interest rates. The agricultural marketing system suffers from high transport costs, inadequate standardization and grading, and high profit margins accruing to merchants and/or exporters. A substantial gap exists between producer and consumer prices with growers receiving an unduly low proportion of the export prices obtained from the sale of coffee, cotton, and hides and skins.

A number of experimental projects for surveying water resources and for determining the feasibility of building dams and other irrigation facilities are in progress. The largest of these is a ground-water development scheme in the Wadi Zabid delta in the Tihamah, which is financed by the U.N. Development Program and the Kuwait Fund for Arab Economic Development. The Development Program is also undertaking experimental projects in two areas—the Lowlands Farm Development Project and Midlands Farm Development Project—with a view to expanding the use of fertilizers, improving and modernizing farming methods, and introducing livestock management and practical farm training.

(1) *Major crops*—The major field crops grown in the Y.A.R. are *dura* and *dukhn* (sorghum varieties), which cover more of the area under cultivation than any other crop; the latter is hardy and is extensively grown in years of poor rainfall. Other field crops include wheat, barley, corn, millet, lentils, and alfalfa (Figure 5). Drought affects grain production in particular, as these products are cultivated almost entirely on rainfed land. Although no output figures for 1970/71 are yet available, grain production reportedly increased between 10% and 20% over the preceding year, while crops other than cereals were estimated at or below average compared with the years 1964/65-1968/69. Yields generally are low due to limited use of fertilizers, poor farming techniques, and poor seed varieties.

Yemen grows a large variety of fruits; figs, dates, and apricots are the most common. Prickly pears (cactus apples) and pomegranates are grown both in the mountains and fertile valley areas. Oranges and limes are grown largely in the valleys and other sheltered areas. Papayas, mangoes, and bananas seem to be grown mostly in the Ta'izz and Ibb areas. Grapes of many varieties are grown, mainly in the San'a' area.

Fruits are the only food crops raised for domestic consumption that are traded extensively. Locally grown grapes withstand transport well and are distributed to various villages, towns, and cities by camel. Other fruits are supplied fresh by farmers directly to neighboring towns and villages, but almost no attempt is made to dry fruit for wider distribution.

FIGURE 4. Elaborate terracing procedures make agriculture possible in mountainous areas (U/OU)

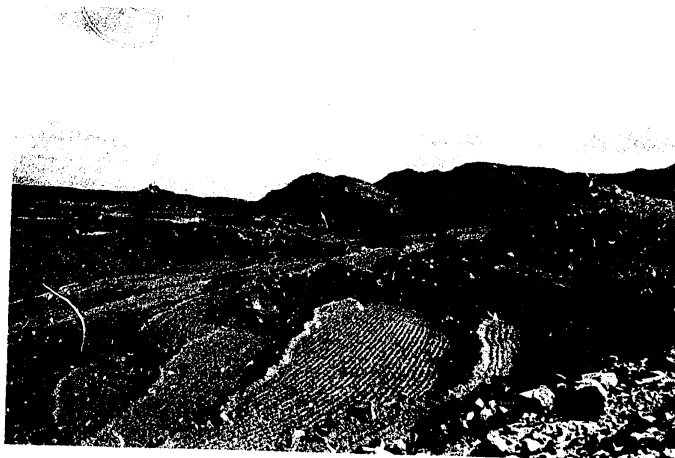




FIGURE 5. Growing millet in an irrigated field near Ibb (U/OU)

The major industrial crops of the country are cotton, coffee, *qat*, and tobacco. Cotton is cultivated in the Tihamah valleys. Depending on the availability of rain-induced flood waters, land planted to cotton in any one year has varied from 7,400 to 29,600 acres. Yemeni Mocha coffee is grown over a wide area in the mountains, usually on terraces, a few of which are irrigated from wells or springs. *Qat* is also grown in the mountains at altitudes ranging from 3,000 to 8,000 feet. The *qat* tree requires less care and can withstand greater extremes of weather than the coffee tree. Although statistics are not available, the production of *qat* in recent years apparently has been increased at the expense of coffee and some other crops due to the higher returns to the growers. Tobacco is grown in the Tihamah for domestic use, and it will probably become a more valuable crop when the cigarette factory in Al Hudaydah is completed.

Cotton production in the past has ranged from just over 11,000 metric tons in 1964/65 to as little as 500 metric tons in 1966/67. After recovering somewhat in 1967/68, production declined again through 1969/70 as the drought became more severe. With favorable rainfall in 1970/71 and a larger area under cultivation, a record output of possibly as much as 14,000 metric tons was expected. Cotton is purchased from growers at prices determined by the General Cotton Company, processed in the company's gin at Al Hudaydah, and sold in both domestic and overseas outlets. The company provides seeds, fertilizers, and insecticides, and extends production loans to farmers, assists growers with transporting crops, and operates five branch offices in the producing areas.

The production of coffee was reported to be over 12,000 metric tons annually before World War II, but it has stagnated at around 5,000 metric tons during the last two decades. A downward trend in production is expected because of the ageing of the existing trees with little replanting, poor husbandry techniques, inadequate water supply during recent droughts, disruptions from the long period of hostilities within the country, and competition for the better lands from *qat*. Coffee exports have fallen during the last 5 years well below 5,000 metric tons yearly although they have increased in value. Export marketing has been adversely affected by the small size of the crop and by annual variations in production. Marketing techniques, particularly grading, are still rudimentary and ineffective, and the beans as marketed vary widely in size, color, and extraneous matter. The Ministry of

Agriculture, with the help of a coffee expert from the Food and Agriculture Organization, is currently preparing for consideration a program to promote coffee cultivation through various incentives. This program would increase yields and limit the displacement of coffee trees by *qat* plantations, possibly by increasing the tax on *qat* and rescinding the tax currently levied on coffee. A 1972 order to destroy *qat* shrubs has been largely ignored.

(2) **Livestock**—Livestock plays an important role in the economy of the Y.A.R. as a source of food, as beasts of burden for farm work, and as a source of hides and skins for export. Most Yemeni farmers own at least one cow and a number of sheep, while a small number of seminomadic tribes in the interior depend for their livelihood largely on herds of cattle and goats. Sheep and goats provide meat, milk, and skins. Camels and donkeys are the principal means of transportation in most areas. Oxen are used extensively for tilling the fields. Central markets for the sale of camels, cattle, and donkeys are a feature of commercial life in many towns and villages. Horses are almost exclusively the property of the army, government officials, and sheikhs.

The livestock population was estimated by the government at about 10 million in 1970, of which about 85% were sheep and goats. As many as 4 million head are believed to have perished from lack of pasture during the 1966-70 drought period. Exports of hides and skins increased through 1969 to a value of US\$1.7 million or 22% of total exports. However, such exports dropped sharply in 1970 to about \$0.4 million, as herds were being rebuilt.

b. Fisheries

Fishing, until recently, was done by primitive methods and was restricted to the shallow waters of the Red Sea (Figure 6). Most of the catch, estimated at 3,000-5,000 metric tons annually, is consumed locally



FIGURE 6. Yemeni fishermen returning with catch (C)

along the coast. Regulation of fishing has been by the fishermen themselves, who, in many coastal towns, have organized guilds, each of which has been controlled by a single family for generations.

Although the Y.A.R.'s commercial fish resources have not yet been fully surveyed, the potential of the fishing industry appears promising. Recently, development of fisheries has received increasing attention from both the government and the private sector. A Kuwaiti fishing company, under license from the government, surveyed the commercial feasibility of catching shrimp in Yemeni waters during 1968-70 and since April 1970, has been catching shrimp for export at an average rate of about 80 tons monthly. A private fish canning factory is among the proposed projects currently under consideration by the government.

c. Forestry

Forests exist only in fertile valleys and a few highland areas, and cover less than 1% of the land. The only tree of commercial value is the *tulk*, which is said to be termite resistant and is used to make furniture for domestic use.

2. Fuels and power (C)

a. Fuels

Yemen has no developed sources of fuel. All commercial energy requirements—107,000 tons of petroleum products in 1970—are satisfied by imports. Until recently, the two major suppliers were British Petroleum/Shell Oil and the U.S.S.R. By 1972, however, Saudi Arabia had become a more important supplier of petroleum products. Since the current contract with British Petroleum/Shell will expire soon, other petroleum companies are bidding to supply the Yemeni market.

Prospects for finding exploitable oil and natural gas deposits in the Salif peninsula and the coastal Tihamah region are thought to be favorable. Although exploration to date generally has been disappointing, a recently discovered deposit in the western Tihamah region may be commercially exploitable. Further exploration is being done under various geological surveys and drilling programs conducted under bilateral assistance agreements. The Yemen Oil and Mineral Industries Company, formed in 1969 jointly with the Algerian National Oil Company (SONATRAC), has been drilling for oil in the Tihamah region.

The fuel needs of rural Yemeni are satisfied by firewood, charcoal, and dried camel dung (Figure 7). Future fuel supplies conceivably could include a high

hydrocarbon-content soft oil shale discovered in the Bani al Harith area in mid-1970.

b. Electric power

Electric power facilities in Yemen are small and inadequate. There are no exploitable quantities of indigenous fuel, and the hydroelectric potential is minimal. All of the generating installations are diesel and use imported fuel. At the end of 1971, the estimated installed capacity was 4,000 kilowatts (kw.), and production during the year was approximately 14 million kilowatt hours (kw.-hr.), only 40% of the production capacity. Per capita annual production amounted to a meager 2 kw.-hr.

Electricity is generated in only a few towns in limited quantities, and usually on a part-time basis. The Al Hudaydah powerplant (1,200 kw.) is the largest in the country. Four other powerplants are located at Al Hudaydah (700 kw.), Bajil (450 kw.), San'a' (700 kw.), and Ta'izz (700 kw.). Electricity is provided by 20-kw. to 30-kw. diesel sets operating a few hours daily in several other urban areas. Few towns and villages have electricity.

There are no transmission networks in the country. Powerplants operate independently and distribute electricity to local areas by means of small and inefficient systems. Electricity is supplied to consumers as 1- and 3-phase, 50-cycle, alternating current at 220 volts.

3. Metals and minerals (U/OU)

Except for the production of salt from the rock salt deposits in the Salif peninsula, mineral resources have not been commercially exploited. So far, exploration

for most minerals has been disappointing. Copper ore deposits have been found in a number of places over the years, but there has been no known exploitation.

Rock salt, located in the Salif and Al Luhayyah regions, is of unusually pure quality. It is exploited by the government-owned Salif Salt Company. The bulk of the annual output of about 90,000 tons is exported, primarily to Japan, yielding about the equivalent of US\$600,000 annually. The company is expanding its operations and modernizing its equipment with technical help from a Romanian concern and a loan of 700,000 kuwaiti dinars (almost US\$2 million) from the Kuwait Fund for Arab Economic Development.

Semiprecious gem stones are fairly common in Yemen, but their exploitation is small, and exports are insignificant. The stones are picked from the surface of the ground and hand polished by Yemeni craftsmen.

Small quantities of gypsum, asbestos, and other building materials are produced for local consumption. Data on output are not available.

4. Manufacturing and construction (C)

a. Manufacturing

Despite some growth since 1970, manufacturing plays a minor role in Yemen's economy, employing only about 8,000 persons and contributing less than 3% to GDP. Manufacturing is confined to a few relatively large plants producing textiles and cement and a number of light industries producing consumer goods and construction materials. Handicraft industries, although still common in rural areas, are declining in importance. Most plants are in the country's three main cities—San'a', Ta'izz, and especially, Al Hudaydah. An unofficial source estimated that there were only 64 industrial enterprises in the country in 1969, of which 21 were state owned.

Manufacturing appears to have increased since 1969 with the easing of civil strife and the resultant return of confidence. In particular, a sharp expansion in the production of construction materials such as cement, bricks, and gravel has accommodated the rising domestic demand. Cotton textile production has also increased sharply since 1968. The following tabulation shows available data on the output of manufactures in 1969-70:

	1969	1970
Cotton cloth (million meters)	5.5	7.6
Aluminum plates (metric tons)	87.0	103.0
Paint (thousand imperial gallons)	8.0	3.6
Soft drinks (million bottles)	4.3	5.4

Manufacturing facilities under construction in 1972 included a shoe factory, a cement plant, a cold-storage

FIGURE 7. Dung cakes are sold in the market for fuel (U/OU)



plant, and a number of furniture workshops. The cement plant was being built with Soviet aid, but much of the new industrial activity reflects increased participation by the private sector financed largely by funds from Saudi Arabia.

State enterprises (excluding mixed companies) employ about 4,000 workers, or half the total industrial labor force. The largest single industry, textile manufacturing, employs over 2,300 in two state factories, one built by the Chinese in San'a' and the other in Bajil.

A variety of handicraft industries still exist, but they appear to be declining in importance. Handwoven textiles are still produced, particularly along the coast, but the techniques used are so antiquated that they were abandoned in Pakistan and India some 200 years ago. Low productivity and high costs of materials along with competition from foreign and domestic factory-produced textiles have led to a decline in this handicraft. In the villages hides are tanned to supply local needs. One shop makes large carpets by piecing together tanned goat and sheep skins, cut into squares, diamonds, and other shapes. All of the better hides are exported untanned. The quality of decorated daggers (a former Yemeni specialty) has decreased steadily since the emigration of Jews from Yemen, and daggers made by Jewish craftsmen have become very rare and sell at high prices. Pottery is crudely shaped by hand in shops in villages and small towns, providing utensils for cooking and water storage.

The government widened the scope of incentives available for new industrial ventures in 1970 in an attempt to encourage new investment. Investors who meet conditions set forth in the law are granted exemption from customs duties for imports of machinery and equipment for 5 years, reduction of up to 10% of duties on imports of raw materials needed for production, and full exemption from income taxes for 5 years from the date of commencement of production. The law also guarantees foreign capital equal status with national capital in the application of laws and regulations. Since the new legislation was enacted, about 15 projects have been approved and 25 more are under consideration, representing a variety of manufactures including textiles, food processing, carpentry and furniture, publication and paper binding, aluminum stamping, paints, and plastics. The Yemeni Company for Industrial Development, whose capital comes from both private and public sectors, plans to establish 210 factories for light industry. It is being advised by an expert from the United Nations Industrial Development Association.

b. Construction

Construction in the Y.A.R. increased sharply during 1963-67 due to increased government building, plus

demands created by an inflow of civilian and military personnel from Egypt. Funds from Egypt and Saudi Arabia provided most of the capital for this construction. Moreover, private investors became more interested in the acquisition of land and buildings as a hedge against inflation.

The abrupt withdrawal of Egyptian troops and civilian personnel in 1967 and the conditions of uncertainty which then prevailed brought that construction boom to an end. In 1969, some revival took place, due mainly to the abatement of civil strife, but also to the inflow of private funds from Yemen (Aden) in anticipation of the nationalization measures in that country. A major expansion in construction of residential and commercial buildings has taken place since 1970, financed largely with Saudi Arabian funds. The current construction boom is based on the need for housing for Yemenis returning from Saudi Arabia and the influx of foreigners to San'a' and Ta'izz—including many Aden businessmen and their capital—as well as on the increase in the level of private investment in commercial and industrial enterprises. The development of Al Hudaydah as Yemen's Red Sea port and stepped up public investment in development projects have also contributed to the boom.

5. Domestic trade (U/OU)

Domestic trade contributes little to the Yemeni cash economy. Commerce is limited primarily to the few urban areas. As subsistence agriculture predominates, domestic trade in food is small in volume. Surplus foods and livestock are bartered in local village bazaars (Figure 8), but only a few products such as grapes are traded among villages. Handwoven cloth, once important in local barter trade and for shipment to the cities, has given way to machine-made cloth.

Commercial markets of the three major cities, San'a', Ta'izz, and Al Hudaydah, include both modern shops and open air bazaars; however, most of the goods sold in the urban markets are imported, including the bulk of the food. The relatively large number of Jewish artisans and craftsmen who formerly operated shops providing consumer goods to the city dwellers have emigrated to Israel.

C. Economic policy and development (C)

1. Policy

The government exercises limited control over the country's day-to-day economic activity at both the national and municipal levels by its participation in banking, commerce, and transport; however, it has not had much influence over the country's recurring problems of a persistent budget deficit and inflation.

The deficits, which were equal to about 70% of the sum of current and development expenditures between FY66 and FY69, reflect the government's inability to control expenditures and collect revenues, as well as a scarcity of revenue-producing sources. Some improvement in the collection of revenues took place in FY71, and more should follow the building of additional customs houses along the Saudi border. Municipal governments and public enterprises have acted autonomously in keeping for their own use unknown portions of the revenues collected for the central government. The lack of statistical data encourages this practice. Yemen's inflation has been caused by budget deficits and a high rate of lending to the private sector. The government has demonstrated little capacity or inclination to deal with this problem.

a. Budget

Yemen's first published budget was for FY65 (1 July 1964-30 June 1965). Budgeting at the national level so

FIGURE 8. A village market in the highlands. Yemenis gather on a designated market day to barter food and livestock. (U/OU)



far has been of limited value as an instrument to control government spending, because the budget is often prepared toward the end of the fiscal year to which it pertains. The budget represents essentially the sum of ministerial estimates of receipts and expenditures, with little emphasis on governmental fiscal programs or monetary policy. In addition, the budget does not give a complete picture of public sector financing, as large amounts of revenues and expenditures are not included. Foreign-financed public investment is not included, nor are all capital transactions financed from current expenditures. Payments to tribes and subsidies to returning Yemenis following the settlement of civil strife and the political settlement with the royalist factions also were treated as extra-budgetary expenditures. There is no systematic follow-up on expenditures, audit of government accounts, or preparation of final accounts.

Taxes are the major source of government revenue, accounting for about 80% of the total in FY70 and 75% in FY71 (Figure 9). Taxes on foreign trade account for about one-half of total revenues; in FY70 they comprised import duties, a 12% export tax on *qat*, a 5% defense tax on imports and exports, and a 2% statistical tax on imports. Customs duties alone accounted for about 32% of total revenues. Although

FIGURE 9. Estimated government revenues and expenditures (U/OU) (Thousands of U.S. dollars)

	FY70	FY71
Revenues:		
Tax revenues on:		
Income, profits, and property.....	2,387	4,770
Production, consumption, and domestic transactions.....	1,303	2,122
International trade.....	8,263	11,059
Religious and other taxes.....	1,556	1,509
Non-tax revenues:		
Departmental revenues.....	2,702	4,321
Proprietary receipts.....	740	687
Total.....	16,951	20,176
Expenditures:		
Defense and security.....	16,785	19,435
Health and public works.....	1,762	1,372
Education.....	1,057	2,110
Transportation and communications.....	346	328
Subscriptions to international organizations.....	2,099	294
Pensions, contributions, food grants, and other transfers.....	247	250
Other expenditures, including extra-budgetary outlays.....	6,490	12,033
Total.....	28,786	35,842

receipts from customs rose rapidly from FY67 to FY70, they stagnated somewhat in FY71 as Yemen's major source of imports shifted from the People's Democratic Republic of Yemen (P.D.R.Y.) to Saudi Arabia, and customs offices had not been established on the northern borders. A major new source of government tax revenue was created in 1968 with the introduction of taxes on income and profits.

Nontax revenue, consisting of fees and other service charges collected by government departments, increased threefold from FY67 to FY76. Most of the increase resulted from improved collection measures instituted by the government.

Available expenditure figures, including extra-budgetary expenditures, are estimates based on incomplete data and indicate, at best, general magnitudes and trends. Total current expenditures increased over 130% between FY67 and FY70. Expansion was concentrated in defense and internal security, which increased as a share of total current

expenditures from 47% in FY67 to 58% in FY70 and about 55% in FY71. Other categories of current expenditures increased also but at a lesser rate. Following the political settlement of July 1970 with the royalists, a sharp rise in expenditures was necessitated by payments to the northern tribes and outlays for setting up government departments and services in the north.

Yemen's recurring deficits on current expenditure account have usually been financed by issuing new currency against government treasury bills and by advances from the Yemen Bank for Reconstruction and Development (YBRD). External financing, primarily in the form of commodity and project loans, has been used to finance development expenditures (Figure 10). Measures to reduce the size of the deficit have included new taxes, reduced outlays for transportation, communication, and public works, and some cuts in extra-budgetary outlays, particularly payments to tribes.

FIGURE 10. Financing of current and development budgets (C)
(Thousands of U.S. dollars)

	ACTUAL					PLANNED FY71
	1966/67 FY67	1967/68 FY68	1968/69 FY69	1969/70 FY70	July 1970- Feb. 1971	
Revenues:						
Tax revenues.....	4,266	5,160	7,977	13,509	8,873	18,764
Nontax revenues.....	892	1,132	2,930	3,442	2,194	14,958
Total.....	5,158	6,292	10,907	16,951	11,067	33,722
Current expenditures:						
Defense and security.....	5,845	8,026	10,985	16,785	9,444	19,644
Health and education.....	835	893	1,153	2,060	1,756	4,844
Other.....	5,813	6,027	13,428	9,941	16,038	10,708
Total.....	12,493	14,946	25,566	28,786	27,238	35,196
Deficit on current account.....	7,335	8,654	14,659	11,835	16,171	1,474
Development expenditures*	4,931	3,687	4,809	16,910	14,871	na
Overall deficit.....	12,266	12,341	19,468	28,745	31,042	na
External financing:**						
Commodity and project loans.....	6,191	3,688	4,809	16,910	14,870	na
Cash loans.....	0	0	0	2,432	8,514	na
Other.....	5,176	5,718	0	0	0	na
Total.....	11,367	9,406	4,809	19,342	23,384	na
Domestic financing:						
Yemen Currency Board.....	384	1,874	12,315	7,067	6,859	na
YBRD.....	515	1,061	2,344	2,336	799	na
Total.....	899	2,935	14,659	9,403	7,658	na

na Data not available.

*The riyal counterpart of project and commodity loans utilized.

**Does not include grants of relief food shipments.

f. Banking developments

The currency law promulgated in February 1964 designated the Yemeni rial (YRD) as the currency unit for Yemen, replacing the silver standard Maria Theresa thaler as legal tender. The rial was legally defined as equal to 0.829 grams of pure gold, about 93 U.S. cents in 1964; however, the value of the rial in the free market depreciated steadily until mid-1970 to a low of about 17 U.S. cents, but rose to about 18.5 U.S. cents by the end of the year. Remaining relatively stable until the U.S. devaluation in late 1971, the free market value of the rial rose further to about 20.4 cents in mid-1972. Average annual rates of exchange are shown in Figure 11 for the period 1966-71.

The 1964 currency legislation established the Yemeni Currency Board, which was empowered to issue currency, mint coins, and maintain the internal and external value of the currency. All currency issued must be fully backed either by gold, silver, or convertible foreign exchange and securities in convertible currency issued or guaranteed by foreign governments. The law did not give the board supervisory powers over banks, nor were its relations with the government defined, apart from the extension of credit to the government in the form of treasury bills. Draft legislation for establishing a central banking institution to replace the Currency Board is under consideration by the government.

Commercial banking facilities in Yemen currently are provided by the Yemen Bank for Reconstruction

and Development (YBRD), the British Bank of the Middle East, and the Arab Bank Ltd. The YBRD is a public organization with a minority private interest. In addition to its commercial banking services, the YBRD is empowered to establish and participate in capital or corporate enterprises, act as a government bank, and administer foreign exchange controls on behalf of the Foreign Exchange Control Board (see below, Foreign trade). Since establishment of the YBRD in 1962, over 70% of its loans and investments have been in the public sector. Because of this preoccupation with the public sector, the YBRD was never able to provide adequately for the needs of the private sector. Banking facilities had been provided by Egypt's Bank Misr from 1962 through 1967; however, its activities were liquidated following the Egyptian disengagement from the Yemeni civil war. To fill the gap, the Yemeni Government is encouraging foreign banks to open branches in Yemen. The British Bank of the Middle East opened its first branch in Al Hudaydah in 1971 and a second in Ta'izz in 1972. Early in 1972, branches of the Arab Bank Ltd. were opened in San'a' and Al Hudaydah.

In the absence of a central bank, monetary policy in Yemen has been largely passive. Interest rates have not been changed appreciably since early 1966. Those for savings and time deposits (3% and 4.5%, respectively) are low in comparison with rates prevailing in international money markets and in other developing countries.

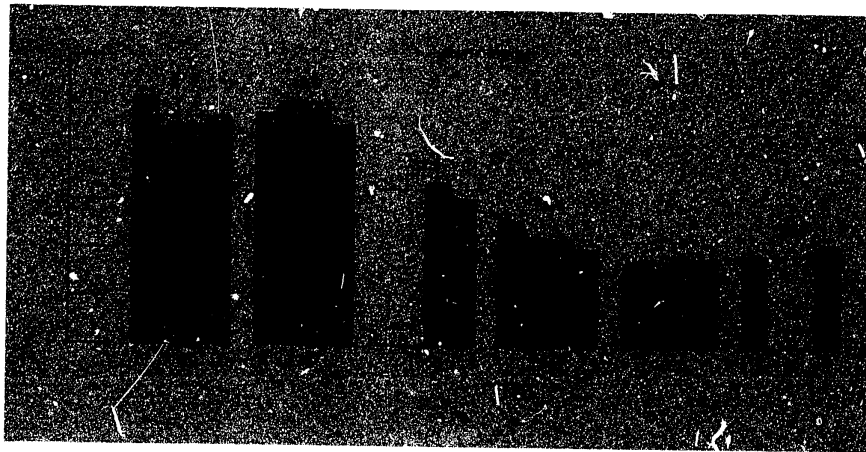


FIGURE 11. Exchange rate for Yemeni rial in the free market (U/OU)

The country's money supply has increased sharply since 1966, nearly tripling in the years through 1969. These increases have resulted mainly from sizable deficits in the budget and from a high volume of lending to private parties. The result has been considerable inflation; prices of both imported and domestically produced goods have risen sharply, as could be expected, and wages have increased correspondingly.

2. Development

Planning for economic development in the Y.A.R. is still in the formative stage. A High Council of Planning was established in 1968 at the ministerial level to draw up an economic development plan and to coordinate economic and social policies of the country. A Technical Office, with the assistance of a team of foreign advisers from the International Bank for Reconstruction and Development, is presently preparing the groundwork for a comprehensive economic development plan that is expected to be ready in 1973.

Development efforts in the past decade have been financed almost entirely from external sources. Foreign loans for development projects increased from about \$5.5 million in 1968 to \$13.1 million in 1969 and to \$18 million in 1970. The major part of the public sector investment has been for infrastructure, although it included two major manufacturing plants (textile and cement), several power generating plants, and a number of agricultural projects. In addition, the government has created a number of public companies and mixed public and private enterprises to carry on trade and to run manufacturing plants and public utilities.

Private investment in the past was limited primarily to agriculture—expanding the use of fertilizer, introducing practical farm training, and improving the irrigation systems—and to trade. During the civil war, the boom in construction to accommodate the Egyptian military administration was financed partly from private sources. Since 1969 private investment in construction and manufacturing has increased, although no measure of the change is available; a sharp increase in private investment since the second half of 1970 apparently reflects increased confidence in the economy. Foreign capital has flowed into the Y.A.R., mainly from Saudi Arabia.

3. Manpower

Reliable estimates of the level of employment, unemployment, and size of the total labor force are

not available. Rough estimates by the Yemeni Ministry of Labor put the labor force at about 2.8 million, or roughly 40% of the total population. Over 2 million are employed in agriculture, about 400,000 in commerce and construction, almost 50,000 in the civil service and the armed forces, and 8,000 in industry. An estimated 300,000, or 11% of the labor force, are unemployed.

Unemployment and underemployment were aggravated in the 1962-67 period by the drought and the disruptions caused by the war. Since mid-1970, a substantial increase in employment has occurred, particularly among skilled and semiskilled workers in manufacturing and construction. Employment in the government has also increased, especially in the new areas that came under the control of the central government following the political settlement.

D. International economic relations

1. Foreign trade (C)

Yemen's foreign trade deficit has widened since 1965. Exports were nearly constant during 1964-69, but dropped sharply from \$7.9 million in 1969 to \$5.8 million in 1970, when crops of the major exportable commodities—cotton, *qat*, and coffee—were reduced by the drought. Total exports have continued to decline even though agricultural output has improved since 1970. Coffee and *qat* accounted for about four-fifths of total exports in 1970 (Figure 12).

Imports have increased at a rapid rate; in the 6-year period ending in 1970, they more than tripled in value. Contributing to the increase was the necessity to import large quantities of food during the period when domestic output declined. Foodstuffs accounted for between 46% and 60% of recorded annual imports during 1964-70. In 1970, foodstuffs and manufactured consumer goods together accounted for 74% of total imports, compared with 59% in 1969.

The direction of Yemen's trade has changed rapidly since the resumption of relations with Saudi Arabia in mid-1970, at the expense of Yemen (Aden)—the P.D.R.Y.—in particular.³ Yemen's own port of Al Hudaydah is growing rapidly in importance as an entrepot, and the country seems to be breaking other traditional commercial ties with Aden. By 1970 the share of Yemen's commodity exports and imports directed through the P.D.R.Y. had dropped to 25% compared with 40% in 1965 and as much as 80% in

³Almost none of the trade with Saudi Arabia is recorded at the present time, since Yemen has not yet established enough customs houses on its Saudi border.

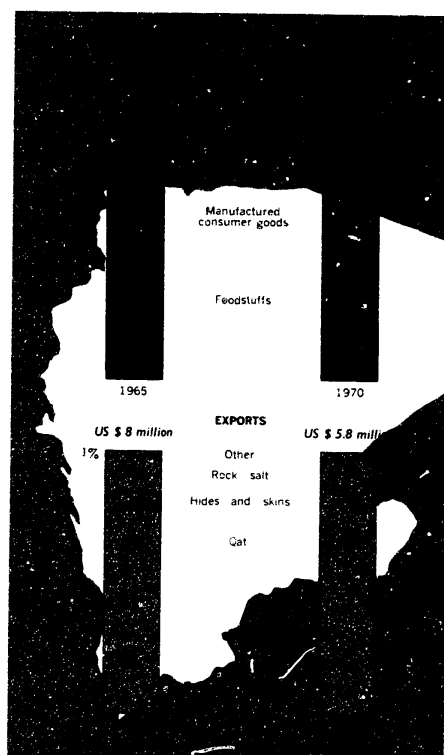


FIGURE 12. Percentage distribution of commodity trade (U/OU)

earlier years. Among the growing markets for Yemen's exports are the U.S.S.R. and Japan, which accounted for 33% and 12% of total exports, respectively, in 1970. Major sources of imports are Saudi Arabia and the P.D.R.Y., followed by Australia, the U.S.S.R., and France. On the whole, the sources of the country's imports are fairly diversified, including many of the Arab countries, Western and Eastern European countries, the People's Republic of China, and other Asian countries.

The government attempts to maintain some controls on international trade. Commodity exports and imports must be licensed, which involves paying a small tax and, in some cases, acquiring special government permission to trade in a specific commodity. Foreign exchange proceeds from exports

must be surrendered to authorized banks (YBRD branches) within a specified time. Trade with Israel is banned, and legislation provides that the Minister of Economy may prohibit trade with other countries.

Imports and exports of foreign exchange in the form of gold, silver, currency, or drafts come under government control. Imports must be channeled through authorized banks, and exports must have the prior approval of the Ministry of Economy. Foreigners and nonresidents are exempt from controls on imports, however, and may remit abroad as much as 50% of their annual incomes. Educational remittances are allowed within a limit equivalent to about US\$74 per month, and foreign exchange allowances for medical treatment abroad are freely granted, as are allowances for travel.

The YBRD is the sole official dealer in foreign exchange and is responsible for implementing foreign exchange regulations. The bank's foreign exchange resources are derived largely from surrendered export proceeds and from those remittances from Yemenis living abroad that pass through official channels—an estimated 40% to 45% of the total of such remittances in 1970, having a value equal to some \$45 million.

The administration of exchange controls is vested in the Foreign Exchange Control Board, established in 1967. This board since 1970 has not been responsible for fixing the bank rate of exchange, but it continues to collect data on the free market rate for the YBRD. The major function of the board is now limited to the licensing of imports and exports.

A large proportion of trade circumvents official channels to avoid relinquishing foreign exchange earnings and to avoid the licensing tax, as well as the red tape involved in acquiring a license. Some 65% to 70% of foreign exchange transactions in Yemen pass through the free exchange market, which is not formally organized and has been dominated for a long time by a small group of merchants.

2. Balance of payments (C)

The growing current account deficit, which reached about \$20 million in 1970, has made Yemen increasingly dependent on foreign aid. By 1970, the value of exports as a percentage of imports had dropped to 6.5% compared with 16% in 1966. Transfers through official channels by Yemenis working abroad and commodity grants increased rapidly through 1970, but failed to expand as fast as imports. Deficits have been offset by increased inflows of official project loans and private capital, which by 1970 more than covered the current account deficit and allowed for a \$10 million increase in foreign assets of the monetary sector in that year (Figure 13).

FIGURE 13. Estimated balance of payments (C)
(Millions of U.S. dollars)

	1966	1969	1970
Current account:			
Trade balance.....	-37.7	-37.7	-82.6
Exports*.....	7.1	7.9	5.8
Imports**.....	-44.8	-65.6	-88.4
Remittances and transfer receipts.....	31.5	47.2	62.7
Remittances by Yemenis working abroad.....	30.0	42.0	45.0
Official and private commodity grants.....	1.5	5.2	17.7
Balance on current account.....	-6.2	-10.5	-19.9
Capital account:			
Nonmonetary capital.....	5.4	10.5	29.9
Official project loans, net.....	9.4	13.1	17.9
Other official loans, net.....	0.0	0.0	8.8
Egyptian settlement of war debts***.....	0.0	0.0	0.6
Private capital (including net errors and omissions).....	-4.0	-2.6	2.6
Monetary movements (increase in assets -).....	0.8	0.0	-10.0
Yemen Currency Board.....	0.8	0.0	-6.2
YBRD.....	0.0	0.0	-3.8

*Customs figures for exports, except *qat*, have been adjusted for coverage of unrecorded exports and converted into dollars at the average daily rate for the year. P.D.R.Y. recorded imports of *qat* from the Y.A.R. have been added as an approximation of total exports of that commodity.

**Customs figures adjusted for coverage of unrecorded imports and converted into dollars at the average daily rate for the year.

***Claims on Central Bank of Egypt.

Foreign exchange reserves of the Yemen Currency Board remained at a relatively stable \$1.5 million from 1966 through 1969, and they have increased since 1970. Yemen also has foreign assets valued at about \$70 million, denominated in accounting sterling, that are held by the Central Bank of Egypt. However, Yemen has not been able to tap these resources, nor does it appear likely that it will be able to do so in the future. During 1966-69 Yemen's meager reserves were under pressure because of the deterioration of the balance of payments, and the value of the rial depreciated sharply in the Yemeni free market.

3. Foreign aid (S)

Foreign aid has been the mainstay of the Yemeni economy, financing most of the infrastructure development and offsetting the country's chronic current account deficits (Figure 14). Major aid sources have included both Western and Communist countries, as well as other Arab states and international organizations. Since 1969 West Germany has emerged as the dominant Western contributor, while Saudi Arabia is the dominant Arab country. The People's Republic of China has also been providing aid for development projects. Other current sources for infrastructure development include the U.S.S.R., Kuwait, Algeria, and various international and United Nations agencies.

Before mid-1967, when Yemen expelled the U.S. aid mission, the United States was the largest non-

Communist source of aid, with programs that included scholarships, P.L. 480 wheat shipments, the construction of the Ta'izz water supply system and other local water development facilities, a major road from Mocha through Ta'izz to San'a', and a spur road from Ta'izz to the border of Yemen (Aden). Total U.S. aid authorizations from U.S. FY53 to FY70 amounted to \$42.9 million, all in the form of grants. The United States has provided only small amounts of emergency relief assistance since the severance of diplomatic ties in 1967. With the recent resumption of diplomatic relations, however, the United States may again provide aid to Yemen.

West Germany had contributed to Yemen's development for a number of years before its aid official: were ousted in 1965. Several agricultural projects valued at an estimated \$5 million were financed by West German aid. In July 1969, when diplomatic relations with West Germany were resumed, credits were negotiated for over \$3 million for the airfield at San'a' and the asphaltting of the San'a'-Ta'izz road and for \$1.25 million for commodity imports.

Saudi Arabia has emerged since 1970 as the major Arab country providing aid and has lent the Yemeni Government over \$50 million for budget support, project aid, and tribal support. It has also provided an unknown amount of money directly to tribal units and to anti-P.D.R.Y. groups and individuals. Kuwait too has become more active in Yemen, providing funds in

FIGURE 14. Known economic aid to Yemen* (S)
(Millions of U.S. dollars)

COUNTRY (EARLIEST CITED LOAN)	LOANS CONTRACTED THROUGH 1970		LOANS CONTRACTED SINCE 1970**
	Amount contracted	Drawings	
U.S.S.R. (1956).....	98.4	64.6	na
People's Republic of China (1958).....	57.0	47.0	22.0
United States (1953).....	***42.7	42.7	na
West Germany (1965).....	18.6	7.7	na
Egypt (1963).....	10.6	19.8	na
East Germany (1956).....	10.3	9.1	na
Saudi Arabia (1970).....	7.2	7.2	45.2
United Nations (1953).....	4.1	6.1	6.8
Italy.....	0	0	5.0
Kuwait (1968).....	4.1	2.1	4.3
Algeria (1968).....	4.0	3.0	na
Yugoslavia (1963).....	2.2	0.5	na
Libya (1970).....	1.4	na	2.8
Hungary (1964).....	2.3	2.3	na
Iraq (1971).....	0	0	9.0
Bulgaria (1965).....	0.4	0.4	na
Czechoslovakia (1966).....	0.1	0	na
IBRD (1971).....	0	0	7.9
Qatar (1972).....	0	0	1.0
Total.....	267.0	222.9	104.0

*Unknown additional amounts of aid have been given in the form of project aid, materials, and gifts.

**Data on drawings since 1970 are not available.

***All U.S. aid was grant aid.

†Repayments of \$300,000 and \$400,000 were made in 1969 on two loans.

the form of project loans through the Kuwait Fund for Arab Economic Development.

Communist economic aid to Yemen began several years before the fall of the Imamate in 1962. Some food was provided as a grant, but the bulk of Communist aid consisted of loans for construction. The U.S.S.R. completed building the port of Al Hudaydah in 1961 and added a hospital, a clinic, and three schools under a 1964 grant. The road from Al Hudaydah to Ta'izz, built by the U.S.S.R., was officially opened in September 1969. The U.S.S.R. is currently constructing a cement plant, a number of water projects, and a fish processing plant. In addition the U.S.S.R. provided nearly \$80 million in military aid through 1970. The People's Republic of China completed the Al Hudaydah-San'a' road in 1961 and has since resurfaced it and also built a textile plant in San'a' and is constructing a road from San'a' to Sa'dah. In addition, China has provided hospitals and technical schools as well as other building projects.

The Y.A.R. received most of its military assistance, largely grants or discounts, from the U.S.S.R. (\$77 million) and Eastern Europe (\$36 million) during the mid-1960's. Soviet failure to follow through on

promises made in 1971 to supply new arms, in addition to the awareness that Moscow has expanded its military aid program with the Y.A.R.'s long-standing adversary, Yemen (Aden), resulted in withdrawal in 1972 of most of the U.S.S.R.'s military mission, as well as tenders to several Arab countries and the United States for new weaponry. Prior to 1972, Western military aid had amounted to less than \$7 million.

Yemen's foreign public debt, somewhat in excess of \$125 million, has resulted in a debt service burden that appears excessive in relation to current foreign exchange earnings. Since 1970, however, Yemen has continued to ask for and to receive loans from a number of foreign sources. Service payments on several loans have become due in recent years, but payments have not been made, with the exception of one installment paid on each of two Egyptian loans in 1969. During the same year, Yemen reached an agreement with the U.S.S.R. to reschedule for 1976 an installment due in 1969 on a 1956 loan. Postponement of installments on other loans is being negotiated, and it is probable that very little of the debt outstanding will ever be paid.

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Places and features referred to in the General Survey (U/OU)

	COORDINATES				COORDINATES				
	°	'N.	° 'E.		°	'N.	° 'E.		
Abā as Su'ūd, Saudi Arabia.....	17	28	44	06	Kirsh, Yemen (Aden).....	14	37	46	45
Aq Dali'.....	13	42	44	43	Maḍīq Kamarān (<i>channel</i>).....	15	20	42	38
Aden, Yemen (Aden).....	12	46	45	01	Mafhaq.....	15	07	43	54
Aḥmadī.....	14	48	42	57	Manākḥah.....	15	07	43	44
Al Bayḍā'.....	13	58	45	36	Ma'rib.....	15	30	45	21
Bayt al Faḡīh.....	14	31	43	17	Maydi.....	16	18	42	48
Al Hudaydah.....	14	48	42	57	Mocha.....	13	19	43	15
Al Luḡayyah.....	15	43	42	42	Najran, Saudi Arabia (<i>oasis</i>).....	17	30	14	10
A' Luhayyah (<i>port</i>).....	15	42	42	42	Perim Yemen (Aden) (<i>island</i>).....	12	39	43	25
Ar Rāhidah.....	13	20	44	17	Qa'tabah.....	13	51	44	42
Asir, Saudia Arabia (<i>region</i>).....	19	00	42	00	Qizān, Saudi Arabia.....	16	54	42	32
As Salif.....	15	18	42	41	Ramlat as Sab'atayn (<i>dunes</i>).....	15	30	46	00
At Ta'if, Saudi Arabia.....	21	16	40	24	Ridā'.....	14	28	44	53
At Turbah.....	13	02	43	54	Riyadh, Saudi Arabia.....	24	38	46	43
Az Zaydiyyah.....	15	18	43	04	Rub' al Khali (<i>desert</i>).....	20	00	51	00
Bab el Mandeb (<i>strait</i>).....	12	30	43	20	Sa'dah.....	16	57	43	44
Bahrain (<i>island</i>).....	26	00	50	30	Salif, Ra's as (<i>point</i>).....	15	19	42	40
Bājl.....	15	04	43	17	San'a'.....	15	23	44	12
Balaq.....	15	19	45	23	Ta'izz.....	13	38	44	02
Bani al Harith.....	15	38	44	10	Tihāmah (<i>area</i>).....	14	03	47	55
Bani al Harith (<i>tribal area</i>).....	15	38	44	10	Uqdah, Saudi Arabia.....	14	07	43	05
Barat.....	13	35	44	39	Wādī Zabīd (<i>wadi</i>).....	14	09	43	18
Da'ān.....	16	01	43	50	Zabīd.....	14	12	43	18
Dhamār.....	14	46	44	23	Zahrān, Saudi Arabia.....	17	40	43	30
Dhofar, Saudi Arabia (<i>region</i>).....	17	00	54	10					
Hadhramaut (<i>region</i>).....	15	00	50	00	Selected Airfields				
Ḥajjah.....	15	42	43	34	Al Bayda.....	14	06	45	26
Ḥaraḍ.....	16	28	43	04	Al Hudaydah New.....	14	45	42	59
Ḥarīb.....	14	57	45	30	As Salif East.....	15	18	42	52
Ibb.....	13	58	44	12	Qalat Marīnaf.....	16	00	43	11
Jiblah.....	13	56	44	10	Rawdah.....	15	28	44	13
Jidda (Juddah), Saudi Arabia.....	21	30	39	12	Sadah New.....	16	58	43	44
Jisayn.....	16	59	44	11	Sana South.....	15	19	44	12
Kamarān, Yemen (Aden) (<i>island</i>).....	15	21	42	34	Sukhne.....	14	48	43	26
Khawr Kathīb (<i>bay</i>).....	14	52	42	57	Taizz New.....	13	41	44	08

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