CHAPTER - VIII
CONCLUSIONS AND RECOMMENDATIONS
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The present concluding chapter briefly attempts to highlight the major findings of this modest research study. The current chapter also attempts to offer several major recommendations arising from this exercise. These recommendations may have considerable relevance to policy implications towards the approach and strategies for development of Republic of Yemen, in its social and economic sphere. It may also be mentioned that in some cases of the major findings the implications for Yemeni quest for development is so obvious that the possible course of action becomes apparent. This is especially the case with lessons to be drawn from the experiences of some of the neighbouring oil exporting countries. Thus, recommendations also emerge concurrently with some of the major findings.

The present day Yemen is unique in some respects but less fortunate to have languished for too long without the required institutional stability and resources for triggering rapid economic growth. Although endowed with relatively better Argo-climatic subregions within its territory than other countries in the Arabian desert expanse, the much needed development process had been intermittently hampered by political instability until recent times. While all around, the Gulf and most other Middle-Eastern countries have been
blessed with varying levels of oil production for export revenues. Yemeni people, until 1986-87, have been content with only the indirect benefits of the oil incomes of the other Arab nations. Some agricultural products, fish and refinery services at Aden mainly comprised direct export earnings of the two Yemens for a long time. The scenario of their foreign exchange earnings brightened to a considerable extent in the wake of oil booms of 1970s. Following the unprecedented steep rise in oil prices by several folds, the Middle East oil exporting countries, especially the Arab Gulf states began to be flooded with petro dollars. This situation gave rise to massive generation of economic activities in those countries and flow of financial aids and assistance from these countries to other less fortunate developing economies as funds were no longer acted as a constraint.

For nearly two decades, the two Yemeni countries had to be content with the fall out benefits arising from dispensation of oil wealth in the neighbourhood. The foremost consolation came in the form of obtaining a considerable share in the rapidly expanding employment market in Saudi Arabia and other Arab countries that increasingly depended on foreign workers. At one time, nearly two million Yemeni expatriate workers were employed in the Middle-East and their remittances amounted to the single largest source of foreign exchange earnings of their own countries. This was followed by, in no small measure, aids and assistance received from the Arab donor countries and the multi-lateral agencies set
up by them. Yemenis have also enjoyed preferential aid and trade relationships and concessional terms for processing crude oil at Aden’s refinery facilities.

However, the aid flows and other charitable dispensations from the rich Arabs have bred a sense of complacency among the recipient countries. These regular financial flows, apparently beneficial, have brought in their wake some negative fallout manifesting in entrenched consumption habits, high dependency on imported goods and greater degree of vulnerability to external shocks. The Republic of Yemen itself was caught in a somewhat similar awkward situation when the flow of Arab aids started falling with the declining oil revenues of donors and more so due to changing equations in the regional politics. The political factor has caused a greater shock in damaging the economy of the newly unified republic in the aftermath of the Gulf crisis, when around a million Yemeni workers were expelled from Saudi Arabia during 1990-91.

Yemen would not have been caught in such a serious situation if it had struck oil two decades before or at least around the first phase of the great oil boom. Both Yemens were not mere silent spectators to the scenario of valuable contribution by oil export revenues to the economies of the countries sharing the same geo-physical landscape in the Arabian desert. Despite prolonged political unrest, both Yemens had made great efforts to find oil in their territories for about three decades. All the earlier efforts were
sporadic and less intensive often interrupted by political upheavals. When at last oil was successfully struck and commercial level production began in 1986, the two great oil booms had already ran out their phase. More depressingly, when the Yemeni crude oil began to be exported in modest quantities in 1987, the international oil prices were in a somewhat recessionary state.

The pace of Yemeni development had been in a low key even before the two, often mutually antagonistic, independent territories united to constitute the Republic of Yemen in 1990. Both the territories had exhibited all the typical characteristics of the least developed countries, with social backwardness and stagnating economic activities. During the 1970s some progress could be achieved only in modern sector, largely due to the infusion of external finance in the form of remittances and foreign assistance for budgetary aid. However, the far larger traditional economic sector has failed to keep pace and remained stagnant over the same period. The adverse factors were the nature of marginally productive land, size and ownership of land holdings, lack of adequate irrigation facilities, inefficient farming techniques and drain on agricultural labour due to emigration. Moreover, budget deficits and an overwhelming proportion of money-supply remaining outside the banking system contributed to an annual inflation rate of over 40 per cent.

The continuous dependence on external aids and loans and paucity of funds for investment have always been
the major problems, accompanied by persistent natural disas-
ters in the form of droughts or floods and political unrest,
that have been plaguing the Yemens during the 1970s and most
part of the 1980s. If it was not a natural disaster, then it
would be some political strife and in either case economic
crisis persisted with the Yemeni situation. Prior to unifica-
tion both Yemens faced similar economic problems and the
unified Republic of Yemen inherited these problems and chal-
lenges. These were low growth, rising unemployment and under-
employment large deficits in balance of payments and
budgets, extensive use of bank credit for financing
the fiscal deficits, negative domestic savings, intense
inflationary pressures and mounting external debts. Even the
external aids and workers’ remittances were on the decline
for both the Yemens.

Despite the legacy of under-developed economies
with structural deficiencies, some positive aspects resulting
from the unification of both North and South Yemens were
anticipated. The beneficial results were based on the grounds
that by bringing together two sets of resources they would
probably be better developed unitedly rather than separate-
ly. In its favour, the Northern part possessed proven oil and
gas deposits, good tourism prospects and a dynamic market
system. The South Yemen, on the other hand, was endowed with
a strategic location with the port of Aden, considerable
fishery resources and some proven oil reserves, with good
prospects for more discoveries. Furthermore, the common
border area credited with the vast potential for further oil and gas deposits could now be explored more expeditiously. The unification could also offer the potential gains from economies of scale in various industries with the increase in the size of domestic market.

However, the realization of long cherished aspirations of Yemeni people on political unification also presented some problems of integration at various levels. This was to be achieved in about two-year transitionary period followed by general elections. The integration has proved a major problem because the two distinct systems are based on separate ideologies. While North Yemen was a market economy, the South Yemen had gone socialist since its freedom from British Mandate in 1967. During the period of transition, a common, fully integrated modern system oriented to market economy was planned. Among other things, it was to cover legal, administrative, currency, banking and such other aspects involving the alignment of both political and economic systems.

Given the time, the present level of financial resources in addition to prospectively increasing revenues from the emerging oil sector and the moderately peaceful environment conducive to the management of political economy, it was not difficult for the unified Yemen to achieve much of the planned development. In other words, the oil sector was not unrealistically expected to play the much needed catalytic role in the development of Republic of Yemen during the
1990s and beyond. At least the problem of paucity of funds with which the Yemeni pace of economic growth had been constrained all these years would be greatly relieved. What the stream of revenues from oil exports could do to the fund-starving developing countries had been conspicuously demonstrated by most of the oil rich Middle East and North African countries. With the beginning of modest oil export in 1987 and the unification promising greater oil generation, the new Republic of Yemen had hoped to achieve the long overdue improvement in the medium term. And also with the desired diversification and structural adjustment it expected to lay the foundation for a balanced and sustainable socio-economic base in the long-run perspectives.

However, the later events proved that the development scenario would not unfold as visualized. During the closing years of 1980s, the oil revenues would not reach the expected levels in the face of depressed global oil market. Added to this, both Yemens faced declining fortunes in the receipts of foreign assistance and remittances. Nevertheless, the inexorable journey to the unification of two Yemens was reached in May 1990. Although it could be described as a union of two poor cousins, it fulfilled at least one major aspiration of the common people on both sides of border. At this point of time, only this historic event proved to be the only achievement of the Yemeni people. For, within one hundred days of this jubilation, the first of the series of crises struck Yemen from which it is still to recover.
The first major disaster occurred as a direct consequence of Gulf crisis that broke out in August 1990. The aftermath witnessed the wrath of Saudi Arabia on Yemen in the form of expulsion of an estimated one million Yemeni expatriates. The attendant fall-outs were steep decline in the flow of foreign exchange, a sudden ten per cent rise in population burden and a vast addition to the already serious unemployment situation. The impact was so severe as to cause 17 per cent reduction in imports of goods and non-factor services adversely affecting investment and other economic activities. The magnitude of the additional pressures form the Gulf crisis was such that Republic of Yemen was identified by the U.N as the second most badly affected country. The net cost to Yemen was estimated to be over two billion U.S. dollars, the equivalent of more than 20 per cent of GNP. According to the UN criterion, it was a great shock of several times over the normal for granting disaster relief. It was a crippling blow to the Yemeni economy which was on the verge of ambitious development using the oil revenues.

This was not the end of the miseries faced by the young Republic of Yemen. While the Gulf crisis of 1990-91 greatly pushed the clock of development behind, there was no let up for Yemen to fully recover as succeeding crises affected the environment necessary for the rehabilitation of the economy. The Civil War in 1994, caused by some disgruntled political elements from southern region was another destabilizing factor. Later on, Saudi Arabia, the militarily
more powerful neighbour and financially the most influential in the region, unilaterally indulged in border skirmishes in Yemeni territory. This factor has contributed to security threat and any cutback in defence budget of Yemen in favour of civil expenditure for development might necessitate indefinite postponement. As no estimates of losses and the possible impact of resource crunch on the economic growth are made available, the only conclusion would be that the pace of development as planned might have received severe setback.

In the above scenario, clouded by successive crisis situations the only silver lining has been provided by the hydrocarbon sector. With the help of independent and the consortia of foreign oil companies, intensive and extensive activities are continued in the midst of troubled conditions in Yemen. The production of oil has been looking up and nearing the mark of 4,00,000 barrels a day. According to an independent source of experts, the production of crude oil would be in the region of one million barrels per day or at least 40 million tonnes by the turn of the century. Besides, the production of gas has also been increasing and Yemen has already achieved self-sufficiency in this regard.

Nevertheless, as of now, the oil export revenue constitutes the single most source of funds available to resource-starved Yemen. In the immediate future, however, the oil revenue would more likely to be called upon to play the role of easing the problem of deficits faced by the economy than substantially contributing to the envisaged development
plans. However, there are some difficulties in making the realistic assessment of the flow of oil export revenues in view of the several imponderables of the international oil market. The price factor is subjected to not only the economic forces but also, often more decisively, the political factors and the institutions involved. Yemen as a net oil exporter, is relatively a small player in the global context and must accept whatever comes its way. In the present situation of the market, it can maximize its gain only by pumping more oil for export. Its immediate efforts should be concentrated in Hadramaut region for exploiting more oil reserves. The present indications are that oil revenues have been progressively increasing and also forms 90 per cent of total value of all exports. The self-sufficiency in gas production amounts to saving of over U.S. $50 million in import bills. The domestic gas production has also become handy for the generation of electricity.

In regard to future, the government apparently has come out with fairly comprehensive perception of requirements, constraints to sectoral growth, needed reforms and related issues of social and economic development, as revealed by its General Economic Memorandum prepared in early 1992. However, in the light of the subsequent political events, the situation has considerably deteriorated with the resource crunch and instability persisting in the country. This calls for reorientation of strategy for development depending upon the availability of resources. The funds from
non-oil sector, especially foreign aids and loan assistance, as also the workers' remittances are severely restricted. This being the case, the oil export revenues at whatever the level of flow, need to be judiciously managed. In this respect, the past experiences of some neighbouring oil exporting developing countries may provide some valuable lessons to Yemeni future course of action. At least the wasteful and misdirected expenditures of precious foreign exchange could be avoided.

The common growth-impeding factors in all Arab countries are inadequate nature in infrastructure, in skilled labour force, capital based indigenous technology and well developed administrative machinery. Under this environment what is needed is setting up of clear cut priorities for development. Much of the backwardness and inability to overcome the inadequacies stem from low productivity. This underlying economic malady is also due to the inability or unwillingness of the local people to acquire the needed skills. This is the result of inadequate educational and training facilities, low health-care standards and debilitating characteristics associated with poverty and ignorance commonly found in less developed economies. It goes without saying that development must include the productive capacities of the people themselves. Foreign revenues by themselves do not improve the capacities of the people. The lessons clearly indicate that many oil-exporting developing countries have neglected the small scale industrial and non-oil primary
sector in favour of modern factories and elaborate buildings. It is in small scale manufacturing and agricultural and allied sectors that bulk of the domestic population must make their living. Continued dependency on imported goods and life styles may retard a true development. In the case of Yemen, the agriculture and allied activities like animal husbandry, fishery etc. still constitute a major sector and are required to be developed to support its relatively larger population than is the case in the neighbouring desert Gulf countries. In recent years, from the agricultural point of view, Yemen has turned from net exporting economy to net imparting one. The neglect of water conservation and cropping pattern in favour of qat has contributed to this.

Whatever be the development philosophy in Arab Gulf, some experts seem to view that achievements of some Gulf countries are at a high cost of capital consumption in the sense of depletion of non-renewable oil wealth at much faster rates than physical and human capital have been created to replace it. It is to the advantage of Yemen to realize that future depends on its efforts in converting the oil revenues into productive and reproducible assets. Right now, Yemen need not resort to conservation of oil as it is needed to fulfill the function of revenue generation. Moreover, Yemen is still in the early phase of oil economy and its known potentialities are yet to be tapped to the optimum level. What is pertinent is that oil revenues should not be dissipated on grandiose or misdirected projects. Over a
period, the surplus revenue could be used for diversified economic activities with proper priority accorded to human resource development.

The high income growth profile of oil rich Gulf in the 1970s could not correspond to level of development. The ultimate test of development is the attainment of self-sustained economy without the exclusive support from oil revenues. The measurement of development itself in its application to Gulf nations, may not be satisfactory. The per capita national income for a small state may not be satisfactory if it is called development on this sole criterion. In this regard, some experts are of the opinion that there was not much of genuine development in Gulf countries flush with petro dollars. There exists wide disparity in income distribution even though there is no evidence of abject poverty conditions. Access to top quality consumer goods is there but all imported. Besides, foreign workers dominate the employment scene and resident population in number which may give cause for national security or other social consequences. The implications of such a scenario may give cause for concern. There have already been areas of over-use and misuse of financial resources for investment and consumption. The high consumerism in these Gulf countries is leading to drain of resources for financing imports which may not be an encouraging sign for diversification and expansion of domestic production. This behavioural pattern so created and sustained for long might prove difficult to change in the long run.
Another aspect brought out, concerning the oil exporting Gulf, is that the translation of development objectives into formally consistent plans for social and economic development is not quite widespread. Wherever planning boards are set up, attempts have not been significantly successful. Instances are not lacking. Despite a great need for planning Oman spent much of its oil revenue on Dhofar War. Generally it is seen that development priorities are set on ‘ad hoc’ basis. Most of them have very small population to support and are not unduly worried about the need for development planning. The two oil booms provided no constraint on financial resources and as a result planned economic priorities lost their relevance. To some national security and defence build up became upper most. Nevertheless, the average citizen could enjoy a higher living standard than his ancestors.

What Yemen must avoid is unplanned and out of priority expenditure on too many grandiose projects in infrastructure since they continuously impose heavy maintenance charges in subsequent period of time. The priority to infrastructure must be such that it would be supportive of economic activities and promote welfare of the people including the educational, health and related services. However, what distinguishes Yemen from most other Gulf neighbours is its greater size of population relative to the present level of oil production. Its high absorptive capacity and complementary resources would not leave much scope for surplus oil
revenues. This should guard against wasteful expenditure on grandiose schemes, high imports of consumer goods and vast import of foreign work force.

The brunt of rescue act of uplifting the economy, destabilised by successive crisis situations during the first five years of the unified Yemen, is to be borne by the oil sector. The planned development and the requisite reforms may be treated as rescheduled with the appropriate realignment of priorities in the rapidly changing scenario. Among the priorities, Yemen needs to give more serious attention to the growth with price stability. This objective requires proper infrastructure but constrained by the availability of skilled manpower. This indicates another priority aspect of proper manpower planning and development. In this regard, Yemen must employ the foreign work force only to the extent of irreducible minimum level. Wherever such recourse is inevitable, it should be strictly governed by short term contract with a proviso that the local talents under appropriate schemes are trained by the foreign experts. This is necessary for the eventual replacement of the foreign elements by the Yemeni citizens. In the meanwhile, more of technically oriented institutions must be given higher priority over those which prepare people for mere administrative jobs in civil service. Even imported technology needs properly trained personnel to use it for developmental needs.

Another major area of priority relates to diversification of industrial activity to avoid heavy dependence
on depletable resource. Among the other advantages, it can help avoiding the country being vulnerable to vagaries of international market, generation of more employment opportunities, hedging against sudden decline in the demand for single export item and the greater degree of self-sufficiency. In this way, Yemen can approach balanced and sustainable development over the period. As a necessary precondition, the government must give effect to the already declared aspects of policy matters relating to the appropriate exchange rate, specific industry incentives, liberalized fiscal, monetary and business environmental reforms. The other measures containing in General Economic Memorandum of the Government of Yemen, by and large, are appropriate for the current as well as medium term development. The measure pertaining to the dilution of public enterprise in favour of more private and joint sector ventures is commendable as the need of the hour is to achieve greater efficiency and fiscal discipline. In the present juncture of resource crunch and lesser pace of economic growth, the shift from command economy to that of market economy along with policy reforms aimed at liberalization should encourage the foreign direct investment in the country.

The medium term strategy and the long term perspective of the economy call for sustained investment programme, reform programme for monetary sector, fiscal discipline, overcoming balance of payment constraint and better management of public debt servicing to avoid falling into the much
feared debt trap. It is quite imperative that government must stick to its avowed policy of increasing the production in the oil sector for greater generation of revenues. The human resource development needs greater attention than ever before in the national priority as the demographic profile is quite disturbing. Moreover, it calls for the vigorous pursuit of national population strategy appropriate to the Yemeni ethos. Presently, the social indicators are clearly below the acceptable standards in terms of Human Development Index. This, hitherto neglected aspect must receive active attention as a matter of national policy.

The role of oil revenue in prospective development depends upon many imponderables. Right now, it is called upon to make good the revenue deficits of post-Gulf crisis. In this scenario, Yemen has no other option but to make all out efforts to maximize the production and exports of oil and gas. The answer lies in greater and faster exploitation of known potentialities of Hadramaut region.

In short, Yemen has the potentialities for development, the requisite will and the strategies. It can make a turn around of the economy by judicious population policy, improve the resource base and implement the envisaged development policies to attain the balanced and viable economy. The people of Yemen must be inculcated with a sense of responsibility and pride as every nation needs a sense of mission that propels its citizens.