

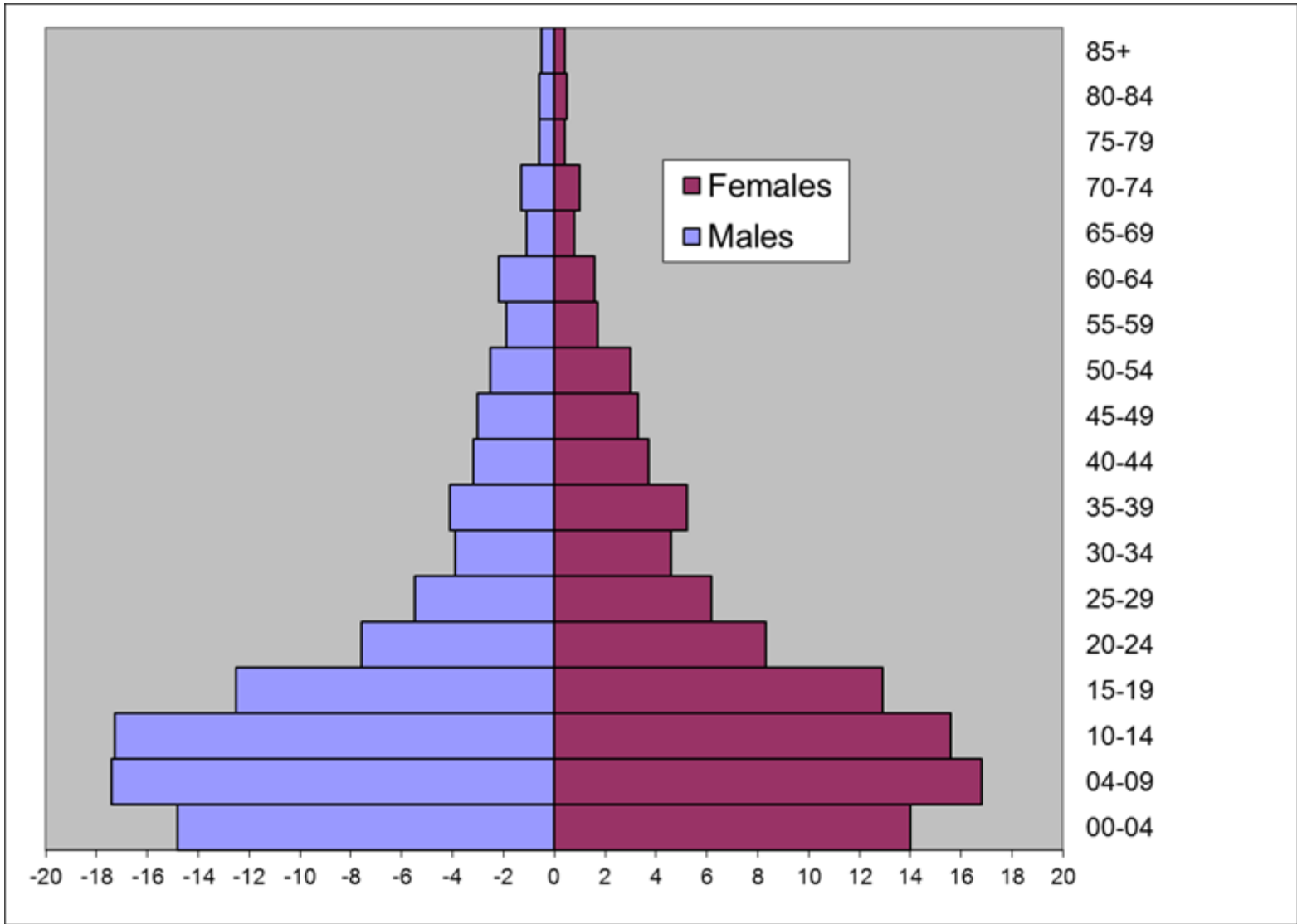
Keys to Development:

State Capacity and the Yemeni Private Sector

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Yemen in Context

- Substantial achievements over the last forty years
- Per capita income, health, education, physical infrastructure have all been transformed
- By whatever time period, 10, 20, 30 years, Yemen has grown and livelihoods have improved
 - In spite extremely high rates of population growth

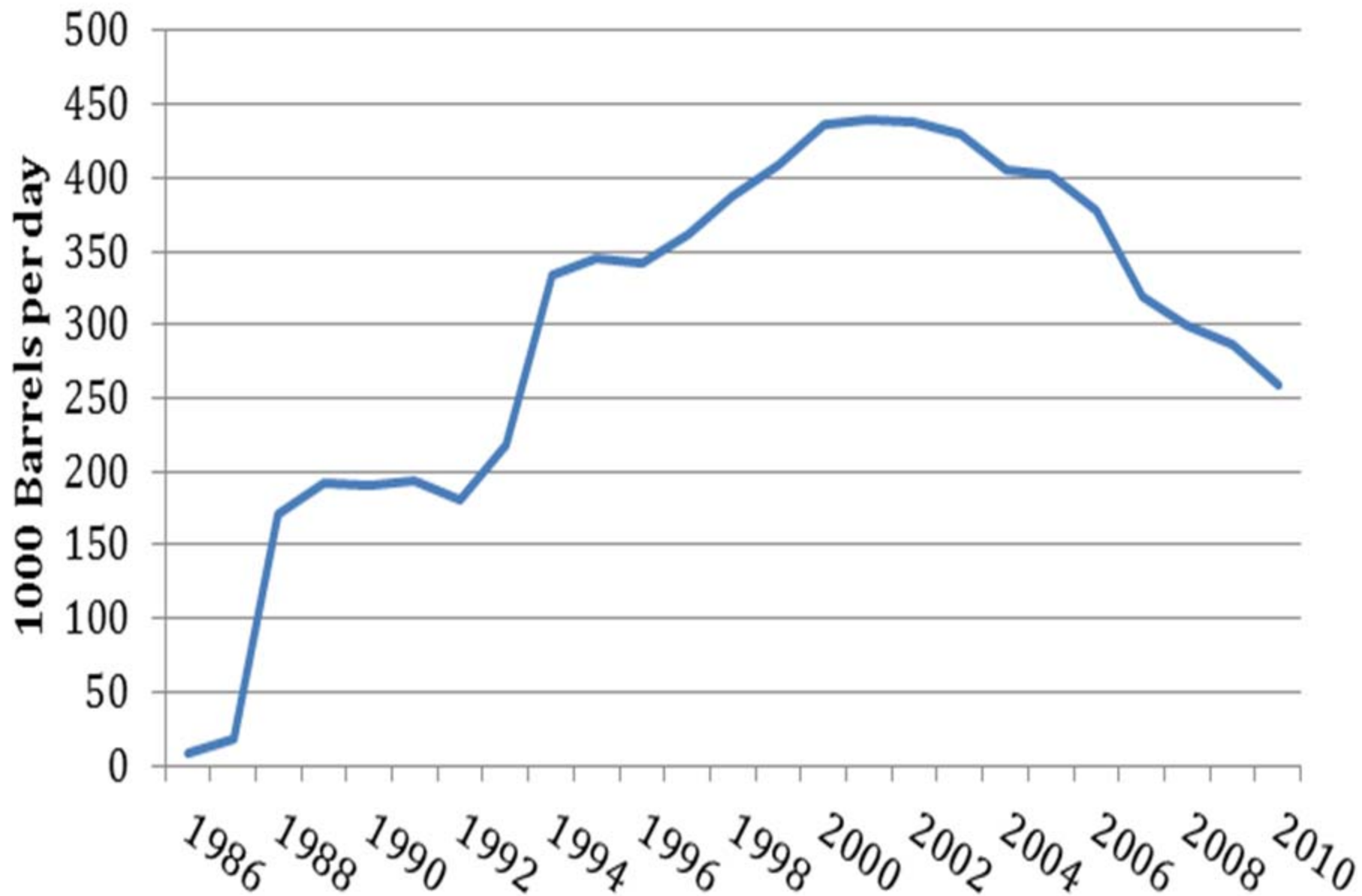


Source: Poverty Survey

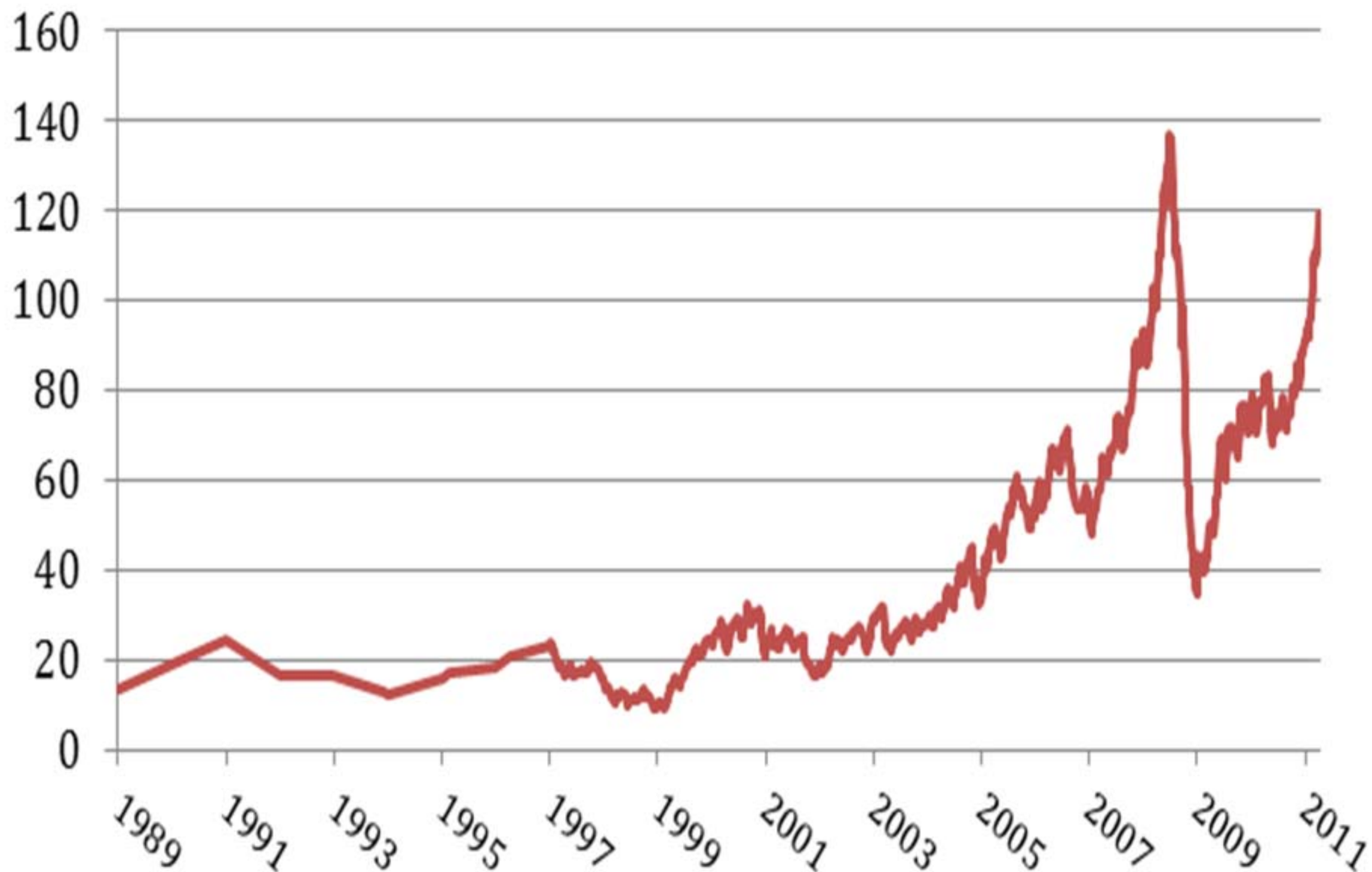
Remittances and Oil

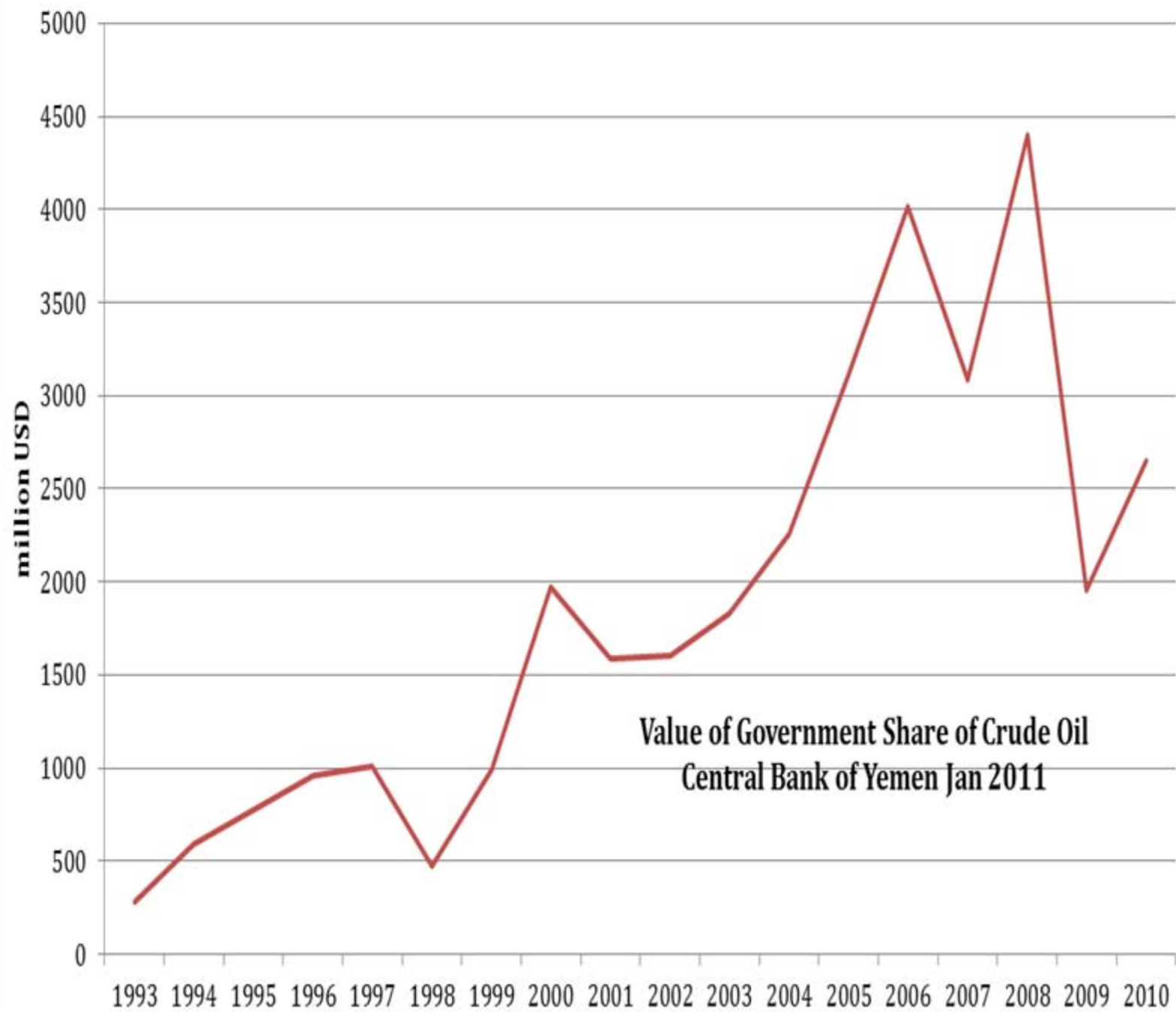
- Growth driven by two factors: remittances and oil
- Remittances remained steady at about 1.5 billion USD while the Yemeni economy grew reducing the significance of remittances
- Oil growth begins in 1990's but increases dramatically in the 2000's

Yemeni Oil Production



World Oil Prices





Value of Government Share of Crude Oil
Central Bank of Yemen Jan 2011

Source: Central Bank of Yemen

Oil Curse

- Agriculture declines, services grow
 - Transportation, commerce, communications (non-commodity sectors)
 - Ag 10% of GDP, 30% of labor
- Yemen imports most of its staples – wheat and rice
- 90% of water use in agriculture, some 40% of that water is used in Qat
- Qat is 3% of GDP

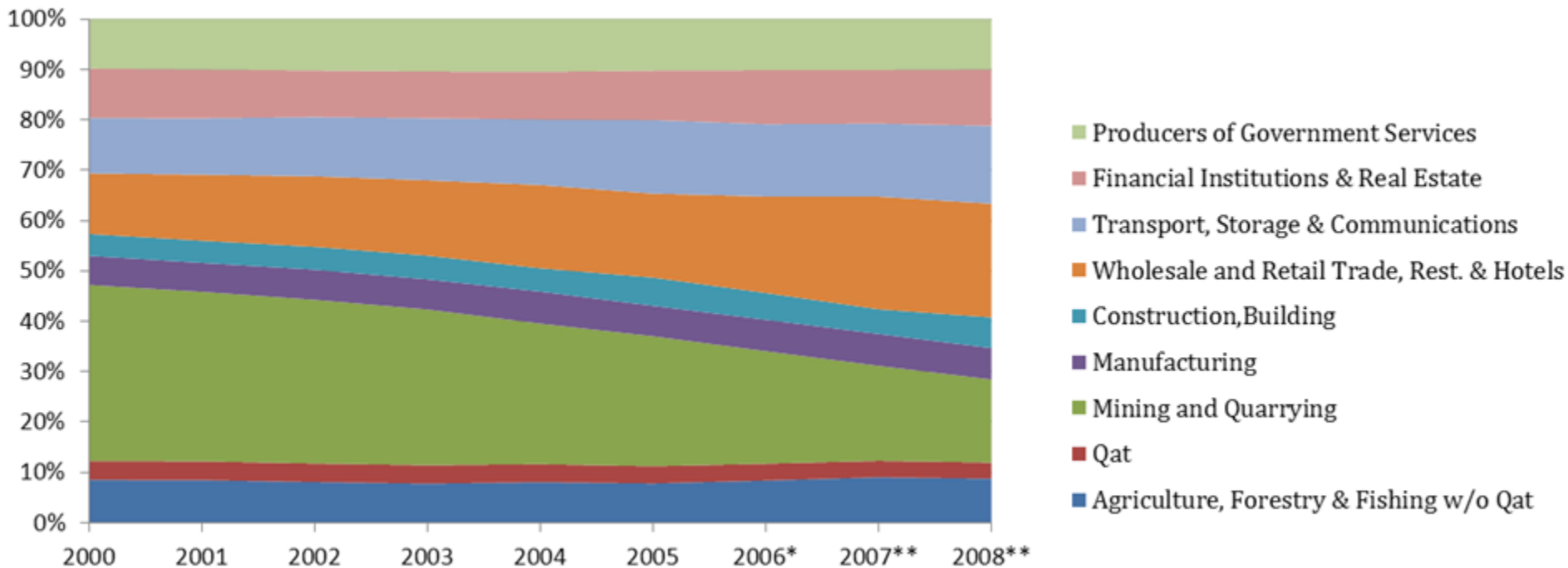
A word on agriculture

- Yemen very low per capita water resources
- Green by Arabian standards
 - Low bar
- Only 3% arable dependent upon rains
 - Half of Yemen agricultural land rain fed only
- “Virtual” water concepts suggests that Yemen import water intensive crops and export products that use relatively little water

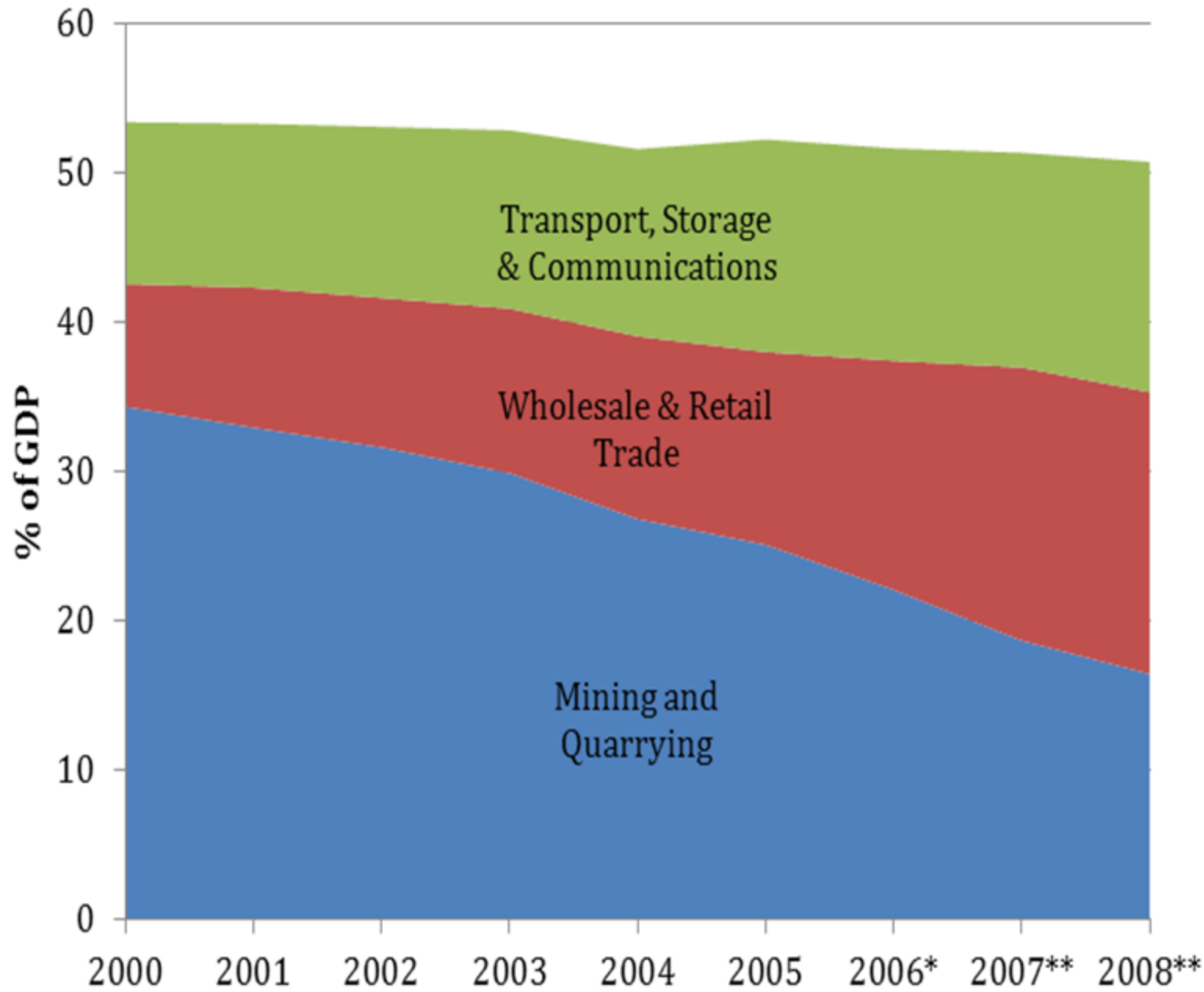
State Dependence

- State revenues dependent upon oil
 - 75% of revenues from oil over the last 15 years
- State bureaucracy atrophied, particularly tax collection
 - State became a distribution network of oil revenues
- State revenue not dependent upon growth of the economy outside of oil

Structure of GDP



Source: CSO Statistical Yearbook 2009

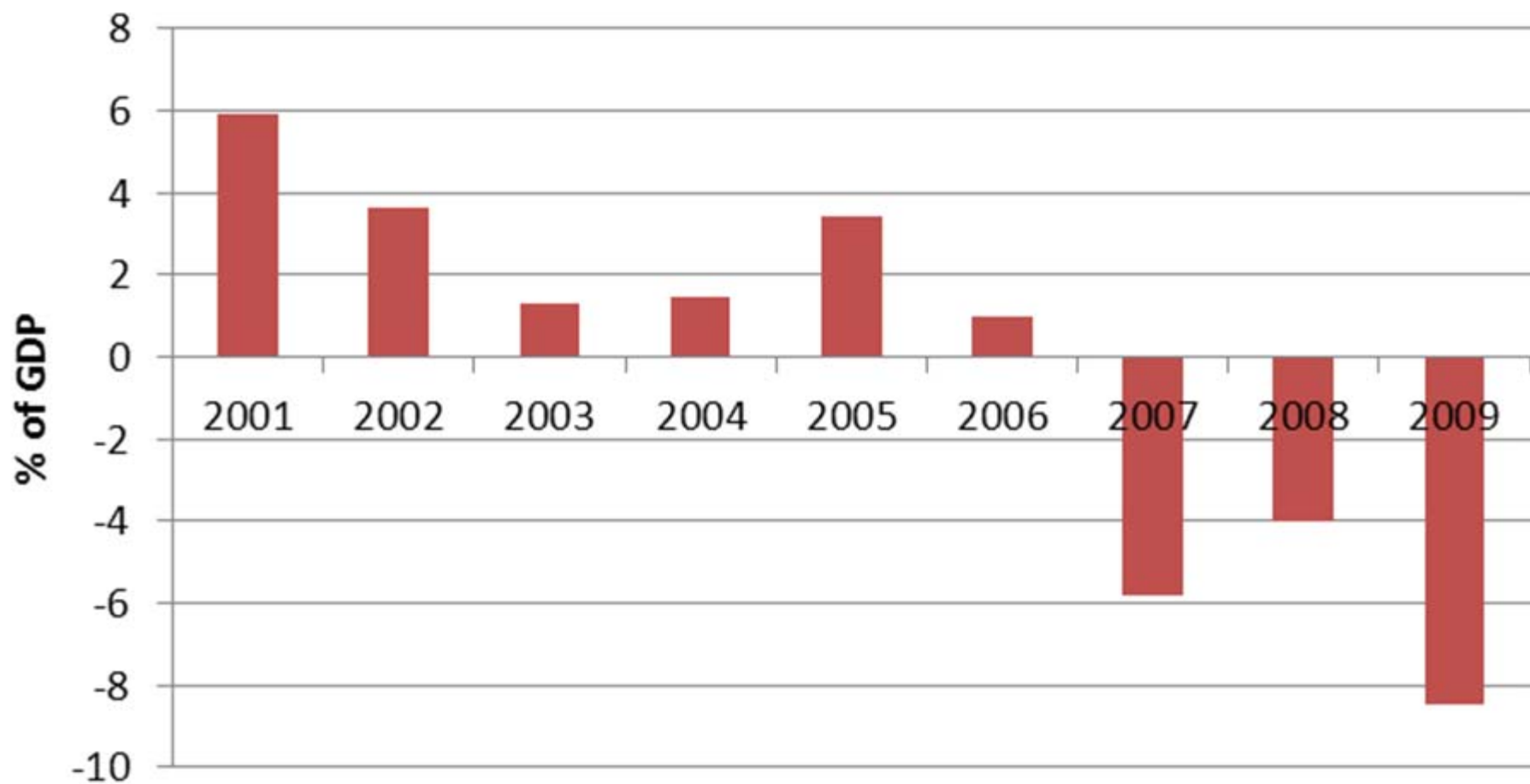


Source: CSO Statistical Yearbook 2009

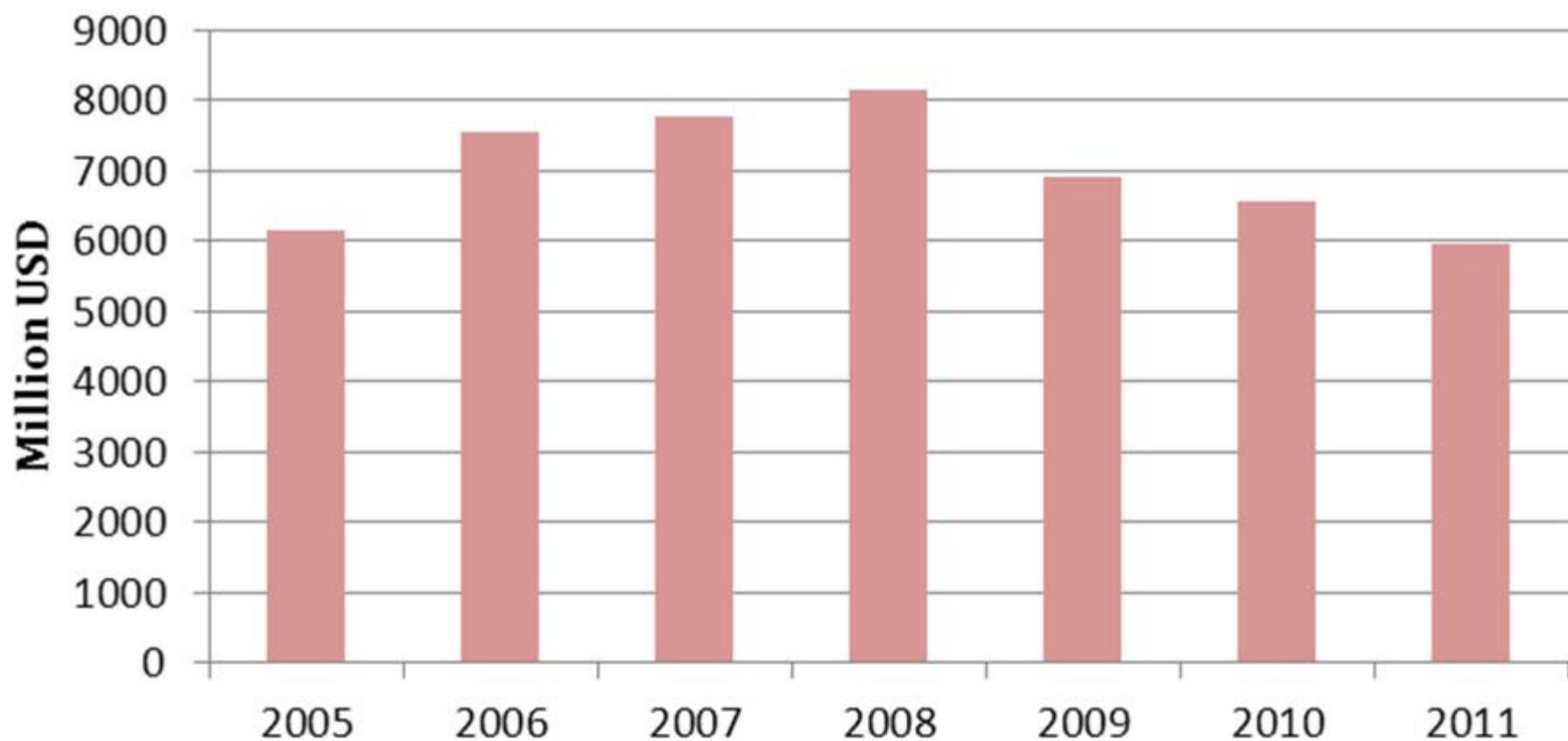
Oil Declining

- Yemeni oil peaked in 2001
- Rising prices masked decline in production
- Decline now affecting economy
- Current account deficits
- Declining Foreign Reserves

Current Account Balance



Foreign Assets of the Central Bank

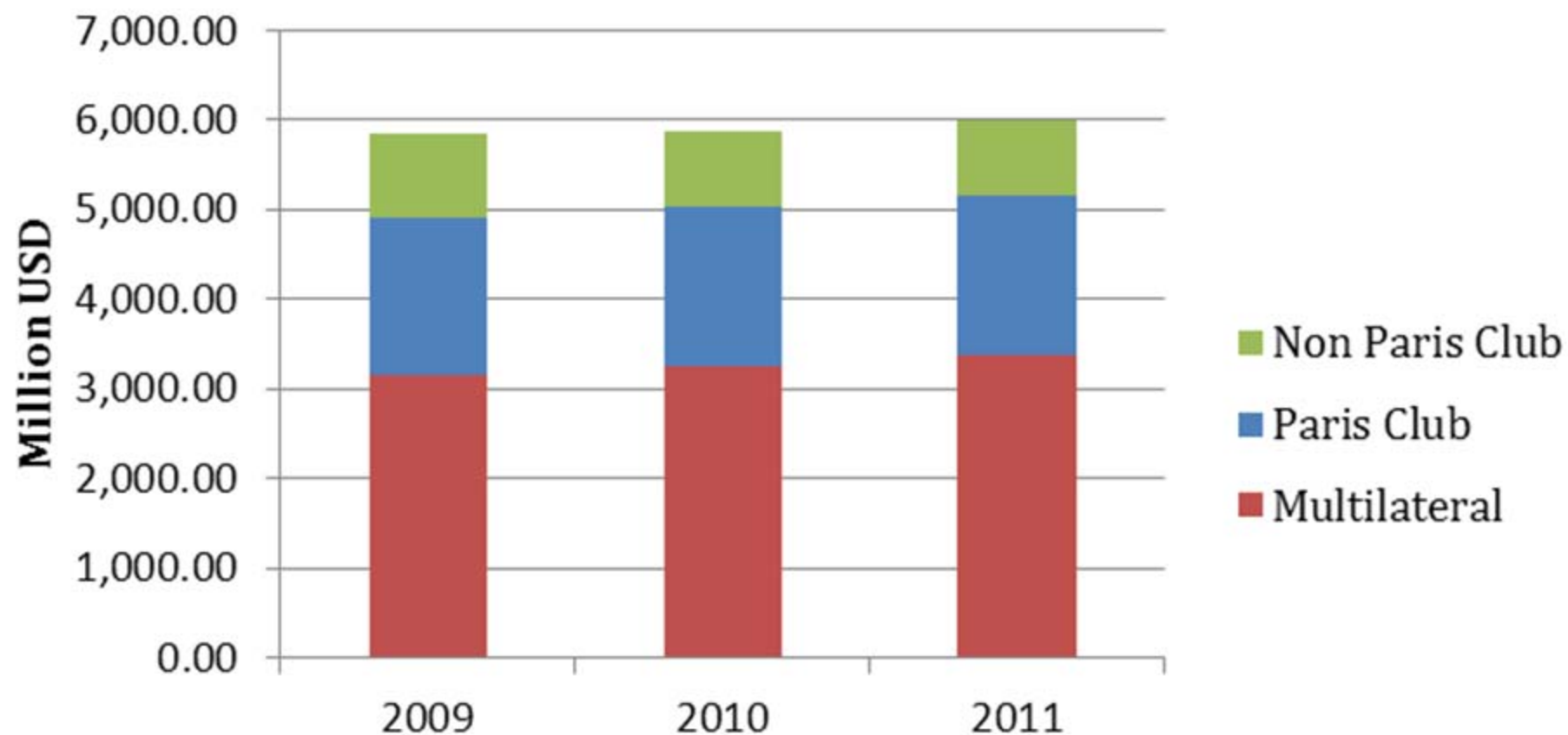


Source: Central Bank Monthly Report Jan 2011

Yemen not highly indebted

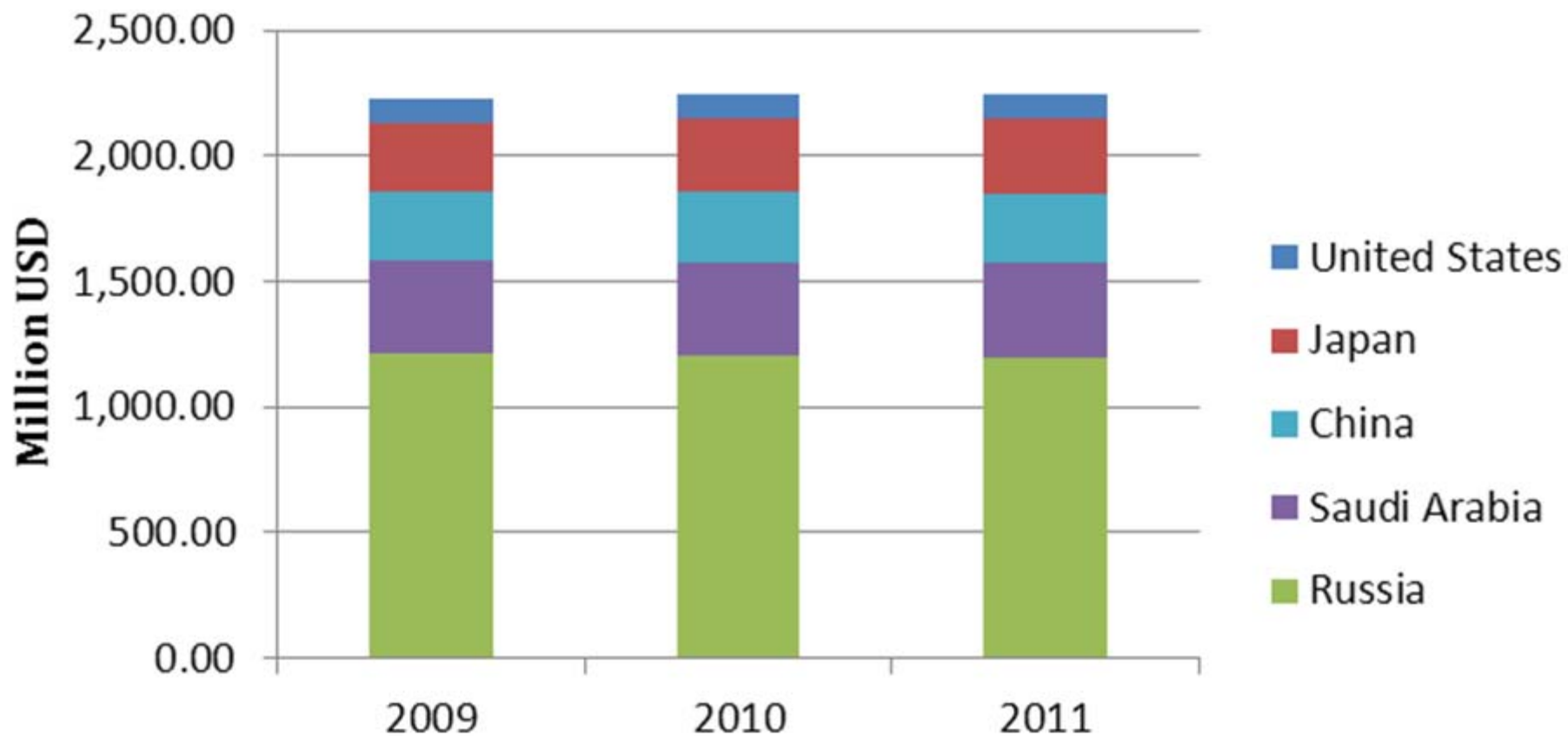
- About 20% of GDP, relatively low by world standards
- Most aid from multilateral agencies
- US a small actor in Yemeni aid
- Saudi contribution underrepresented by official figures

Yemeni Foreign Debt



Source: Central Bank Monthly Report Jan 2011

Yemeni Debt to Selected Countries



Source: Central Bank Monthly Report Jan 2011

Short Term Crisis

- Oil production stopped
- Regime running down foreign reserves
- Prime Minister reportedly in Saudi Arabia looking to cover state salaries
- Currency losing value, potential collapse of Rial
- Rapid inflation
- Food imports threatened

Medium Term Transition

- Growth not dependent upon natural resources
- More diverse economy, an asset in the long run
 - Oil and Gas
 - Aden Port
 - Free trade zone
 - Import substitution industry
 - Labor export
 - Tourism

State Capacity

- Diverse economy dependent upon state capacity
 - Coordination of coherent national investment strategy
 - Dynamic comparative advantage
 - Social and physical infrastructure
 - Development of Yemeni private sector
 - National pact
- Foreign investment looks for growth, does not cause growth.
- Institutional capacity and credible politics
 - State not “free” of politics
 - Social Pact