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
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
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

% of GDP

2001 2002 2003 2004 2005 2006 2007 2008 2009

6 4 2 -2 -4 -6 -8 -10
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

Million USD

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