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Yemen: Economic and Regional Challenges

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As troubling as security issues are in Yemen, they are by no means the only threats to stability. Problems in the economy, institution building, and regional disputes might not grab headlines the way that terrorism and other security challenges do, but they are just as important. Inadequate economic development and a concomitant decline in living standards are causing civil unrest, fueling regional rebellion, and slowly dragging the country toward collapse. Ineffective government reform initiatives have so far failed to address urgent internal problems—including diminishing natural resources, endemic poverty, illiteracy, high fertility rates, and an inadequately trained workforce—and are eroding the confidence of Yemenis as well as outsiders in the country's future.

Since his re-election in 2006, President Ali Abdullah Saleh's promises of reform remain largely unfulfilled. The National Reform Agenda, drafted by the Ministry of Planning and International Cooperation in October 2006, was a comprehensive plan to reduce corruption, enhance transparency, pursue judicial reform and separation of powers, and allow freedom of the press. Nearly two years later, only small parts of the agenda are in place. The most noteworthy outcome was the creation of the Supreme National Anti-corruption Commission, headed by former Minister of Telecommunication Ahmed al-Anesi, in June of 2007. While the initiative earned praise from the international community, implementation has been thwarted. Since its inception, the commission has received more than one hundred forty corruption claims, seventy-eight of them between January and March 2008 alone. So far, only six of those claims have been investigated, uncovering over \$ 100 million lost to corruption. These numbers reveal both the scope of corruption and the commission's lack of capacity to undertake the task. Even when it does initiate investigations, all the commission can do is turn the cases over to a judiciary that lacks the political resolve to prosecute fully.

Another reform that looked promising at first involved decentralizing authority. On May 18, 2008, local elections took place for Yemen's twenty-one provincial governors, who were previously appointed by the president. Opposition parties boycotted the elections, however, contesting an election law that restricted voting for governors to members of the municipal council. As the

municipal councils are dominated by government's supporters, opposition parties correctly predicted that election results would be skewed in favor of regime loyalists

Such attempts at reform suggest that while the Yemeni government and elites can successfully identify issues and potential solutions, implementation generally falls short. Yemen's national institutions are weak, and most Yemenis are loyal to familial or tribal hierarchies rather than the state. Yemen also relies a great deal on foreign assistance, and contrary to established wisdom, satisfying the requirements of foreign donors has not always helped strengthen national institutions. Often, government development planning aims at the short-term goal of securing foreign funds rather than long-term strategic goals.

Yemen's stagnant economy offers a troubling prospect, particularly in light of the decline in its main revenue earners, oil and agriculture. Oil production—which accounts for 70 percent of government revenue—is diminishing, while agriculture—which employs more than half the work force—faces widespread water scarcity and soil depletion due to extensive cultivation of the narcotic qat. International lending and development agencies encourage diversification and liberalization of the Yemeni economy to attract foreign investment. In response, the government is attempting to empower and enlarge its private sector. But these attempts are hampered by rampant corruption and the virtual monopoly of the private sector by a small number of families.

As a result, 45 percent of Yemen's rural population lives below the poverty line. Unemployment was officially 35 percent in 2003, the last year for which such statistics are available. Recent global increases in petroleum and basic commodity prices are exacerbating the already high inflation rate of nearly 12.5 percent and further diminishing the low standard of living.

In addition to the overall economic problems, southern Yemen suffers from special difficulties due to land disputes that lead to higher unemployment, greater poverty, and civil unrest. The government has consistently failed to resolve such disputes, which have festered since the 1990 unification of North and South Yemen. In May 2008, riots broke out in southern Yemen because of a sense among southerners that they are not participating sufficiently in the economy or the decision making process—in short, they do not feel integrated into Yemen. Other regional tensions—including the al-Houthi rebellion in the north that has been ongoing since 2004—further threaten the country's unity.

If trends continue, Yemen is likely to slip into complete chaos and become a failed state similar to Somalia. Yemenis and others increasingly view the government—which promises much but delivers little—as incompetent. While by no means adequate to address all Yemen's many challenges, there are a few important moves the government could make on the economic front that would help the liberalization efforts to which it says it is committed. The government could start by lowering barriers to entering business, increasing transparency, and reforming the tax system. This would both encourage investors and combat corruption from the demand side; a simplified and transparent tax and administrative system also reduces opportunities for corruption. Such steps could not only stimulate the economy but also help rebuild confidence in the government.

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