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The Economic Dimension of Yemeni Unity

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In North and South Yemen, disparities in patterns of private and public ownership were far more subtle than the designations ‘capitalist’ and ‘socialist’ suggest. In contrast with Germany, their marriage was more a merger than a takeover.

To the outside world, the unification of the two Yemens in 1990 resembled the German experience in miniature. North Yemen (the Yemen Arab Republic, YAR) was considered a laissez-faire market economy, whereas the South (the People’s Democratic Republic of Yemen, PDRY) was “the communist one.” When, weeks ahead of Bonn and Berlin, San’a and Aden announced their union, Western commentary assumed that in Yemen, as in Germany, capitalist (northern) firms would buy out the moribund (southern) state sector and provide the basis for future economic growth.

In theory, and in Germany, capitalism and socialism are distinguished by patterns of private and public ownership of the means of production. In North and South Yemen, however, differences in ownership patterns were largely evened out by comparable access (and lack there-
of) to investment capital. Disparities in the relative weight of private and public enterprise were far more subtle than the designations "capitalist" and "socialist" indicate. Indeed, available data on private and public participation reveals common patterns of spending. The North's state sector invested more than did the private sector, while the South's socialist policy statements belied the increasing role of domestic and foreign private firms.

Relatively poor countries situated on the periphery of the Arabian Peninsula's oil economy, both Yemens relied on labor remittances and international assistance. Both Yemens faced austerity when falling oil prices, compounded by a drop in Cold War-generated aid, reduced access to hard currency—until the discovery of oil in the border region in the mid-1980s attracted a third type of international capital from multinational petroleum companies. These forces cumulatively reduced the differences between the two systems and added an economic dimension to the political incentive for unification. In contrast with Germany, their marriage was more a merger than a takeover, for neither was in any position to buy the other out.

Two Economies

Historic Yemen was a cultural entity rather than a political unit, its formal division stemmed from British imperialism in the South. Unlike the relatively isolated, independent North, where a semifeudal agrarian society persisted, the South developed capitalist classes, markets and enterprises. The major port between the Mediterranean and India, Aden's modern infrastructure and services attracted a small indigenous capitalist group, a working class of stevedores and industrial labor, and a small urban middle class, including shopkeepers and intellectuals. San'a, by contrast, was a center of Islamic conservatism ruled by a Zaydi Shi'a imam. Strict trade and investment restrictions protected a few monopoly importers and large landowners. Would-be bourgeoisie and working class aspirants escaped this restricted environment for the free port at Aden. The North was ripe for a kind of bourgeois revolution, opening the door to capitalist development, just when the South's radical anti-imperialism slammed the door to foreign investors.

After the 1962 revolution and 1962-68 civil war, the North became a "no doors" economy, with few legal barriers to either trade or investment. Revolutionaries in the South after 1968 nationalized or collectivized many foreign enterprises, large estates and fishing boats. Whereas the South (the PDRY) was subsequently governed by a single Soviet-style Marxist party, in the absence of legal parties politics in the North were dominated by fluid tribal, Islamic and leftist "fronts" covertly supported by other Arab regimes.

The two Yemens shared a physical environment where household-scale cereal and livestock production employed most men and women. Both governments were unsure of their authority in the countryside, and each backed elements of the other's opposition. The economies remained intertwined. In the early 1970s, the Southern bourgeoisie, some of them originally Northerners attracted to Aden's port economy, moved back north to Ta'iz, Hodeida and San'a, where they established businesses and held government posts. After the rise in oil prices in 1973, worker remittances fed consumption (imported goods, residential construction) rather than productive investment, despite both regimes' efforts to mobilize these funds for agriculture and industry.

The North was more affluent and enjoyed higher consumption of imports, but it also had far worse current account deficits. Although the labor force was still predominantly agricultural, especially in the North, over half of Gross Domestic Product (GDP) in both systems was generated by services; the rate of new investment in services, especially government services, indicated that this trend would continue. The level of education and health services—slightly better in the South, especially for women—put both countries among the world's least-developed nations. While central planning was a goal of the leadership in the South, in the North planning was not an ideological commitment but rather part of the documentation required by the International Monetary Fund and the World Bank.

Property Relations

The South, with its colonial legacy, entered the 1960s with many more capitalist enterprises than North Yemen. South Yemeni nationalizations and land reforms created a modern state sector, and dramatically equalized land ownership, but the economy retained many features of a traditional agrarian economy comparable to that of North Yemen, which was just embarking on its first commercial and industrial projects.

Production systems in the South included subsistence agriculture on family land mixed with herding on commons, sharecropping on pre-capitalist estates, and wage labor on modern farms. In Aden and Lahej, where ownership was most distinctively class-divided, the revolutionary regime expropriated the largest holdings as well as religious endowments (waqf). The number of expropriated estates increased from 18 to 47 between 1975 and 1982 with the addition of some smaller properties of unpopular landlords. These state farms, with modern equipment and wage labor, managed most farm land in Aden governorate and nearly a third in Lahej just to the north.1 Redistributed land, nearly two-thirds of the South's cultivated area, was classified as cooperative. Over a quarter, mostly in the east, remained private.2

By contrast, the revolution in the North nationalized only the royal family's prime tracts. Over half of the large farms were private and were conservatively managed, frequently employing sharecrop labor and moving only slowly toward capitalist farming. Most dry land in both sys-

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tems consisted of family-cultivated parcels or open range. Well into the 1980s, at least half of Yemeni farms produced cereals and livestock for cultivation. The only popular, profitable cash crop in the highlands was the narcotic leaf, qat, outlawed in the South and discouraged by the North's Ministry of Agriculture.

Both regimes advocated farm mechanization, yet typical Yemeni farmers planting sorghum or millet with their own draft animals on small, scattered, often terraced parcels were unable to profitably invest in pumps, tractors or trucks, even with remittance income. Each regime turned to "cooperatives" around 1974, hoping to combine petty savings and remittances for investment in nurseries, equipment, repair stations, storage facilities and marketing services. Southern holders of redistributed land formed purchasing and marketing cooperatives. Sixty-odd cooperatives helped up to 50,000 members acquire inputs in the mid-1980s, but instead of moving toward full-scale cooperative farms, 29 state farms abandoned group farming and only two produced collectively.4

In the North, although groups known colloquially as "cooperatives" built stop-gap rural infrastructure, the 20-odd agricultural, fishing and craft cooperatives foundered on difficulties in both credit and marketing.5 Unlike in the South, participation was purely voluntary, and often made no sense as an investment. While a few cooperatives profitably ran diesel stations or rented drilling rigs, most failed to mobilize and manage share capital.

After nationalization, public ventures controlled 60-70 percent of the value of industry in the South, including power and water and the oil refinery (the single largest employer). Mixed companies produced cigarettes, batteries and aluminum utensils; wholly private firms were either small-scale plastic, clothing, glass, food and paper-goods manufacturers or traditional carpentry, metal, pottery or weaving industries.

Whereas the South inherited modern plants and offices, the North embarked on its first modern enterprises only in 1970. Despite liberal investment incentives, private manufacturing grew slowly. An industrial complex near Ta'iz producing sweets, soaps and plastics, owned by the Hayel Saeed Anam Group, dominated large-scale private industry. The remaining large private factories were mostly food processors or bottlers. Light industry consisted mainly of repair and construction "workshops" and crafts.

Unlike in other Third World countries with a large pool of labor, the proximity to the Persian Gulf's oil economies drove wage levels up. Roughly a third of adult males were absent for at least a year or two during the oil boom decade (1974-84). The North imported not only teachers and health professionals but construction and hotel workers. While planners and international experts were initially optimistic about the investment potential of remittances, the class that benefited most from laissez-faire were Northern-based money changers and importers, middlemen to the migration-and-consumption cycle. The North's open import markets attracted a commercial bourgeoisie from the lower Red Sea region, resulting in a predominance of service sector investments. Those with cash to invest—local traders, North Yemeni migrants to the Gulf, and entrepreneurs from Aden, Asmara, Djibouti or Mombassa—were lured to the North's currency, real estate and import

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Joe Stork

September 1992 parade celebrating the 39th anniversary of the republican revolution highlighted themes of unity.
markets, where they profited from the hefty share of remittances spent on consumer goods.  

Extraordinarily unfettered currency and import markets worked better for the North during the boom than the bust cycle. Global recession and depressed oil rents slashed remittance and aid levels, undermining, postponing or eliminating private and public projects by the thousands. The Yemeni riyal (YR), having been kept artificially high at a uniform rate of YR 4.5 to the dollar for over a decade (stimulating imports), plummeted to YR 18 to the dollar in the winter of 1986-87. Facing balance of payments and currency reserve crises from 1982 onwards, San'a temporarily banned all imports, blocked rampant smuggling, reformed and enforced tax codes and, in late 1986, took over currency markets and halted new investment projects. The secondhand bonanza in the North was gone, and with it the “hands-off” policy of economic nonmanagement.

Ownership and Investment

Ideologies differed from plans, and plans from outcomes. At best, the North’s capitalist orientation and the South's socialism represented tendencies or goals, for both were really “mixed” economies.

The relative contribution of private and public capital can be measured in several ways. The North experienced a trend during the oil boom away from private capital formation towards public investment. In 1975, the private sector provided two-thirds and the state only one-third, but these proportions were reversed by 1982. By 1987, the North Yemen government financed three-quarters of investments in agriculture, fisheries, transport and communications, and nearly all utilities and mining development—amounting to two-thirds of all investment. Individuals funded most new construction, trade and hotel business, and 70 percent of manufacturing. Private investors’ preference for real estate speculation over agricultural production was particularly disconcerting to planners; whereas overall growth was a healthy 6.6 percent, in agriculture it was only 2.4 percent.

Nor was the South ever an entirely state-owned economy. The nationalizations of 1969 affected foreign financial, trade and services businesses. Between 1973 and 1976, consolidation of state and joint industrial ventures continued, reducing the contribution of private domestic firms to industrial production from 51 percent to 38 percent, and the contribution of foreign firms from 36 percent to 10 percent. In fishing, however, foreign investors replaced some cooperative production. By 1976, private domestic and foreign firms held about 40 percent of the construction market, and local private transportation had over half the market. Cooperatives were credited with 71 percent of agricultural output, and the state with the rest, but livestock production was over 90 percent private. This was as “socialist” as the South got.

In Aden’s plan for 1981-1985 targets for private investments increased, and during the first three years of the plan private sector participation exceeded expectations by eight percent, mostly in agriculture and local private fishing. The 1988 census reported that of nearly 35,000 establishments, 75 percent were private, 21 percent governmental, and the remainder cooperative or joint ventures. Just over a quarter of the workforce was in the government sector.

All these figures are estimates that probably understated subsistence, smuggling and some informal trade. Cumulatively the evidence is sufficient to conclude that state and private sectors each played significant roles in both economies. There is little sign of sharp contrasts between centralized public ownership in the South and private enterprise in the North. Although their revolutions committed them to divergent paths, 20 years of practice produced convergent patterns. The explanation lies in the development projects supported by foreign donors.

Foreign Finance

Before the first Yemeni oil discovery in 1984, Yemen depended on aid rather than foreign companies for capital investment. International “soft” loans to the public sector represented the largest single source of new capital formation between 1970 and 1990. International companies participated either as contractors on donor-financed or nationalized state projects, where they earned profits but committed no capital, or as minority partners in public enterprises, to which they brought both capital and expertise. Once the oil industry began to take off, foreign private and public firms competed for roles in Yemen as contractors, partners and investors.

The foreign-owned private sector in the PDRY had been slight. BP and Cable & Wireless did contract work for state corporations. BP, Mobil and a joint Yemeni-Kuwaiti company supplied petroleum. Planners spoke of foreign firms as a source of capital for development, and a few Arab, Asian and Eastern European firms entered the market.

In the North, the Arab world’s most liberal foreign investment policies attracted only a few foreign ventures, which raised much of their capital locally. Canada Dry, Ramada and Sheraton were the most visible; since the hotels imported their own staffs, only the locally-owned bottler was a source of significant jobs. Other companies bought shares of Yemeni public corporations: a subsidiary of British Rothman had a 25 percent partnership and five expatriate employees in the National Tobacco & Matches Company, and the Saudi Al-Ahli Commercial Bank and Bank of America together owned 45 percent of the International Bank of Yemen. Citibank found an economy where two-thirds of the cash circulated outside the formal banking system to be an unprofitable market. Scores of American, Arab, Asian and European contractors were active with donor projects: in roads, for instance, American and European engineers, Lebanese contractors, and South Korean and Chinese workforces (cheaper and more skilled than Yemenis) were not unusual.

By the 1980s, the overall patterns of external financing in the two Yemens were remarkably similar. For more than
a decade, the West and the conservative states of the peninsula had shunned the South, and the Soviet Union, its allies, China, and radical Arab regimes were also the North’s main benefactors. The global and regional multilateral agencies did work with the South, however, led by the World Bank’s International Development Association (IDA). After 1980 the easing of tensions on the Peninsula prompted Saudi Arabia, Kuwait and Abu Dhabi to offer assistance; by the middle of the decade, Arab funds surpassed assistance from socialist countries. In North Yemen the Arab oil monarchies were the most visible donors in the 1970s, and the IDA exercised the most influence in economic policy. North Yemen’s development assistance peaked in about 1981 at over $1 billion, and declined to half that amount in 1985 and to less than $100 million in 1988.

By that time, both countries relied on a similar list of donors and creditors. Grants were normally limited to small-scale technical assistance programs from the UN or European donors, or showy “gifts” from wealthy Gulf monarchs. Most new capital formation came from “soft” loans with low interest charges and long repayment schedules. Thus debts accumulated against the accounts of international benefactors roughly in proportion to the amount of aid provided. The extent of polarization between “socialist” and “capitalist” trends was mitigated by the fact of Arab, IDA, Soviet, Chinese and European loans for both development programs. Infrastructural projects were the bedrock of government development investment. Bilateral donors chose their own design, engineering and construction firms, and global and Arab multilaterals applied the World Bank bids and tender system.

Utilities—immense industrial plants supplying urban water and power nationwide—were also financed from diverse sources. After studying the South’s poorly functioning Soviet-built system, World Bank economists recommended an all-Yemen electrification grid to maximize economies of scale, and IDA initiated financing for this joint grid in the mid-1980s. While not the first joint North-South venture, this involved unprecedented inter-Yemeni coordination.

Integrated rural development (IRD) was the Western and multilateral agencies’ strategy to equip rural regions with roads, utilities, and some social services. The most prominent IRD projects throughout Yemen followed the World Bank model, whereby infrastructure, credit and technical assistance stimulate rural investments by individuals or cooperatives. They were introduced in the areas of North Yemen best suited to intensive cash farming: the semi-tropical Tihama plain and the temperate southern uplands. By 1987 integrated projects, with different components from IDA, UN organizations, several Arab funds and the European Economic Community, at least theoretically covered most of rural Yemen.

These schemes followed a similar pattern in both countries. The South’s largest IRD project, the Wadi Hadramawt project, stressing road construction, groundwater studies, deep wells mechanization and credit through cooperatives for fertilizers and pesticides, was modeled on the Tihama Development Authority project. The only difference was that in the South credit was available exclusively to cooperatives, whereas in the North, private loan applications were also accepted. Had farmers flocked to mortgage their land for bank loans (other than for qat, disallowed from loan applications), this might have been a significant difference; instead, credit officers in both systems bemoaned the lack of applications, and public spending in agriculture far outpaced private and/or cooperative financing.

**Petroleum**

The latest stage in the convergence of the two Yemeni economies occurred in the nascent petroleum industry. Here the convergence was literal: deposits discovered in the North/South border region were jointly developed by the two states in cooperation with international firms.

Both state petroleum companies relied on foreign expertise. Soviet petroleum companies conducted on- and offshore studies for South, and by the late 1970s concessions were won or under negotiation by British, French, Italian, Spanish, Kuwaiti and Brazilian firms. Thirteen international firms had explored in the North. In 1984, Yemen Hunt, then a wholly-owned local subsidiary of Texas-based Hunt Oil, made the first significant discovery, beyond Marib near the joint border. Soon Exxon, and then a consortium of South Korean firms, bought into Yemen Hunt; Texaco, Elf Aquitaine, Total, Canadian Occidental, and USSR firms negotiated and paid to drill for Yemeni oil. The Soviet company Technoexport made a major find in 1986 at Shabwa, across the intra-Yemeni border from Marib. Discoveries in turn created scores of sub-contracting opportunities for suppliers and builders from around the globe, such as the US firm that built a small modular refinery near Marib and a Lebanese-Italian-German group that laid the pipeline. There were new commercial finds in 1987, 1988 and 1989. Realization of the commercial potential of the Marib-Shabwa basin required both inter-Yemeni cooperation and foreign capital and expertise. Not only was security around oil fields a straddle their common border improved by joint production, but the North hoped to use existing facilities at Aden, including the port and the refurbished BP refinery, which in turn needed the business. Cooperation avoided both conflict and duplication. The two national petroleum companies merged their operations into a joint Yemen Company for Investment in Oil and Mineral Resources, which signed a production agreement in late 1989 with an international consortium consisting of Hunt and Exxon (with 37.5 percent between them), the Kuwait Foreign Petroleum Exploration Corporation (25 percent), Total (18.75 percent), and two subsidiaries of Technoexport, Machinoexport and Zarughgeologia (18.75 percent). This commercial agreement culminated the 20-year convergence of two ideologically different systems on a common, and eventually joint, pattern of public-foreign partnership on the “commanding heights.” A more “mixed”
venture could hardly be imagined, for the whole package included not just the joint Yemeni corporation but two of the largest capitalist oil giants, Exxon and Total, and Soviet and Kuwaiti state corporations. Destined to overshadow the value of property and investment in other sectors, this technically public venture was shortly followed by the political unity accord.

Thus the flow of capital into Yemen as aid and remittances created systems dominated by “development projects” on the one hand and “uncaptured” farming, migration and informal sector trade on the other. Recessions in international oil prices and worldwide assistance cutbacks seriously disrupted both economies, leading to draconian austerity measures in the North and contributing to the outbreak of factional strife in Aden in early 1986. The discovery of oil gave Yemen access to a new source of foreign financing, corporate investment, and the promise of hard currency revenues. Oil rents, unlike aid, would strengthen the power of Yemeni policy makers by financing the general account rather than earmarked projects.

Many of the arguments advanced for unity stressed the economic advantages, such as combining Aden port facilities with the North’s private transport network, utilizing both the South’s professional cadres and northern-based entrepreneurs, taking advantage of larger markets and economies of scale and maintaining all existing foreign trade and aid relationships. The prospect of economic improvement offered considerable popular appeal because of widespread political unease and economic dissatisfaction in both polities, personal and social ties of the northern bourgeoisie to families or places in the South, political leaders’ cross-cutting ties, and a common sense of nationalism.

Articles 7 and 8 of the constitution approved in popular referendum in May 1991 call for a mixed economy based on “Islamic social justice in production and social relations,” a developed public sector “capable of owning the basic means of production,” “the preservation of private ownership,” and “scientific planning which leads to the establishment of public corporations engaged in exploiting the national and public resources, developing capabilities of and opportunities for the public, private, and mixed sectors.” The government budget approved in February 1991 listed recurrent and capital expenditures for 91 production-oriented public firms, 40 service-oriented public companies and boards, and 17 mixed ownership corporations. More “socialist heritage” has been retained in Yemen than in Germany.

Before any economic benefits of unification could be realized, the Gulf crisis disrupted the flow of remittances and aid from Kuwait, Iraq and Saudi Arabia. Newly unemployed migrants and their families, numbering upwards of a million, streamed into the cities just as operating funds in many social services sectors drained away. By early 1991, the value of the riyal, having stabilized at about YR 13 to the dollar, collapsed to YR 26 to the dollar. The government suspended civil service salaries to cover the costs of currency support and vital operations. By that summer, unemployment, inflation and the strains on housing and services prompted public marches and demonstrations. Oil revenues were not only insufficient to cover the losses of foreign exchange, but they were threatened by Saudi claims to oil in the border region. Once again, politics abroad and changes in the world economy disrupted Yemen’s economic plans.

Footnotes


7 Middle East Economic Digest, November 7, 1987, reports that the moves “backfired” by discouraging remittances, but Chaudhry (op. cit.) argues that austerity measures were much more efficient in Yemen than in neighboring Saudi Arabia, where the state-owned oil sector and direct subsidy system was less amenable to reform.


9 World Bank, People’s Democratic Republic of Yemen: A Review of Economic and Social Development (Washington, March 1978), Table 2.1, citing Ministry of Planning and World Bank.


11 A.A. El-Sherbini, “An Analysis of Public Sector Management Development in the People’s Democratic Republic of Yemen” (Desk Study for UN Development Program, December 1980), p. 12, citing preliminary census results, and p. 15. Even in Indian Ocean fishing and trawling, where the public sector generated nearly three-quarters of the value of production, the movement was toward privatization. By 1987, government, domestic firms and foreign firms each contributed about a fifth of sectoral production, the cooperatives had 28 percent, and the mixed sector had a tenth.

12 Middle East Economic Digest (MEED), December 5, 1989, and April 21, 1978; World Bank, 1978, Table 10.2.


14 World Bank, 1984, Table 2.3; Gerd Nonneman, Development, Administration, and Aid in the Middle East (New York: Routledge, 1988), p. 103; and MEED, January 19, 1990.

15 Data on “Percentage of External Public Loans from Major Donors” released by the Bank of Yemen, Aden, December 12, 1983; and the Central Yemen Bank, Sana’a, YAR, June 30, 1987, are several years apart, but the data is consistent with the World Bank (World Debt Tables 1986-87 (Washington, DC, 1987), pp. 410, 414), which also shows nearly identical official credits of about $2.5 billion owed by both countries. The North owed more to the multilateral, and the South owed more to other governments.

16 Virtually all projects, tenders, and contracts are reported in MEED.


21 Yemen Times, February 27, 1991, pp. 6-7, lists each company by name and two categories of expenses.
