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## DEVELOPMENT OBSTACLES AND NEEDS IN THE LEAST DEVELOPED COUNTRIES IN THE ESCWA REGION

87-1027

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# INTRODUCTION

Development obstacles in the least developed countries are enormous, complicated and have economic, social, scientific and cultural dimensions. According to United Nations criteria, a country can be considered least developed when per capita income is very low (between $200 and $500 per year), the illiteracy rate is high, and the level of industrial activity is low (in most of the least developed countries the industrial sector contributes less than 10 per cent of total GDP).

According to these criteria there are 36 least developed countries in the world. The majority are located in Africa (26 - about 72.2 per cent of the total number), one in the Caribbean (Haiti), and nine in Asia and Pacific. In the ESCWA region there are two least developed countries: Democratic Yemen and the Yemen Arab Republic. Although these two countries represent about 10.4 per cent of the total population in the ESCWA region, they shared less than 2 per cent of the GDP in 1984. Both countries suffer from major development problems, have very small and ineffectively mobilized domestic resources, and have a high dependency on foreign aid and workers' remittances for both consumption and investment. Total consumption in both countries exceeds GDP and domestic saving is negative. The high rate of consumption on the one hand, and the inability of the economy to meet this high rate of consumption on the other led to a rapid increase in the volume of imports, which in 1984 represented 81.2 per cent and 40 per cent of GDP in Democratic Yemen and the Yemen Arab Republic, respectively. The export sector in both countries is very small. During 1984 exports covered only 3.7 per cent of imports in Democratic Yemen and less than 1 per cent in the Yemen Arab Republic. The high rate of imports, together with the small export sector, led to the deterioration in the trade balance of both countries. In Democratic Yemen, the trade deficit increased from $170.7 million in 1975 to $794.8 million in 1984, an increase of 466.9 per cent during this period. In the Yemen Arab Republic, the trade deficit increased from $701.4 million in 1976/1977 to $1,201 million in 1984, an increase of 71.2 per cent during this period. To partly finance their rapidly increasing trade deficits both countries have used large portions of their workers' remittances and foreign aid, and this made them even more dependent on external financing. The foreign debt of both countries has increased over the past few years. In Democratic Yemen, the total disbursed long-term external debt (public and publicly guaranteed) increased from $226.5 million in 1975 to about $1,300 million in 1984. In the Yemen Arab Republic, total disbursed long-term debts also increased from $244.2 million in 1975 to $1,687.9 million in 1984. Although the debt ratio (debt services payments as percentage of the total export of goods and services) is still considered to be low when compared with the major debtor countries, it has increased rapidly over the past years. In Democratic Yemen, the debt ratio increased from 0.6 per cent in 1977 to 2.4 per cent in 1984, while in the Yemen Arab Republic, the debt ratio increased from 0.4 per cent in 1977 to 5.1 per cent in 1984.

Both countries started their development processes during the early 1970s. The first economic plan in Democratic Yemen was the Three Year Programme of 1971/1972 to 1973/1974 and in the Yemen Arab Republic the first development plan was the Three Year Programme launched in 1973. Since then, the two countries have completed two five year development plans.

During the 1970s, the economies of both countries registered high growth rates, in excess of their planned targets. In Democratic Yemen, GDP achieved a 15 per cent growth rate during the Three Year Programme, and 7 per cent during the First Five Year Plan.

In the Yemen Arab Republic, GDP registered a 7 per cent annual growth rate during the Three Year Programme, 5.9 per cent during the First Five Year Plan; and during the Second Five Year Plan, an annual growth rate of 6.6 per cent was achieved.

The agricultural sector is the dominant sector of the economies of both countries: more than 60 per cent of the population of Democratic Yemen and 80 per cent of that of the Yemen Arab Republic live in rural areas where agriculture is the main economic activity. The agricultural sector accounts for 40 per cent of the labour force of Democratic Yemen, and 69.1 per cent of that of the Yemen Arab Republic. Its contribution to total GDP has, however, decreased over the years: in Democratic Yemen this sector contributes about 10 per cent and in the Yemen Arab Republic about 28 per cent of GDP. This decrease would have been a healthy sign if it had come about as a result of economic development in the other sectors of the economy. However, this has not been the case in the two Yemens. The agricultural sector in both countries faces chronic problems and obstacles which can only impede its development. These problems include the lack of modern irrigation systems, developed infrastructure and modern technology, coupled with low productivity.

The industrial sector in both countries is small: it represents about 10 per cent of GDP in Democratic Yemen and 9 per cent in the Yemen Arab Republic. The main industrial products are food processing, building materials and chemicals. The lack of financial resources, experts and training represents the most important obstacle to the development of the industrial sector in both countries.

## The main characteristics of society in the two Yemens

Although the society of the two Yemens faces the same problems as that of other least developed countries, special features characterize their development processes, especially that of the Yemen Arab Republic. These features are as follows:

1. A long isolation from the outside world which prevailed until the 1962 revolution in the Yemen Arab Republic prevented the economy and society as a whole from benefiting from the fruits of modern science and technology. Moreover, certain regions in both countries suffer from internal isolation due to the lack of modern transport and communication services. This isolation has been one of the major obstacles to economic and social development, and the major factor behind the socio-economic backwardness of the two countries.

2. The civil war in the Yemen Arab Republic which afflicted the country for about seven years resulted in heavy material and human losses and weakened the central government outside the main cities. This has led to a strengthening of the traditional tribal system which has had a negative impact on the development process.

3. The phenomenon of qat chewing has become a negative factor impeding the development of the economies of both countries. Increased consumption of qat raised prices, and this has encouraged farmers to increase production of this commodity at the expense of other agricultural products.

<u>The main problems facing the Yemeni economy</u>

1. The high dependency of the economy on foreign aid. This dependency affects both the consumption and investment sectors. Owing to the lack of financial resources and the low level of per capita income (which does not generate any domestic saving), the two countries depend to a large extent on the outside world, and on the remittances of their nationals working in the gulf area. The two countries rely on imports for most of their consumption. This resulted from the high rate of consumption generated by the increase in family income and the inability of domestic supply to meet this growing demand. This led to an increase in imports without a corresponding increase in exports, which in due course resulted in a huge trade deficit and diverted large sums of remittances and foreign aid to cover this deficit.

2. Low level of per capita income. Per capita income in both countries is very low. In Democratic Yemen per capita income was estimated in 1985 at 119.8 Democratic Yemen dinars or around $347, while in the Yemen Arab Republic, per capita income in 1984 was around 3,082 Yemeni rials or $470. This low level of per capita income does not leave any opportunity for saving as the entire income is spent on basic needs.

3. Low level of industrial activity. Both countries have a very small industrial base. In Democratic Yemen, most industrial activity is concentrated in the Aden Refinery; it employs about 1,800 workers or about 3 per cent of the total industrial labour force. This is followed by food processing industries, which represent 26 per cent of total industrial products. In the Yemen Arab Republic, the industrial sector contributes less than 10 per cent of GDP, and as proportion of employment, it employs about 5 per cent of the total labour force. The main industries are concentrated in food processing and in the manufacturing of building materials.

4. Low productivity. Low productivity represents the main obstacle to increased production in the two countries. Low productivity can be attributed to the use of traditional methods of production, high illiteracy rates and to the lack of incentives. Both countries have recognized this problem and have tried to solve it. In Democratic Yemen the Government has taken measures to raise productivity, especially in the State and co-operative sectors. It began by reviewing the pricing system and structure in the agricultural sector, and prices for a few products have been increased by 50 per cent and for others like fish by 100 per cent. The Government has also allowed fishermen to sell up to 40 per cent of their products directly on the open market, while the remainder (60 per cent) has to be sold to the co-operatives. However, while incentives are an important factor in increasing production and productivity they are not enough in themselves. Other measures such as providing spare parts, storage facilities building an adequate infrastructure and training programmes are also vital.

# I. DEVELOPMENT OBSTACLES

## A. Internal obstacles

Internal obstacles are confined to those related to domestic economic conditions and to the environment in the least developed countries. They include: a weak productive sector (agriculture and industry), limited and/or ineffectively mobilized domestic financial resources, low per capita income, low or negative domestic saving leading to low investment, low productivity and low production. Low production leads to low per capita income and hence the economy enters into a vicious circle of poverty. Internal obstacles are in the financial, economic and social fields. Financial development obstacles are reflected in the lack of domestic saving and investment due to low per capita income and to the inadequacy of the necessary required monetary and financial tools required to mobilize these countries' limited domestic resources.

Economic obstacles include, but are not limited to, low productivity, the lack of a physical and institutional infrastructure, and weak productive sectors, especially in agriculture.

Social obstacles include a high rate of illiteracy, an inadequate education system and poor health services. All of these development obstacles apply to the two Yemens, in addition to the problem of the long period of isolation and scattered population centres.

Both Yemens have negative domestic savings and rely heavily on remittances and foreign aid. Both are also subject to low productivity, especially in the agricultural sector where about 40 per cent of the labour force of Democratic Yemen and 69 per cent of that of the Yemen Arab Republic is employed. The two countries also depend on the service sector more than on the productive sector, which contributes less than 50 per cent of total GDP.

In the social area both countries suffer from a high rate of illiteracy (about 60 per cent in Democratic Yemen and 75 per cent in the Yemen Arab Republic).

This study will concentrate on those obstacles facing the most important sectors of the economies of both countries (agriculture, industry, government services and the balance of payments).

### 1. Weak Productive Sectors

#### (a) The Argicultural sector

The agricultural sector is the most important sector in the least developed countries. The least developed countries are traditional societies where agriculture predominates. About 70 per cent of the population in the least developed countries are engaged in agricultural activities, while in developed countries the percentage is only 4 to 5 per cent. The agricultural sector constitutes the largest in the components of GDP, and agricultural products represent major export items for the least developed countries.

However, a high proportion of the population engaged in agriculture is not reflected in the contribution of this sector to GDP which resulted from low productivity in the agricultural sector caused by the use of traditional production methods. The agricultural sector of the least developed countries is underdeveloped, and as this is the largest sector in the economy, agricultural underdevelopment is the most important cause of overall underdevelopment. The two Yemens both of which are least developed countries, depend to a large extent on the agricultural sector, which is the most important sector of the economy. In Democratic Yemen, despite the decrease in the contribution of this sector to GDP, it still employs 40 per cent of the total labour force of the country. About 60 per cent of the population live in rural areas where agriculture and fishing are the dominant economic activities. In the Yemen Arab Republic, the sector's contribution has also decreased. However, it is still the most important component of GDP (around 24 per cent), while about 69 per cent of the population of the labour force is engaged in the agricultural sector. The agricultural sector of the two Yemens is therefore very important, not just because it is required to meet the increased rate of consumption as a result of high population growth, but also because it offers a major source of employment and export promotion (the agricultural sector supplies a large proportion of total exports).

Total cultivable land in Democratic Yemen is estimated at 200,000 hectares less than 1 per cent of the total area. However, only 60,000 hectares, are cultivated annually. This represents only 30 per cent of total cultivable area. About 28 per cent of the total cultivated area is regularly irrigated through wells, the remaining 72 per cent depends on rainfall, which fluctuates from one season to another. In the Yemen Arab Republic, the total cultivable area is around 3.5 million hectares, but the actual area cultivated is only 1.5 million or about 42.9 per cent of the total cultivable land. Only 15 per cent of the area actually cultivated is irrigated and the remainder depends entirely on the rainfall. The main agricultural products of Democratic Yemen are cotton, wheat, sorghum and vegetables. However, the production of most crops especially traditional ones such as cotton and coffee, has decreased over the years (see table A-3). The production of cotton dropped from 10,300 tons in 1974 to 4,600 tons in 1980 and to 2,900 tons in 1983. The production of wheat decreased from 9,000 tons in 1974 to 7,800 tons in 1980, before increasing slightly to 7,900 tons in 1983. This reduction came about as a result of a drop in yield per acre from 0.647 tons per acre in 1974 to 0.600 tons in 1980 and 0.610 in 1983. The production of vegetables and fruit alone increased during this period. Vegetable production increased from 12,000 tons in 1974 to 33,800 tons in 1980 before dropping to 30,100 tons in 1982. However, in 1983 the yield per acre slightly increased from 3.1 tons per acre to 3.8 tons and remained at that level till 1983. Fruit production also increased from 9,600 tons in 1974 to 14,900 in 1980. However, it decreased in 1983 to 11,000 tons. In the Yemen Arab Republic, the main agricultural products are sorghum, wheat, barley, vegetables, fruit and maize. However, except for vegetables and fruits, production of these products has decreased over the years. The production of wheat decreased from 71,000 tons in 1973/1974 to 63,000 tons in 1985. The production of barley also dropped from 85,000 tons in 1973/1974 to 31,200 tons in 1985. The production of cotton increased during the 1970s from 5000 tons in 1973/1974 to 27,000 tons in 1977/1978 before dropping to only 4,000 tons in 1985.

Vegetable and fruit production alone has increased. The production of vegetables increased from 150,000 tons in 1973/1974 to 370,500 tons in 1985. Fruit production also increased from 73,000 tons in 1973/1974 to 92,000 in 1985, according to Ministry of Agriculture figures (see table A-4). As a result of this drop in production of main crops on which the population depends for its daily needs, food production per capita has fallen over the years in both countries. The gap between the annual growth rate of the population and the growth rate of food products has compelled the governments of both countries to increase food imports in order to bridge this widening gap. As a result food imports have increased over the years and now represent about 30 per cent of total imports (see tables A-5 and A-6).

Both countries aim at achieving self-sufficiency in vegetable production, reaching the highest possible self-sufficiency in grain production and provide raw material for agro-industry. In order to achieve these important goals, both governments have embarked on specific policy measures and have made special investment allocations.

Total investment allocation for the agricultural sector in Democratic Yemen increased from $34.8 million in 1977 to $64.1 million in 1983, before decreasing to $36.5 million in 1984. This represented 17.9 per cent of total investment in 1977 and only 9.8 per cent in 1984. However, owing to certain difficulties only 85 per cent and 63 per cent of total investment allocations were actually utilized in 1977 and 1984 respectively. In the Yemen Arab Republic, total investment allocation for the agricultural sector during the First Five Year Plan (1976/1977-1980/1981) reached $570 million or about 14 per cent of total investment. During the Second Five Year Plan (1982-1986) it was envisaged that the agricultural sector would receive 14 per cent of total investment or about $812.7 million. During the first three years of the plan (1982-1984) investment in the sector reached $215 million thereby representing only 8.9 per cent of total investment. In 1982 the agricultural production of both countries suffered a serious setback as a result of heavy floods in Democratic Yemen and an earthquake in the Yemen Arab Republic.

Obstacles to agricultural growth

The agricultural sector of both countries faces serious problems which impede its growth and development. The two Governments have recognized and identified those problems, and have been trying within their limited resources to tackle them. However, those problems need substantial financial and technical resources, which both countries lack. Therefore, international assistance is vital to the solution of these problems, which can be summarized as follows.

(i) Lack of irrigation systems. Agriculture in both countries depends to a high degree on rainfall, which fluctuates from one season to another. In Democratic Yemen about 70 per cent of the actual cultivated land depends on rainfall, while in the Yemen Arab Republic this figure is about 80 per cent. This high dependency contributed to the fluctuation of agricultural production from one year to another, depending on the rainy season. To reduce this high dependency on rainfall, the two Governments have embarked on large scale irrigation projects with the assistance of international organizations (FAO, IDA and UNDP). Irrigation projects received the the bulk of the investment allocated to the sector especially during the 1970s when in Democratic Yemen about 60 per cent of agricultural investment went to irrigation systems.

During the Second Five Year Plan about 80 per cent of total investment went to the improvement of irrigation systems. In the Yemen Arab Republic 20.5 per cent of the total investment allocation for the agricultural sector was earmarked for investment in the irrigation systems. However, in spite of these efforts, the problem needs more time and greater resources. The fact remains that in order to increase agriculture production the irrigation systems will have to be improved and the dependency on rainfall reduced substantially.

(ii) Lack of sufficient infrastructure. The inadequacy of the transport system makes it difficult for agricultural products to reach the centres of consumption in the main cities on time. This discourages farmers from increasing production because as they know that they will not be able to sell any surplus they produce, they only meet local consumption demand in the villages. The lack of storage and cooling systems also represents an obstacle to the development of agricultural production. Both countries have recognized these problems and made an effort to increase prices to help farmers and at the same time have tried to ensure that all farm produce is bought. In Democratic Yemen, the Government has allowed the farmers and fishermen to sell about 40 per cent of certain products directly in the market place at prices which are some 50 per cent higher than those at which they sell to co-operatives.

(iii) Because of traditional agricultural techniques the sector cannot reach a level of large-scale production. Machines and equipment are still traditional, and most farmers still use animals as means of production. Modern techniques are used only on a limited scale due to their sophistication and high cost. In order to reduce the cost of these new machines and equipment, the two Governments have introduced a rental scheme which works through co-operatives, and this has proved to be very successful.

(iv) Inadequate agricultural credit. In order to employ new and modern agricultural machines so as to increase production, farmers need credit either to buy or rent these machines. Farmers' incomes still do not allow them to buy these machines without bank loans. Both countries have established agricultural credit. The resources involved are very limited and public awareness of the importance of credit is still limited. The procedure for obtaining credit is long and sometimes complicated, and therefore tends to discourage farmers from seeking it. It is important then for branches of agricultural banks to be established close to production centres in order to reduce the cost of this credit and to save time. The co-operative system which has proved its effectiveness and is used in both countries, should be expanded still further.

(v) Unavailability of the means of production. This include the seeds, fertilizers, and machines without which production cannot be increased and the sector's target cannot be achieved. Therefore, it is important to provide farmers with these means of production at affordable prices.

(vi) The agricultural sector of both countries suffers from a lack of adequate agricultural research systems, which are needed to allow policy-makers to introduce the appropriate measures based on accurate information about agricultural potential, problems and prospects. Research systems ought to include production, distribution and trade phases, together with investigations into problems facing the sector. The two Governments have to intensify efforts to solve some of these problems and to reduce the effects of others. Both have attempted to introduce incentives for farmers to increase production. They have established agricultural credit banks and co-operative systems with the aim of providing farmers especially smallholders, with the rental system for machines and equipment. They have also tried to establish a pricing system which provides incentives for farmers to increase production. Furthermore, both Governments have increased prices of some agricultural products. However, there are further measures which the Governments of the two countries could introduce in order to increase agricultural production. These measures include the following:

- Placing more emphasis on grain production (maize, wheat and barley), regular items of daily consumption. Production of these crops could be increased to meet the planned target. One way of increasing production would be to assure farmers that the Government will purchase all their produce and to set prices which offer them incentives to increase production. Production and the area of land cultivated annually could be increased through the participation of different sectors of society (employees, students and institutions). The participation of these organizations could be very useful if it was well organized and co-ordinated. However, this would only provide a measure of assistance, and ought not to be used as a policy instrument to increase production.

- Giving priority to traditional crops (cotton and coffee), and trying to increase the areas cultivated, in order to increase exports and provide the textile industry with raw materials.

- Substantially decreasing the production of qat and converting the land to the production of important agricultural products. Over the past few years the production of qat has increased due to the rapid increase in both demand and prices, and this has contributed to a deterioration in the agricultural sector. The two Governments should seriously consider banning the production and use of qat.

- Increasing the resources available to the credit banks so as to enable them to meet the increased demand for credit from farmers. The two Governments could also open branches offering credit facilities in villages in the vicinity of farmers' holdings to economize on time and effort.

- Increase training, which is important in agricultural production. The two countries should increase the resources available for use in the training sector. Training courses should be given to farmers in order to acquaint them with modern machinery and equipment. The two Governments should encourage farmers to participate in these courses and select the right time for them to join these training courses. Farmers should be sent abroad on training missions in order to give them training courses in the field.

- Giving more attention to agricultural research through the establishment of research centres, with the assistance of international organizations (IDA, FAO, UNDP). The research should cover the stages of production, distribution and trade, as well as trying to anticipate and solve problems of future demand and supply.

- Establishing a system of co-ordination between the different agricultural organizations through the adoption of a national agricultural strategy. Such co-ordination is necessary if expenditure and time required to achieve government goals and policy objectives in the agricultural sector are to be reduced.

(b) The manufacturing sector

The two countries have very small, but growing industrial sectors. The contribution of the manufacturing sector to the total GDP is still very limited in both countries. In Democratic Yemen, the contribution of the manufacturing sector to total GDP increased over the last few years from 10.5 per cent in 1973 to 13 per cent in 1978 before decreasing to 12.3 per cent in 1984.[1/] In the Yemen Arab Republic the share of the manufacturing sector in the total GDP increased from 7.1 per cent in 1973/1974 to 10.1 per cent in 1984.[2/] The ratio of the manufacturing labour force to the total labour force in both countries has increased over the last five years. In Democratic Yemen the number of people working in the sector increased from 45,000 in 1980 to 45,100 in 1984. In the Yemen Arab Republic the number increased from 34,500 in 1975/1976 to 52,900 in 1981/1982. The manufacturing sectors of both countries have met their growth targets during both the First and the Second Five Year Plans. This was mainly due to the fact that the sector started from scratch, and also because of the high level of investment in this sector. In Democratic Yemen, total investment in the sector, including oil and mineral

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1/ Democratic Yemen, Central Statistical Organization

2/ Yemen Arab Republic, National Accounts, 1969/1970-1983 (Sana'a, October, 1984).

exploration, increased from $35 million in 1977 to $184.3 million in 1984. This represented 15.4 per cent and 32 per cent of the total investment allocation. The sector achieved an average annual growth rate of 10.1 per cent in Democratic Yemen between 1980 and 1984. In the Yemen Arab Republic an average annual rate of growth of 15.5 per cent was registered between 1979/1980 and 1983. Food processing constitutes the main industrial activity in Democratic Yemen. Its contribution to total industrial output increased from 21.8 per cent in 1980 to about 26 per cent in 1984, followed by the chemical industry which increased its contribution from just 14.4 per cent in 1980 to about 18 per cent in 1984. However, oil refining, which used to be the most important industrial activity in the country during the 1960s dropped from 16.7 per cent of total industrial output in 1980 to 12 per cent in 1984. In the Yemen Arab Republic the main industrial activity is food processing, which represents about 45 per cent of total industrial output, followed by the manufacture of building materials, which represents about 22 per cent. During the Second Five Year Plan the Yemen Arab Republic allocated 14.5 per cent of total investment in the industrial sector to food, beverages and tobacco, and 11 per cent to the chemical industry. The industrial policies of the two countries concentrate on the promotion of food processing, building materials and textiles. The goal of their industrial policies is to build up industries which rely on the local raw materials and create industries which will reduce the reliance on imports. The manufacturing sectors in both countries face serious obstacles which impede their growth and development. The two Governments are trying to solve some of these problems and to reduce the direct negative impact of others. However, owing to the lack of both experience and resources, international assistance is essential if these problems are to be solved. The United Nations Industrial Development Organization has a special role to play in assisting these two countries, including the despatching of experts and consultants to assist planners and policy-makers in the two countries should they require aid in trying to eliminate the effects of some of the obstacles which include the following:

(i) <u>Lack of financial resources</u>. The two countries suffer from shortages of foreign currency. This represents the most difficult problem facing the economy as a whole. However, it has had a more damaging effect on the industrial sector, owing to its close dependency on imports to provide the necessary equipment and machinery as well as certain industrial raw material. The lack of credit resulted in a delay in the implementation of some projects and cancellation of others.

(ii) Insufficient number of technical experts and the lack of expertise which has led to an increase in the production costs and low production and productivity. As an example, the textile factory in the Yemen Arab Republic which has a production capacity of 10 million yards, produces only 6.6 million yards due to the lack of technical experts. The industrial sector suffers from these problems not only in the production phase, but also in distribution and marketing. This has led to an increase in the cost of production, low quality standards, and a local manufacturing industry unable to withstand competition from imported products.

(iii) The natural resources of the two countries are still unexploited and this has led to a dependency on imported raw materials which in turn has increased production costs and complicated the balance of payments problems.

(iv) The markets of the two countries are small. This does not allow the use of modern technology on a wide-scale because production would exceed the local market demand. This has obliged industries to work below their profitable capacities, and has led to an increase in costs of production.

(v) Inadequate physical infrastructure. The two countries lack an adequate infrastructure and face problems in integrating different parts of their countries. This has led to the establishment of several industries in somewhat inappropriate locations. Some of them are clustered around the main cities instead of being built near the sources of raw materials, and this has led to an increase in the costs of production.

The Governments of the two countries have already taken several measures to minimize the effect of these problems, but certain other steps which could also be taken would include:

(i) Concentration on the agro-industrial sector in which the two countries have comparative advantages and depends on the local raw materials. This would help reduce the importation of some food products and thus save foreign currency. It would also lead to an increase in the demand for agricultural products, and therefore help this sector to expand.

(ii) Concentration on industries which depend on locally supplied raw materials. This should lead to a more rapid exploitation of local natural resources, and a decrease in the level of imports of raw materials. This in turn, would contribute to the development of the national economies of the two countries. The development plans of both countries call for the promotion of industries which depend on locally supplied raw materials. However, several industries which use imported raw materials have been established.

(iii) A substantial increase in financial resources of industrial banks in the two countries is needed to provide the necessary finance. This is particularly important if the private sector is to contribute more effectively to the industrial sector.

(iv) Encouraging the private sector to play a more active role in industrial development. This may be achieved by offering tax incentives, extending credit facilities and reducing the import duties on machines and equipment.

(v) As training and research are essential to the development of the sector, training programmes should be intensified in both countries, in order to train the required staff in the different aspects of production, distribution and marketing. Research which is vital to the development of the sector could be undertaken with a view to studying the possibility of adopting some sort of industrial strategy. This should take into account the current problems and future prospects of the sector. It should cover an analysis of the market and the possibility of developing external markets together with the study of the prospect for the short- and medium-term. The search should include pre-feasibility studies of different industrial projects with a view to determine where priorities need to be placed in order to benefit the economy.

(vi) Co-operation and co-ordination between the two countries is very important, not just for the development of the industrial sector, but also for the overall development of the two economies. Expanding the market for different industrial products would contribute to the development of the sector.

2. Lack of domestic financial resources

(a) Negative domestic saving

In developing countries, there are few sources of domestic saving, the most important is the agricultural sector followed by the trade sector. In the two Yemens domestic sources have failed to generate any saving. This failure has been attributed to the deteriorating situation in the agricultural sector, and to its inability to make any real progress in either meeting local consumption demands or promoting domestic saving. The trade sector is characterized by a high level of imports and very small amount of exports. Consumers have not made any contribution to domestic saving because of the low level of per capita income which was spent in its entirety on the consumption of goods and services. The situation in the two Yemens is all the more serious owing to the fact that the two countries do not possess a sound export sector, whereas other developing countries have at least one commodity with which to cover a significant part of their import costs.

The only export item of the two Yemens is their labour force, and this in fact has made a substantial contribution to the economy of the two countries. However, owing to the difficult economic situation in the Gulf area during the past several years, the Yemeni labour force has encountered mounting difficulties and some of the expatriate workers have already had to return home. The returning workers have to be absorbed back into the economies of both countries. This, of course, will affect their economies in two ways: firstly, the inflow of remittances which is an important source of foreign exchange will be reduced and secondly, the returning workers will accentuate the unemployment problem and will increase pressure on the economic and social services of two countries. The only positive factor of this return migration is that the workers will be able to participate in the development of the agricultural sector. The lack of domestic sources of saving has made the two countries dependent on other countries and regional and international development and finance institutions for foreign exchange both for consumption and investment. The two countries have had to rely on foreign aid to bridge the gap between domestic or national saving and gross investment. Domestic saving in Democratic Yemen is negative. This means that consumption exceeds GDP. As proportion of GDP, negative domestic saving has grown from -24.6 per cent of GDP in 1976 to -38.9 per cent in 1984. In the Yemen Arab Republic the situation is similar but not as accentuated. Negative saving as proportion of GDP decreased from -28.3 per cent in 1976/1977 to -21.5 per cent in 1980/1981, and increased again to -22 per cent in 1984. This occurred despite the Government's efforts to reduce consumption to the same level as GDP. This was one of the objectives of the First Five Year Plan, but one which could not be achieved. However, some progress was made in this direction and consumption has been reduced from 128 per cent of GDP at the beginning of the First Five Year Plan to 122 per cent during the third year of Second Five Year Plan. The high rate of consumption, together with the deteriorating situation in the agricultural sector, led to an increase in imports without a corresponding increase in exports. This in turn has led to the creation of a huge trade deficit, and has exhausted the limited foreign exchange reserves that the Government had accumulated through remittances and foreign aid. In Democratic Yemen, imports were equivalent to about 100 per cent of GDP in 1975 and while this percentage has been reduced to 90 per cent in 1984 it remains high after taking into account that exports represented only 11 per cent of GDP during the same period. In the Yemen Arab Republic, imports constituted only 33 per cent of GDP in 1974/1975 and increased to 65 per cent in 1982 before falling back to 49 per cent in 1984 as a result of the austerity measures introduced by the government in 1983 to reduce imports.

(b) National Saving

National saving in the two Yemens, contributed to the financing of development projects. However, this contribution has been reduced over the years and can be attributed to the decrease in the amount of remittances transferred. In Democratic Yemen, national saving financed about 50 per cent of gross investment in 1980 and only 6.5 per cent in 1983, before it became negative in 1984. In the Yemen Arab Republic,national saving financed around 70 per cent of gross investment during the First Five Year Plan. However, during the first two years of the Second Five Year Plan, this contribution has been reduced to 45.6 per cent. The ratio of national saving to national income is still very low. In Democratic Yemen this ratio decreased from 18.7 per cent in 1976 to 1.9 per cent in 1983.

In the Yemen Arab Republic, the situation is a little favourable, but the proportion is still low. The proportion of national saving to national income increased during the early 1970s from 10.5 per cent in 1973/1974 to 32 per cent in 1977/1978, before being reduced to 9 per cent in 1983. This proportion is lower than normal for developing countries, and far less than that recommended by both the International Development Strategy and the Substantial New Programme of Action for the 1980s for the least developed countries. To stimulate domestic saving the two countries could introduce the following measures:

(i) Giving more priority to the development of the productive sectors of the economy, especially agriculture, and export-oriented industries in order to promote the export sector which together, with the agricultural sector constitutes one of the most important sources of saving. The development of the agricultural sector may result in an increase in the per capita income of a large section of the population, which would help stimulate domestic saving as it is unlikely that consumption by farmers would increase at the same rate as that of income, and this would then result in some domestic saving. The development of agriculture would also lead to a reduction in imports of some of 30 per cent, which represents the value of current food imports.

(ii) Reducing the consumption rate, which is still very high in both countries despite the efforts taken by the two Governments to reduce it. However, to reduce consumption rate in a society which is in the early stages of development is not an easy task. The society has to satisfy its basic needs and this, in conjunction with the low level of per capita income, does not leave much opportunity for saving. However, the consumption pattern can be rationalized so that it coincides a little more with the priorities of the economy. The high rate of consumption of luxury goods should be reduced in order to save foreign currency. The two Governments could encourage a decrease in the consumption of these luxury commodities through import tariffs and quotas as well as by expanding recreation facilities, such as sports clubs, cinemas, local tourist centres, particularly that the two countries are rich in potential tourist sites.

(iii) Improving tax laws and regulations in order to increase government revenue. Taxes in the two countries represents a large source of government revenue, therefore, it is important that tax laws and regulations be improved so that revenue can be increased. The prompt collection of taxes is also vital.

(iv) Stimulating domestic saving by offering financial incentives which encourage people, especially those who have increased their income to invest in company stocks, shares and bonds or even bank saving accounts through the introduction of high interest rates. The introduction of saving certificates is also another way in which domestic saving can be stimulated and consumption discouraged. The introduction of insurance schemes is another devise which could be used to encourage saving.

3. Lack of adequate physical infrastructure

Almost all of the least developed countries have a very weak physical infrastructure and this constitutes one of the principle obstacles to economic and social development. The lack of a transport and communication system constitutes one of the most serious impediment to internal economic integration and prevents the rapid connection of large urban centres with the production centres in the rural areas. This has a direct negative impact on the growth of agricultural production and in particular food items such as meat and dairy products which require special attention. If farmers find it difficult to reach the market at the right time, or if they lack the facilities with which to preserve food for longer periods until such time as they can reach consumers in urban centres, they will not increase production. This problem has been one of the most important factors impeding the growth of the agriculture in many developing countries.

Society in the two Yemens, outside the big cities, is composed of scattered population centres which makes communications extremely difficult. There is a need, therefore to establish an extensive transport and communications network to connect scattered population centres with the main cities. Dispersion represents one of the main obstacles to economic and social development in the two Yemens, since about 80 per cent of the total population in the Yemen Arab Republic and 60 per cent of that in Democratic Yemen live in rural areas. The lack of adequate transport and communication services and other social services has encouraged the rural population to move to the main cities in search of better facilities and job opportunities. In order to improve the transport and communication services and to connect different parts of the country both Governments have given the transport and communications sector a high priority in their development plans. In Democratic Yemen the sector has been given high priority in investment allocations. During the Three Year Development Programme, transport and communications received 39 per cent of the total allocation for the plan ($47 million). During the First Five Year Plan, the sector received 26 per cent of total investment. During the Second Five Year Plan the sector was also given high priority. In the First Three Year Plan the investment allocation for the transport and communication sector was increased from 21 per cent of total investment in 1982 to 29 per cent in 1984. The increase was made even though Democratic Yemen has a relatively better physical infrastructure than that of the Yemen Arab Republic. The major part of investment allocation for the sector went to road transport. During the First Five Year Plan, about 67 per cent of total investment for the sector was spent on road transport, 17 per cent on the expansion of building and/or of ports, and 13 per cent on airports. During the Second Five Year Plan about 66.3 per cent of total investment for the sector was earmarked for investment in the expansion of the road network, particularly in the highways connecting the main cities, 22.3 per cent for expansion of the ports and shipping and 11.4 per cent on airports. As a result the length of paved roads increased threefold from 475 kilometres in 1973 to 1,650 kilometres in 1983. In the Yemen Arab Republic priority has also been given in investment allocations to the development of the country's infrastructure, especially transport and communication. During the Three Year Development Programme 1973/1974-1975/1976 the transport and communication centre received about 23 per cent of total investment, while during the First Five Year Plan 1976/1977-1980/1981 the figure was 26.4 per cent. About 76 per cent of the total investment in the sector went to the expansion of road transport, 19 per cent to civil aviation and only 5 per cent to ports. During the first three years of the Second Five Year Plan, the amount dedicated to transport and communications decreased to 15 per cent of total investment.

As a result, the length of paved roads increased from 116 kilometres in 1982 to 3,093 kilometres in 1983.[1/] The number of telephone lines in Democratic Yemen increased from 1,100 in 1974 to 14,400 in 1983. In the Yemen

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1/ Yemen Arab Republic Statistical Year Book 1983, Central Planning Organization (Sana'a, April 1984).

Arab Republic the number of telephone subscribers increased from 4,930 in 1974 to 52,295 in 1983.[1/] Nevertheless, in spite of the substantial progress that has been achieved as a result of the efforts made by the two Governments, they still have a long way to go before they achieve any real progress and are able to build an adequate infrastructure which would pave the way for substantial progress towards economic and social developments. As the development of the infrastructure of the two countries requires the allocation of more resources than either can afford, international assistance is an important factor in achieving progress in the sector, especially in the planning, execution and financing phases. The development of the infrastructure of both countries faces serious obstacles. Among them are the following:

(a) A high dependency on the outside world, especially for finance. This is because projects needed to develop the infrastructure require large financial resources which the economies of both countries find difficult to provide. This high dependency on the outside world together with the unpredictable nature of foreign aid makes it difficult for the two Governments to make accurate estimates and allocations and results in delays in the execution of projects.

(b) <u>A weak construction capacity</u>. The local construction capacity of both countries is weak and is unable to cope with the huge projects to develop the infrastructure, which forces an even greater dependence on foreign companies. Local contractors are inexperienced and do not have an excess to the financial resources required to implement large projects. Their activities are therefore limited to the housing sector and to other small projects. This has led to a domination by foreign companies with all the negative factors it entails, such as the outward transfer of limited foreign currency, delays in the execution of projects and the perpetuation of the situation whereby local companies are prevented from gaining experience, and so are unable to compete with foreign companies.

(c) <u>A lack of adequate financial resources</u>. Although this is common to the economy as a whole its effects are more apparent in this sector. The lack of financial resources has resulted in the postponement of some projects and the delay of others.

(d) <u>A lack of sufficient skilled personnel</u>. There is a shortage of skilled and trained personnel to take charge of projects (highways, ports and airports), to maintain them and to see them through to the production phases. This shortage of skilled and in some instance even unskilled workers, is due to the migration of nationals in search of better jobs in the Gulf area. In order to solve this problem or at least to minimize its negative effects, the two countries need to develop comprehensive training programmes including on-the-job training. They also need to persuade foreign companies to employ and train a certain number of their national in preparation for them to take over when the contracts of these companies expire.

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<u>1/</u> <u>Yemen Arab Republic Statistical Year Book</u> 1983, Central Planning Organization (Sana'a, April 1984).

In an effort to overcome some of the above mentioned obstacles the two countries could take the following measures:

(i) As the two countries depend to a large extent on the import sector, they should try to reduce the cost of imports. These sometimes increase because of penalties incurred as a result of delays caused by bottlenecks in unloading at ports. The two Governments should give greater priority to the development and expansion of their seaports and should build smaller ports which could be used for the distribution of imported goods and for fishing. Both countries have long coastlines which would facilitate the expansion of ports.

(ii) Both countries should try to improve land transportation in order to connect and integrate the different regions as well as to facilitate travel between them. This could be achieved through the establishment of fleets of buses. These fleets would make it easier for the rural population to travel to the cities, the main centres of commercial activity and, in some cases, of administrative services. This would reduce the necessity for the population to leave the rural areas and would encourage them to remain at home.

(iii) Local transportation within the main cities should also be improved and made more reliable. This would motivate employees to use public transport, decrease the use of private transport in addition to reducing fuel consumption and rush hour jams.

(iv) They could encourage local contractors to take a more active role in the implementation of projects to develop the infrastructure. This would lead to the conservation of limited foreign exchange reserves, as well as to an improvement in local company standards of implementation. In order to encourage local companies to participate, the Government should extend credit facilities with low interest rates to them and offer financial incentives when they finish the projects before the deadline. The Government should also try to simplify the rules and regulations governing the importation of equipment and the obtaining of credit.

(v) Efforts should be made to increase dependency on materials available in the local market for use in the implementation of projects in order to limit imports to material which would not otherwise be available. This would reduce the cost of the implementation and decrease the level of outflow of foreign exchange.

(vi) Comprehensive training programmes required to maintain infrastructure projects and to reduce the cost of maintenance services should be conducted. This would be a long-term goal. In the short term, emphasis should be laid on in-service training, and foreign companies should be made to agree to the training of a number of nationals from the two countries as a prerequisite to obtaining contracts.

4. Inadequate government services

Government expenditure on education, health and other basic needs constitutes the second largest component of GDP in both countries. It reflects Government efforts to expand education throughout society, (not just in the main cities, but also in rural areas where the majority lives). It also reflects the Government's efforts to expand basic health care and to eradicate the most serious epidemics. It also includes Government spending on defence and security. Government spending on these items usually increases in the early stages of the development process. This is mainly due to the fact that, during the early phases of the development process, a country lacks even the most basic economic and social services (education, health and housing) and priority must be given to provide the population with these basic services. This is particularly important in the case of the two Yemens, since the societies began their development process after a long period of isolation.

Both countries have given high priorities to government services, especially health and education. In Democratic Yemen, the investment allocation for government services (education, health and housing) increased from $22.3 million in 1974/1975 to $49.6 million in 1980 and $116.2 million in 1984 according to the Ministry of Finance figures.

In the Yemen Arab Republic, Government spending on education increased from $6 million in 1974 to $87.7 million in 1979/1980 and $234.3 million in 1983.[1/] Spending on health services also increased from $3.6 million in 1974/1975 to $22.6 million in 1979/1980 and reached $37.9 million in 1983. As a result of this high rate of spending, the two countries have made considerable progress in providing services to a substantial portion of the population. However, owing to lack of resources and manpower much remains to be done before these basic services are made available to the entire population. As a result of Government efforts in education in Democratic Yemen, the number of kindergarten units increased from 6 in 1974/1975 to 28 in 1984/1985 and the number of students increased from 1,095 to 10,486 during the same period. At the preparatory level, which includes the elementary level, the number of schools increased to 926 in 1984/1985, while the number of students increased from 205,984 to 260,685 over the same period. At the high school level, the number of schools increased from 19 in 1974/1975 to 53 in 1984/1985, and the number of students increased from 7,568 to 28,430 over the same period. The number of student at Aden University also increased from only 285 in 1975 to 4,791 in 1984/1985, according to the Ministry of Education figures.

In health services in Democratic Yemen, the number of hospitals increased from 24 in 1975 to 31 in 1984, and the number of beds also increased from 1,846 in 1975 to 2,804 in 1984. Health centres increased to 20 units in 1984 and the number of primary health care centres increased to 294 in 1984. The number of doctors also increased from 156 in 1975 to 492 in 1984. The number of doctors per 10,000 citizens increased from 1.4 in 1980 to 2.3 in 1984 according to Ministry of Health figures.

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1/ Yemen Arab Republic, Central Bank of Yemen, Annual Reports 1979/1980-1983.

In the Yemen Arab Republic, the number of students at the primary level increased from 253,917 in 1975/1976 to 418,263 in 1980/1981, and then to 602,232 in 1983. The number of school units at the primary level increased from 1,711 in 1978/1979 to 4,169 in 1983. At the high school level the number of students increased from 7,165 in 1978/1979 to 11,984 in 1983, while the number of school units also increased from 37 in 1978/1979 to 117 in 1983. The number of students at Sana'a University reached 7,960 in 1983. According to the Ministry of Education, the number of teachers at all levels reached 17,957 in 1983 about 84.7 per cent were from Arab countries, mainly Egypt.

In health services, the number of hospitals increased from 23 in 1978 to 34 in 1984. The number of beds also increased substantially from 2,799 in 1978 to 5,500 in 1984. The number of health centres increased from 24 in 1978 to 238 in 1984 and the number of beds also increased from 605 to 1,015 over the same period. The number of doctors increased from 448 in 1978 to 1,110 in 1982. Despite the progress that has been made to provide basic services to the largest possible sector of the population, there is a still a long way to go before these services cover the entire population. There are many obstacles impeding the expansion of these services especially to rural areas where most of the population live. Included among these problems are the following:

<u>In the field of education</u>

As a result of increased public awareness of the importance of education, the demand for education services has increased substantially. This has led to an increase in the demand for school units and teachers beyond that which the economy can provide. Consequently, pressure is exerted on existing school units, and classes have become crowded. The local supply of teachers has not been able to meet this rapidly growing demand for education services, therefore, the two countries sought assistance from other Arab countries, particularly from Egypt.

(a) The dispersion of population centres makes it extremely difficult for the two Governments to provide adequate and necessary services, particularly education at the secondary and high school levels where the cost of education has increased.

(b) Lack of interest in technical education, especially in agriculture, despite the incentives provided to those who undertake this kind of education. This problem is not just limited to the two Yemens, but is common to most developing countries. However, owing to the importance of the agricultural and industrial sectors and owing to the lack of technical manpower, the need for this kind of education is extremely urgent and should be given high priority. Incentives should also be increased in order to attract the greatest possible number of students.

(c) Technical education suffers from yet another problem which is an inadequate financial allocation. Technical institutions need special equipment for training and this is expensive and must be purchased with foreign currency. The allocated resources are insufficient to obtain these equipment.

(d) Publishing facilities in both countries are poor and this leads to delay in providing necessary books and other materials. Books often reached the scattered regions very late and this has a negative effect on standards of education.

(e) A high proportion of students limit their studies to the elementary level. This creates a serious problem because it negatively effects the standard of education.

In the field of health

(a) There is an insufficient number of doctors, health centres and technicians. Despite the rapid increase in the number of doctors and health centres they are still insufficient to cover the whole of the country, especially the rural areas. Although in 1984 the number of doctors per 10,000 inhabitants in Democratic Yemen increased to 2.3 and there was one doctor to every 7,657 inhabitants in the Yemen Arab Republic, each doctor still serves more inhabitants than in any of the other countries in the region. In the Syrian Arab Republic, for example, each doctor serves only about 2,000 inhabitants, while in Jordan there is one doctor for every 1,000 inhabitants.

(b) The lack of adequate modern medical equipment in most health centres complicates the work of doctors, especially in the diagnosis of serious and rare diseases and illness.

(c) The high dependency on foreign aid, not only in terms of finance but in manpower as well. Foreign experts and technicians are expensive to hire and sometimes difficult to find.

(d) Most local doctors are general practitioners, and the number of specialists is very limited and this contributes to the low quality of health services.

In order to solve some of the problems which face education and the health services, the two Governments could take the following measures:

(i) Expansion of education services to rural areas and improvement both in their quality and quantity. In order to solve the problem of an insufficient number of school units, they could use railway compartments or even tents until an adequate number of schools is provided. The two countries could also expand their illiteracy eradication programme to cover the entire working class population and to make a holding of illiteracy eradication certificate a condition of obtaining a job and being promoted.

(ii) The two countries could expand the capacity of their teaching institutions in order to provide the required number of teachers and decrease the high dependency on foreign teachers, especially in the Yemen Arab Republic. This would lead to a reduction in the value of remittances transferred abroad by foreign teachers.

(iii) The two Governments should try to expand technical education and increase the incentives given to those who enrol and graduate from technical colleges and universities. They should try to ensure that a certain proportion of those who successfully complete their preparatory education go on to technical institutions. This could be made obligatory. Technical education ought to be given the highest priority in the education system.

(iv) The financial resources required to equip high schools and technical institutions with the laboratories and equipment needed for training and study should be provided. The provision of such equipment is a prerequisite for the improvement of this kind of education.

(v) Both countries should try to increase the number of their doctors and technicians and should provide higher education facilities for those already in their services. They should also try to expand medical education and should pay more attention to medical educational institutions, including schools and other institutions which prepare staff for their hospitals and clinics. These institutions should be provided with modern equipment and necessary research facilities to enable them to train the required number of doctors, nurses and other technicians.

(vi) Medical services including an increase in the number of medical missions should be expanded to cover rural areas where it is difficult to build permanent hospitals and health services.

(vii) More priority should be given to primary health care through the provision of basic health services. An increase in the public awareness of the necessity of making regular visits to local health centres should be expanded.

(viii) Child vaccination programmes should be expanded and only vaccinated children should be permitted to enrol at schools. Public awareness of the importance of vaccination in the fight again diseases which commonly affect children should be increased through the use of the media.

(ix) Emergency health services should be provided for including the establishment of a fleet of emergency ambulances supplied with the necessary equipment and facilities for the population.

5. Balance of Payments

The balance of payments reflects the relationship between the national economy and the outside world. It also reflects the strength of this relationship. In the two Yemens, both the trade and current accounts are in deficit. This reflects the fact that to a high degree both countries depend on the import sector for both investment and consumption. This dependency, coupled with a very small export sector, has led to an increase in both the trade and current account deficits. In order to partly finance this deficit, the two Governments use a large part of the remittances of their nationals working abroad, and part of the official assistance they received. In Democratic Yemen, the trade deficit increased from $170.7 million in 1975 to over $794.8 million in 1984, or about 70 per cent of GDP. In the Yemen Arab Republic, the trade deficit increased from $701.2 million in 1976/1977 to $1,518.8 million in 1980 and $1,921.1 million in 1982 before falling to $1,201 million in 1984 as a result of the austerity measures taken by the Government in 1983, which included a reduction in imports (see table A-10). The current account in Democratic Yemen is also negative. However, the deficit was reduced from $84.3 million in 1975 to $24.6 million in 1979 before increasing to $158.8 million in 1980 and $275.7 million in 1984. In the Yemen Arab Republic the current account registered a surplus until 1977/1978. After 1978 it became negative. The deficit increased from $136 million in 1977/1978 to $324.4 million in 1979/1980, before falling to $212.1 million in 1984. In the absence of a corresponding increase in exports, the high rate of imports has contributed to the huge trade deficits of both countries. In Democratic Yemen, the value of imports increased from $190.4 million in 1975 to $824.9 million in 1984, while the value of exports decreased from $47 million in 1977 to only $30.7 million in 1984. Exports cover only 3.7 per cent of imports.

In the Yemen Arab Republic, the value of import increased from $719.6 million in 1977 to $1,525.1 million in 1980 and $1,926.2 million in 1984, before falling to $1,209.3 million in 1983. The value of exports decreased from $18.4 million in 1976/1977 to $8.2 million in 1984. Exports cover only 1 per cent of imports.

The capital account, which reflects the movement of capital inside and outside the country, increased in both countries, owing to the rise in both short- and long-term loans. In Democratic Yemen, the balance of the capital account increased from $31.1 million in 1975 to $138.5 million in 1984. This increase contributed to the rise in the value of long-term capital from $31.9 million in 1975 to $194.2 million in 1983. However, in 1984 the inflow of long-term loans decreased to $139 million.

In the Yemen Arab Republic, the balance of the capital account also increased form $32.3 million in 1974/1975 to $431.6 million in 1982 before falling to $194.4 million in 1984. Drawing on long-term loans is the main component of the capital balance. Drawings on loans increased from $36 million in 1974/1975 to $460.1 in 1980 before falling to only $194.4 million in 1984. This decreased the balance of the capital account. Repayments increased from $3.7 million in 1974/1975 to $57.6 million in 1984. Short-term loans increased up to 1980, and then started to decrease from $142 million in 1980 to only $4.7 million in 1982.

The international reserves of both countries have decreased over the past years. Although the total reserves of Democratic Yemen increased in terms of US dollars from $54 million in 1975 to $248.7 million in 1984, they decreased in terms of imports from 15.3 weeks to 9.3 weeks in 1982. This resulted from an increase in the value of an imports over the same period. In the Yemen Arab Republic, total reserves increased from $337.5 million in 1975 to $1,427.4 million in 1979 before decreasing $318.5 million in 1984. In terms of imports, they fell from 59.7 weeks in 1975 to 81.9 weeks.

The overall balance in Democratic Yemen registered a surplus up to 1984, when the deficit was $11.6 million. This was the first recorded deficit since 1975. In the Yemen Arab Republic, the overall balance started to deteriorate from 1979, when a deficit of $28.1 million was registered. This was mainly due to the increase in the trade deficit from $1,230.4 million in 1978/1979 to $1876.8 million in 1980 before it fell first to $1,201 million and rose slightly to $1,273 million in 1984. This huge trade deficit is the most important factor in the balance of payments. The two countries suffer from a trade deficit because both are dependent to a large extend on the import sector, and have a very small export sector. Both countries have used part of their foreign aid and a large portion of remittances received from emigrant workers to control this rapidly increasing deficit. In 1983 both countries introduced austerity measures in an attempt to slow down imports and this contributed to a drop in the Yemen Arab Republic's deficit from $1,921.1 million in 1982 to $1,273 million in 1984. However, in Democratic Yemen imports slow down in 1983, but increased substantially in 1984 from $769 million to $825.5 million.

## B. External Obstacles

External obstacles are related to the circumstances in the outside world; the international economic, social and political environment and conditions. These factors affect the economic, social and political development of the least developed countries. The situation is particularly relevant to the two least developed countries in the ESCWA region, since both are highly dependent on external financing and any decrease in the inflow of assistance will cause severe problems for the economies of both countries, and would jeopardize their development efforts. Since foreign financing represents an average of 50 per cent of total gross investment in these two countries, it should become clear from this study how the decrease in official transfers from abroad has negatively affected the investment programme of both countries.

Nevertheless, external obstacles cannot be defined merely in terms of financial aid; they must also include trade barriers which reduce or in some cases, even prevent the exports of the least developed countries from entering the markets of the developed countries, especially during recessionary periods. However, this study makes no attempt to go into the details of this problem, owing to the fact that the two countries of the ESCWA region have a very small export sector.

This study will concentrate on the problems of the decrease in the inflow of financial aid and technical assistance to the least developed countries in the ESCWA region and the problem of increased debt and debt servicing. The reason behind this is the fact that these problems have a both immediate and direct effect on the development efforts of these two countries.

1. Decrease in official development assistance

All developing countries depend to some degree on foreign aid, especially in in the early stages of their development process. Due to a very low income level and an extremely high marginal propensity to consume, a severe saving gap exists in the least developed countries. This gap represents the difference between national saving and gross investment. In order to bridge this gap developing countries look to the outside world for financial assistance, or alternatively import foreign savings to help them finance part of their gross investment. This dependency differs from one country to another and depends to a large extent on the size of the resources gap. Countries which have a strong export sector, or which possess strategic commodities depend less on foreign aid than the other countries which have no export commodities.

In the two Yemens, the marginal propensity to consume is very high and domestic saving is negative. As may be expected, this has led to an increase in their dependency on foreign assistance.

In Democratic Yemen total transfers (official and private), during the 1975-1984 period increased from $84.5 million in 1975 to $749.3 million in 1983, before falling to $660.6 million in 1984 (the total during the period was $4,587.6, see table 1). Total GDP was $6,908.4 million, total consumption $8,979.7 million, total actual investment $2,385 million, while negative domestic saving during the same period totalled $2,071.3 million.

Total transfers covered total actual investment, and financed 15 per cent of the total consumption.

In the Yemen Arab Republic, total transfers (private and official) increased from $346.2 million in 1974 to $1,820.1 million in 1980 before falling to $1,188.3 million in 1984 (the total during the period was $13,004.3 million, see table 2). Total GDP over the same period reached $25,473.7 million, while total consumption was $32,693.3 million, negative domestic saving reached $7,219.6 million and total investment was $6,213.3 million. Total transfers covered total investment and about 14 per cent of the total consumption during the same period. However, total transfers in both countries have decreased over the last few years, especially since 1980. In Democratic Yemen, although the amount of the private transfers (workers' remittances) increased during the 1975-1984 period from $42.6 million to $494.5 million other transfers decreased since 1980. Capital transfers decreased from $255.4 million in 1983 to $136.2 million in 1984. Official transfers also decreased from $125.8 million in 1982 to $29.6 million in 1984, according to the Ministry of Planning figures.

Table 1. Democratic Yemen, total transfers, 1975-1984

(Millions of US dollars)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1975-1984 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Workers' remittances | 42.6 | 78.6 | 184.9 | 258.0 | 303.5 | 327.8 | 384.0 | 442.9 | 451.6 | 494.5 | 2,968.4 |
| Direct investment and other long-term capital | 31.9 | 59.4 | 66.4 | 82.6 | 51.9 | 79.1 | 144.0 | 146.1 | 255.4 | 136.5 | 1,053.3 |
| Official transfers | 10.0 | 46.4 | 55.1 | 36.2 | 23.2 | 78.3 | 119.0 | 125.8 | 42.3 | 29.6 | 565.9 |
| Total | 84.5 | 184.4 | 306.4 | 376.8 | 378.6 | 485.2 | 647.0 | 714.8 | 749.3 | 660.6 | 4,587.6 |

Source: Democratic Yemen, Bank of Yemen, Annual Reports (1975-1981) and International Monetary Fund, Balance of Payments Statistics, vol. 36, 1985.

Table 2. Yemen Arab Republic, total transfers
(Millions if US dollars)

| | 1974 | 1975 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1974-1984 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Workers' remittances | 222.1 | 518.0 | 1,193.4 | 1,222.1 | 1,177.4 | 1,255.6 | 926.5 | 1,117.7 | 1,137.2 | 924.8 | 9,694.8 |
| Direct investment and long-term capital | 32.3 | 43.6 | 51.1 | 101.7 | 69.4 | 418.7 | 195.5 | 140.6 | 176.7 | 133.6 | 1,363.2 |
| Official transfers | 91.8 | 112.5 | 103.0 | 99.1 | 307.5 | 145.8 | 332.3 | 442.3 | 182.1 | 129.9 | 1,946.3 |
| Total | 346.2 | 674.1 | 1,347.5 | 1,422.9 | 1,554.3 | 1,820.1 | 1,454.3 | 1,700.6 | 1,496.0 | 1,188.3 | 13,004.3 |

Source: International Monetary Fund, Balance of Payments Statistics, vol. 36, 1985.

This has affected the rate of growth of actual investment since 1982. The rate of growth of actual investment decreased from 30.8 per cent in 1982 to only 3.5 per cent in 1984, according to the figures supplied by the Ministry of Planning.

In the Yemen Arab Republic, private transfers decreased from $1,255.6 million in 1980 to $924.8 million in 1984. Official transfers also decreased from $332.3 million in 1981 to $129.9 million in 1984. Drawings on loans fluctuated over the 1975-1984 period. They increased from $36 million in 1975 to $460.2 million in 1980, then decreased to $194.4 million in 1984. This fluctuation was caused by the decrease in short-term loans and the increase in repayments. Loans repayment increased from $3.7 million in 1975 to $56.7 million in 1981. Then as a result of rescheduling of some of these loans they fell to $22.8 million in 1983. However, they rose again during 1984 to $57.6 million according to figures supplied by the Central Planning Organization. This trend in the flow of private and official transfers has directly affected gross investment in the Yemen Arab Republic. Total gross investment decreased from $1,212.2 million in 1980 to $851.4 million in 1983 and to only $640.8 million in 1984.

From what has been stated above it can be concluded that to a large extent the two countries depend on the external transfer of resources (both official and private). This close dependency covers both consumption and investment, and will remain as long as the rate of consumption remains high and domestic saving is negative. This dependency has many negative effects: first, external transfers are unpredictable and cannot be controlled. This has a negative effect on investment targets. This can be seen clearly from the fall in gross investment in the Yemen Arab Republic after 1981, mainly as a result of the decrease in external transfers. Remittances are also expected to decrease as a result of the difficult economic situation in the host countries. The decrease in both official and private transfers will have a negative effect on the economies of the two countries, especially on gross investment which the two countries need badly if they are to develop their economies; any decrease in transfers will certainly have a negative effect on their development process. This dependency will remain one of the main obstacles in the development process in both the short- and medium-term, until both countries are able to increase domestic saving; it will diminish as domestic saving increases.

The dependency of the two countries on foreign financing created another problem which is reflected in the rapid increase in their debts and debt services, particularly since the two countries have a small export sector.

2. Increased debt and debt services

As a result of the dependency of developing countries on foreign aid, especially during the 1970s and 1980s, which resulted on the one hand from the deterioration in the value of exports (mainly of raw materials), together with the increase in the value of imports (of industrial goods), and their development needs on the other, these countries had no other choice but to borrow from the developed countries as well as from international financial institutions. This increase in the value of borrowing coupled with the high interest rates after 1978, led to a rapid increase in the debts of the developing countries. Latest estimates put the total debt of the developing countries close to $900 billion. While the debt problem of the two Yemens has not yet become too serious it will be a real obstacle to their development in the near future, especially if the remittances and other official transfers decrease as is expected.

The total long-term external debt of Democratic Yemen over the last 10 years increased from $98.9 million in 1975 to $1,300 million in 1984 (see table 3). Debt services increased from $6 million in 1975 to $12.5 million in 1984. This represented about 51.8 per cent of domestic export of goods. Debt services as a proportion of goods and services exported is still low, although it increased from 0.6 per cent in 1975 to 2.4 per cent in 1984 (see table 3).

In the Yemen Arab Republic, total long-term debts (public and public guaranteed) increased from $244.2 million in 1975 to $1,687.9 million in 1984 (see table 4). Debt services increased from $2.3 million to $58.8 million over the same period. The debt services ratio can be considered relatively low although it increased from 1.3 per cent in 1975 to 5.1 per cent in 1984 (see table 4). However, during 1985 the long-term external debt of the Yemen Arab Republic increased substantially to about $2,200 million. As a proportion of GDP it increased from 28.7 per cent in 1975 to 55.1 per cent in 1984.

From what has been stated, it can be seen that, although the debt and debt services problem in both countries has not been serious up to now because the debt services ratio has remained low as a large part of the debts were contracted under concessional terms, it will become more serious in the future. Remittances are expected to stagnate if not decrease in coming years, depending on the economic situation in the Gulf countries and their demand for foreign labour. Demand, especially for unskilled workers, will certainly not increase owing to the fact that most of the large infrastructure projects have been completed, and the economies of the countries in the Gulf area have entered a new stage of development which requires more skilled than unskilled workers. Therefore, the demand for workers from the two Yemens will not increase and indeed many expatriate workers are expected to return home. The resultant decrease in remittances, coupled with negative domestic saving, will lead to an increase in the demand for foreign saving and this will increase demand for foreign borrowing. The extent of the increase will depend on the amount of the transfers and interest rates, on one hand, and the amount of the export on the other. However, since exports are not expected to increase substantially in the short- or even medium-term, debt services are expected to increase. This increase will have a negative effect on the balance of payments of both countries and will lead to a further drop in their international reserves, which have already fallen in recent years. The reserves of the Democratic Yemen decreased after 1982 from $286.3 million to $284.7 million in 1984. Those of the Yemen Arab Republic fell from $1,282.6 million in 1980 to $318.5 million in 1984. In order to reduce the effects of this problem both countries will have to mobilize their domestic resources effectively. They have to increase tax revenues which represent the largest source of government income in both countries. They must also simplify the rules and regulations which govern tax collecting. They must also increase

Table 3. Democratic Yemen, long-term external debt

(Millions of US dollars)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Long-term external debt | 98.9 | 139.2 | 240.2 | 325.6 | 403.2 | 499.3 | 715.4 | 934.4 | 1,136.4 | 1,300 |
| Gross domestic product | 322.6 | 369.4 | 458.6 | 500.3 | 595.9 | 765.0 | 854.7 | 944.5 | 1,017.1 | 1,080.3 |
| Long-term external debt as a percentage of GDP | 30.7 | 37.7 | 52.4 | 65.0 | 67.7 | 65.3 | 83.7 | 99.9 | 111.7 | 120.3 |
| Debt services as a percentage of export of goods and services | 0.6 | 0.8 | 0.7 | 0.4 | 1.3 | 2.1 | 0.9 | 1.7 | 1.5 | 2.4 |

Source: Figures combined by ESCWA, based on national data.

Table 4. Yemen Arab Republic, long-term external debt
(Millions of US dollars)

| | 1974 | 1975 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Long-term external debt | 224.2 | 269.1 | 339.6 | 469.8 | 489.8 | 899.7 | 1,116.7 | 1,311.9 | 1,578.9 | 1,687.9 |
| Gross domestic product | 820.9 | 1071.4 | 1420.7 | 1,801.6 | 2,188.5 | 2,563.7 | 2,779.7 | 3,478.3 | 3,671.9 | 3,063.1 |
| Long-term external debt as percentage of GDP | 28.7 | 25.1 | 24.1 | 25.9 | 22.3 | 35.1 | 40.2 | 37.7 | 34.0 | 55.1 |
| Debt services as a percentage of export of goods and services | 1.3 | 0.6 | 0.4 | 0.4 | 0.8 | 1.3 | 4.6 | 3.6 | 2.8 | 5.1 |

Source: International Monetary Fund, Balance of Payments Statistics, vol. 36, 1985.

domestic saving through reduction in total consumption, especially private consumption, which accounts for the largest part of the total consumption. The two countries could try to encourage private and family saving through the introduction of financial incentives. However, all these measures relate to the medium- and long-term; in the short-term, the dependency on foreign transfers will increase and both debt and debt services will also increase. The dependency on foreign transfer will decrease as domestic saving replaces foreign saving. Both countries have to study their debts problem very carefully, and should try to make the necessary adjustments before they constitute a real threat to their development process. They should study each project carefully before they determine its priority and importance and assess their ability to meet its cost. They should try to establish an efficient and modern debt services system which could provide policy-makers with the necessary information on future payment figures, interest rates and rescheduling terms, which would then allow them to make more precise calculations about future borrowing requirements. It would also assist them with their loan negotiations. The United Nations Conference on Trade and Development (UNCTAD) has devised a debt services system, designed to assist developing countries in dealing with their debt reporting and analyzing systems through the computerization of their debt reporting process.

## II. DEVELOPMENT NEEDS

The least developed countries are characterized by a low per capita income, a low level of industrial activity, a high illiteracy rate and a poor physical and human infrastructure. The international community, having recognized the chronic problems they face, has tried to help these countries develop their economies. Among the measures which the international community has taken was the adoption of the Substantial New Programme of Action for the 1980s for the least developed countries. This programme, which was adopted during the United Nations Conference on the least developed countries, held in Paris in 1981, outlined specific measures, which both the least developed countries and the international community should take to improve the economic situation in the least developed countries, and to raise their standard of living to a minimum acceptable level. Economic development in the least developed countries remains the prime responsibility of the countries themselves, and they are left to adopt whatever measures, programmes and plans needed to develop their economies through the effective mobilization of their domestic (including human) resources. However, owing to the lack of financial resources, and technical skills, the international community is obliged to provide substantial assistance to these countries in order to help them implement their development plans and programme, and to assist them in achieving the structural transformation of their economies.

The development needs of the least developed countries are enormous, and extend to all economic and social fields. However, the most important ones are mentioned below.

### A. The need to increase financial resources

Due to the low level of per capita income and the high rate of total consumption in the least developed countries, domestic saving is generally negative in most of these countries. This has substantially increased their dependency on external assistance, especially official development assistance, since the least developed countries cannot attract private capital owing to the small size of their economies and the low per capita level. SNPA recommended that 0.15 per cent of the GNP of donor countries be directed to the least developed countries. However, the actual inflow of official development assistance as a proportion of the developed countries' GNP has decreased over the last few years from 0.09 per cent in 1981, the year of the Paris Conference on the least developed countries, to only 0.07 per cent in 1983, and only a few countries have reached or surpassed the recommended 0.15 per cent. These countries are Denmark (0.28 per cent), Norway (0.35 per cent), the Netherlands (0.24 per cent) and Sweden (0.23 per cent). Official assistance from the oil-exporting countries also increased as a percentage of their GNP over the same period from 0.23 per cent to 0.25 per cent. However, the inflow from the major donors (the United States of America, Japan, and the United Kingdom) decreased and the increasing contribution of the above mentioned countries has not compensated for the decrease in those from the major donors. The overall inflow of official development assistance to the least developed countries has, therefore, decreased. The two Yemens which belong to the group of the least developed countries, likewise depend to a considerable extent on foreign aid. The situation in the two Yemen is even more acute owing to the fact that the two countries possess small export sectors which cover only a small part of their imports.

A small export sector, together with high rate of consumption has increased the dependency of the two Yemens on the external financing (see table A-15, A-16). Foreign financing represented about 63 per cent of gross investment during the Three Year Plan of Democratic Yemen and about 78.1 per cent in the Three Year Development Programme of the Yemen Arab Republic. There was a notable dependency on foreign financing in both the First and the Second Five Year Plans of both countries. During the period of 1981/1985 foreign financing represented 52 per cent of gross investment in Democratic Yemen and was expected to reach 46.1 per cent in the Yemen Arab Republic. This close dependency is expected to continue, especially in the short- and medium-term until such time as both countries can increase their domestic resources which will enable them to replace foreign aid. For this, they will need to develop strong export and agricultural sectors. However, neither sector is expected to grow in the short-term to a point where it could generate saving. In addition, since workers' remittances are also expected to decrease, the two Yemens will remain highly dependent on foreign assistance in the future. The need for foreign financing can be attributed to the following factors:

1. Negative domestic saving. Domestic saving is negative and national saving is very small in both countries. This compelled both countries to borrow foreign savings in order to fill the gap between domestic resources and gross investment. The savings gap increased from $74.8 million in 1977 to $446.4 million in 1984 in Democratic Yemen. And in the Yemen Arab Republic the savings gap increased from $15.8 million in 1977/1978 to $560 million in 1984.[1/]

This widening savings gap has compelled both countries to rely heavily on foreign assistance. ESCWA projections anticipate that the savings gap in the Yemen Arab Republic will increase from $536 million in 1986 to $703.8 million in 1989 and that as a result the debt obligation will increase over the same period. Debt services are expected to increase from $114.8 million in 1984 to $156 million in 1990[2/] (see table 6). In the Democratic Yemen, the Third Five Year Development Plan anticipated that $322.5 million or 52 per cent of total investment will come from foreign sources. As a result of foreign financing, debt services are expected to increase from $103.3 million in 1984 to $110 million in 1990[3/] as indicated in table 5.

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1/ Combined from figures obtained from national sources.

2/ World Debt Tables, 1983-1984, (Washington DC, World Bank, 1984).

3/ Ibid.

2. <u>A small export sector</u>. Both countries have a small export sector which covers only part of their imports (about 3 per cent in Democratic Yemen and 1 per cent in the Yemen Arab Republic). This has forced the two Governments to use a large part of their remittances and part of their foreign aid to cover their foreign deficits. In spite of the measures the two countries have recently taken to control imports to reduce their trade deficits, and the partial success of the Yemen Arab Republic, it is expected that their trade deficit will remain high in the near future. This is mainly due to the problem facing the productive sector of the economy of both countries, especially the agricultural sector, which resulted in an increase in food imports. The two countries require foreign aid not just for their investment programmes but also to pay for part of their import bills.

3. <u>Decreasing remittances</u>. Remittances, which represent the major source of foreign currency are expected to decrease in coming years as a result of the current economic situation in the Gulf countries. The latest available figures show that the remittances entering the Yemen Arab Republic decreased from $1,323 million in 1981 to only $1,059 million in 1985.

Table 5. <u>Democratic Yemen, projected public debt services</u>

(Millions of US dollars)

| | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| Total debt services | 115.6 | 118.3 | 119.2 | 116.1 | 110.6 |
| Principal | 104.0 | 107.1 | 108.5 | 106.9 | 102.8 |
| Interest | 11.6 | 11.2 | 10.7 | 9.2 | 7.8 |

<u>Source</u>: <u>World Debt Tables</u>, 1983-1984, (Washington DC, World Bank, 1984).

Table 6. <u>Yemen Arab Republic, projected public debt services</u>

(Millions of US dollars)

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|
| Total debt services | 168.3 | 182.0 | 188.8 | 190.3 | 197.1 | 143.0 |
| Principal | 131.1 | 144.9 | 154.3 | 159.2 | 159.7 | 119.2 |
| Interest | 37.2 | 37.1 | 34.5 | 31.1 | 27.4 | 23.8 |

<u>Source</u>: World Debt Tables, 1982-1983, 1983-1984 (Washington DC, World Bank, 1983 and 1984).

From the above mentioned, it will be seen that both countries will remain dependent on foreign assistance in order to offset the deficiencies in domestic resources mainly derived from remittances. Moreover, during the last few years both countries also suffered from a decrease in official transfers. In Democratic Yemen official transfers decreased from 50 million special drawing rights (SDRs) in 1977 to 38.6 million in 1978, they decreased in 1979 to only 23.5 million then they reached 114.6 million in 1982 before decreasing again to only 28.8 million in 1984. In the Yemen Arab Republic, official transfers increased from 97.3 million in 1977 to 393.1 million in 1982 before falling to 137.9 million in 1984 (see table 7). This decrease has had a negative effect on the current investment programmes in the two countries, and any further decrease will jeopardize these programmes, especially if it is coupled, as is expected, with a decrease in the inflow of remittances. It is vital, therefore, that the international community (especially the developed countries) transfers the agreed target of 0.15 per cent of GNP to the least developed countries in form of official development assistance.

Table 7. Official Transfers

(Millions of SDRs)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Democratic Yemen | 50.6 | 38.6 | 23.5 | 61.0 | 103.4 | 114.6 | 40.4 | 28.8 |
| Yemen Arab Republic | 97.3 | 98.9 | 197.6 | 112.0 | 284.0 | 393.1 | 149.8 | 137.9 |

Source: International Monetary Fund, vol. 36, No.3, (March, 1985).

## B. An increase in technical assistance

The development of human resources is both a condition and a goal of economic and social development. The severe shortages of skilled workers and technical experts constitute a major obstacle to economic and social developments in developing countries, especially in the least developed among them. The developed countries completed the economic transformation process by means of their educational and technological progress; the lack of such progress in the developing countries represents the main reason for their underdevelopment. The lack of skilled workers results in low productivity, which leads in turn to low incomes, low savings and low investment. Financial resources alone are not sufficient to develop the economy of the country. They have to be coupled with technical "know how" and skills which can transfer the economy into a productive one through the use of modern means of production, which in turn reduces costs, increases production and profits, and leads to more saving and investment. The most clear example of how the lack of skills can negatively affect economic growth in the developing countries is in the agricultural sector which does not generally achieve the goal of providing the basic needs of the population and increasing exports which are the main source of foreign currency and savings. Developing countries, in general, and the least developed countries in particular, have a shortage of skilled workers and experts. The gap between local supply and the requirements of the economy is wide and expands each year. Most countries depend on technical assistance in order to fill this gap, just as they depend on foreign savings to make up for their insufficient domestic saving.

The situation in the two Yemens is similar to that in the rest of the least developed countries. Both countries suffer from a shortage of skilled workers and depend on foreign technical assistance in order to develop their human resources. Both grant priority in their development plans to the development of human resources. In the field of education, Democratic Yemen has allocated 5.5 per cent of the investment programme during the Second Five Year Plan to the development of education and training. According to the plan's target technical education was expected to increase during the period. It was anticipated that the number of graduates from technical and vocational institutions would reach 7,200.[1/] In order to reach this target, the number of technical and vocational institutes increased to 26 in 1985 up from only six in 1967, the number of students enrolled in these institutes increased from 738 in 1967 to 6,055 in 1985 (see table 8).

Table 8. Number of enrolled students in technical institutes, 1967-1985

| | 1966/1977 | 1983/1984 | 1984/1985 |
|---|---|---|---|
| Technical and Trade institutes | | 293 | 263 |
| Technical and agricultural institutes | | 94 | 78 |
| Technical and industrial | 492 | 705 | 564 |
| Technical training institute | 240 | 1,261 | 1,482 |
| Vocational institutes | 6 | 3,328 | 3,668 |
| Total | 738 | 5,681 | 6,055 |

Source: Compiled from figures supplied by the Ministry of Education, Democratic Yemen.

The number of teachers and instructors also increased to 86 during the 1984/1985 academic year. The number of expatriates among total instructors reached 54 per cent in the agricultural technical institute (see table 9).

1/ The Five Year Plan Economic and Social Development for the years 1979-1983, Democratic Yemen, Ministry of Planning, (Aden, 1979) vol. 1, p. 144.

Table 9. Democratic Yemen, number of expatriate teachers in technical institutes

| | Expatriates as percentage of the total | Number of expatriate teachers | Total No. of teachers |
|---|---|---|---|
| Trade and Technical institutes | 10.0 | 2 | 20 |
| Agriculture technical high school | 52.6 | 10 | 19 |
| Industrial technical institutes | 54.0 | 20 | 37 |
| Teacher training institutes | - | - | 92 |

Source: Compiled from figures supplied by the Ministry of Education, Democratic Yemen.

The Yemen Arab Republic also gives priority to training and education, allocating 17.7 per cent of government expenditure to education and training. As a result of these efforts the number of technical secondary schools reached 16 units during the 1984/1985 academic year, with the total enrolment of 620 students. However, the majority of teachers and instructors in these schools were expatriates and represented 100 per cent in district training centres, 67 per cent in vocational training centres and 93 per cent in technical secondary schools in the 1980/1981 academic year. The number of Yemeni instructors did, however, increase in 1984/1985 to 19 per cent in district training centres, to 37 per cent in vocational centres and to 14 per cent in technical secondary schools (see table 10). However, despite these efforts, and the praiseworthy success achieved in the field of education and training in both countries, the need for external technical assistance remains great, and the gap between technical skills needed for the economies of the two countries and the local supply remains wide. According the a World Bank report on the Yemen Arab Republic, the local supply of technicians will cover no more than 8.2 per cent of total demand during the period of 1991-1995. Amongst junior technicians, local supply will meet 30 per cent of the requirements for technical experts, and the number of skilled workers will not exceed more than 12.9 per cent of the needs of the economy. Although there are no projections made about future needs for technical skills in Democratic Yemen, the country is expected to generally face the same shortage as that of the Yemen Arab Republic.

## 1. Problems facing the development of human resources

The development of the human resources through education and training faces major obstacles in both countries. Some of them have been discussed previously, but the most serious problems facing the development of education and training will now be reviewed.

Table 10. Yemen Arab Republic, number of expatriates and instructors in 1980/1981-1984/1985

| | 1980/1981 | | | 1984/1985 | | |
|---|---|---|---|---|---|---|
| | Number of expatriates | Total number of instructors | Expatriate as percentage | Number of expatriates | Total number of instructors | Expatriates as percentage |
| District training centres | 34 | 34 | 100 | 34 | 53 | 81 |
| Vocational training centres | 10 | 15 | 66 | 86 | 118 | 72 |
| Technical secondary schools | 25 | 27 | 92 | 72 | 84 | 85 |
| Total | 69 | 76 | 90 | 201 | 255 | 78 |

Source: Yemen Arab Republic, Technical Training Project, The World Bank, report number 5724-YAR, (November, 1985)

(a) Shortages of teachers and instructors. Both countries depend heavily on expatriate instructors to teach in training institutes. Expatriates represent about 50 per cent of the total instructors in Democratic Yemen and about 85 per cent of those in the Yemen Arab Republic.

(b) Lack of technical resources. This is a common problem in most of the least developed countries that impedes economic and social developments. The education sector in the two Yemens depends closely on foreign financing. In Democratic Yemen, for example, about 83.5 per cent of investment allocation during the Second Five Year Plan was expected to come from foreign financing. In the Yemen Arab Republic the situation is similar. This makes it difficult for the training target to be implemented if foreign financing does not meet its expected targets. It is extremely difficult to control or project what will happen to foreign financing in the future, since many factors have to be taken into account before any projections can be made.

(c) Lack of interest on the part of students to enrol in technical institutes. This is one of the most serious problem facing the education and training sector of the two countries. In Democratic Yemen, for example, the number of students enrolled in the argicultural technical school has dropped from 155 in 1978/1979 to 100 in 1983/1984. In order to solve this problem, the two Governments have to provide incentives and other measures to increase enrolment in technical education institutes, even if they have to make in compulsory for a certain percentage of graduates from primary and secondary levels to enrol there.

(d) The high rate of illiteracy among the labour force makes it difficult to train these workers in the use of modern machinery and equipment. The eradication of illiteracy is more important for these workers than the introduction of training programmes.

(e) Lack of co-ordination between the different ministries and the department responsible for training and education, which leads to the duplication of effort and an increase in the cost of education and training. This has led to a situation where enrolment in the institutes and colleges does not reflect the real needs of the economy. In an attempt to reduce this lack of co-ordination, the Yemen Arab Republic, has established the National Council for Technical and Vocational Education to co-ordinate domestic activity in the field of training.

(f) The education system. This is a common problem in all developing countries. Although the education systems of these countries have provided large numbers of graduates in different fields, they have failed to provide graduates with the necessary training in the practical needs of the economies of these countries, and the quality of education is generally low.

(g) Migration. The migration of hundreds of thousands of people from the two Yemens to the Gulf area in search of better job opportunities has negatively affected some sectors of the economies of both countries, especially the agricultural sector. Despite the fact that the majority of those who migrated were unskilled workers, there was a small percentage of semi-skilled workers among them. Those semi-skilled and skilled workers who migrated contributed to the widening gap between the local supply and the needs of the economies of both countries. This has forced both Governments to rely on expatriates not only as instructors and teachers but also as unskilled workers in some sectors of the economy, especially in the construction sector.

## 2. The role of external technical assistance

Foreign assistance remains central to the development of human resources in both countries. Foreign assistance is vital to these two countries in order to assist them to implement various technical programmes through the provision of the kind of skills their economies need at a cost they can afford. Both countries rely on expatriates to instruct and teach. They also need foreign technical skills in order to carry out their infrastructure projects which local constructors are unable to undertake due to lack of experience and financial resources. This close dependency will remain at least in the short- and medium-term, until their technical programmes succeed in providing the skills their economies need and gradually permit them to replace foreign assistance.

However, these are long-term objectives which depend on the efficacy with which technical programmes and training centres are able to supply the economy with the required skilled workers. In the short-term, as has been mentioned above, close dependency on foreign technical assistance will remain.

It should, however, be stated that this dependency can only be temporary, a short-term solution to the requirement of experts and skilled manpower. The only solution to this problem is to adopt and implement comprehensive short- and long-term training programmes including in-service training.

## ANNEX TABLES

Table A-1. The GDP in the Democratic Yemen,gross domestic product 1975-1984

(Millions of US dollars at current prices)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984* |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture and fishing | 51.3 | 71.0 | 67.8 | 52.2 | 62.6 | 73.9 | 91.3 | 85.5 | 98.3 | 96.8 |
| Industry | 25.2 | 33.3 | 39.7 | 51.0 | 52.8 | 48.4 | 51.9 | 69.6 | 61.4 | 134.8 |
| Construction | 25.2 | 30.1 | 35.7 | 62.6 | 58.8 | 72.8 | 96.5 | 119.1 | 122.6 | 114.8 |
| Trade Hotels and catering | 55.7 | 66.7 | 77.4 | 67.0 | 82.9 | 93.9 | 109.3 | 122.9 | 129.0 | 134.5 |
| Transport and communications | 27.5 | 39.1 | 47.0 | 49.0 | 71.6 | 60.9 | 77.1 | 78.6 | 86.4 | 103.8 |
| Finance and Insurance | 13.3 | 15.7 | 31.0 | 28.1 | 45.8 | 75.9 | 29.0 | 31.9 | 36.2 | 42.0 |
| Personal services | 5.8 | 7.2 | 12.2 | 3.8 | 4.0 | 5.0 | 5.8 | 6.4 | 7.2 | 5.2 |
| Bank services | -- | -- | -18 | -18.8 | -30.7 | -- | -- | -- | -- | - |
| Government services | 53.0 | 62.3 | 74.2 | 89.7 | 114.2 | 151.6 | 185.5 | 204.9 | 234.5 | 248.1 |
| Depreciation | 29.0 | -- | 33.0 | 42.9 | 47.5 | 53.9 | 55.0 | 56.9 | 58.0 | - |
| Indirect taxes | 33.6 | 44.0 | 58.6 | 72.8 | 86.4 | 128.7 | 153.3 | 168.4 | 183.5 | 200.3 |
| GDP | 319.6 | 369.4 | 458.6 | 500.3 | 595.9 | 765.0 | 854.7 | 944.2 | 1,017.1 | 1,080.3 |

Source: Compiled from figures supplied by Democratic Yemen, Central Statistical Organization.

* 1984 ESCWA estimation

Table A-2. Yemen Arab Republic, gross domestic product 1974/1975-1984

(Millions of US dollars at current prices)

| | 1974/ 1975 | 1975/ 1976 | 1976/ 1977 | 1977/ 1978 | 1978/ 1979 | 1979/ 1980 | 1980/ 1981 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture and fishing | 360.6 | 440.8 | 507.0 | 528.0 | 668.3 | 758.0 | 784.5 | 799.6 | 835.8 | 769.0 | 633.4 |
| Mining and quarrying | 5.5 | 7.0 | 11.6 | 21.9 | 29.2 | 32.7 | 32.7 | 34.2 | 36.6 | 40.6 | 35.8 |
| Manufacturing | 46.3 | 56.3 | 66.0 | 83.5 | 110.5 | 143.6 | 160.0 | 187.2 | 217.2 | 268.2 | 248.0 |
| Electricity, gas and water | 2.8 | 3.7 | 3.7 | 5.0 | 8.3 | 14.5 | 17.5 | 24.3 | 34.0 | 37.0 | 38.6 |
| Construction | 39.2 | 62.0 | 104.6 | 174.5 | 229.0 | 219.6 | 238.5 | 236.7 | 254.5 | 268.4 | 232.4 |
| Wholesale and retail trade | 148.2 | 207.8 | 259.8 | 317.4 | 369.6 | 451.6 | 465.6 | 449.1 | 502 | 492.7 | 414.7 |
| Hotels and restaurants | 11.2 | 14.0 | 15.8 | 18.2 | 22.8 | 28.3 | 29.8 | 30.5 | 34.0 | 36.8 | 21.5 |
| Transport and communications | 30.2 | 32.9 | 47.1 | 67.5 | 81.8 | 94.5 | 101.1 | 103.0 | 115.1 | 148.8 | 121.2 |
| Financial institutions | 20.8 | 30.9 | 64.2 | 112.2 | 155.0 | 191.6 | 215.7 | 218.8 | 207.8 | 154.0 | 138.2 |
| Real estate and business services | 35.9 | 45.4 | 57.0 | 76.7 | 101.9 | 126.7 | 121.0 | 124.3 | 136.1 | 161.7 | 140.8 |
| Personal services | 7.5 | 9.2 | 11.8 | 17.1 | 22.1 | 26.5 | 28.5 | 28.7 | 32.0 | 34.6 | 31.1 |
| Deduct bank services | -19.3 | -29.4 | -58.3 | -98.4 | -141.4 | -175.8 | -189.4 | -154.5 | -146.9 | -55.0 | -49.1 |
| Government services | 87.9 | 111.6 | 124.3 | 188.0 | 263.5 | 329.9 | 383.2 | 430.7 | 539.9 | 746.6 | 658.2 |
| Private and non-profit-making services to households | 2.4 | 3.1 | 3.7 | 4.2 | 4.6 | 5.0 | 5.3 | 5.3 | 5.7 | 6.6 | 5.8 |
| Import duties | 48.7 | 86.4 | 203.6 | 285.8 | 303.8 | 366.1 | 374.6 | 358.0 | 404.6 | 483.1 | 382.3 |
| GDP | 827.9 | 1,081.7 | 1,421.9 | 1,801.6 | 2,229 | 2,612.8 | 2,768.6 | 2,875.9 | 3,208.4 | 3,593.1 | 3,052.9 |

Source: Compiled from figures supplied by Yemen Arab Republic, Central Planning Organization

Table A-3. Democratic Yemen, agricultural production

(Thousands of tons)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Wheat | 10.0 | 10.0 | 8.6 | 6.8 | 7.4 | 7.8 | 7.5 | 7.3 | 7.9 | - |
| Coarse grains | 20.0 | 18.1 | 22.8 | 20.0 | 21.2 | 19.9 | 27.5 | 21.8 | 17.9 | - |
| Sesame | 2.0 | 1.9 | 2.9 | 1.9 | 1.7 | 1.5 | 1.8 | 1.4 | 1.9 | - |
| Vegetables | 19.6 | 31.4 | 30.3 | 36.8 | 42.6 | 33.8 | 36.6 | 32.1 | 30.1 | - |
| Fruit (mostly bananas) | 13.6 | 15.3 | 12.9 | 13.2 | 13.8 | 14.9 | 11.0 | 9.7 | 11.0 | - |
| Dates | 17.5 | 13.2 | 13.6 | 9.0 | 7.5 | 7.9 | 10.3 | 11.1 | 18.5 | - |
| Fodder | 97.1 | 99.0 | 51.6 | 73.1 | 111.6 | 134.7 | 273.9 | 139.7 | 215.1 | - |
| Cotton | 10.8 | 9.3 | 4.9 | 10.4 | 6.6 | 4.6 | 5.2 | 3.9 | 2.9 | - |

Source: Compiled from figures supplied by Democratic Yemen, Ministry of Agriculture.

Table A-4. Yemen Arab Republic, agricultural production 1975/76 - 1985

(Thousands of tons)

| | 1975/ 1976 | 1976/ 1977 | 1977/ 1978 | 1978/ 1979 | 1979/ 1980 | 1980 1981 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sorghum | 785.0 | 613.0 | 585.0 | 627.0 | 632.0 | 636.0 | 635.0 | 580.5 | 268.0 | 267.9 | 281.0 |
| Maize | 35.0 | 44.0 | 43.0 | 46.0 | 48.0 | 49.0 | 53.2 | 59.2 | 30.5 | 38.5 | 43.1 |
| Wheat | 62.0 | 61.0 | 45.0 | 63.0 | 63.0 | 65.0 | 69.6 | 67.4 | 35.2 | 37.3 | 63.4 |
| Barely | 58.0 | 42.0 | 39.0 | 42.0 | 45.0 | 48.0 | 54.0 | 53.0 | 30.2 | 28.5 | 31.8 |
| Vegetables | 183.0 | 210.0 | 226.0 | 230.0 | 254.0 | 261.0 | 291.9 | 305.4 | 325.8 | 346.5 | 370.5 |
| Potatoes | 76.0 | 100.0 | 107.0 | 116.0 | 127.0 | 131.0 | 138.0 | 149.5 | 163.7 | 194.7 | 195.7 |
| Grapes | 42.0 | 47.0 | 45.0 | 49.0 | 55.0 | 56.0 | 64.3 | 67.9 | 71.7 | 81.6 | 80.5 |
| Coffee | 3.0 | 3.4. | 3.9 | 3.6 | 3.5. | 3.6 | 3.5 | 3.4 | 3.0 | 4.2 | 4.0 |
| Cotton | 13.5 | 5.3 | 3.9 | 4.8 | 2.8 | 5.0 | 5.0 | 6.5 | 6.5 | 3.7 | 4.0 |
| Tobacco | 5.6 | 6.4 | 4.6 | 6.4 | 7.0 | 7.0 | 6.3 | 6.7 | 5.8. | 4.3 | 4.5 |
| Sesame | 5.5 | 6.4 | 6.3 | 6.3 | 6.0 | 6.0 | 5.2 | 5.5 | 4.3 | 3.3 | 4.0 |
| Fruit | 65.0 | 72.0 | 77.0 | 73.0 | 76.0 | 77.0 | 80.7 | 84.6 | 84.6 | 88.0 | 92.0 |

Source: Yemen Arab Republic, Statistical Year Book, 1985, Central Planning Organization (Sana'a, 1986).

Table A-5. <u>Democratic Yemen, food imports</u>

(Millions of US dollars at current prices)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|---|---|
| Live animals | 2.3 | 4.3 | 4.9 | | 7.8 | 9.3 | 11.6 | 13.0 |
| Dairy products | 5.5 | 4.6 | 10.1 | | 12.5 | 12.5 | 11.3 | 18.0 |
| Wheat and flour | 10.4 | 15.7 | 17.4 | | 9.3 | 54.8 | 37.4 | 22.3 |
| Rice | 13.6 | 8.7 | 9.6 | | 25.2 | 11.6 | 18.6 | 17.1 |
| Sugar | 13.9 | 6.7 | 8.4 | | 7.5 | 31.0 | 20.9 | 16.8 |
| Coffee | 2.3 | 3.8 | 1.4 | | 3.8 | 0.3 | 2.0 | 1.2 |
| Tea | 2.6 | 4.3 | 6.4 | | 4.6 | 6.0 | 4.0 | 4.6 |
| Spices | 1.4 | 4.3 | 2.9 | | 2.6 | 1.7 | 2.6 | 2.6 |
| Others | 11.6 | -- | 20.3 | | 35.9 | 55.9 | 60.9 | 69.7 |
| Beverages and tobacco | 2.6 | 3.5 | 3.8 | | 10.4 | 15.4 | 7.5 | 5.8 |
| Total | 66.2 | 55.9 | 85.2 | | 119.6 | 198.5 | 176.8 | 171.1 |

<u>Source</u>: Compiled from figures supplied by Democratic Yemen, Central Statistical Organization.

Table A-6. Yemen Arab Republic, food imports

(Millions of US dollars at current prices during 1975/1976 - 1983)

| | 1976/1977 | 1977/1978 | 1978/1979 | 1979/1980 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|
| Live animals | 3.0 | 3.8 | 5.3 | 8.9 | 13.2 | 19.5 | 22.3 | 34.9 |
| Meat | 6.6 | 27.0 | 38.8 | 48.8 | 45.5 | 76.6 | 56.8 | 16.4 |
| Eggs and dairy | 15.2 | 26.9 | 42.9 | 74.9 | 103.9 | 63.4 | 55.7 | 71.8 |
| Fish | 3.6 | 2.9 | 5.5 | 6.7 | 7.9 | 4.5 | 5.9 | 5.4 |
| Cereal and cereal products | 65.0 | 51.4 | 48.2 | 87.7 | 86.7 | 124.3 | 124.9 | 105.8 |
| Fruit and vegetables | 39.5 | 48.3 | 67.3 | 110.4 | 118.0 | 105.7 | 99.1 | 43.6 |
| Sugar and sweets | 36.5 | 29.0 | 53.8 | 51.5 | 79.6 | 201.7 | 50.1 | 25.0 |
| Coffee, tea and spices | 6.5 | 17.0 | 12.2 | 16.0 | 13.1 | 14.0 | 12.9 | 14.2 |
| Beverages and tobacco | 10.7 | 18.7 | 24.2 | 25.1 | 22.7 | 22.7 | 26.4 | 8.2 |
| Total | 186.6 | 225.0 | 298.2 | 430.0 | 490.6 | 632.4 | 454.1 | 325.3 |

Source: Figures compiled from data supply by the Yemen Arab Republic, Statistical Year Book, 1985, Central Planning Organization (Sana'a 1986).

Table A-7. Democratic Yemen, fish catches

(Thousands of tons)

| | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|
| Co-operatives | 33 | 31 | 26 | 31 | 35 | 22 | 20 | 25 |
| Public sector | 14 | 16 | 12 | 8 | 12 | 11 | 5 | 6 |
| Joint ventures | 3 | 3 | 2 | 3 | 5 | 4 | 3 | 3 |
| Foreign companies | 14 | 14 | 9 | 10 | 22 | 26 | 27 | 25 |
| Private sector | | | | | 15 | 15 | 15 | 15 |
| Total | 64 | 64 | 49 | 52 | 90 | 78 | 70 | 74 |

Source: Compiled from figures supply by Democratic Yemen, Ministry of Agriculture

Table A-8. Yemen Arab Republic, fish catches

(Tons)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| | 16,300 | 17,000 | 17,300 | 17,642 | 18,700 | 21,000 |

Source: Yemen Arab Republic, Statistical Year Book, 1985, Central Planning Organization (Sana'a, 1986).

Table A-9. Democratic Yemen, balance of payments

(Millions of US dollars)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984* |
|---|---|---|---|---|---|---|---|---|---|---|
| Exports (F.O.B) | 19.7 | 44.3 | 47 | 39.4 | 41.4 | 59.7 | 48.7 | 40.3 | 30.3 | 30.7 |
| Imports (C.I.F) | -190.4 | -286.4 | -382.9 | -408.4 | -431.0 | -670.7 | -721.2 | -777.1 | -769.0 | -825.5 |
| Trade balance | -170.7 | -242.1 | -335.9 | -369.0 | -389.6 | -611.0 | -672.5 | -736.8 | -728.7 | -794.8 |
| Services (net) | 17.4 | 26.0 | 17.1 | 27.0 | 24.0 | 49.6 | 51.0 | 43.2 | 12.2 | 6.4 |
| Net private transfers | 58.8 | 119.4 | 187.5 | 258.0 | 313.9 | 324.3 | 382.3 | 431.3 | 440.9 | 454.2 |
| Official transfers | 10.1 | 50.4 | 59.7 | 46.4 | 29.6 | 78.3 | 119.1 | 127.2 | 42.3 | 29.6 |
| Official transfers (kind) | - | - | - | - | - | - | - | - | - | 29 |
| Current account | -84.4 | -46.3 | -71.6 | -37.7 | -24.6 | -158.8 | -120.0 | -127.2 | -233.3 | -275.6 |
| Capital account | 31.3 | 58.0 | 70.1 | 93.9 | 63.5 | 85.8 | 175.9 | 175.0 | 194.2 | 138.5 |
| Drawing on loans | (31.9) | (59.4) | (67.8) | (82.9) | (57.7) | (85.5) | (148.7) | (162.6) | (194.5) | (151.3) |
| Repayments | (-0.6) | (-1.4) | (-2.3) | (-11.0) | (-5.8) | (-0.3) | (-4.3) | (-10.4) | (-7.2) | (-12.5) |
| Loans from Arab Monetary Fund (AMF) | | | | | | | 31.6 | 26.0 | 12.5 | 11.3 |
| Repayments to AMF | - | - | - | - | - | - | - | -2.6 | -4.6 | -8.4 |
| Capital movement errors and omissions | 27.8 | -24.6 | 43.5 | 34.5 | 29.9 | 94.2 | 15.0 | -20.9 | -50.7 | 65.2 |
| Overall balance | -25.3 | -12.9 | 42.0 | 90.7 | 68.7 | 54.5 | 40.9 | 9.9 | 11.6 | -71.9 |

Source: Compiled from figures, supplied by Democratic Yemen, Bank of Yemen

* ESCWA estimation.

Table A-10. Yemen Arab Republic, balance of payments

(Millions of US Dollars)

| | 1976/77 1977 | 1977/78 1978 | 1978/79 1979 | 1979/80 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Export of goods | 18.4 | 7.0 | 2.9 | 12.6 | 10.3 | 4.8 | 9.6 | 8.2 |
| Import of goods | 719.6 | 904.1 | 1,233.3 | 1,889.4 | 1,724.7 | 1,925.9 | 1,764.6 | 1,209.2 |
| Trade balance | -701.2 | -897.1 | -1,230.4 | -1,876.8 | -1,714.4 | -1,921.1 | -1,755 | -1,201 |
| Export of services | 92.6 | 129.3 | 218.7 | 339.7 | 352.3 | 333.6 | 322.2 | 220.1 |
| Import of services | -49.5 | -81.3 | -253.9 | -360.1 | -403.1 | -370.5 | -369.0 | -261.6 |
| Balance of services | 43,1 | 48.0 | -35.2 | -20.4 | -50.8 | -36.9 | -51.0 | -41.5 |
| Balance of goods and services | -658.1 | -849.1 | -1,265.6 | -1,897.2 | -1,765.2 | -1,958 | -1,806 | -1,242.5 |
| Private transfers | 999.8 | 1,392.1 | 1,226.4 | 1,322.7 | 974.1 | 1,175.1 | 1,222.8 | 966.9 |
| Official transfers | 91.6 | 89.7 | 296.1 | 134.4 | 320.9 | 411.9 | 146.6 | 99.1 |
| Non-monetary official transfers | 11.4 | 11.4 | 11.4 | 11.4 | 11.4 | 50.4 | 38.5 | 30.7 |
| Transferred payments (debt) | -168.9 | -319.0 | -404.4 | -253.0 | -196.8 | -263.7 | -138.2 | -66.2 |
| Current balance | 275.8 | 325.1 | -136.1 | -681.7 | -655.6 | -607.5 | -535.3 | 212.1 |
| Drawing on loans | 45.5 | 80.3 | 112.2 | 460.2 | 258.4 | 228.4 | 219.8 | 194.4 |
| Direct investment | - | - | 11.9 | 42.8 | 3.1 | 1.8 | 7.8 | 4.6 |
| Short-term loans | - | - | 90.0 | 99.4 | 100.0 | 3.1 | 65.2 | 48.1 |
| Repayments | -4.3 | -5.7 | -9.7 | -15 | -56.8 | -43.2 | -23.2 | -58.7 |
| Errors and omissions | 11.7 | 43.7 | 99.3 | 37.1 | 91.6 | 45.6 | 55.4 | 32.4 |
| Capital balance | 41.3 | 74.6 | 204.4 | 587.4 | 396.3 | 213.0 | 267.2 | 91.0 |
| Overall balance | 328.8 | 443.4 | 167.6 | -573.0 | -259.3 | -384.8 | -212.7 | -88.6 |

Source: Compiled from figures supplied by the Yemen Arab Republic, Central Bank of Yemen.

Table A-11. Democratic Yemen, outstanding debts

(Millions of US dollars)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983* | 1984* |
|---|---|---|---|---|---|---|---|---|---|---|
| Multilateral | 84.9 | 92.8 | 178.9 | 137.3 | 187.8 | 241.0 | 288.5 | 422.8 | | |
| Bilateral | 133.7 | 186.5 | 224.8 | 442.6 | 702.9 | 999.7 | 983 | 1117.4 | | |
| Total | 218.6 | 279.3 | 403.7 | 579.9 | 890.7 | 1,240.7 | 1,271.5 | 1,540.2 | 1,136.4 | 1,300* |

Source: World Debt Tables, 1982-1983 (Washington DC, World Bank, 1983 and 1984).

* For 1983-1984, the figures cover only long-term debts.

Table A-12. Yemen Arab Republic, outstanding debts

(Millions of US dollars)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Multilateral | 110.0 | - | 222.1 | 264.6 | 132.4 | 168.3 | 212.6 | 278.5 | 318.7 | 372.7 |
| Bilateral | 335.0 | - | 549.3 | 800.6 | 347.0 | 705.8 | 881.8 | 1012.9 | 1,237.0 | 1,301.4 |
| Private | | | 21.9 | 23.7 | 9.5 | 25.6 | 22.4 | 20.4 | 18.2 | 13.8 |
| Total disbursed | 6.5 | | -- | -- | 489 | 899.7 | 1,116.7 | 1,311.9 | 1,573.9 | 1,687.9 |
| Undisbursed | -- | | -- | -- | 988.9 | 755.4 | 902.3 | 1068.9 | 829.1 | 710.3 |
| Total including disbursed | 451.5 | | 793.3 | 1,088.9 | 1,477.9 | 1,655.1 | 2,019.1 | 2,380.7 | 2,403 | 2,398.2 |

Source: Compiled from figures supplied by the Yemen Arab Republic, Central Planning Organization, World Debt Tables, 1982-1983 (Washington DC, World Bank, 1983-1984).

Table A-13. <u>Total investments in Democratic Yemen</u>

(Millions of US dollars at current prices)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | – | – | 11.6 | 14.5 | 13.0 | 49.3 | 69.6 | 68.4 | 87.0 | 98.3 |
| Oil and minerals | – | – | 16.5 | 9.0 | 8.5 | 12.5 | 20.5 | 36.2 | 34.8 | 36.5 |
| Agriculture | – | – | 34.8 | 41.2 | 38.8 | 39.1 | 43.2 | 56.8 | 64.1 | 36.5 |
| Fisheries | – | – | 18.8 | 17.1 | 13.3 | 17.4 | 20.3 | 25.5 | 45.5 | 20.9 |
| Construction | – | – | 20.3 | 29.0 | 24.1 | 25.5 | 23.0 | 45.2 | 45.8 | 50.4 |
| Transport and communications | – | – | 29.9 | 29.9 | 21.4 | 25.8 | 50.7 | 50.4 | 56.8 | 95.1 |
| Social services | – | – | 34.5 | 32.8 | 31.6 | 45.5 | 76.8 | 115.9 | 99.1 | 110.7 |
| Total | 81.2 | 127.5 | 166.4 | 173.3 | 150.3 | 215.1 | 304.5 | 398.6 | 433.1 | 448.4 |

<u>Source</u>: Compiled from figures supplied by Democratic Yemen, Ministry of Planning.

Table A-14. <u>Yemen Arab Republic, gross capital formation</u>

(Millions of US dollars at current prices)

| | 1975/ 1976 | 1976/ 1977 | 1977/ 1978 | 1978/ 1979 | 1979/ 1980 | 1980/ 1981 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture and fishery | 12.5 | 13.2 | 50.6 | 69.5 | 68.2 | 84.0 | 59.0 | 74.7 | 87.7 | 72.7 |
| Mining and quarrying | - | - | 12.7 | 6.4 | 6.6 | 9.6 | 12.9 | 14.5 | 19.7 | 10.2 |
| Manufacturing | 11.4 | 51.5 | 50.0 | 91.6 | 77.8 | 81.5 | 79.8 | 52.0 | 57.1 | 28.7 |
| Water and electricity | - | - | 28.5 | 42.3 | 71.0 | 133.5 | 168.3 | 144.9 | 139.6 | 86.3 |
| Construction | 2.2 | 10.3 | 36.2 | 46.0 | 59.2 | 66.6 | 17.5 | 11.4 | 12.8 | 9.6 |
| Wholesale and retail trade | - | - | - | - | - | - | 108.0 | 50.2 | 35.5 | 37.4 |
| Transport and communications | 48.0 | 54.4 | 182.2 | 222.7 | 329.7 | 329.7 | 206.3 | 230.8 | 188.4 | 75.9 |
| Financial institutions | - | - | - | - | - | - | 5.9 | 4.8 | 9.6 | 10.1 |
| Real estate and business services | 68.2 | 124.9 | 153.4 | 184.3 | 199.3 | 211.5 | 173.2 | 148.6 | 158.3 | 125.1 |
| Social and other services | 20.9 | 34.0 | 100.8 | 206.0 | 154.1 | 156.9 | 347.0 | 390.8 | 388.6 | 200.3 |
| Total | 163.2 | 288.3 | 614.4 | 868.8 | 965.9 | 1,073.3 | 1,177.9 | 1,122.7 | 1,097.3 | 656.3 |

<u>Source</u>: Compiled from figures, supplied by the Yemen Arab Republic, Ministry of Planning.

Table A-15. Democratic Yemen, share of the external financing in the total actual investments

(Millions of US dollars)

| | 1974/1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actual investments | 60.0 | 113.6 | 165.2 | 173.9 | 150.4 | 215.0 | 304.6 | 398.6 | 433 | 448.4 |
| External financing | 102.9 | 119.4 | 169.3 | 173.9 | - | 84.6 | 180.0 | 217.4 | 244.9 | 247.8 |
| External financing as percentage of actual investments | 171.5 | 105.0 | 102.5 | 100.0 | - | 39.3 | 59.0 | 54.5 | 56.6 | 55.3 |

Source: ESCWA, compiled from data obtained from national and international sources.

Table A-16. Yemen Arab Republic, share of the external financing in the gross investment

(Millions of US dollars)

| | 1975/ 1976 | 1976/ 1977 | 1977/ 1978 | 1978/ 1979 | 1979/ 1980 | 1980 1981 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|
| Total external inflow | 159.2 | 148.5 | 181.5 | 419.6 | 322.8 | 606.0 | 590.8 | 690.8 | 397.7 |
| Total investment | 197.3 | 262.2 | 703.6 | 875.5 | 1043.6 | 1212.2 | 1175.4 | 872.6 | 803.0 |
| External financing as percentage of total investments | 80.7 | 56.6 | 25.8 | 47.9 | 22.3 | 50.0 | 50.3 | 79.2 | 49.5 |

Source: ESCWA, compiled from data obtained from national and international sources.