



Yemen: Fear of Failure

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Summary points

- Yemen presents a potent combination of problems for policy-makers confronting the prospect of state failure in this strategically important Red Sea country. It is the poorest state in the Arab world, with high levels of unemployment, rapid population growth and dwindling water resources.
- President Saleh faces an intermittent civil war in the north, a southern separatist movement and resurgent terrorist groups. Following the 2009 merger of al-Qaeda in Yemen and Saudi Arabia, Yemen has become the new centre of gravity for al-Qaeda in the Arabian Peninsula.
- The underlying drivers for future instability are economic. The state budget is heavily dependent on revenue from dwindling oil supplies. Yemen's window of opportunity to shape its own future and create a post-oil economy is narrowing.
- Western governments need to work towards an effective regional approach with the member states of the Gulf Cooperation Council, in particular Saudi Arabia.
- Future instability in Yemen could expand a lawless zone stretching from northern Kenya, through Somalia and the Gulf of Aden, to Saudi Arabia. Piracy, organized crime and violent jihad would escalate, with implications for the security of shipping routes, the transit of oil through the Suez Canal and the internal security of Yemen's neighbours.

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The situation in Yemen: January 2010 update

In the 14 months since the first edition of this Briefing Paper was written, the challenges facing Yemen have intensified. An intermittent civil war in the north resumed with the most intense fighting to date, southern separatists' open calls for independence led to violent clashes with security forces, and al-Qaeda operations grew in strength and global reach. The economy faltered and oil production continued to fall. Parliamentary elections scheduled for April 2009 were delayed by two years.

As political and economic instability increased, Yemen became a foreign policy priority for Western governments. Concern also grew among Yemen's neighbours, and the Saudi Arabian army was deployed to the Yemeni border to quash cross-border incursions by the rebels in Yemen's northern Sa'dah province. In the final week of 2009, the attempted bombing of Northwest Airlines Flight 253 – believed to have been planned in Yemen – turned the media spotlight on al-Qaeda's latest 'safe haven'.

Al-Qaeda in the Arabian Peninsula

In January 2009, al-Qaeda's branches in Yemen and Saudi Arabia merged to form a single transnational organization – al-Qaeda in the Arabian Peninsula (AQAP). AQAP began to deploy new tactics, using suicide bombers on foot for the first time. In August, Saudi Arabia's deputy interior minister, Prince Muhammad bin Naif, narrowly escaped assassination when an al-Qaeda affiliate blew himself up at the prince's house, after passing several security checks. The bomber, a Saudi national, had planned and prepared the attack in Yemen. On 25 December 2009, Umar Farouk Abdulmutallab attempted to detonate explosives as Flight 253 prepared to land in Detroit. AQAP claimed responsibility for the plot, saying the move came in retaliation for two US-led missile strikes earlier in December, targeted at al-Qaeda's local leadership in Yemen. Among the intended targets was AQAP military commander Qasim al-Raymi, who survived.

The US military response

US President Barack Obama has promised to hunt down all those responsible for the botched Christmas Day bomb plot, but Yemen's geographic location, the complexity of its political environment and the burden of existing US military commitments elsewhere in the region limit American options. Yemeni public opinion is widely hostile to American policy in the Middle East and repeated US-approved missile strikes, with the inevitable civilian casualties, are likely to create a backlash. This would raise the prospect of further AQAP retaliation against Western targets in Yemen and increased internal opposition towards President Saleh's regime.

Since 9/11, the United States has recognized these local constraints by working in discreet partnership with the Yemeni government, training the elite counter-terrorism unit and sharing intelligence. President Obama has ruled out sending US forces to Yemen and US military planners need to maintain this light footprint as they seek to prevent al-Qaeda's symbolic revival on the Arabian Peninsula. As a condition of increased financial assistance, international actors now have an opportunity to press for extensive security sector reform, including a review of Yemeni military procurement processes to ensure that all authorized arms supplies reach their intended destination.

The way forward

Yemen's current security challenges are a symptom of much deeper problems. If the underlying causes are overlooked and state capacity continues to erode, al-Qaeda affiliates will have more room to operate inside Yemen's borders. The United States, United Kingdom and others need to embed counter-terrorism measures within a comprehensive 'whole of government' approach that seeks to prevent state collapse and establishes a longer-term framework to support the country in its transition to a post-oil economy.

As a priority, donor governments and multilateral institutions need to encourage President Saleh to revive the stagnant reform process and improve elite compliance. Renewed efforts are required to improve donor coordination and ensure that existing pledges are fulfilled. Since 2006, international donors have pledged \$5bn in development aid, but only a fraction of the money has been spent.

It is essential that President Saleh works towards an inclusive political settlement that boosts the government's legitimacy, including conflict resolution and reconciliation measures. Without effective external mediation, the political temperature in Yemen will continue to rise. Direct Western mediation would be inappropriate and counter-productive but the Arab states – working in partnership with key international actors – may have a role to play in this respect.

As local donors and potential investors, the members of the GCC are well placed to promote stability and development in Yemen, encourage improvements in governance and help to develop a diverse export-based economy. Any effective regional approach to Yemen's problems also requires a strategy that includes the Horn of Africa. An international contact group could be formed to help identify a holistic response to the related challenges in Yemen, Somalia and the Gulf of Aden.

Introduction

The Arabian Peninsula's first democracy stands at a crossroads.¹ The poorest nation in the Arab world struggles with 27% inflation, 40% unemployment and 46% child malnutrition.² Half of its 22 million citizens are under sixteen and the population is set to double by 2035. Seven million people live in poverty and the country is heavily dependent on food imports, making it especially vulnerable to global price shocks. Reserves of groundwater and oil are rapidly diminishing.

Yemen's centralized democratic structures outstrip the political maturity of its rural, barely literate society. Modern, Western-style government institutions are distorted by the influence of President Ali Abdullah Saleh's northern tribal power base and a closely woven informal patronage network. Party politics are weak and vulnerable to manipulation. The development of the state is incomplete.

President Saleh has survived three decades at the top – first as leader of North Yemen and then, after a 1990 merger with the People's Democratic Republic of Yemen, as head of the unified republic. He will be seventy at the time of the next election, in 2013, when

his country is expected to attempt a peaceful transition of power. A clear successor has yet to emerge.

President Saleh's divide-and-rule strategy enables him to govern by proxy through rival sheikhs but, after thirty years in power, his reputation as a master of crisis management is starting to slip. In the last eighteen months, an erratic stop-go civil war in the northern province of Sa'dah, a sympathetic rebel uprising on the fringes of the capital, riots throughout the south, two fatal attacks on Western tourist convoys and twin car bombs outside the US embassy in the capital, Sanaa, have created fears that the government is losing its grip.

Yemen's location on the southern edge of the Arabian Peninsula means that it acts as a buffer zone between the Horn of Africa and Saudi Arabia. Yemen's coastguard has nominal control over the northern waters of the Gulf of Aden – criss-crossed with smuggling routes and witnessing an explosion of Somali piracy³ – as well the Bab al Mandab, an 18-mile-wide strait at the mouth of the Red Sea. An estimated 3.3 million barrels of oil pass through the strait every day, along one of the busiest shipping lanes in the world.⁴

1 In 1993 Yemen became the first country in the Arabian Peninsula to introduce universal suffrage for multi-party parliamentary elections. See Sheila Carapico, 'Elections & Mass Politics in Yemen', *Middle East Report*, November–December 1993.

2 *Yemen Economic Update*, World Bank, Summer 2008, <http://siteresources.worldbank.org/INTYEMEN/Resources/310077-1098870168865/YEU-Summer08.pdf>.

3 Roger Middleton, *Piracy in Somalia: Threatening Global Trade, Feeding Local Wars* (Chatham House, 2008).

4 Energy Information Administration, http://www.eia.doe.gov/emeu/cabs/World_Oil_Transit_Chokepoints/Background.html.

After a prolonged hiatus created by Yemen's support for Saddam Hussein during the 1991 Gulf War, international donors have begun to pledge substantial sums. Implicitly and explicitly, aid money is intended to encourage good governance, improve planning and mitigate the impending economic crisis caused by the projected decrease in oil revenues.

However, Yemen's window of opportunity to shape its own future and create a working post-oil economy is narrowing as oil production falls closer to consumption levels. The scale of the problem and the speed of action required pose a challenge both to the international community and to advocates of reform within Yemen. The range of policy tools is limited, implementation is obstructed by poor capacity within the civil service and the consequences of possible measures are uncertain.

A 'front-line' state

The US Congress designates Yemen a 'front-line state' in the war on terror, and the State Department places a high priority on Yemen's internal security because of its close proximity to Saudi Arabia and the Gulf states. Yemeni armed forces receive counter-terrorism training and direct military financing from the US.⁵

President Saleh's primary concern, however, is his own survival. He has awarded key army posts to relatives and allies within his own Sanhan tribe and has thrown a Sanhan 'ring of steel' around his palace. His son, Ahmed, commands the Republican Guard, while his nephews, Tarik and Yahya, control private presidential security and the central security forces.

In 2006, Yemen's military expenditure was thought to be 6.6% of GDP, although the true figure is likely to be

higher.⁶ Estimates of the number of guns in circulation in Yemen vary from six million upwards.⁷ During the last year, the government has successfully enforced a ban on the public display of AK47s in Sanaa by non-military personnel. However, Yemen remains a conduit for international arms-smuggling, notably for weapons destined for Somalia.⁸

Resurgent terrorist groups

Yemeni *mujahideen* fought Soviet troops in Afghanistan in significant numbers during the 1980s. Yemenis continued to train in Afghanistan under al-Qaeda's high command throughout the 1990s and make up the largest national grouping of remaining detainees at Guantánamo Bay.⁹ Foreign Minister Abu Bakr al-Qirbi claims Yemen is currently playing host to more than 1,000 jihadi fighters and al-Qaeda affiliates.¹⁰

Veteran jihadis allegedly struck a 'covenant of security' deal with the security services on their return home from Afghanistan – freedom of movement in return for a promise of good behaviour inside Yemen's borders. That deal held for several years before and after the 2000 attack on the USS *Cole* while it was refuelling in Aden harbour (resulting in the deaths of seventeen sailors) and the maritime bombing of a French oil tanker in 2002.

However, Islamist violence in Yemen has been escalating since a February 2006 jailbreak, when 23 terrorists tunneled their way out of a high-security prison. The first attempted use of twin car bombs followed seven months later in thwarted attacks on two separate oil installations. Since summer 2007, the tempo of terrorist activity has steadily increased, with eight Spanish tourists killed in a suicide bomb in July 2007, two Belgians shot in an ambush on a tourist

5 Between 2002 and 2006, Yemen received \$55.5m in US military financing. 2007 Center for Defense Information – U.S. Post-Sept. 11 Arms Trade Policy, <http://www.worldsecurityinstitute.org/showarticle.cfm?id=195>.

6 *The World Factbook*, CIA.

7 Derek B. Miller, *Demand, Stockpiles, and Social Controls: Small Arms in Yemen* (Small Arms Survey Occasional Paper No. 9, May 2003), http://hei.unige.ch/sas/files/sas/publications/o_papers_pdf/2003-op09-yemen.pdf.

8 United Nations Security Council S/2008/274 – Letter dated 24 April 2008 from the Chairman of the Security Council Committee established pursuant to resolution 751 (1992) concerning Somalia addressed to the President of the Security Council.

9 'Rehabilitation centre to be set up for Guantánamo returnees', *Gulf News*, 13 September 2008.

10 'Yemen Rejects Some U.S. Requests on Extremists', *Washington Post*, 25 September 2008.

convoy in January 2008 and a low-level bombing campaign against Western targets in Sanaa during the spring of 2008.

Twin car blasts outside the US embassy on 17 September 2008 confirmed fears of a resurgent terrorist movement. Eighteen people died when six suicide bombers in two vehicles breached the outer perimeter of the security cordon and detonated their explosives at the main gate to the compound. It was the second assault on the embassy in six months.

Yemen's jihadi networks appear to be growing as operating conditions in Iraq and Saudi Arabia become more difficult. In March 2008, a Saudi terrorist financier admitted that al-Qaeda's branch in Saudi Arabia was defeated and called on his remaining associates to flee to Yemen.¹¹ An influx of insurgents returning from Iraq and an ongoing active recruitment process within Yemen have energized al-Qaeda's domestic support base.

In addition, a new mood has emerged among some active jihadis, who reject negotiation or compromise with the authorities. New recruits are targeting the security services, in retaliation for the alleged torture and humiliation of their captive associates. In July, a suicide bomber blew himself up outside a police station in Hadramawt. In a subsequent statement, a splinter cell pledged to continue attacks against security and intelligence structures.

The Sa'dah rebellion

Yemen's bloody four-year revolt in Sa'dah, a mountainous zone on the border with Saudi Arabia, is led by members of the charismatic Houthi family. The Houthis condemn Yemen's alliance with the US and President Saleh has repeatedly tried to portray the conflict as a battle against terrorism. But this complex stop-go civil war has its origins in the 1962 revolution that toppled the Zaydi Shi'a Imam¹² and established the

modern republic.¹³ The rebellion is also fuelled by bitter local grievances over economic marginalization, market access and the lack of service infrastructure in the Sa'dah region.

The Houthis are Zaydis, who practise a form of Shi'a Islam prevalent in northern Yemen's highlands. The Houthis are calling for freedom of worship and social justice. They accuse the government of corruption, and of meddling with the delicate religious balance between Zaydi Shi'as and Salafi Sunnis. They are alarmed by Saleh's perceived support for Salafi groups aligned with Saudi-style Wahhabi Islam. For his part President Saleh has cynically manipulated Saudi fears of Shi'a unrest on the Yemen-Saudi border to raise cash and munitions to prosecute his war.

The government's military campaign is conducted by army commander and Salafi convert Ali Muhsin, a Sanhan kinsman of the president who is widely expected to play a powerful role as kingmaker during a future succession. Rumours abound of rivalry between Ali Muhsin and President Saleh's son Ahmed, whose Republican Guard has also deployed in Sa'dah. Several Yemeni newspapers have claimed there is a proxy war between the two men's forces, under the cover of quashing the Houthis.

During spring 2008 the conflict appeared to be intensifying. It spread from the northern governorate of Sa'dah to an eastern suburb of the capital, Bani Hushaish. Just days before his thirtieth anniversary celebrations in July, President Saleh sent his family out of the country, supposedly in response to threats against his life, so his subsequent declaration that the Sa'dah war was 'over' took everyone by surprise. President Saleh promptly reshuffled the military, removing several allies of Ali Muhsin from leadership posts.¹⁴

In early August, state-run media reported that rebel leader Abdel Malik al-Houthi had accepted President Saleh's peace terms. The rebels agreed to surrender

11 'Why Al Qaeda in Yemen is wooing the Saudis', *Khaleej Times*, 10 May 2008.

12 Yemen's Zaydi Shi'as take their name from Zayd ibn Ali, whom they recognize as the Fifth Imam in the Shi'a succession. They settled in Yemen's highlands during the ninth century. Their doctrine is distinct from Twelver Shi'ism, the dominant branch of Shi'a Islam, found in Iran, Iraq, Lebanon and Bahrain.

13 'Cracks in the Yemeni System', *Middle East Report*, 28 July 2005.

14 'Salih and the Yemeni succession', *Jane's Intelligence Digest*, 18 August 2008.

their strategic mountain-top positions and hand over their heavy and medium weapons to the authorities. However, sceptics doubt that the cessation of hostilities will hold and suspect that parties to the conflict are re-arming.

Southern separatism

Like the Sa'dah rebellion, Yemen's southern separatist movement has a regressive element. Protestors hark back to the 1970s and 1980s, to the time before the unification of the North Yemen Republic and the People's Democratic Republic of Yemen (South Yemen).

Demonstrations started in Aden in the summer of 2007 when retired officers from the disbanded southern army demanded higher pension payments. The regime's heavy-handed response inflamed latent separatist sentiment, which spread over the following months to Al Mukalla, Ma'rib, Radfan, Ad-Dali', Abyan and Lahij. Demonstrators hoisted the flag of South Yemen, tore the modern unified Yemeni flag and chanted revolutionary slogans. Army tanks appeared on the streets, at least seventeen people died and many hundreds were arrested.

Underpinning these separatist gestures is the perceived exclusion of southerners from northern patronage networks in business, politics and the military. Yemen's oil-producing zones lie within the former boundaries of South Yemen but southerners complain that the Sanaa regime is hogging the profits. In recent months, a number of activist leaders have been released from jail but underlying grievances continue to fester. Spasmodic grenade attacks and bomb blasts target military checkpoints throughout the south, leading to confusion over what is and what is not terrorist activity.

A veneer democracy

The rush to establish democracy during the early 1990s, in the months after unification, brought the vote to a poorly prepared conservative, tribal society with low levels of literacy. The parallel extraction of oil allowed President Saleh to establish an inclusive patronage

structure binding the tribes, opposition politicians, businessmen and religious extremists into a web of personal loyalty through the distribution of oil rents. This formula has ensured President Saleh's survival but it has distorted party politics and stifled grassroots political participation.

President Saleh seeks the validation of political pluralism, without wanting to create a genuine opposition.¹⁵ Since the introduction of democracy, his ruling party – the General People's Congress (GPC) – has increased its share of the vote in every ballot. The GPC is a pragmatic 'big-tent' umbrella group, but the president cultivates loyal factions within every party.

President Saleh's close alliance with the late Sheikh Abdullah bin Hussein al-Ahmar, formerly president of the largest opposition party, Islah, demonstrates the unique political logic holding the Yemeni state together. As paramount sheikh of Hashid, Yemen's most influential tribal confederation, Sheikh Abdullah was the primary representative of the traditional social structure and President Saleh's essential mediator with the tribes. An enduring partnership between the two men, although sometimes tense and distrustful, formed a central aspect of northern Yemen's political dynamic until Sheikh Abdullah's death from cancer in December 2007.

Islah can be defined as a conservative, religious movement that calls for social reform in accordance with Islamic principles. The party leadership claims to accept the current constitution, thus appearing to recognize the need to operate within Yemen's democratic framework, but Islah qualifies its support for the constitutional status quo by insisting that Shari'a law should form the basis of all legal rulings. Yemen's constitution already conforms to this position, but it is a very loose interpretation.

Since unification, Islah's representation in parliament has fallen from 66 out of 301 seats to its current tally of 45. This reflects both the growing institutional dominance of the GPC and Islah's slower learning curve as the weaker force within an emerging political framework. However, it remains the ascendant force in the

¹⁵ Marina Ottaway and Julia Choucair-Vizoso, *Beyond the Façade: Political Reform in the Arab World* (Carnegie Endowment, 2008).

Joint Meeting Parties (JMP), a coalition of five opposition parties currently squabbling with each other and with the government over preparations for parliamentary elections in April 2009.

In Yemen's first credibly contested presidential election, in 2006, JMP members put their considerable differences aside to unite around a single compromise candidate. Former oil minister Faisal bin Shamlan campaigned on an anti-corruption ticket. The issue was extensively debated in the media and during well-attended public rallies.

Yemeni journalists observed that bin Shamlan had been carefully chosen to nudge the boundaries, but not to win. 'If there was a really serious challenge, the consequences would be dangerous,' said one journalist.¹⁶ Although President Saleh was re-elected with a 77% majority, the competition successfully introduced the concept of change via the ballot box in a country where the ruling party and the state are often regarded as one and the same and the great majority of Yemenis are too young to remember any alternative.

European Union election observers initially judged the 2006 presidential poll to be an 'open and genuine contest' but they went on to condemn 'fundamental and systemic weaknesses'.¹⁷ The EU listed unfair use of state resources, the exclusion of women from participation at all levels, clear bias in the state media, detention of opposition supporters, and concerns that the counting process lacked credibility.

Under the terms of the current constitution, President Saleh must stand down at the end of his current presidential term in 2013, after 35 years in power – leaving Yemen to face its first democratic transition of power. A constitutional amendment is

currently under review that would limit the presidency to two terms of five years – and many Yemenis assume that it will *not* apply retrospectively. They see it as a stalling tactic that would allow President Saleh to stay in power.

At some point Saleh's crown is expected to pass to Ahmed, but the president's career was forged in the crucible of war and his son has had a softer political and military initiation. Yemenis are currently unable to judge whether Ahmed, with his low public profile, has the skill or temperament to lead their country. No clear competitor has emerged as yet.

An impending economic crisis

The underlying drivers for future instability in Yemen are economic. 'The economic element of any scenario-planning exercise points to collapse within four or five years,' according to one European energy expert. However, the trajectory is hard to predict because public data on oil exports and energy revenue are so unreliable.¹⁸

Oil was discovered in Yemen in the 1980s. The country has the lowest output of all the Middle East oil-producing states and the extraction trend has turned downwards, as two mature fields, Masila and Ma'rib, approach the end of their life cycle. Crude oil production has declined from a peak of 460,000 barrels per day in 2002¹⁹ – falling by 12% in 2007²⁰ – to the current rate of 300–350,000 barrels per day.²¹

Yemen's oil sector provides 90% of export earnings and 75% of government revenue.²² It will be difficult for the economy to maintain its modest 3–4% growth rate, which is barely keeping ahead of population growth, as oil exports fall.²³

16 This paper draws on confidential interviews held over the course of two years with a number of journalists, officials, diplomats and academics, mostly in Yemen. Names have been withheld by the author.

17 *Yemen: Final Report. Presidential and Local Council Elections* (European Union Election Observation Mission, September 2006), www.eueom-ye.org.

18 In July 2008, at an open donor meeting in Sanaa, Minister of Finance Noaman al-Suhiabi said the real volume of oil exports was a fraction of the official published figure, claiming that his ministry received only a fraction of the revenues accrued from the sale of the government's share.

19 *BP Statistical Review of World Energy* (June 2008), http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf.

20 *Yemen Economic Update*, World Bank, Summer 2008, <http://siteresources.worldbank.org/INTYEMEN/Resources/310077-1098870168865/YEU-Summer08.pdf>.

21 'Yemen oil revenues rise by 113%', *Saudi Press Agency*, 26 July 2008.

22 Franz Gerner and Silvana Tordo, *Republic of Yemen: A Natural Gas Incentive Framework* (Formal Report 327/07. Energy Sector Management Assistance Program, World Bank, 2008).

23 *Yemen Economic Update*, World Bank, Summer 2008.

The World Bank predicts that state revenues from oil and gas sales will plummet sharply during 2009–10 and fall to zero by 2017,²⁴ but Yemen's crunch point will come long before the oil wells finally run dry. The government currently needs to cover rising domestic consumption, as well as a fixed allocation to oil companies to cover their initial and ongoing investment costs. As production levels drop towards consumption levels, the share of crude oil sales available to support the national budget is shrinking. During the first half of 2008, Yemen increased production to benefit from high prices – oil export revenues jumped from \$1.2 billion during the same period in 2007 to \$2.6 billion.²⁵ However, high global prices place a unique strain on the national budget. Owing to limited refining capacity, Yemen pays market rates to import more than half of the diesel required for domestic demand and subsidizes the sale at 72 rials (20p) a litre.²⁶ The World Bank estimates diesel subsidies will cost \$3.5 billion in 2008 – about 12% of GDP.²⁷

Only twelve of Yemen's 87 oil blocks are in production, with less than a dozen of these under active exploration. It is possible that high profit margins will make future extraction viable in sites that were previously considered too expensive or technically challenging. The expansion of the pipeline infrastructure in recent years has also increased the potential for commercial extraction where transportation costs were initially prohibitive.

Yemen's government is relying on new finds, and hoping that offshore exploration will identify sizeable oil fields. However, the rising number of piracy attacks in the Gulf of Aden has the potential to inhibit offshore oil exploration and disrupt liquefied natural gas (LNG)

shipping. Yemen LNG's plant will come online in 2009, bringing roughly \$10.9 billion into the state coffers during the course of the 20-year production agreement.²⁸ The anticipated LNG revenue will provide a welcome cushion but it will not make up the shortfall from the impending decline in oil exports.

Reform and aid

Yemen ranks among the world's most corrupt countries and corruption is worsening. According to Transparency International's 2008 Corruption Perception Index, Yemen now ranks 141st out of 180, compared to 111th in 2006. The problem is so acute, says one Yemeni democrat, that the regime is 'killing the chicken instead of stealing the eggs'.

Timely reforms are essential to strengthen government institutions and diversify the economy, but implementation is hampered by lack of technical expertise within the relevant ministries, as well as deliberate inertia from beneficiaries of the status quo. Western donors acknowledge concerns about Yemen's capacity to allocate funds reliably, but their own commitment to the long-term process of reform is often subordinated to immediate security concerns.

For years, President Saleh used to respond to allegations of dishonest profit with the Maoist-style retort that those who spoke of corruption were themselves corrupt. In February 2006, however, he publicly threw his weight behind an ambitious reform agenda. In November 2006, he was rewarded with combined pledges from Britain and Yemen's Gulf neighbours to disburse \$4.7 billion by the end of the decade.²⁹

Three months later, on 14 February 2007, Yemen was permitted to apply for funds from the Millennium

²⁴ Franz Gerner and Silvana Tordo, *Republic of Yemen: A Natural Gas Incentive Framework*.

²⁵ 'Yemen oil revenues rise by 113%', *Saudi Press Agency*, 26 July 2008.

²⁶ Srinivasan Thirumalai and Thilakarathna Ranaweera, *Coping with Oil Depletion in Yemen*, paper presented at ECOMOD conference, 'Middle East and North African Economies: Past Perspectives and Future Challenges', Brussels, June 2005, http://www.ecomod.net/conferences/middle_east_2005/middle_east_2005_papers/Thirumalai.doc.

²⁷ *Yemen Economic Update*, World Bank, Summer 2008.

²⁸ Franz Gerner and Silvana Tordo, *Republic of Yemen: A Natural Gas Incentive Framework*.

²⁹ The agreement to increase aid followed the recognition that Yemen was underfunded relative to countries with comparable poverty levels, receiving just \$12 per person per year.

Challenge Corporation (MCC), a US aid initiative explicitly tied to governance benchmarks. The MCC's approval came as a result of Yemen's 'aggressive and demonstrable' reform effort.³⁰ In September 2007, the MCC approved \$20.6 million as threshold funds intended to speed up early reforms.³¹

US officials were on the verge of attending a formal signing ceremony in October 2007 when news broke that a prominent terrorist suspect had escaped custody and was negotiating to secure his freedom through tribal intermediaries. Jamal al-Badawi is wanted by the United States for his role in the USS *Cole* bombing. (Yemen has refused repeated requests for al-Badawi to stand trial in the United States on the grounds that there is no extradition agreement in place.)

The inauguration ceremony was promptly suspended, provoking claims from Yemeni reformers that the US preoccupation with security was distorting development priorities. Al-Badawi is back in custody and the MCC website still lists Yemen as having 'threshold' status, but negotiations appear to have been indefinitely suspended, with rancour, disbelief and disappointment on both sides.

The World Bank remains Yemen's biggest donor. The Arab donors, collectively, are also a significant source of aid. Britain's Department for International Development (DFID) is committed to spending £50m a year by 2011 – a 400% increase on the 2006 budget. DFID signed a ten-year Development Partnership Arrangement with the government of Yemen in August 2007.

As priorities, the World Bank and DFID are lobbying for civil service reform and incremental reduction of diesel subsidies. However, both measures contain the potential for widespread social unrest and remain unlikely to be agreed and fully implemented in the run-up to the 2009 parliamentary elections. A previous attempt to abolish diesel subsidies, in 2005, led to riots on the streets. Reducing the size of the civil

service payroll (which can be seen as a *de facto* national welfare fund) is likely to have a similar impact.

The pressure to abolish diesel subsidies will only increase as domestic consumption rises, oil production falls and Yemen moves towards net oil imports. Advocates of subsidy reform view the reductions as part of an integrated programme: the sooner Yemen switches financial resources to capital development expenditure, such as building new schools and hospitals, the faster government spending can stimulate job creation and economic growth. In the short term, though, reducing diesel subsidies will increase the cost of food, water and transport, and spark higher inflation rates.

'There is no alternative,' says one European diplomat. 'Saleh will be forced to make this decision and the longer he leaves it, the harder it will become. Not engaging with the problem is not going to achieve anything.'

However, subsidy reduction proposals are clouded by allegations of diesel smuggling. The World Bank recorded a 'notable shortage in diesel fuel in May ... The recent diesel crisis in Yemen reflects the limited refining capacity (and subsequent reliance on imported diesel) and the growing domestic demand (which includes smuggling to neighboring countries) fueled by subsidized domestic prices.'³²

Diesel smuggling is a facet of elite corruption that has led one international economist working in Yemen to complain that 'more and more people are being pushed into destitution while a handful of people are living as if there is no tomorrow'.

Effective intervention

Aid is a crude tool and donors are caught in a double bind. Western diplomats frequently articulate the urgent need for transparency, accountability and genuine political participation but they also recognize

³⁰ <http://www.mcc.gov/documents/factsheet-021407-yemen.pdf>.

³¹ Successful completion of the threshold stage allows member countries to apply for 'compact status', where greater sums are available.

³² *Yemen Economic Update*, World Bank, Summer 2008.

the need to find traction within the system as it currently stands. Donors are cautious about pushing hard and fast for change in a country where internal security remains paramount and vigilante Islamists, linked to Islah, recently flexed their muscles through the creation of a self-appointed Saudi-style 'vice and virtue' authority.

Optimists point to the success of the Social Fund for Development – an innovative quasi-governmental body that delivers community services to meet local needs – as well as to the formation of the Supreme National Authority for Combating Corruption. Pessimists complain that, despite impressive rhetoric, the early momentum on reform has slowed, and argue that President Saleh may tolerate cosmetic measures but will never sanction reforms that would dismantle elite patronage networks.

'Look at the Supreme National Authority for Combating Corruption – they're trying to move forward on a couple of corruption cases but the level that they're targeting is well below where the actual major graft is happening. I don't think they have any authority to go to that level. There's no way that this regime would let them do that,' concludes one of the pessimists.

Yemen, however, remains protective of its international image and is sensitive to accusations of corruption. Western donors can use their leverage to support individual Yemeni reformers and provide technical assistance to maintain reform momentum inside key ministries.³³ They can also press Yemen to complete its promised implementation of the Extractive Industries Transparency Initiative (EITI).³⁴ The government of Yemen has already taken steps to improve donor coordination by establishing the Aid Harmonization and Alignment Unit. The UK, the EU and the US now need to work towards an effective regional approach with the Gulf countries, in particular Saudi Arabia, which have far greater access to and influence over President Saleh.

Options for Western governments

Having told Yemen's government that the nation's future stability depends on political and economic reforms, Western donors need to demonstrate commitment and consistency. Brussels, London and Washington must resist the temptation of knee-jerk reactions to short-term security violations. In particular, they must avoid volatile aid flows, which make it hard for ministers to manage their budgets and which compromise Yemeni reformers who are pushing for controversial measures.³⁵

Western governments must also accept that as long as they view Yemen primarily through the prism of security, the authorities there will play on those fears – appealing for aid money and political legitimacy to pursue their own internal agenda. Selective insistence on the rule of law creates cynicism about donors' motives in a country that is widely hostile to US foreign policy. Yemen is already suffering a blowback effect, in which the arrest and assassination of suspected terrorists have provoked violent retaliation.

Yemen's civil society is still in an early growth phase, but donors should continue to encourage non-profit and pressure groups that could play an important role in strengthening democratic institutions in the future. Donors must continue supporting Yemen's government to develop adequate power generation, food security and sustainable water supplies to meet the needs of its swelling population.

Western diplomats need to be realistic about what can be achieved within the timeframe and stay focused on the regional dynamics. Western policies towards Yemen will not succeed without the tacit approval of Saudi Arabia, and Yemen's fortune cannot be determined without the financial and political clout of Riyadh. Yet Yemenis remain sensitive to Saudi involvement in affairs in Sanaa.

Policy-makers should consider their contingency

33 Paul Collier, *The Bottom Billion* (Oxford University Press, 2007).

34 Yemen was accepted as an EITI candidate country in September 2007. It has until March 2010 to complete the validation process.

35 'Promises, promises', *The Economist*, 10 July 2008.

plans for a future emergency. In the event of state collapse, Western governments may be restricted to maritime deployment in the Red Sea and the Gulf of Aden. The presence of Western forces on Yemeni soil would be a highly provocative measure.

Conclusion

Yemen faces several complex and intertwined challenges in the coming decade: an economic crisis forced by declining oil reserves, the strain on political stability posed by the impending transition of power and multiple internal threats to security. Whether the country coheres and progresses or reverses and fragments depends on the foresight of the ruling elite, the position adopted by Yemen's neighbours and the policies pursued by the international community.

Eighteen years after unification, a fully democratic nation-state is still in formation. Yemen has demonstrated significant features of stability in adjusting to the introduction of universal suffrage, overcoming civil war and averting the threat of US military intervention after 9/11. The traditional social fabric remains intact, especially in the north, offering informal, flexible forums for crisis management and conflict resolution.

Yemen's collapse has been predicted for years but the country has muddled through. However, it remains an incomplete state where the majority of the population live without reference to laws made in Sanaa. A corrupt, self-interested government that fails to provide the bare minimum of social services has little relevance and legitimacy outside, and even inside, the major urban areas.

With a nascent civil society sector and a flimsy middle class, Yemen is unable to generate sustained momentum for political change. Low literacy rates, unreliable public data and the absence of grassroots democracy inhibit a genuine national debate that would create sustained internal pressure for accountability and reform.

Yemen's electorate should expect to vote for a new head of state in five years' time, but proposed constitutional amendments may extend President Saleh's

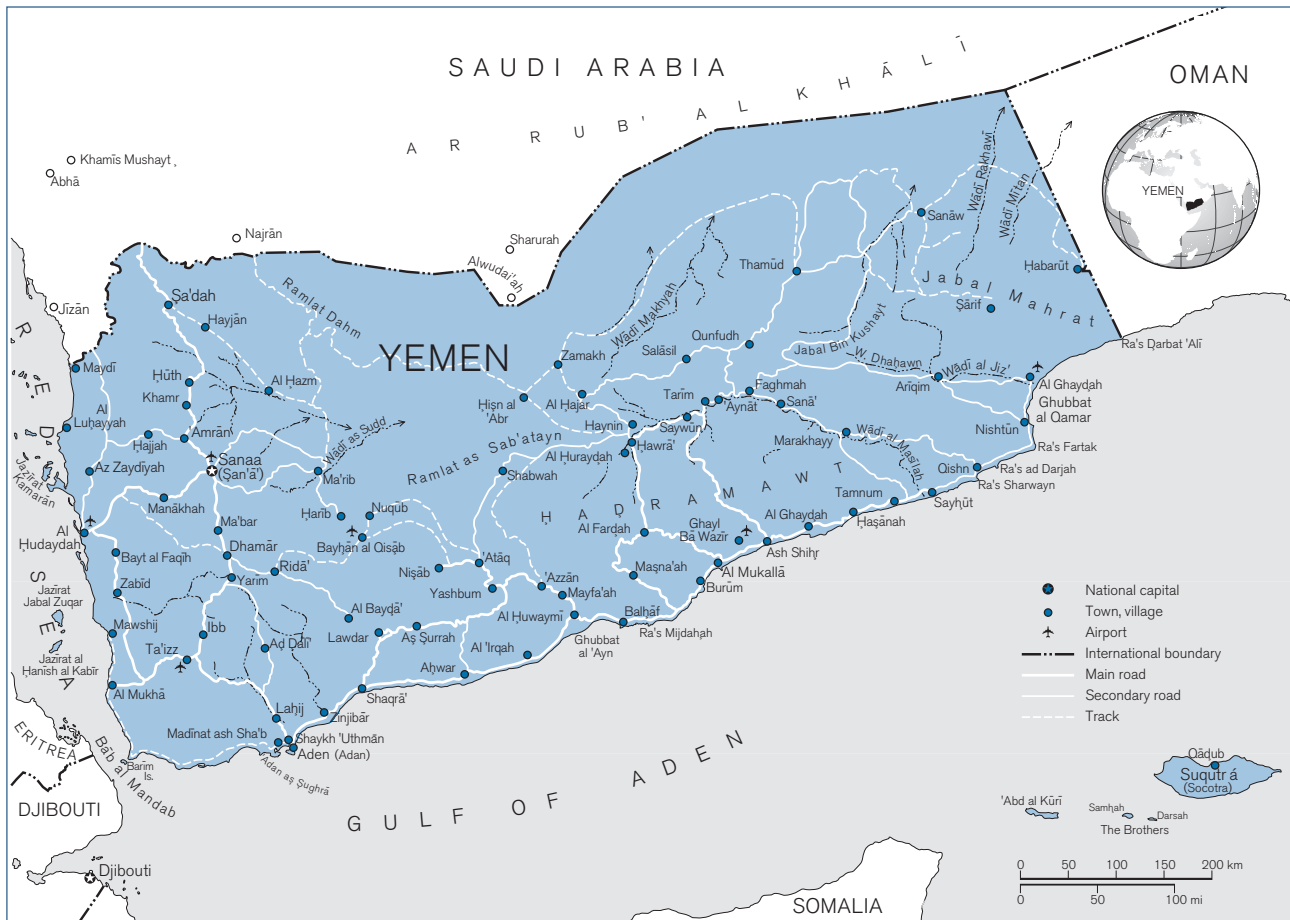
lifeline. A replacement candidate is most likely to emerge eventually from within the president's family, but in its current fragile condition Yemen remains vulnerable to unexpected shocks – such as Saleh's sudden death or a contested succession.

If oil exploration reveals substantial new reserves, Yemen will be able to leverage loans and a support package to underpin the annual budget until those new fields become operational. Even in the absence of extensive new finds, as domestic oil production draws closer to red-line levels, Yemen's neighbours and international institutions may judge that it is cheaper to subsidize a fragile state than reconstitute a failed one.

In the meantime, uncertainty over Yemen's future prevents sustained, integrated investment on a scale that would salvage the economy. With the exception of a handful of recent business deals, the cash-rich member states of the Gulf Cooperation Council (GCC) show no signs of sinking significant sums into commercial ventures in Yemen. Yemen's longed-for admission to the GCC also remains out of reach.

'In order to avert disaster, there are so many things that need to happen simultaneously and they're all interconnected,' says one Western diplomat in Sanaa. 'Growing a non-oil-based economy doesn't happen overnight and the country's prospects get worse with every month that goes by,' says another. 'Failed state is an emotive term which Yemeni officials don't subscribe to but they do recognize that there are serious challenges ahead. Yemen is fragile but we don't know whether Yemen will fail as a state,' says a third, senior diplomat.

Future instability in Yemen could expand a lawless zone stretching from northern Kenya, through Somalia and the Gulf of Aden, to Saudi Arabia. Piracy, smuggling and violent jihad would flourish, with implications for the security of shipping routes and the transit of oil through the Suez Canal. State failure in Yemen would reduce any chance of progress towards peace in Somalia and further endanger the security of countries throughout the Arabian Peninsula and the Horn of Africa.



Source: Map No. 3847 Rev. 3, United Nations, Department of Peacekeeping Operations, UN Cartographic Section, January 2004. Reproduced with permission.

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