

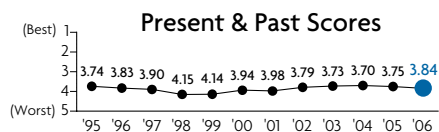


# YEMEN

Rank: 139

Score: 3.84

Category: Mostly Unfree



## QUICK STUDY

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**Population:** 19,173,000

**Total area:** 527,970 sq. km

**GDP:** \$10.6 billion

**GDP growth rate:** 3.8%

**GDP per capita:** \$553

**Major exports:** minerals, crude oil, food and livestock, machines and transport equipment

**Exports of goods and services:** \$3.3 billion

**Major export trading partners:** China 37.2%, Thailand 23.8%, South Korea 5.7%, Malaysia 5.1%

**Major imports:** food and livestock, machinery and transport equipment, chemicals, minerals, fuels and lubricants

**Imports of goods and services:** \$3.9 billion

**Major import trading partners:** United Arab Emirates 12.7%, Saudi Arabia 10.1%, China 8.8%, US 4.9%

**Foreign direct investment (net):** \$84.1 million

2003 Data (in constant 2000 US dollars)

Yemen, a poor Arab country with few natural resources, was divided into two spheres of influence in the 19th century by the Ottoman Empire in the north and the British Empire in the south. In 1990, North and South Yemen united after two decades of political tension and turmoil. A southern secessionist movement that erupted again in 1994 was quickly subdued, but President Ali Abdallah Saleh's government continues to face intermittent challenges from some of Yemen's often unruly tribes. President Saleh, who led Northern Yemen before the merger, also faces strong opposition from Southern Yemeni political parties and Islamic radicals who oppose the government's economic reform program and seek to obstruct private-sector initiatives. Yemen accepted an International Monetary Fund structural adjustment program as part of a 2002 \$2.3 billion donor aid package. Yet the government has placed economic reforms on the back burner while it has waged war against Islamic extremists, many of them affiliated with al-Qaeda. The IMF continues to push for civil service reform, improvements in tax administration, and a reduction of subsidies. In recent years, the economy has been hurt by declining oil production, terrorist attacks, and kidnappings, which have undermined tourism and foreign investment. Yemen's trade policy score is 0.5 point better this year; however, its fiscal burden of government score is 0.4 point worse, and its monetary policy score is 1 point worse. As a result, Yemen's overall score is 0.09 point worse this year.



## TRADE POLICY

Score: **4–Better** (high level of protectionism)

According to the World Bank, Yemen's weighted average tariff rate in 2000 was 11.7 percent. The *Index* methodology places greater emphasis on weighted average tariff rates, so the weighted average tariff rate for 2000 is used instead of the 12.6 percent average tariff rate for 2003 reported in the 2005 *Index*. According to the U.S. Department of Commerce, "The government prohibits importation of seven items: pork and pork products, coffee, alcohol, narcotics, some types of fresh fruits and vegetables during their local production season...and rhinoceros horns." The Economist Intelligence Unit reports that "excessively complex customs procedures" act as a trade barrier. Based on the lower tariff rate, as well as a revision of the trade factor methodology, Yemen's trade policy score is 0.5 point better this year.



## FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **3.5–Stable** (high tax rates)

Score—Corporate Taxation: **4.5–Stable** (very high tax rates)

Score—Change in Government Expenditures: **5–Worse** (very high increase)

Final Score: **4.4–Worse** (high cost of government)

Yemen's top income tax rate is 35 percent. The top corporate tax rate is also 35 percent. In 2003, according to the Embassy of Yemen, government expenditures as a share of GDP increased 4.8 percentage points to 38.2 percent, compared to the 1.3 percentage point increase in 2002. On net, Yemen's fiscal burden of government score is 0.4 point worse this year.



## GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **4–Stable** (high level)

The World Bank reports that the government consumed 13.8 percent of GDP in 2003. In the same year, based on data from the central bank, Yemen received 71.88 percent of its total revenues

from state-owned enterprises and government ownership of property in the hydrocarbon sector.



## MONETARY POLICY

Score: **4–Worse** (high level of inflation)

From 1995 to 2004, based on data from the International Monetary Fund's *2005 World Economic Outlook*, Yemen's weighted average annual rate of inflation was 12.03 percent, up from the 11.02 percent from 1994 to 2003 reported in the *2005 Index*. As a result, Yemen's monetary policy score is 1 point worse this year.



## CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: **3–Stable** (moderate barriers)

Yemen has streamlined its investment laws and procedures in an attempt to attract more foreign investment. The government officially permits foreign investment in most sectors and grants equal treatment to all investors, both domestic and foreign. Foreign investment in the exploration for and production of oil, gas, and minerals is subject to production-sharing agreements. Foreign investment is not permitted in the arms and explosive materials industries, industries that could cause environmental disasters, or wholesale and retail imports. "While Yemen has fundamentally sound investment laws, labor laws, customs tariff regulations and tax laws," reports the U.S. Department of Commerce, "transparency of implementation and enforcement is elusive.... Yemen has a significant and widely-acknowledged corruption problem." Other barriers to foreign investment are ongoing security concerns and the lack of infrastructure. The International Monetary Fund reports that foreign exchange accounts are permitted. There are no restrictions on payments and transfers, and capital transactions face few restrictions.



## BANKING AND FINANCE

Score: **4–Stable** (high level of restrictions)

Yemen's financial system is small and dominated by the state. According to First Initiative, "The banking sector is characterized by heavy state involvement, led by the Central Bank of Yemen (CBY) and the Yemen Bank for Reconstruction and Development (YBRD) and the National Bank of Yemen (NBY). As of late 2004 there were 15 commercial banks, nine of which are private domestic banks (including four Islamic banks), four of which are private foreign banks and two of which are state-owned banks.... The banking sector in general suffers from a large volume of non-performing loans, low capitalization, and weak enforcement of prudential standards." The Economist Intelligence Unit reports that privatization of the National Bank of Yemen has "foundered after concerns that the bank's net worth has been overstated." The Embassy of Yemen reports that the state is the majority shareholder in four

banks, including the central bank, and a minority shareholder in six others. According to the EIU, the state-owned Yemen Bank for Reconstruction and Development—the largest bank in terms of branches, according to the Yemeni embassy—was also targeted for privatization but suffers from non-performing loans and is undercapitalized. The embassy reports that capital adequacy of commercial banks increased from 10 percent in 2002 to 11 percent in 2003.



## WAGES AND PRICES

Score: **3–Stable** (moderate level of intervention)

According to the Embassy of Yemen, petroleum products and utilities are subject to price controls. The Economist Intelligence Unit reports that the government continues to subsidize diesel fuel generously. The government also affects wages and prices through state-owned enterprises. Yemen's labor law specifies that the minimum wage for a private-sector worker may not be less than the minimum wage for a civil servant.



## PROPERTY RIGHTS

Score: **4–Stable** (low level of protection)

According to the Economist Intelligence Unit, "The judiciary is generally under-trained, inefficient and seen as corrupt." In addition, "Investors will remain wary of sinking their money into Yemen while the judicial system lacks teeth and government ministries fail to address problems of corruption within their ranks." The U.S. Department of Commerce reports that enforcement of laws and contracts "remains problematic at best and nonexistent at worst" and that, "in cases involving interest, most judges use Shari'a (Islamic) law as the guideline, under which claims for interest payments due are almost always rejected."



## REGULATION

Score: **4–Stable** (high level)

Bureaucratic inefficiency and corruption present serious impediments to business. According to the World Bank, the cost of starting a business, hiring and firing, and registering property is high in terms of both time and money. Ministries are hugely overstaffed, and reforming the civil service remains a promise unfulfilled. Regulations are applied haphazardly. According to the U.S. Department of Commerce, "While Yemen has fundamentally sound investment laws...transparency of implementation and enforcement is elusive."



## INFORMAL MARKET

Score: **4–Stable** (high level of activity)

Transparency International's 2004 score for Yemen is 2.4. Therefore, Yemen's informal market score is 4 this year.