

**THE POLITICAL ECONOMY OF ECONOMIC GROWTH POLICIES:
THE CASE OF YEMEN REPUBLIC**

**BY
SAIF M. AL-ASALY
SANAA UNIVERSITY**

I. INTRODUCTION

Yemen Republic has suffered from a low economic growth for a long time. Recent economic history, 1917-2000, showed that the economic growth rates had fluctuated between 3% and 8%. To gain a deep understanding of developments of Yemeni's economic growth rates, the period 1917-2000 will be divided into three periods which can be divided into six sub-periods. The period 1917-1962 had witnessed an average of 2% economic growth; and the period 1963-1970, it was estimated to be a minus 3 per cent. However, the period 1970-1980 had witnessed a high growth rate of 8%. In the eighties, the economy had grown at 4%. But during the period 1990-1994, the rate of economic growth was 1.4 percent and increased to 4.5 percent in the period 1995-2000.

It is very clear that the average growth rate for the whole period was very low. Apparently, the country had experienced different political systems, all of them could be characterized as weak representation, coordination and commitment political systems, which produced poor institutions. For this reason, economic growth policies were absent and almost ineffective. In the pre-1995 period, the growth policies were not a top priority for governments. Just the 1995 economic crisis forced the Yemeni Government to design and implement a comprehensive economic program to achieve a high positive economic growth rate. This program adopted two strategies: the first was to establish an economic stability, while the second was to restructure the economy.

The package of stabilization policies consisted of a mix of fiscal, monetary and trade policies. Its main goal was to curb inflation rate and to stabilize exchange rate through reducing the budget deficit rate and to improve the status of the international reserve.

On the other hand, the package of restructure policies consisted of two policies: efficiency and capacity. The efficiency policies were: privatization, restructuring the financial sector, improving investment environment as well as opening up the economy. The capacity building policies were: reforming civil service, improving infrastructure, human development and social services.

The outcome of this program was really puzzling. Stabilization policies had achieved an amazing success, while restructuring policies were a complete failure. Inflation rate had been reduced to less than 10% within two years. The value of the national currency had shown an excellent stability. It was expected that as soon as stabilization was achieved, the economic growth would pick up. Nevertheless, it had not.

The main explanation why the growth policies were absent before 1995, was due to the lack of various well-functioning institutions. In addition, the failure of the economic reform referred to the same reason as they were very necessary for (implanting) the growth policies.

The aim of this paper is to explain why the economic growth rate in Yemen was sliding down and its policies were ineffective in most of its recent history as well as its hypothesis is that the developments of Yemeni political economy can explain that very well. Poor institutions are behind why appropriate growth policies are neglected and bad growth policies are adopted. The country's political, social and economic developments show that very clearly.

The paper consists of seven sections. The first section will deal with methodological issues. The second will discuss the country's historical and political developments. The focal point of this section is connecting the historical political economic developments to the institutional building and capacity. The third section will deal with the country's economic developments. Economic growth will be explained in the fourth section. Finally, section five will offer the main conclusions of this paper.

II. Methodology

The paper will follow the methodology of political economy. Economic growth is achieved through using unused natural resources (capital, labor) and improving methods to use natural resources. Thus, to increase an economic growth rate required growth policies to be implemented to raise stocks of physical and human capitals. Growth policies are the outputs of interactions between political and interest groups. However, these interactions occur through several institutions. The most important ones are the political institutions; executive, legislative and judicial power, political parties, civil society organizations, and economic institutions such as markets and income re-distribution systems. Political and economic institutions compete for generated income. Political economy literatures recognize three groups, the Government, individuals and lobbying groups, which may have interests in generated income through competing for generated rents (Asfhani, 2001). The people try retake their incomes taken away by the Government through their votes. Interest groups use different lobbying techniques, hopefully to protect their interests through political parties and civil organizations. But politicians behave in different ways to affect both the public and interest groups by distributing income so that they would remain in power.

The interactions between these groups come through specific institutional setting, which bears certain costs. Each player hopes to design a political and economic institution to reduce his costs. The appropriate institutional setting is the one reducing the costs of interactions. However, it is impossible to reduce costs of each player even if they were costs of interactions as whole at the minimum. Therefore, each player will make efforts to reduce his costs at the expense of the other players.

In democratic societies, election (in the multi-party system) smoothes interactions by means of establishing proper political and economic institutions, which reduce the total costs. In some dictatorial countries, different mechanisms are used to manage these interactions but the total costs are still not at the minimum.

Reducing the costs of the institutional setting solve the problems of coordination, commitment and representation. It is widely believed that democratic systems address these problems effectively, as they have efficient mechanisms to aggregate individual preferences (Rodriguez, 2000). In dictatorial political systems, results are mixed (Betes, 2000). Therefore, growth policies are more likely to exist in functioning democratic systems than any other systems.

The underdeveloped countries face extra obstacles ahead to solve the problems of coordination, representation and commitment (Agrawal, 1995). The most prominent one is the absence of qualified institutions (Betes, 1999). In this case, there would be an extra cost. Besides, it would be very difficult to convince various players to share the costs of establishing and running institutions either because their incomes are too low or they don't have mechanisms to negotiate the shares of these costs. Therefore, the underdeveloped countries cannot manage to have good coordination, commitment and representation. This is due to not having an ideal institutional setting (Kelegama, 2000).

Yemen is a case in point. It had failed to establish a typical institutional setting. Therefore, its records of coordination, representation and commitment were very poor, though some democratic rituals were exercised. Here are very numerous interest small-size groups, which have serious difficulties blocking them coordinate their efforts to look for their interests. This also creates problems for politicians who want to coordinate with these small interest groups. In this environment, representation is usually weak and commitment is too difficult to achieve in the absence of the rule of laws.

In this paper, institutional developments in the country will be broadly considered with respect to their effects on representation, coordination and commitment as well as the impacts of these processes on the economic growth.

III. POLITICAL DEVELOPMENTS

A) Political Developments (1917-1962)

In 1904, Yahia Hamid Al-deen led a campaign to drive the Turkish forces out; and in 1918 he successfully gained independence for the country. Ever since he ruled the former Northern Yemen until 1948. The political system of Imamate regime was authoritarian. The Imam had an absolute authority, and was controlling all the bodies of power. There were no written Constitution or even specific regulations. Political parties and free expression were not allowed (Al-ater, M. Saeed, 1964).

In 1948, the Imam was assassinated. Abdulla al-wazir took over as a new Imam. He promised to establish a new constitutional Imamate and to widen power participation. However, Ahmed Hameed Al-deen, Imam Yahai's son, organized a counter-coup and could successfully overthrow the newly-created Government and became the new Imam. Nevertheless, his style of governing did not differ that much from his father's.

In that period, the homeland witnessed a political instability. The opposition to a new ruler had persisted. Three unsuccessful coups were organized during his ruling. In September 1962, Imam Ahamed was killed and his son Al-bader replaced him. He had ruled just for three weeks and shortly was overthrown by a successful coup organized by low-ranking military officers in 26 September 1962 (Abu Lohom, 2000).

During that time, there was no separation in power, political parties or civil society organization. Therefore, there neither elections nor lobbying groups. As a result, no interactions among different interest groups had occurred.

The Southern Yemen was ruled by Britain and its allies. The port of Aden was under the British rule from 1828 until 1967. Britain ruled Aden protectorate indirectly. Then the political system in the Southern Yemen before 1967 consisted of a direct British rule over the harbor of Aden and indirect rule over Aden protectorates. Those protectorates were allowed to be ruled by local leaders, however, were tied to the British authority by treaties regulating securities and foreign relations. In Aden port, the British authority permitted a relative political freedom, for example, free newspapers were established and labor unions and some other political associations and organizations were formed. The British Authority applied its own laws and regulations in Aden Port. However, traditions in ruling remained applied in the Protectorates and the local authorities (Al-atar, 1964)

B) Political Developments (1962-1990)

The former YAR was established in 1962 after the Imamate regime was overthrown. The new state (YAR) was established as a republican state, however inheriting most of the Imamate political structure. The country failed to be transformed into a real democratic nation. The central Government continued to monopolize most of authorities. The ban on political parties remained. Freedom of press was prohibited and all media were under the heel of the government. So, participation in the political decisions was very minimal (Abu Luhom, 2001).

Nevertheless, the new authorities asked Egyptian Government's help to modernize the country's administrative and legal systems. Some Egyptian experts wrote most of the laws and regulations, which were almost identical to the Egyptian ones. These laws and regulations ignored several Yemeni inherited traditions and norms. Thus, conflicts among new laws and existing norms broke out. Traditions and norms remained applied.

In the early seventies, a new constitution was drafted and later on approved through a public referendum. Yet, the idea of creating political parties was prohibited. The approved Constitution tried to establish a civilian Government based on one-party political system. Direct voting in 1972 had managed to elect a new parliament, but the rules of the new constitution and Parliament were very insufficient. The Government prohibited civil society organizations and associations to be established. Suppressing free expression carried on. Political participation was very paltry and the Executive Authority kept on dominating most of authorities (Abu Akhaneem, 1990).

In 1974, the country witnessed a military coup. The new junta disposed of the elected Parliament and froze the permanent Constitution. Later on, another junta came to power in 1978 and was overthrown a year later by another military coup. That political unrest had posed another obstacle ahead of building modern institutions (Alaini, 2001).

The new military Government approved a temporary constitution and appointed a new body: the Consultative Council.

In 1982, the authority established a political party- the General People's Congress (GPC) in an attempt to monopolize the political activities. No other parties were allowed to be created. In mid eighties, the Government re-activated the permanent Constitution and a new consultative council was elected by direct voting. Nevertheless, the military and tribes kept having massive influences on the Government and its political agenda despite of great efforts for modernization (Al-asbahi, 1998).

Thus, power had been concentrated in the hand of the Executive Authority. Legislative institutions were both absent and weak during that period. The ruling party had dominated the political arena and there were no civil society organizations.

In 1967, the British Government decided to give the Southern Yemen independence. The former PDRY consisted of the Aden harbor and its Protectorates. The new Government unified the country into one state and all local authorities were abolished. The new authority created central administrative and adopted a one-party political system. All the functions of the Government were held by the central authorities. This behavior cancelled most practices and traditions inherited from the colonization era. The new system was undemocratic.

The new Government rescinded all political associations and organizations. Power was consolidated in the hand of the ruling party, which was organized on the similar fashion of Soviet Communist Party. According to this ideology, the Pretoria must rule the country and the political power of other classes must be diminished. To apply this ideology, the new Government had taken draconian measures against some political segments in the country. There was no participation in the political decision-makings.

The new Government failed to establish a stable political system. So, political crises kept haunting the country from time to time. The most serious one happened in 1986 when the ruling party spited according to regional line and armed conflicts resulted in very large human losses. The victorious faction failed to repair the damaged political system. Both the failure and breakup of the former Soviet Union made it impossible to maintain the old political system (Al-asbhi, 2000).

Thus, there was no separation in power. The ruling party had controlled all political aspects; and the Government abolished the exiting civil society organizations and prevented new ones to be set up.

C) Political Developments (1990-2000)

With such a background, Yemen Republic was born in 1990. It was clear from the beginning, that there was an attempt to create a new political system. However, this attempt had not succeeded. It is very difficult to classify the Yemeni political system for the lack of functioning democratic system and a real peaceful transfer of power (Al-agbari, 1996).

In 1990, the two leaderships of YAR and YPDR approved the Unification Agreement, which had promised to establish multi-party political system. Two years later, the permanent Constitution was approved through a public referendum, in which Yemen was described as a republican state, according to which the Yemeni people are the possessor and the source of power. The political system was based on political and partisan pluralism so that the peaceful transfer of power can be achieved. The national economy was based on freedom of economic activity based on Islamic social justice. Lawful competition among the public, private, cooperative and mixed economic sectors was encouraged. General confiscation of properties was prohibited; private confiscation was not allowed without a court warrant. The state would guarantee equal opportunities for all citizens, politically, economically, and culturally. All citizens are equal in rights and duties. Every citizen is eligible to participate in political, economic, social and cultural life. The state shall guarantee the freedom of opinion and expression, writing and photographing within the bounds of the law. The citizen has the right to elect and nominate himself in elections.

The Constitution created three bodies: the Legislative, Executive and Judicial Authorities. The Parliament and Shura Council are legislative authorities. The Parliament shall enact laws, sanction general state policy and socio-economic plan, and approve the government-proposed

budgets and final accounts. It shall also direct and supervise the activities of the Executive Authority as stipulated in the Constitution. The Parliament consists of 301 members elected in a secret, free and equal direct voting. A member of the Parliament shall not interfere in the work of the Executive or the Judicial authorities. The President of the Republic may dissolve the Parliament and call for a new election. And he has the right to request a review of any bill approved by the Parliament.

The President can appoint the members of the Shura Council responsible for giving him consultations in relation to any issues. In addition, together with the Parliament the Shura Council can approve the Five-Year Plan and vote on candidates racing for presidential election and constitution amendment.

The President as well as the Cabinet shall exercise the task of the Executive authority on behalf of the people. The President of the Republic is the President of the state and shall be elected according to the Constitution. Electing the President shall be made by the people in competitive elections, and he, the President, shall materialize the will of the people, respect the Constitution and laws, and protect the national unity and principles and objectives of the Revolution. He shall adhere to the principle of peaceful transfer of power, supervise the sovereign tasks related to the defense of the Republic and foreign policy, and exercise his authority in conformity with the Constitution. Besides, he is the Commander-in-Chief of the Armed Forces. Presidency term is seven years beginning from the date of swearing allegiance to the Constitution.

Nobody can take the office for more than two seven-year terms. The President can name the person who will form the Government, and issue a republican decree with the names of the Cabinet members. He can also dismiss the Prime Minister and any of his Cabinet members, issue decrees, while the Parliament is in recess or under dissolution. The President can issue resolutions and regulations to carry out laws and organize the general administration and government department; can declare a state of emergency, and ask reports from the Prime Minister in respect of the implementing of the Cabinet's duties. The President could be charged with grand treason, violating the Constitution and the country's sovereignty, which requires the petition of the half of the Parliament. The indictment decision on these matters must be supported by two-thirds of the Parliament.

The Cabinet is the government of the Republic of Yemen, and is the highest executive and administrative authority in the state. All the state administrative organizations, agencies, corporations, without exception, are directed by the Cabinet. In consultation with the President, the Prime Minister can select his Cabinet's members. Both the Prime Minister and ministers are collectively responsible for the actions taken by the Government before the President and the Parliament.

The Judicial Authority is an autonomous body at its judicial, financial and administrative aspects and the General Prosecution is part of its sub-bodies. The judiciary is an integrated system. The law organizes this system in terms of ranks, responsibilities, terms and procedures of appointing, transferring and promoting judges, and their other privileges and guarantees.

The last decade country's experiences support the analysis below. Since 1990, many parties were established. Three years later, the first general election was made to elect 301 representatives for the new Parliament. Twenty-two parties engaged in the contest. The General People's Congress (GPC) won 40% of seats, the Yemeni Socialist Party (YSP) ranked third and gained about 18.6% of votes, and the Yemeni Congregation for Reform (IRP) took the second position with 21%. The rest of seats went to the minor parties and independent candidates (Al-farh, 1998).

The second parliamentary election was held in 1997, in which the GPC won 62% while the YCR won nearly 18%, whereas the YSP boycotted it. The minor parties and independent candidates gained a paltry percentage (Andrea, 1997). In 1999, a presidential election was held. The now president raced the election with another rival from his own party, whose campaign was extremely flimsy.

Many independent and parties' newspapers have been established since 1990. However, the public media -newspapers, radios and television- remained under the control of

the Government, which never allowed the opposition parties to use them, especially as they severely criticize it.

As it is clear, nothing significantly had happened in institutional building. The separation in power was weak and the domination of the Executive Authority over other apparatuses had continued. The political arena had been under the heel of the ruling party, whereas the civil society organizations had very little influence. The elections had not promoted any wide discussion of economic policies. As a result, interactions among different political players were not that hectic.

III ECONOMIC DEVELOPMENTS

Economic developments (1917-1962)

The Imamate regime closed doors against the economy and refused to establish necessary economic institutions. There was neither a national currency nor a banking system, nor a public budget. Markets were very primitive and not well-connected. Because of that, the economy had been dependent mainly on the agricultural sector. Almost 90% of labor worked in the agriculture sector, which could bring in almost 97% of the national income (Al-ater, 1964).

The country was lacking in necessary infrastructures to modernize the economy. The Imamate regime had not the necessary tools for economic management. The country had a so primitive harbor in the Hodaidah and no airports, no electricity either for domestic use or even for industries.

The rate of birth was 60 per 1000, whereas the mortality rate was about 40 per thousand. Life expectancy was 35 years for male and 41 year for female. In 1960, Yemen had 700 schools with 40,000 students, mostly in elementary schools (Al-ater, 1964).

The country was almost isolated from the rest of the world. It had been exporting small goods. The value of exports was about \$ 8 million in 1960, while the value of imports was \$ 25 million in the same year. Moreover, its regions were disconnected from each other. Yemen has only 1,500 km of roads. There were no connections among these regions.

The market was undeveloped and the monetary system was backward. Yemen had neither a national currency nor a banking system or even a public budget. The tax system was based on Islamic Taxation (Zakat). The Imam took over all public funds. In such an economy, the per capita income was just \$50 in 1959.

Despite of this miserable situation of the economy and citizens, there was no pressure on the government to change its policies. The Imamate regime had used all public revenues to improve the welfare of his family and those of his supporters. Public investment was almost zero and public spending on social services was neglected. As a consequence, the economy had not flourished during those periods, as the economic growth rate was estimated to be around 2 percent.

B) Economic Developments (1962-1990)

After the 1962 Revolution, the new government opened up the economy and tried hard to establish new economic institutions capable of managing the economy, and established a national monetary system to direct the national currency. The first-ever state-owned commercial bank opened in 1963. New ministers were appointed to deal with economic issues. The most important ministry was the Ministry of National Economy. A Tax Authority was set up to collect revenue for financing public goods (Al-asaly, 1996).

Despite of all these efforts, the results were not encouraging due to the civil war, which erupted right after 1962 Revolution and went on up to 1970. This political instability hindered economic activities and the capabilities of the new Government to manage the economy. During that period, the economic growth rate was estimated to be minus 3 percent (Al-asaly, 1996).

The civil war came to an end in 1970, and this in turn allowed the Government to pay some attention to major economic issues. The most important economic development in that period was the developing relations between Yemen and the neighboring countries, especially

the Kingdom of Saudi Arabia. Yemen benefited from these relations through the flow of foreign aids and development loans from both the neighboring countries and the rest of the world. Due to this, the Government was able to finance basic infrastructures and public services. In the field of transportation, many high-ways were constructed to connect the main cities. Simultaneously, modern airports and seaports were built.

Modern education system was put in place. Health care services had been improved. Despite of these great achievements, the new Government failed at building the institutional capacity. However, In 1973, it could set up the Central Planning Agency, so that it would be responsible for preparing economic development plans.

The first Three-Year Program (1973-1975) whose main aim was to modernize the economy, was launched in 1973. While implementing the program, the price of crude oil rose up dramatically and that led to the increase of aids from the Gulf States and influx of labor from Yemen to the neighboring countries, particularly the Saudi Arabia. Therefore, the remittances of Yemeni expatriates increased sharply, leading to an economic boom. These unexpected developments helped the Government achieve the Three-Year Program's objectives. Then the economy registered about 8% real GDP growth. Per head income and consumption doubled. Unemployment rate declined to zero. Every economic indicator showed that economy was moving on the right path (Al-asaly, 1990).

This good development prodded the Government to inaugurate the first Five-Year Economic and Development Plan (1976-1980). The goals were more optimistic than those of Three-Year Program. It aimed to achieve 8% real growth of the GDP. However, the plan had failed to reach its target.

As it is clear, the improvement of economic growth rate during those periods was a result of some external factors. The flow of money remittances had rejuvenated the economy. The attempt of institutional building such as designing and implementing three-year-development program and a five-year- development plan was owing to pressures from international agencies and donor countries. The internal pressure on the Government to build these institutions was very worthless. For the above reasons, the institutional building process failed to strengthen foundations (Al-asaly, 1993).

As soon as external pressure had declined, the institutional building began to slow down. Therefore, the performance of the economic growth had deteriorated, as it is clear from the following analysis. The policies of the first Five-Year Plan were repeated in the second five-year plan (1981-1986), which tried to achieve what the first plan could not. It aimed at a real growth rate in GDP to 8%. Due to institutional inefficiency, the Planning Agency failed to realize the fundamental changes in the economies of neighboring countries. Oil price had stabilized and most of these countries' infrastructures had completed. Most importantly, the demand for labor in these countries had changed considerably. The requirement for high skilled labor made host countries look for other sources. They turned to countries like southeast and southwest Asia where highly skilled and cheap labor existed. This development reduced the demand for Yemeni labor and its effect on Yemen economy was devastating. The unemployment rate of Yemeni migrants was so high to have an adverse impact on unemployment rate at home. The cash flows from abroad so fast declined that it caused harms to the Yemen's economy and thus the economic growth rate slowed down. The official reserve wore away. As exchange rate devaluated, the inflation rate increased and the budget deficit widened.

The Government had continued to apply the same policies despite of their clear failure. The third Five-Year Plan (1987-1991) had almost the same objectives and instruments of the second plan. It failed to realize the changes in the economy of neighboring countries and the changes of the characteristics of Yemen's economy. The old policies had been unable to treat new problems because of the weak role of institutions. Most of the third plan goals were not achieved. More importantly, the economic problems got worse. Unemployment rate doubled, so did inflation rate. It was followed by an increase in the current account balance and devaluation of the exchange rate. Despite of this negative development, the government could not manage to change its old-fashioned policies and adopt more effective ones. That produced weak economic institutions (Al-asaly, 1996).

In 1986, Yemen joined oil-exporting countries, hopefully these new resources could make up reduction in the inflow of fund. More importantly, it was hoped that country's new wealth would make advances to institutional building process. Unfortunately, this hope was smashed and turned to be unrealistic. The oil reserve was modest and the effect of its revenue was not sizable. It was spent mostly on current public expenditures. Therefore, Yemen's economic problems had continued to grow until they reached the level of the crisis in the early 90s.

The story of the Southern Yemen's economy was almost similar. British occupation was the engine of the economic activities in Aden City and its Protectorates. The withdrawal of British soldiers and its Administration from Aden City deeply affected the economy of that region. The new government failed to secure financial supports from the United Kingdom after independence. Therefore, the new Government found itself in critical position being not able to meet its liabilities. The local resources were too short to finance the public services formerly provided by the British Government. Due to the Arab-Israeli war, Suez Channel was closed down, and the businesses of Aden port were affected. Thus, very important resources of revenues lost.

To deal with the consequences of post-colonization and Arab-Israeli war, the new Government cut wages and salaries. Similarly, it reduced expenditures on public services. These actions cut back the size and quality of public services. As a result, commercial activities in Aden City and surrounding areas declined dramatically. So further public expenditures were cut back and public services began to deteriorate.

This development had a negative impact on institutional building process. Most of the inherited institutions were abolished and the replaced ones were not appropriate either. The new Government nationalized all private activities hoping to generate more funds to finance its activities. However, this action fired back. Businessmen anticipated it and so smuggled most of their moneys into abroad. Therefore, the position of the Government got worse. Its liabilities mounted while its reputation was deteriorating among investors. The private investment ceased and the economy entered long depression during which the economy grew negatively.

The Government turned to the Soviet Bloc's countries for assistance. The responses were positive in hope these countries would get military facilities in the country to strengthen their positions in the region. The Government received massive military and educational aids as well as some other health and transportation projects. So, the economy got a modest growth.

However, gradually the Soviet Bloc countries started to shrink their assistances as their at-home problems aggravated. On the other hand, the Southern Part's Government lost the aids of the Gulf States.

These developments hurt southern economy and brought it to its knees. The economy started suffering from huge imbalances in aggregate account. The scarcity of goods was entirely obvious. Shops' shelves were empty. Most basic goods were regulated and distributed in quotas. Luxury goods disappeared completely and the suffering of people was very apparent. In 1990, the country approached to go bankrupt, so the economic growth rate was negative.

Apparently, the failure at building the right institutions, as results of political developments, had caused various economic deteriorations. The slow economic growth rates during that period were also a result of institutional building process slowdown.

C) Economic Developments (1990-2000)

The economy of the new state inherited almost all the economic ailments of the two former states together with new ones. For example, the Unification and the Gulf War II had made harms to the economy. What's more, the political crisis had great effect on the economic crises.

The cost of unification was too steep and the public expenditures were very high also during the period 1991- 1994 as it reached the amount of 119.88 in 1995 against 44.07 in

1991. The increase in budget expenditures reflected the direct cost of unification. It represented the cost of a new public employment that was hired for political reasons.

Table (1) Central Government Employment, 1990-1994

Categories/Years	1991	1992	1993	1994
Total Employment	182915	246416	277830	304171

Source: World Bank Report, 1995

Besides, the costs of political promotion and military spending represented the costs of unification. The indirect cost of unification was much higher. There was no accurate data on the cost. However, it is possible to make some stipulation about it. The Government claimed that the total costs of 1994 civil war were \$12 billion. If we add to that figure the costs of human losses, the indirect total costs would be much higher.

The other elements of indirect costs were the distorted new laws, regulation and institutions. During the unification process, the joint committees, which assigned responsibilities of unified constitution, laws and regulations did not have much time and authority enough to come up with appropriate laws and regulations. Therefore, they reconciled the two former states institutions, laws and regulations. Thus, their works were incomplete, contradicted, unambiguous and inconsistent.

During the Gulf War II, the national interest was ignored and required the Government to take pro-Saudi and Gulf States stance since these states hosted over two million Yemeni workers. In addition, these states provided Yemen with generous aids and development loans. Because of Yemen's stand, Gulf States expelled over one million Yemeni workers and ceased aids and loans. Furthermore, the Saudi Government issued a new decree taking special treatment of Yemenis. The economic cost of this episode was very immense.

The economy was so severely hit by these shocks that it was unable to recover again. One reason: the inefficiency of the Government and its institutions to deal with this crisis as result of poor coordination. The immediate reaction of the coalition Government was to fix exchange rate and prices of basic goods and oil products, which caused a further deterioration.

The economy had continued to deteriorate and become on the verge of collapse in early 1995. The serious attempt to jack up economic growth by the Government had not started until 1995. At that time, the Government realized how serious the situation was, that it started to seriously consider potential solutions. Once again, political considerations played a significant role in choosing the direction and reform elements, as this would be clear from the following section (IMF, 1996).

In 1995, the Government set out to look into the economic growth seriously. It was widely believed by the Government and IMF that the causes of the deterioration of the economy were the huge imbalances in aggregate accounts. Thus, the remedy, in view of the Government and IMF, was very obvious and simple, as it was achieving balances in these accounts. According to this diagnosis, any policy capable of reducing budget deficit and achieving economic stability also would get economy back on the positive economic growth track. The policies of free economic form reflect this view clearly (Al-asaly, 1999).

Realizing the limited local resources and the need for international aids, the Government made contacts with both the IMF and the WB asking for their assistances. The negotiations were fruitful and produced agreements relevant to the economic reform. The opposition parties had not been included in these negotiations.

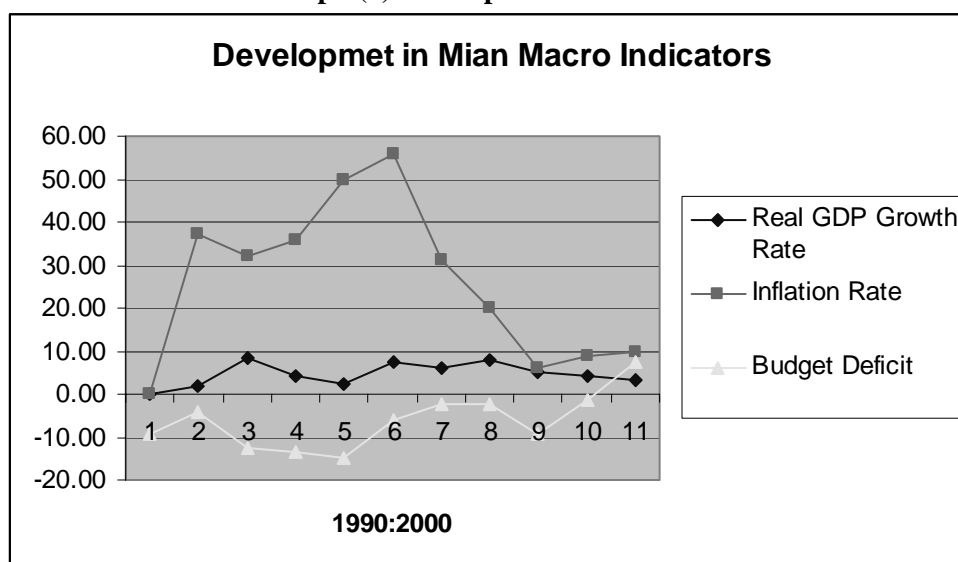
This reform program was a comprehensive and a detailed one. It consisted of stabilization and restructure policies. Stabilization policies had taken measures to reduce general expenditures, raise public revenue and restructure the budget. IMF put limits on budget deficit and its finances. The budget deficit must be reduced to no more than 3% GDP and must be covered through borrowing from the public rather than form the Central Bank of Yemen. To control general expenditures, the Government had to cut wages and salaries and reduce direct and indirect transfers. In the revenue side, the Government had to increase

revenue taxes through changing tax code and improving collection methods of the Tax Authority (IMF, 1999).

The performance of the economy during this period is summarized in the graph (1)

Graph (1) measures the performance of economic growth and other important macro variables.

1 Graph (1) Developments in main macro indicators



All economic indicators show that Yemen's economy was deteriorating during the period 1990-1995.

The real GDP grew at a rate of 1.4% on average. The real oil GDP growth rate was 7% on average while the real non-oil GDP growth rate was closed to zero on average. Unlike the contribution of oil sector that was positive, the contribution of non-oil sectors was very low.

Having a closer look at the non-oil sector, we will see that most sectors had negative and fluctuated growth rates. Only some service sectors witnessed some significant positive growth, however, these growth rates were instable. Thus, the economy witnessed permanent deep chronic structural problems rather than transient shocks, causing bad effects on almost all economic indicators.

Domestic saving was negative as well as the national saving was very low. Meantime, the investment remained stagnant and the private per capita consumption declined.

IV. ECONOMIC GROWTH

It is an obvious fact that there is a strong connection between the economic growth rate and institutional building process. In the absence of the Government institutions, economic growth had stagnated at 2 percent during the period 1917-1962. The population growth was the main source of economic growth in this period. Turbulent fluctuations in economic growth rates had taken place during the period 1962-1990. While in the period 1963-1972, the economy grew at negative 3%, whereas the 1973-1984 period, the average economic growth rate had reached 7 per cent. In the period 1985-1990, the economic growth had declined to 5 percent, and in the period 1990-2000, the growth rate decreased to 4 per cent. The following table shows the growth rate in the main periods as follows.

Table (2) Average Growth Rate

Indicators/periods	1917-1962	1962-1990	1990-2000
Average Growth Rate	.02	.06	.04

Source: Researcher Calculation from several resources

Since we have some details on the performance of the economic growth during the third period (1990-2000), it is very important to discuss the growth components. This period can be divided into two sub-periods (1990-1995) and (1996-2000). Table (2) shows the components of economic growth during the first sub-period.

Table (3) Aggregate Indicators

Indicators/ Years	1990	1991	1992	1993	1994	1995
Table (1): Actual Results						
Aggregate indicators (percentage change)						
Real non oil GDP growth		-1.5	8	-0.1	-9.6	5.5
Real oil GDP growth		-5.7	-15.9	4.3	43.7	20
Real total GDP growth		-2.1	4.8	0.4	-3.6	7.5
Inflation rate	33.5	44.9	50.6	62.4	71.3	62.5
Exchange rate	17.5	29.7	42.7	67.8	101	127.1
Consumption	98.9	115.1	113.7	117.7	94.6	81.9
Government	23.3	25.9	27.6	27.4	24.1	21.9
Private	75.5	89.2	86.1	90.4	70.6	60.6
Broad money	35.1	18.8	27.6	35.4	34.7	20.4
Credit to nongovernmental sector	36.4	21.5	7.2	15.8	69	28
Benchmark deposit interest rate	6.5	6.5	6.5	6.5	6.5	6.5
Velocity	1.5	1.5	1.5	1.4	1.2	1.7
Exports	19.2	16.5	14.7	39.7	71.6	85.9
Imports	29.3	42.6	43.8	71.9	77.8	97.1
Current account	-3.1	-10.7	-13.2	-16.1	4.5	2.2

Source: Year 2000 Statistical Book and Researcher Calculations

Average economic growth rate during the period was closed to zero. However, it averaged about 4.5 percent during the second sub-period. The oil sector was behind this growth as it averaged about 7 percent. But the growth rate of non-oil sectors was only 3 per cent, some of which came from the agricultural sector. Good weather and torrential rainfalls were helpful. If we take an account of that, the economic growth rate will be similar to that in period 1990-1995. This reveals that the economic reform programs have not achieved the desired effects on growth rate despite of their strong policies. If we make a comparison between the achieved economic growth and the targeted economic one, the picture would look clearer and would disclose that the political factors had played important roles in failing economic reform policies. The targeted growth rate is shown in the table below.

Table (4) shows the developments of the economic growth and its components during the second sub-period. We can emphasize that there was no a sole significant difference between the patterns of growth in the two periods. In the first period, there was a significant growth rate in 1993 whereas the second period witnessed a considerable growth rate in 1997. Closed analysis shows these growth rates were an outcome of the same forces. To understand this, we have to have a closer look at the economic sectors to explore how well they contributed to the economic growth.

Table (4) Aggregate Indicators

	1996	1997	1998	1999	2000
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Indicators/ Year					
Real non oil GDP growth	10	-5	-2	7	5
Real oil GDP growth	15	10	4	3	3
Real total GDP growth	4	8	3	4	3.5
Inflation rate	38	11	-8	28	27
Exchange rate	128	129	135	155	165
Consumption	77	79	83	81	72
Government	14	13	13	15	14
Private	84	66	64	68	68
Broad money	27	28	26	28	23
Credit to non Governmental sector	3	4	7	6	6
Benchmark deposit interest rate					
Velocity	3	4	4	3.5	3.5
Exports	39	33	24	34	48
Crude oil	37	31	22	32	46
Imports	40	35	37	29	32
Current account	2	0	-2	11	13

Source: Statistical Year Book 2000 and researcher calculations

The developments of the other indicators were not encouraging enough. Investment and saving rates were too low. Meanwhile, the Government-financing indicators show how deep the economic crisis was. The budget deficit rate jumped up very unexpectedly and so did the inflation rate.

The economic reform, in general, failed to establish well-functioning institutions and this failure explains why the main economic indicators developed. Yes, economic reform successfully stabilized the economy through some mechanisms and methods like reducing indirect subsidies and transfers. Budget deficit had been reduced to less than 3% GDP. Inflation rate dropped to less than 10%. Current account balance was in surplus in most years. Nevertheless, this situation was not sustainable and the public income increased by less than general expenditure. By that time, the direct subsidies and transfers went to zero; however, the rate of the budget deficit jumped up once again.

The decomposition of economic growth will show us that the failure at achieving the targeted economic growth rate came from the failure at achieving targeted growth rates in investment and saving as it is obvious from the table (5). Public investment did not grow as the economic reform program suggested. In the meantime, the private investment did not grow as was expected.

Table (5) Economic Reform Targeted Indicators

Indicators/ Years	1996	1997	1998	1999	2000
Table (2): Forecasted results					
Real non oil GDP growth	5	6	7	7	8
Real oil GDP growth	13	5	3	10	0
Real total GDP growth	5	6	6	7	7
Inflation rate	12.3	5	5	5	5
Exchange rate	127	126	131	141	155
Consumption	89.3	90	92	91.9	91.8
Government	25	35	35	35	35
Private					

Government finance					
Total revenue and grants	36.8	39.2	36.9	35.3	34.2
Oil revenue					
Non-oil revenue					
Total expenditure	40.7	43.5	40.2	38.4	37
Current	34	36.2	32.4	30.2	28.3
Development	6.7	7.3	7.8	8.2	8.7
Overall balance (cash basis)	-4	-4.3	-3.3	-3.1	-2.8
Overall balance (commitment)	-2.3	-2.5	-2.2	-2.1	-2.1
Broad money	11	20	9	9	9
Credit to nongovernmental sector	3	5	8	10	10
Benchmark deposit interest rate	20	25	11	10	10
Velocity	1.5	1.5	1.5	1.5	1.5
Exports	14.3	1.2	-0.9	0.2	2.3
Crude oil	13.9	1.6	-1.7	-0.9	1.1
Imports	25.3	2.9	5.9	3.8	5.1
Current account	3.4	-2.5	-2.5	-2.5	-2.5

Source: collected from several reports

V. POLITICAL ECONOMY OF ECONOMIC GROWTH

In this section, we are going to discuss the connections between the political and economic developments, institutional building process and the economic growth. To clarify this connection, it is necessary to introduce the concepts of representation, coordination and commitment. It is certain that political and economic developments affect institutional building process, which affects representation, coordination and commitment. The positive political and economic developments will speed up institutions building process, which improves representation, coordination, commitment, and vice versa.

The political developments during the period 1917-1962 show that the country, under the Imamate regime, had failed to establish state-owned basic modern institutions. For example, there was neither a cabinet nor ministers at all; neither education nor health systems existed, nor were press and broadcasting.

The Government had taken over the generated rent as it took the opportunities of the absence of education and widespread illiteracy to do whatever it liked. There were no pressures on the Government to invest in social services, therefore there were no economic infrastructures, which affected both the usages of resources and efficiencies. The agricultural sector, whose primitive technologies, was the main economic activity. Traditional methods and human and animal muscles were used in this sector.

In this environment, the country's political system had lacked the necessary coordination, commitment and representation to design and implement any economic growth policies, as well as lacked the necessary institutions to facilitate coordination.

During that period, no economic policies existed at all, as there was no public budget, the Imamate regime had no tools to affect any aggregate macroeconomic variables. The monetary policies did not exist as there were neither national currency nor a central bank. What's more, the country had no a banking system, since saving and investment were entirely rare. There were few specialists in economy. The household used to produce most of their needs, so markets were very limited.

Consequently, economic growth was very low and stood at 2% rate most of that period. In fact, in some years, the economy experienced a negative economic growth. This may explain the frequent occurrences of starvations in the country. Such a low economic growth could have been improved if the Government had set up necessary institutions to device and carry out the necessary economic growth policies.

Despite of the several attempts to build state-owned modern institutions in the second period 1962-1990, the economic growth had not flourished greatly. The political system had continued to be based on family ties. Thus, the country failed to adopt a democratic political system that would allow good representation or effective institutions facilitating coordination. The political instability further diluted the Government's commitment.

Accordingly, the economic growth had not hit its potential target. Despite of the success of the First Five-Year Plan in pure economic terms, it failed to establish effective economic institutions in general and fiscal institutions in particular. For example, there was no connection between the goals of the plans and those of the budgets. The budget allocation for the public resources was not in conformity with the plan allocation for the total resources. Most of income generated from Yemenis' remittances went to consumption. Saving and investment did not grow as they were supposed to. The country lacked effective financial institutions encouraging savings to channel them into investments. The Government had no policies to deal with any contingencies, but imposed several bad policies. Believing it should take a leading role in the economic development, the Government intervened heavily in the economy. The exchange rate was fixed and good portion of public investment was allocated for projects, which might have been financed by the private sector. Several services such as electricity, transportation and manufactures were monopolized by the Government.

Nevertheless, the economy had grown at 8% during the period 1973-1978, which was a result of the end of the civil war and the attempt to build some political and economic institutions. This attempt survived for short time since it was suspended in the late seventies. Consequently, the growth rate dropped to 5 percent in the period 1979-1985.

The experiences of the former Southern Yemen was not so different from the former Northern Yemen's for the same reasons. It suffered from the lack of appropriate, efficient institutions, incompetent economic management. And due to the adoption of bad economic policies such as big public sector, highly dependence on the rest of the world's countries and imbalances in the aggregate accounts.

The third period witnessed the fast growth of the Government institutions. However, their effects on the economic growth rate were not as expected. The efficiency of these institutions was very low for several reasons. The weak role of the Parliament to set policies deterred the public and political parties to strongly participate in the election. For example, the participation percentage in 1997 election was 65 percent according to the official statistics and 40 percent in accordance to the opposition and observers stats.

Discussing the political system, as stipulated in the Constitution and in the historical experiences had shown that it had very low representation, commitment and coordination. Despite of the multi-party system and general election, the representation mechanism did not work well. About 80 % of the population inhabited in rural areas. The rate of illiteracy among them reached over 60%. Most of rural areas were not supplied by electricity and television services. Furthermore, newspapers did not reach them. Election campaigns had not raised key issues. However, they mostly depended on rumors and very primitive public connections. Thus, candidates, either parties or public at large, had not engaged in hot debates on economic policies.

The existing election system had not increased representation. Some candidates won about less than 10 % of votes, most of which were their families' or tribes'. So, they represented just those who voted for them (family, tribe).

Despite of the emergence of the institutional building during this period, the reality was extremely different. Not only was the separation in power unclear but incomplete. The President holds all other authorities. His control over the Executive Authority was obvious. He can appoint the Prime Minister, ministers and high officials, civilians, military officers and judges, and he is fully authorized to dismiss them too. Those appointees by the president have to report to him regularly. All state responsibilities are under his control.

As for the Legislative Authority, the President has a direct and indirect control over it. He can dissolve the Parliament and call for a new election. The authorities of the Parliament are very limited in comparison to the President's. Above all, the legislative authorities have been

divided between the Parliament and the Shura Council, which is appointed by the President, who can use it to scrutinize the Parliament's activities.

With respect to the Judiciary Authority, it is under the heel of the President who can appoint and dismiss judges, in addition he is the chairman of Supreme Judiciary Council, which is responsible to manage court systems.

Though political parties were permissible, however the political scene had been dominated by the ruling party, whose head is the President of the Republic. Therefore, the current political system in need for accountability. If the ruling party has a majority in the Parliament, the President can use it to control both the Parliament and presidency. In this case, the Government would not be held accountable since the Parliament does not have motives to question it. In addition, if the ruling party controls the presidency, then the Government will be under its control as well. The Parliament will do nothing since the President undertakes most state responsibilities. Even though the opposition parties win a majority in the Parliament, the Shura Council will remain under the control of the President. Constitutionally, he can name the Prime Minister and the Cabinet and consequently he can put several obstacles ahead the party which is expected to win and can dissolve the Parliament and call for a new election to deter the opposition parties from forming the new government. In case the President allows the opposition to form the government, he may make use of his constitutional authorities to prevent it from practicing its powers.

This political system actually never allows a peaceful transfer of power. Therefore, the parliamentary election is meaningless since its results are worthless. Having powerful tactics , the President can easily manage to win the election and prevent visible opponents from becoming candidates through influencing his supporters in the Parliament and Shura Council not to give them the required votes. In addition, the President can restrict his opponents' necessary funds to launch effective campaigns, and is able to use the public funds, jobs and media to win the election. As a result, the Yemeni political system's commitments are very low.

Having a look into the practices of the Parliament shows us the issue of the weak representation very clearly. In the legislative process, the Speaker of the Parliament holds the agenda of the Parliament. He determines the schedule and proposes the laws which have to be sent to the committees concerned without even making consultations with the Parliament. The Cabinet disregards the MPs and its ministers may refuse to attend some of the publicly broadcast discussions called by the Parliament. But if they attend , they may decline to answer the MPs' questions or provide any required information. The MPs fought too hard to get pay raise but were too lazy to ask for more staff and equipment to improve their duties. To be fair, they are very active to demand benefits for local constituencies but are lazy in respect of the benefits of the country as a whole. The Parliament is very reluctant to stand up against the President and the Government. The President excessively utilizes his constitutional rights to issue laws by republican decrees, but the Parliament is extremely hesitated to use its constitutional right to reject these decrees in case the majority turns them down. Although the Parliament and the Government are at regular odds , the Parliament has never ever been courageous enough to stop backing the Government.

The representation of Yemeni political system is very low. Making amendments to the constitution and laws had played an adverse role at weakening the Government credibility. The lack of constitution and law enforcement corrodes credibility of any incentives. The imbalanced bodies of power contribute to restrict representation. More than 50% of the MPs are illiterate. The control of the Executive Authority over the other departments helps reduce commitment. Expected changes in civil service employees may affect the commitment of the government.

The limited role of the Parliament to determine the budget process contributes to weaken representation. It cannot make amendments to the budget without the approval of the government. The Government compels the Parliament to pass budgets though they disagree with most components of expenditure. In every discussion on the budget, the Special Committee's reports acutely criticize the proposed budget, but recommend the budget approval. Likewise, the debates in Parliament are full of disagreements with the proposal of

the budget, but the Government and its majority vote in its favor. Moreover, the Parliament cannot supervise spending processes. Final accounts are usually prepared by the Central Agency for Audit and Control, which is under the supervision of the President.

There are no clear procedures for the daily work of the Parliament. There are no regular meetings between the Parliament and the government. Even the parties don't have well coordination. The ruling party really coordinates with the members of the government. On the other hand, the opposition parliamentarians make no consultations with their leaders.

Due to the vague division of responsibilities among the components of the Executive Authority, coordination among them is very fragile. The directives of both the President and the Prime Minister are mostly contradicting. Meanwhile, there are grave conflicts between the policies of the Prime Minister and some of his ministers.

The absence of effective coordination among Government agencies is very serious. It is very clear that the inconsistent laws and policies cause problems to coordination. Widespread corruption reduces coordination. Corrupted individuals and agencies obviously cannot coordinate their activities, so ending up behaving in ways to extract rents.

The first coalition Government between the GPC and YSP (1990-1993) witnessed serious debate about economic issues. Their disputes were so huge to be in harmony. The dispute between GPC and YSP reached its peak in 1994 and a civil war erupted and lasted for two months.

After the 1994 civil war, the coalition Government between YSP and GPC had broken up and new one between GPC and Islah was created. A new Government was formed, and witnessed a serious disagreement about the acceptable reform policies in 1995.

After 1997 election, GPC formed a new Government on its own. Therefore, the debate on economic policies ceased. Despite the adoption of multi-party political system, participation in political decisions continued to be limited. There was no a clear mechanism to resolve disputes within the political parties. As a result, no a compromise was reached. Besides, accountability and transparency were very rare. Thus, this environment was not supportive for the economic growth.

The Government implemented seriously some stabilization policies, mainly it removed subsidies from basic goods (food goods and oil products). On the other hand, it froze the pays of civil employees and reduced development expenditure and liberated prices.

The question is: why the Government was so serious to implement these policies, whereas not serious to implement other policies.

The political developments may have answers for this question. The Yemen economy had problems right before 1995, but the Government was hesitated to implement any economic reform due to fears of opposition reactions. For example, in 1992, the coalition government prepared an economic reform program, however, it failed. The Government was made up of two parties, the PGC and YSP. Each party in the coalition thought it was advantageous to let the economy deteriorate so that it can blame the other parties.

In 1994, PGC and its allies defeated the YSP and its allies. The new coalition government, which was formed after the end of the 1994 civil war, was dominated by PGC. Therefore, it could not blame others for the economic problems. Besides, the economy was in crisis. Budget deficit increased to an unexpected level, so did the inflation rate tremendously. However, the national currency depreciated. In short, the economy was almost on the edge of collapse.

Allowing economy to keep deteriorating was interpreted as an intention to topple the political system. To prevent that, the PGC and its Government, launched a campaign to design and implement economic reform programs to rescue the political system. Negotiations between the PGC and its ally Islah Party (IP) continued for some time in 1995. The view of PGC anyway prevailed. The first phase of the economic reform program kicked off in 1995. It had policies intended to put break on the budget deficit and inflation rate. Prices were liberated and subsidies started to be removed.

In late 1995, negotiations between the Government and both IMF and World Bank set out. Similar problems faced the parties. The Government was willing to reach a limited program but both the IMF and the World Bank were insisting on a wider program, since the two

international organizations had advantages to involve in the negotiations. So they forced the Government to accept a comprehensive program. But the Government needed to get financial aids and loans from them.

Standby program policies were implemented by the Government so faster than what was planned that both the IMF and the WB were amazed by this success.

In late 1996, the Government and the IMF reached an agreement on a new program ESAF, which contained some old and new stabilization policies, which concentrated on the structural reform. The main objective of these structural policies is to achieve an economic growth.

The fate of this program was not as bright as the previous one's. Though so enthusiastic to implement the rest of stabilization policies, the Government was reluctant to implement structural policies. The civil service and tax law reform were the most important of the structure policies. In every negotiation between the Government and the IMF, these two topics were a top priority on their agenda. The IMF got frequent promises from the Government but in vain.

In practice, the emphasis to carry out was on stabilization policies rather than economic growth policies. That was clear from the negotiation between the Government and IMF. Stabilization policies had taken a great time to discuss. However, the economic growth policies were easy to pass. In addition, the IMF was very lenient to implement growth policies, but was very strict to implement stabilization policies.

Table (6) the Developments of the Government Finances (1990-1995)

Total revenue and grants	19.8	23.1	16.1	14.9	12.8	19.5
Oil revenue	7.5	9.4	4.7	4.2	3.7	9.3
Non-oil revenue	11.2	12.6	11.1	10.5	8.9	9.8
Total expenditure	32.3	30.1	28.9	29.5	29	25.6
Current	23.6	26.1	25.5	26	26.4	22.5
Development	8.7	4	3.4	3.5	2.6	3.1
Overall balance (cash basis)	-11.7	-5.6	-11.7	-13.9	-15.7	-5.2
Overall balance (commitment)	-13.6	-8	-13.1	-14.8	-16.4	-6.4

Source: Ministry of Finance; Final Account

Table (7) the Development of the Government Finances (1996-2000)

Total revenue and grants	29	32	29	26	29
Oil revenue	16	19	12	15	22
Non-oil revenue	13	13	17	11	7
Total expenditure	31	35	36	30	35
Current	27	30	30	25	29
Development	4	5	6	5	6
Overall balance (cash basis)	-2	-3	-10	-1	7
Overall balance (commitment)	-2	-3	-10	-1	7

Sauce: Ministry of Finance; Final Accounts

As it is clear, the revenues were on the increase due to the reduced implicit subsidies of basic goods and oil products. However, the development expenditures had not improved.

These two phenomena can be explicable if we connect them to the political system in the country. The ruling political entity realized the bad consequences of the economic crisis at their political survival. Thus, they made great efforts to implement stabilization policies. At same time, the political parties and social groups could not put pressures on the Government to conduct structural policies, owing to their limited representation.

Similarly, the public with no political power could not press the Government to carry out these policies or even to bargain for fair compensation. In the election, common voters had no weight since they could not punish the ruling party. The opposition parties did not seriously seek for methods to win the election. On the other hand the Government would not allow that to happen. So, from the viewpoint of the ruling political entity, the cost of stabilization policies was at minimum and the returns were very high which is not the case for growth policies.

The Government failed to design and implement growth policies. Neither of the two programs -Standby or ESAF- contained all essential policies for growth. The two programs ignored some needful growth policies, such as protecting private property rights, enforcing contracts, neutral Government and decentralization. The ruling political entity resisted any attempt to discuss these key issues.

Commitment concept explains why these policies were missing. The Government did not want to commit itself to such policies in awe of encouraging the opposition to demand to implant the constitution and the other political laws. Handling any of the above issues may endanger the survival of ruling political entity.

Defining and protecting the private property rights will give individuals and social groups some independence away from the ruling political entity, which make it some sources of rents. Thus, the ruling party will lose some resources of finance. In addition, protecting property rights will encourage individuals to challenge the ruling political entity when they feel their interests are at risk.

Protecting property rights may lead to true pluralism, and this in turn may jeopardize the ability of the ruling political entity as main power in the political system. A number of individuals can form an organization to protect their rights through legal system, which may reduce political power of ruling political entity.

Enforcing contracts has more political effects than protecting private property rights. The contract means that two parties voluntarily agree on some terms. Thus, it is a result of two wills. As one party dominates the political system in Yemen, there is no contracting but accepting. The ruling political entity entitles itself to determine the roles of other parties regardless of their opinion. The other parties have either to accept or leave the offer.

Enforcing contracts means that the ruling political entity has to negotiate with its opponents and follow what has been agreed on. In such a case, it may lose some political might.

A neutral Government means to deal equally with all economic players. This prevents the ruling political entity from using state-owned institutions and resources to buy out political loyalty. In case of a neutral government, economic actors do not need to pay bribes to get state-provided services. This will make the political muscle of ruling political entity so brittle, and would encourage corruption.

Decentralization is interpreted as giving individuals and some groups outside the loop some authorities. If so, political power cannot be monopolized by the ruling party.

VII. CONCLUSION

The historical background of the country shows that it has poor institutions and non-democratic political system. The Yemen's political history demonstrates chronic political instability together with weak coordination, representation and commitment. The former Northern Yemen has been governed by dictators, most of its recent history. Prior to 1962, it was ruled by Imamate system, which refused to create modern political institutions. There was no constitution, a parliament or even a cabinet, except one ruling man (Imam). Following 1962, the military took power for most of time. Despite the cosmetic use of modern political institutions, the real power concentrated in the hand of the President. Yes, Yemen had a Constitution and an elected Parliament in 1972, whose authorities were nominal.

Britain ruled the Southern Yemen until 1967 and ruled Aden port directly and other governates indirectly. Those governorates had been ruled by local sheikhs, who were different

Imam. In Aden port, Britain introduced some modern political institutions such as free press, elections and political parties.

In 1967, the new Government abolished all political organizations in Aden port and ruled completely the former Southern Yemen by one-party system similar to the socialist countries. The totalitarian Government had forbidden political parties and free elections, moreover oppressed all positions.

In 1990, the two Northern and Southern Governments were dissolved into a unified country proclaimed by the name the Yemen Republic. The new Government approved a new constitution, which allowed political parties to be established, and promised to hold free elections.

Political parties sprang up, but free election did not take place. The two ruling parties who sponsored the unification process engaged in a war against each other in 1994, which resulted in excluding the Yemeni Socialist Party in favor of GCP, which is still ruling Yemen up to the moment.

The opposition parties failed to take power. Thus, we can say that the Yemen political system was not democratic and participation was very limited. It has no practicable modern political institutions. Yemen's political system affects economic developments when it allows bad economic policies to go on.

Though many modern economic institutions- such as a banking system, national currency, public budget and tax system were introduced, the system is yet not efficient. This system has been affected by the experience of the country. The Northern Yemen had adopted relatively free market system since 1962, while the Southern Yemen had followed a centralized system. The economy of united Yemen had tried to intermingle the two systems together, however, the process resulted in many distortions, some of which were caused by bad policies, while the other were caused by some ineffective economic institutions. The most obvious defect of the economy was the undeveloped market, government's great intervention and its absent roles.

Due to these distortions, the Yemeni economy had very serious economic crises in 1995. the inflation rate reached three digits and the budget deficit reached 17% GDP. National currency depreciated sharply and the economic growth declined very fast.

To deal with these crises, the Yemeni Government with helps of the IMF and the WB designed and implemented some economic reform programs. The first program aimed at stabilizing the economy while the second was to stimulate it. Stabilization program achieved tremendous success, while stimulating program intended to a complete failure. This raised a question "why did stabilization program succeed and stimulation program did not? There is no a clear answer to use a traditional economic framework. However, there may be an answer for using the political economy methodology.

Due to the special characteristic of Yemen, we think that using the traditional political economy theories would not help us to answer these questions. The Yemeni political system is unique since is neither democratic nor dictatorial, however, it is a product of a historical political, social and economic development. It has some democratic aspect since it allowed nominal multiparty system. It is not democratic as a peaceful transfer of power is not permissible. The ruling entity determines the roles of all parties in political process.

. It uses the political institutions to assign roles and use state institutions to empty these roles. Furthermore, it makes use of public funds, jobs, media and public security to mobilize political support and scare the other political opponents.

This kind of political system lacks commitment, representation and coordination. This practice affects economic performance and economic growth. In this environment, economic actors have no power to protect their interests. The only available way to do so is to withdraw from the economic activities. This behavior will have a negative impact on economic growth. In choosing policies, the political ruling will select those policies, which may serve its interests, for example, they may promote policies that make any segment of society strong enough to threaten its political survival. This will result in incomplete economic program. If they have been forced by external factors to adopt some polices, will

not seek seriously to implement them. Thus, some of the economic reform program policies will not be effective.

Applying this theory to the case of Yemen, we found the economic reform programs, which have been implemented since 1995, lost very important policies for economic growth. meanwhile, many policies of economic reform programs are contradicting each other. In addition, most of implemented growth policies are not effective due to the absence of appropriate environment.

Therefore, the low economic growth of Yemen can be explained by the absence of fundamental growth policies like property rights protection, enforcing contracts and a neutral government. The contradicting policies and delayed implementation of some growth policies contributed to low growth in Yemen.

The conclusions of the paper are: (a) it is not enough to have sound economic policies, but must have supportive institutions which guarantee some kind of **representation, commitment and coordination**. (b) Government modern institutions are so necessary to design and implement sound economic growth policies. (c) Democracy is the only sustainable political system, which allows building Government modern institutions supportive to the economic growth policies since it enhances **representation, commitment and coordination**. Any other political systems may support economic growth policies for a while, but in the end it must turn back to support these policies.

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