

Strategic dimensions for economic reform policies their impact on the agricultural sector in Yemen

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ABSTRACT:

Faced Yemen many problems and economic imbalances, after the establishment of the unity between the two parts of Yemen, and specifically during the period (1990 - 1994) exacerbated the problems and economic imbalances unified state of Yemen because of the problems and economic imbalances inherited, as well as the emergence of many economic factors, local, regional and international policies during that period , which had a negative impact on the Yemeni economy and in order to stop the deterioration reached by the Yemeni economy for the period above, the Yemeni government's economic reforms and comprehensive cooperation and coordination with the international Monetary Fund and World Bank in order to get financial support, in order to find out reforms on the agricultural sector results , it relies on a range of indicators, including the cultivated area and agricultural production and self-sufficiency ratios for the most important crops and the contribution of the agricultural sector in GDP. . After analyzing and comparing the indicators between the two before the reforms after reforms show the deterioration of the cultivated land area of grain has contributed to the decline in the amount of cultivated increase, which is reflected in the agricultural production, in addition to a decline in self-sufficiency of goods and agricultural products rates during the

period of the implementation of reforms, especially grain products and decreased the percentage contribution the agricultural sector in GDP to its lowest level. Either for the application of the policy of liberalization of foreign trade and export orientation, it was a positive impact through higher agricultural exports and improve the quality of local products, and a negative impact through the high volume of agricultural imports and the deterioration of the domestic production of many agricultural crops .

INTRODUCTION:

Yemen has faced many problems as well as economic imbalances in the wake of the establishment of the unity between the two parts of Yemen, more specifically, during the period (1990-1994). This period has witnessed the aggravation of the problems and economic imbalances of the unified state of Yemen due to the inherited problems in addition to the emergence of many economic factors, local, regional and international policies followed at that period, which had a negative impact on the Yemeni economy. In order to stop the state of deterioration the economy of Yemen has reached at that period, the Yemeni government has adopted a policy of comprehensive economic reforms in cooperation and coordination with the International Monetary Fund (henceforth,

IMF) and the World Bank on the purpose of obtaining financial support.

It has been relied on a number of indicators, such as the cultivated area, agricultural production, self-sufficiency ratios for the most important crops, and the contribution of the agricultural sector to the local product. The purpose behind such a procedure has been to find out the results of reforms on the agricultural sector. After analyzing and comparing the indicators pre- and post- reforms, it has been shown that the deterioration of the cultivated land area of grain has contributed to the decline in the amount of cultivated increase which is reflected in the agricultural production as well as a decrease in the ratios of self-sufficiency of goods and agricultural products during the period of implementing these reforms, especially grain products. The percentage of the contribution of the agricultural sector in the gross local product has decreased to its lowest level.

As for the application of the policy of liberalization of foreign trade and orientation towards export, it has a positive impact via the increase in the amount of agricultural exports and improving the quality of local products. It has, on the other hand, a negative impact through the increase in the bulk of agricultural imports and the deterioration of the domestic production of many agricultural crops.

SIGNIFICANCE OF THE STUDY:

The significance of the present study is shown through getting to know the motives and justifications for economic reforms on the agricultural sector in Yemen as well as getting to know the consequences of the reforms on the performance of the agricultural sector and its development, given the great importance the agricultural

sector entertains in the Yemeni economy being the primary source to provide food commodities, and accommodates a large proportion of the workforce whose livelihoods depend on this sector.

PROBLEM OF THE STUDY:

At the end of 1980s, the two parts of Yemen have witnessed many problems and economic imbalances, such as low economic growth and high unemployment, budget deficit and inflation in the public balance of payment. These problems and the inherited economic imbalances have aggravated after the establishment of unity during the period (1990-1994 AD). This was clearly reflected in the deterioration of economic sectors in general, and the agricultural sector was no exception; it witnessed a state of deterioration significantly during that period. In fact, the weakness and deterioration of that sector was a major factor in the decline of the overall economic growth rates in Yemen.

HYPOTHESIS:

The present research study hypothesizes that the policies of economic reforms implemented by the Yemeni government in cooperation and coordination with (IMF) and World Bank closely related to the agricultural sector are mostly of negative impact on the level of economic performance in this sector, and therefore, did not contribute to the development of the agricultural sector in Yemen.

METHODOLOGY:

The researcher has adopted the descriptive approach in presenting the motives of reforms, and the analytical approach in pinpointing the performance indicators of the agricultural sector, using the methodology of pre- and post- to

compare the performance of the agricultural sector in Yemen during the period of pre-implementation of reforms and implementing them, focusing basically on statistics related to the agricultural sector in Yemen.

LAYOUT:

The present research study comprises three main sections. Section One touches upon the motives and justifications of economic reform policies and its impact on the agricultural sector in Yemen. Section Two explicates the indicators of performance of the agricultural sector in the light of the program of the economic reforms; while the Third Section is dedicated to investigating the impact of trade liberalization on the agricultural sector. Finally, the researcher sums up his research with a set of conclusions and recommendations.

Section One: *Motives and Justifications for Economic Reforms and Their Impact on the Agricultural Sector in Yemen.*

Despite the economic systems that were in place in the two parts of Yemen before the establishment of the unity, the two parts of unity, especially at the end of the 1980s had faced many similar problems and economic imbalances, including low rates of economic growth, deficits in public budgets and balances of payments, high rates of inflation and unemployment, and after the establishment of the unity, more specifically during the period (1990-1995). Such problems and economic imbalances of the unified state of Yemen have aggravated because of inherited problems and imbalances from the two parts of Yemen before the unity on the one hand, and the emergence of many economic and political

factors whether local, regional and international during that period, which had negative impact on Yemen's economy. These factors include the Second Gulf War that broke out in August, 1990 and the consequent return of hundreds of thousands of Yemeni expatriates working in the gulf states, particularly Saudi Arabia⁽¹⁾. Consequently, the Yemeni economy suffered additional economic burden estimated at 12 millions of riyals in addition to shrinking of the expatriate workers' remittances abroad from (16407) millions of riyals in 1990 to (2378) millions of riyals in 1992 and lower financial and in-kind assistance to Yemen from the gulf countries in 1990⁽²⁾. The collapse of the Eastern bloc countries and the disintegration of the Soviet Union had negative effects on the Yemeni economy, where the consequent aid loans that were provided by the countries of this bloc has been stopped. Not only this, but these countries, as a result of its critical economic conditions has shifted itself from providing Yemen with loans and aid into demanding Yemen to repay its due loans with its accrued interest which made up nearly two-thirds of the bulk of the external debt of the country⁽³⁾. Besides, among the factors that played a role in worsening the problems and economic imbalances to Yemen during the period (1990-1994) were the political crises and the attempt of separation that the economy had witnessed during that period, which ended with a war to consolidate the Yemeni unity in the summer of 1994 and the subsequent consequences of that war, such as reducing the production and investment activities. The Yemeni economy, as a result of this war, had incurred significant additional financial burdens which, its direct costs only

were estimated at about eleven billions of US dollars⁽⁴⁾. Another factor that contributed to the severity of the problems and economic imbalances in the country during that period is the weakness in the management of the national economy. The economic decision-makers in Yemen during the period (1990-1994) has followed economic policies which took part in aggravating the imbalances of the Yemeni economy. The agricultural sector was exempted from the effect of those policies; it witnessed deterioration to a great extent which resulted in the decline of the overall rate of economic growth in Yemen during that period for two reasons: First, the high

proportion of its contribution to the local gross production (GDP) which formed (22.5 %) in the average during that period, whereas it was then occupying the first place among the rest of other sectors in terms of the proportion of contribution. Second, that this sector has been and continues to absorb a large proportion of the workforce with the percentage of (50 %) exceeding the bulk of labour force⁽⁵⁾.

Table (1) shows some of the economic indicators that reflect the extent of deterioration that this sector has reached during the period (1990-1994).

Table (1): Some Indicators of the Agricultural Sector in Yemen (1990-1994)

	1990	1991	1992	1993	1994
Contribution of sector in the GDP (%)	24.2	21.3	23.1	21.4	22.6
Growth of sector (fixed prices %)		-7.42	19.09	4.44	-3.42
Total area suitable for cultivation (hectares)	1630972	1630972	1630972	1630972	1660972
Cultivated area (hectares)	1120605	899428	1040254	1070295	1052786
Total crop productivity (tons)	2419341	1974587	2759031	2902695	2777170

It is clear from Table (1) that the contribution of the agricultural sector in GDP has decreased from (24.2 %) in 1990 to (22.6 %) in 1994. The agricultural sector has achieved a minus growth rate during the years 1991, 1994 which was (7.42 %), (3.42 %) respectively. It is also noted that the cultivated area has reduced from (1-12) million hectares in 1990 to approximately (1-0.5) million hectares in 1994, i.e., a drop of almost (6 %). As for the amounts produced from agricultural crops during the period (1990-1994), it was in a fluctuation between high and low. Crop production achieved negative growth rates during the years 1991, 1994 amounted to (18.4 %), (4.35 %) respectively; the growth rate of production did not exceed an average of (5-6 %) during the period 1991-1994.

The Yemeni government implemented a comprehensive program of economic reform (economic stabilization and structural adjustment) in order to stop the state of deterioration the Yemeni economy had reached during the period 1990-1994 and to address the imbalances and problems experienced by the Yemeni economy. This program was implemented in phases starting from March, 1995, and that the program is implemented in cooperation and coordination with the (IMF) and World Bank in order to obtain both financial and technical support required to implement the program.

Section Two: Indicators of the Program of the Agricultural Sector in the Light of the Program of Economic Reforms.

The indicators include the performance of the agricultural sector pre-applying the program of economic reforms and the period of applying such programs in order to find out the results of the reforms on the performance of the agricultural sector and will rely on a set of indicators, including the evolution of the cultivated area and agricultural production, as well as the proportions of self-sufficiency for the main crop, and the contribution of the agricultural sector in GDP.

1. The cultivated area and production of major agricultural crops including grain crops, vegetables, fruits, legumes, cash crops, fodder, and as it is indicated in Table (2), the

amount of the increase in the total area under cultivation of these crops, excluding (Qat) during the period (1995-2005), the period of applying the program of economic reforms does not exceed an average of (3857) hectares, i.e., an increase of no more than an average of (0.4 %) of cultivated area during the period 1984-1994 before the implementation of the program. It is noted that the deterioration of the cultivated land area of grain has contributed to the decline in the amount of increase in the cultivated area during the period.

Table (2) Average of crop yields and production in Yemen (excluding Qat during the period 1984-1994, i.e., the period pre-applying the program of economic reforms, and from 1995-2005, i.e., the period of applying the program)

Area (hectares)				Production (ton)		
Crop	1984-1994	1995-2005	Amount of variable	1984-1994	1995-2005	Amount of variable
Grains	806836	666477	-140359	693532	634755	-58777
Vegetables	44340	64866	20526	648568	776549	127981
Fruits	53890	86557	32667	300188	604862	304674
Legumes	38868	50230	11362	57315	65051	7736
Cash products	52871	86730	33859	30033	63420	33387
Feed crops	64587	110389	45802	63643	1325730	689687
Total	1061392	1065249	3857	236579	3470367	1104688

As for the agricultural production, it has risen by approximately (1104688) tons during the same period and an increase of (46.7 %). It is also noted that a large production of this increase is mainly due to the significant increase achieved in the feed crop, which accounted for about (62.4 %) of the total increase in crop production during the same period.

2. Rates of self-sufficiency.

Due to the fact that the program of the economic reforms did not contribute significantly to the development of the agricultural sector in Yemen, it has remained productive for most goods and agricultural crops afforded by this sector in a low level; it does not meet most of the local needs, and therefore, the rates of self-sufficiency for most domestic agricultural products have remained low.

Table (3) clearly shows that the agricultural sector during the period of implementing the program of economic reforms is still unable to meet most of the growing local needs of goods and agricultural products. It is also noted from that table that if we exclude potato products, vegetables, fish, the gap still exists between the production and consumption in the rest of commodities and other agricultural products, but that the gap had expanded for some goods and services during the period of implementing the program. The rate of self-sufficiency of wheat has decreased from (14.4 %) during the period 1989-1994, i.e., the period of pre-implementing the program to (6.9 %), i.e., the period of implementing the program (1999-2004). Also the rate of self-sufficiency of corn from (46.3 %) to (17.1 %); barely from (99.7 %) to (96.8 %);

legumes from (82.4 %) to (54.8 %); red meat from (91.8 %) to (91.4 %); white meat from (73.7 %) to (53.7 %); milk and milk products from (41.3 %) to (34.2 %) during the same period, and therefore, the rate of decline in the average of self-sufficiency of goods and rates of previous products of wheat was (52 %), legumes (33.5 %), red meat (0.4 %), white meat (27 %), dairy products (17.2 %). The reason behind the decrease in rates of self-sufficiency for these goods and products during the period of applying reforms could be attributed to the decrease in the produced quantities, especially grain products on one hand, and the local demands for these goods on the other.

Table (3): Averages of self-sufficiency for the most important products in the agricultural products in Yemen during pre- implementing the program of economic reforms (1989-1994) and the period of implementing the program (1999-2004) (percentages %)

	Average of (1989-1994)	Average of (1999-2004)
wheat	4.4	6.9
maiz	46.3	17.1
rice	0	0
barely	99.7	96.8
Potato	97.7	100.2
legumes	82.4	54.8
vegetables	96.3	100
fruits	96.4	98.1
sugar	0	0
fats	5.8	6.1
red meat	91.8	91.4
white meat	73.7	53.7
fish	101.8	128.2
eggs	86	98.6
dairy products	41.3	34.2.

3. The Contribution of the Agricultural Sector in the GDP in Yemen.

Statistics have shown that the proportion of the contribution of the agricultural sector to the GDP in Yemen has decreased during the implementation of the program of economic reforms. In return, the relative importance of the contribution in the GDP has risen. As it is shown in the following table:

Table (4): The Evolution of the Contribution of the Economic Sectors to the GDP in Yemen pre-implementing Economic Reform Program (1990-1994) and the Period of implementing the Program (1995-2004) (Current Prices %)

<i>Sector</i>	<i>1990-1994</i>	<i>1995-1999</i>	<i>2000-2004</i>
Agricultural	22.5	18	13.8
Industrial	19.7	33	37
Services	57.8	49	49.2

It is noted that the contribution of the agricultural sector to the GDP has decreased from (22.5 %) during the period 1990-1994, i.e., the period of pre-applying reforms to (18 %) during (1995-1999), i.e., the period of implementing the program of reforms. Four years later, i.e., (2000-2004), this percentage has fallen to its lowest level, and did not exceed (13.8 %). Although the percentage of the contribution of the agricultural sector to the GDP has fallen during the implementation of the reforms, the proportion of the contribution of fishing to the GDP has increased from (1.1 %) in (1990-1994) to (1.5 %) during (1995-1999). Despite the fact that the ratio has fallen to (1.3 %) during (2000-2004)⁽⁶⁾, it nevertheless remained high compared to its previous value during the first period, that is, the relative importance of the contribution of fisheries to the GDP has risen during the implementation of the program as it is shown in Table (4), the high proportion of the contribution of the industrial sector to the GDP from (19.7 %) to (33%) and (37%) respectively. This could be attribute to the higher importance of the extractive industries to

the GDP as a result of the expansion in the activity of extraction of crude oil.

Section Three: The Impact of Trade Liberalization on the Agricultural Sector:

The application of foreign trade and the orientation of liberalization policy towards exports has contributed to the increasing role of the private sector in the activity of both imports and exports and to the decreasing the chances of monopoly as a result of the entry of a large number of traders in this activity. Yet, this policy and its consequences of opening domestic markets to foreign goods and products have pinpointed many effects on the agricultural sector, the most important of which are the following:

First: Positive Effects:

1. The increase of agricultural exports:

Procedures relevant to the liberalization and promotion of exports have contributed in increasing the bulk of exports, including agricultural exports, but these rates of increase achieved in the agricultural exports were not the same as value as it has been achieved in the bulk of agricultural imports,

where the rate of increase in the agricultural exports was very low compared to that of imports due to a weakness in the agricultural sector, and its inability to cover local needs of goods and agricultural products. The following table indicates the

average annual value of agricultural exports and imports during the pre-implementation of the policy of liberalizing of trade and the period of post-application of this policy.

Table (5): Average of Agricultural Exports and Imports in Yemen during the period (1989-1994), i.e., pre-application of liberalization of Trade and from (2001-2005), i.e., post- application.(amounts in thousands of riyals)

	1998-1994	2001-2005	Amount of increase
Agricultural exports	637036.3	32226384	31589348
Agricultural imports	9059754.5	188954429	179894675

The increase in the average value of the agricultural exports during the period (2001-2005), i.e., post-application of trade liberalization policy amounted to approximately (13.6) billions of riyals, compared with the average value of exports during the period (1989-1994), i.e., pre-application of trade liberalization policy, whereas the average value of agricultural imports was approximately (179.9) billions of riyals during the same period . By comparing the increase in the average of agricultural exports and imports during these two periods, it is observed that the amount of increase in the average value of exports will not exceed (17.6 %) of the average amount of realized increase in the average value of imports.

2. Improving the quality of local products:

Despite the fact that measures relevant to the liberalization of trade and its consequent entry of many foreign-made goods to the local markets have subjected many local goods, especially those similar to foreign ones to intense competition, these measures, however, have forced many local producers to endeavor to improve the quality of their products in order to meet the requirements of competing foreign product

on the one hand, and to ensure their productive activity on the other⁽⁷⁾.

Second: Negative Effects:

1. High increase in agricultural imports:

The application of the policy of foreign trade liberalization has resulted in an increase in the bulk of imports including agricultural imports. Table (5) clearly shows the increase in the value of the bulk of agricultural imports from (9.06) billions of riyals during the period (1989-1994) to (188.9) billions of riyals during (2001-2005). This high increase in the value of agricultural imports has resulted in a high increase in the bulk of deficit of the agricultural and commercial balance.

2. Deterioration in the production of many domestic agricultural crops:

The application of trade liberalization policy and the opening of domestic markets to foreign imports has resulted in the entry of foreign goods and products into local markets and dumping these markets with various commodities (good and bad ones). This process, in turn, has resulted in the difficulty for domestic products to compete their counterpart foreign products which were imported from abroad at lower cost and better quality. It has also resulted in the

low level of income in Yemen and the increased consumers' appetite for buying foreign goods and products due to their low prices. On the other hand, the decreased demand for goods and local products due to their high prices has led to a rise in the bulk of imports causing a damage to goods and local products, including those products that available in Yemen with a relative advantage⁽⁸⁾. As an example of that case, is the coffee crop of which Yemen is famous in its production and the relative competitive advantage on both regional and global levels. It has undergone a severe competition as a result of the entry of larger quantities of imported coffee into local markets at low prices compared to the prices of coffee locally produced. Besides, markets in Yemen are characterized by being price markets, not quality ones, the consumers' appetite for buying imported coffee on the expense of the locally produced type. As statistics have shown, the bulk of imports of coffee has risen from (144.8) tons during the period (1989-1994), i.e., pre-application of liberalization policies to (467.8) during the period (1995-2000), i.e., the period of implementing trade liberalization policy, that is, an increase of (223 %) of the bulk of imports during the period (1989-1994). As for the period (2001-2005), the bulk of imports of coffee has increased on the average up to (680) tons. Thus, the trade liberalization policy and opening domestic markets to the entry of large amounts of coffee imported to the local market and selling them at low prices compared to the prices of selling coffee produced locally has endangered the latter to severe and unfair competition. This has damped the incentive of local producers to expand the cultivation of coffee; a matter which explains the decline in the rate of growth of domestic production of the coffee crop from (6.8 %) on average during the period (1985-1994) to (2.9 %) during (1995-2000)⁽⁹⁾.

Conclusions and Recommendations.

First: Conclusions:

1. Some indicators of the performance of the agricultural sector in Yemen have revealed that the expansion in the land areas suitable for cultivation during the period of implementing the program was limited; the proportion of increase did not exceed (9 %) during pre-implementing the program.
2. The cultivated land area of cereal crop has declined significantly during the period of implementing the program of economic reform, resulting in a decrease in the amount of grain production during the period of implementing the program of reforms.
3. Fish production has achieved a significant increase in production during the period of implementing the program of reforms at a rate of (65.6 %).
4. Rates of self-sufficiency of most domestic goods and agricultural products have remained low.
5. The percentage of the contribution of the agricultural sector to the GDP has declined during the period of implementation of the program of reforms.
6. Most of the policies and procedures that have been applied in the framework of the economic reform program did not contribute to the development of the agricultural sector and development in Yemen, but that many of these policies and procedures have had negative effects on the agricultural sector's performance and growth.

Second: Recommendations.

1. Addressing the problems that hinder the growth of the agricultural sector and its development such as poor architecture framework and the phenomenon of Qat cultivation.

2. Encouraging the production of local agricultural crop products and further improving its quality.
3. Developing the agricultural sector through increasing the bulk of public expenditure on investment projects in the agricultural sector which requires large sums of money.
4. Providing soft loans to farmers whose crops are characterized by a comparative advantage in the production.
5. Supporting and encouraging exports of goods, which are characterized by a comparative advantage in the production such as coffee and cotton.
6. Activating procedures relevant to anti-dumping.
7. Increasing local and foreign private investments in agricultural production activities through the provision of many facilities and incentives.

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