Yemen: Factors behind Possible Economic and Political Collapse

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Key Points

- Houthi rebels continue to threaten further instability in Yemen, while Al-Qaeda in the Arabian Peninsula (AQAP) is simultaneously straining government resources by contesting territory in the country’s south.
- Yemen’s economic situation looks dire, with oil reserves running low and production estimated to cease generating income by 2017.
- The capital, Sana’a, is estimated to run out of economically viable water supplies by 2017. Coupled with the high growth rate of Sana’a, Yemen faces a potential crisis involving internally-displaced people in the near future.
- Iranian involvement with the Houthis should be seen as simply opportunistic and not as part of a Saudi-Iranian proxy war in Yemen.
- The situation in Yemen is of concern to Saudi Arabia as the collapse of Yemen could result in the strengthening of AQAP and a refugee crisis for itself.
- Saudi Arabia is unlikely to provide adequate aid in the event of a large-scale refugee crisis; the international community, including Australia, may need to contribute the required aid.
Summary

Yemen currently faces an array of challenges ranged against its future development. Political unrest continues to plague the government, along with security challenges. Yemen also faces serious economic and water challenges that are raising concerns over its ongoing stability. Since the last FDI publication on Yemen, Houthi rebels have stormed Sana’a and targeted numerous buildings. Subsequently, Prime Minister Abdul-Kader Bajammal stepped down and was replaced by Khaled Bahah. Soon after, the Houthis took control of key parts of the city of al-Hudaydah as well as the city of Ibb. An al-Qaida affiliate, AQAP, has responded with numerous attacks on Shia targets while southern separatists seeking to split from the north have given the government an ultimatum to evacuate its soldiers and civil servants by 30 November. These developments, in conjunction with other security and social-economic challenges, present serious concerns for Yemen’s future.

Analysis

The Houthis

Political unrest has developed into widespread clashes in Sana’a. Earlier, in September 2014, tens of thousands of Shi’a rebels, led by Abdel-Malek al-Houthi, gathered on the outskirts of Sana’a in a stand-off with the Yemeni Government. The rebels, known as Houthis, demanded that the Prime Minister step down and fuel prices be cut. The stand-off continued until the Houthis entered the capital and targeted numerous key government buildings. Prime Minister Abdul-Kader Bajamal then stepped down and was replaced by Khaled Bahah. The Houthis have since moved south and seized control of a number of strategic locations including the cities of al-Hudaydah and Ibb. Fernando Carvajal, a former Yemen-based NGO consultant, told VICE News that the priority of the Houthis is to upset the political-military order in north Yemen. By delegitimising the government and pushing for populist ideals, the Houthis, part of the Zaydi sect, offer themselves as an alternative government in an effort to attract more numbers to their group. Abdel-Malek al-Houthi sent delegations to numerous villages, presenting the group as a modernising force against oppression and raising the slogan, ‘Death to America, death to Israel, cursed be the Jews, victory to Islam’. Intensive recruitment may be part of a larger campaign to combat AQAP, a
A rival group located in the south of Yemen. The recent progress made by the Houthis is troubling; they have been known to take and hold territory against overwhelming odds, as seen in the 2011 Yemeni Revolution. Even if government forces could win a fight against the Houthis, that would only enable groups like AQAP to seize greater control.

**Iranian Involvement**

There has been much analysis of Iran’s alleged involvement in propping up the Houthis and supplying them with weapons. On 23 January 2013, a ship was intercepted off the coast of Yemen carrying explosives, surface-to-air missiles and other combat equipment. The ship was later confirmed to be Iranian by the Yemeni Government, which then accused Iran of supporting the Houthis. Iran has denied any involvement. A US envoy to Yemen, Gerald Feierstein, also accused Iran of supporting secessionists in Yemen’s south at the time. Although there is no conclusive evidence of Iranian support for the Houthi rebels, involvement in Yemen by regional rivals, Iran and Saudi Arabia, is nothing new. In November 2009, Saudi Arabia launched a military campaign against Houthi rebels for encroaching into Saudi territory on several previous occasions, and declared victory against an “Iranian ally” soon after. Some analysts, therefore, see Yemen as a proxy war battleground between Saudi Arabia and Iran, with the Houthis fighting on behalf of Iran. Bernard Haykel, a professor at Princeton University, is more cautious however, stating that Iranian support for the Houthi rebel group is simply opportunistic. He believes that ‘Iranians want to needle the Saudis in every possible way... But to say that the Houthis are proxies of Iran is stretching the boundaries of credibility’. There have also been suggestions of Iranian involvement with the al-Qaida affiliate, AQAP. Senior Saudi experts believe that, despite obvious tensions stemming from AQAP hostility towards Shi’ites and Iran, a relationship does exist between the two. US experts, however, believe that if such a relationship does exist, it will be very limited, similar to the support that Iran is accused of giving to the Taliban in Afghanistan. The Centre for Strategic and International Studies noted that Iran’s support of the Taliban was simply a tool for pressuring the US, Saudi Arabia and the Gulf Arab states through violence and instability, much like Iran’s support for the Houthis.

**Al-Qaeda in the Arabian Peninsula**

As well as escalating civil unrest in the north, Yemen faces a growing threat in the south from AQAP. John Brennan, President Obama’s chief counter-terrorism advisor, has highlighted concerns surrounding AQAP, calling it al-Qaida’s most active affiliate. In a recent attack on 8 August, members of AQAP’s partner organisation, Ansar al-Sharia, executed fourteen captured Yemeni soldiers and published images of the killings in social media. This mass execution, which was much more violent than usual, was likely in retaliation for the efforts of government troops to dislodge AQAP from a town in the Hadramawt region. AQAP’s insurgency in Hadramawt has put an enormous strain on the Yemeni military, which is already burdened by protests in Sana’a. The growth of AQAP in Hadramawt can be linked to an increase in security forces in the Abyan and Shabwah provinces. Writing in Critical Threats, Alexis Knutsen and Katherine Zimmerman state that, ‘Unless the Yemeni security forces are able to assert full control over the country’s territory, the army will continue to chase after AQAP’s fighters.’ This is problematic due to the limited resources available to
Yemeni security forces, meaning that AQAP may continue to operate out of safe havens in the south, allowing for further recruitment and training of prospective militants. According to the Council on Foreign Relations, the primary goals of AQAP are consistent with the principles of militaristic jihad, which is to purge the country of western influence and replace secular “apostate” governments with fundamentalist Islamic regimes that are observant of, and governed by, Sharia law.

**Economic Difficulties**

The political unrest in Yemen has been further exacerbated by looming economic difficulties. Oil resources that currently provide up to 75 per cent of the government’s revenue and constitute a quarter of GDP are on the decline. Statistics from the Central Bank of Yemen show that, in the first five months of 2014, oil exports netted US$671 million, close to forty per cent less than the same period in 2013. A natural decline in oil reserves and frequent attacks on national infrastructure are both responsible for this. As a result, the World Bank has predicted that, by 2017, oil production will no longer generate any income towards Yemen’s revenue. The Yemeni Government faces the very real threat of economic collapse and will need to take urgent action to avert that possibility. Dr Mohammad A-Maitami, Chairman of the Khobara Centre for Development and Consulting Services, located in Jeddah, Saudi Arabia, recently led a team of economic experts in researching Yemen’s economic priorities. In their findings, they made a number of recommendations including alleviating poverty, addressing the issue of internally displaced persons, enhancing government accountability and introducing fuel subsidies reform. According to a 2011 World Bank research paper, petroleum subsidies make up around twenty per cent of the government budget, surpassing the combined total spending on education, health and social transfers in 2007. These issues must be addressed immediately if the Yemeni economy is to withstand future economic shocks. It is also important that strategies are introduced to help minimise the impact this will have on the poor and to avoid the unrest associated with previous subsidy reforms.

**The Water Crisis**

Fuel subsidies also play a large role in the production of qat, a mild narcotic drug that is extremely popular among Yemeni men. Being highly water-intensive to cultivate, farmers commonly use diesel to extract groundwater in order to grow qat. The extraction of groundwater accounts for around eighty per cent of the total cost of qat production, which remains cheap due to the government’s fuel subsidies. Consequently, qat production has played a major role in a dramatic decrease of groundwater levels in the Sana’a Basin, accounting for almost half of the water drawn each year. The average drilling depth to find water in the Sana’a basin is now 200 to 300 metres, which is concerning when compared to levels of just twenty metres during the early 1970s. As a result, experts have warned that Sana’a could run out of economically viable water supplies by 2017. Ashraf al-Eryani, of the German Technical Corporation, has expressed concerns over the current situation in Yemen, stating, ‘This is a disaster. We are tapping into the last natural strategic resources’. He adds that Sana’a is the first capital city to be in this position. The production of qat needs to be addressed. Low production costs and a virtually guaranteed market will continue to
encourage farmers to produce qat instead of other, less water-intensive crops, such as fruits, vegetables and coffee. Steps should also be taken to encourage farmers to use more efficient irrigation techniques, such as drip irrigation instead of flood irrigation. This water crisis has also been combined with a high population growth rate of 2.7 per cent, sharply outpacing Yemen’s economic development, and its food and water supplies.

**Implications for Saudi Arabia**

Speaking at the Annual Arab-US Policy Makers Conference at Washington, DC in 2013, former Saudi Ambassador to the US and former intelligence chief, Prince Turki Al-Faisal, spoke of the threat of an unstable Yemen, ‘[A]n increasingly unstable Yemen represents a very real security threat due to the potential for terror cells to take root there.’ One possible reason for terrorist attacks in Saudi Arabia is the presence of a US military base in the south of the Kingdom. Events in August 2013 showed that US drone strikes carried out from this base can have a potential backlash in Saudi Arabia. When four AQAP members were killed in a drone strike on 6 August 2013, the US closed nineteen of its embassies in the Gulf States, including its embassy in Riyadh, Saudi Arabia, after a message being circulated between senior al-Qaida operatives was intercepted. There have also been a number of terrorist attacks in Saudi Arabia, including the kidnapping and assassination of a number of Saudi officials in 2012. This, understandably, has caused concern in Saudi Arabia over the implications of the growth of AQAP, which will likely continue if Yemen continues to destabilise.

As well as concerns over terror cells in Yemen, Saudi Arabia faces a potential refugee problem. Yemen is often seen as a transit point for refugees arriving from Somalia and other parts of the Horn of Africa on their way to the richer Gulf States. This has resulted in several hundred thousand illegal workers living in or near poverty in Saudi Arabia. These workers are ineligible for government services and are marginalised and often abused by Saudi employers. According to a report by the Centre for Strategic and International Studies, these workers are often polarised as a result and could potentially turn to extremism. An *FDI* article in December 2013 also noted how the Saudi Government deported over 71,000 foreign workers to mitigate the size of its migrant workforce. If Yemen continues to deteriorate and eventually collapses, those refugees in Yemen will likely flee the country and make their way to Saudi Arabia, making this a significant concern for the Saudi authorities.

**Implications for the Wider Region**

The stability of Yemen is a major concern for the Gulf States and the wider region due to its position next to the region’s top oil exporter, Saudi Arabia, and the shipping lanes which run through the Gulf of Aden. The possibility of AQAP targeting Saudi Arabia once Yemen collapses may have a significant impact on regional energy production. In its statements, AQAP frequently and openly threatens the oil infrastructure of Yemen’s neighbours. An actual attack or the threat of one could have a dramatic impact on oil production in Saudi Arabia, which will suffer from reduced output and the costs associated with that reduction. Since oil infrastructure in the Gulf region is well protected and difficult to target, another target is likely to be the Bab al-Mandeb Strait. This strait is one of the world’s most strategic maritime chokepoints and is located at the south-western tip of Yemen. Around 3.5 million
barrels of oil pass through this chokepoint every day, and if these waters were to become dangerous, a rise in oil price may be expected. That would be of significant concern to Australia, as this country imports around $3 billion worth of petroleum imports from the Middle East each year.

A second concern for the wider region that should not be overlooked is the humanitarian crisis which would follow the collapse of Yemen. This scenario raises numerous concerns over the deep sectarian and tribal tensions within the country, AQAP, economic issues and water security in Yemen. As the Yemeni people suffer from insecurity, food scarcity, water shortages and lose what little government services they have, hundreds of thousands, possibly millions, are at risk of becoming internally and externally displaced. Most refugees in Yemen will attempt to cross into Saudi Arabia. This does not mean it should be seen as Saudi Arabia’s problem alone. It is unlikely that the Saudi Government will provide adequate care for the refugees and this may result in an internal security and stability threat. This is especially a concern given its poor track record of refugee treatment and the fact that Saudi Arabia is not a signatory to the United Nations Refugee Convention of 1951. Without adequate care, these refugees will become a humanitarian concern for the wider international community.

Conclusion

The prediction that, by 2017, Yemen’s oil production will no longer generate revenue and Sana’a could run out of economically-viable water supplies gives the government of Yemen a short window of opportunity to act. The government, however, is already crumbling under the pressure of political unrest. The Centre for Strategic and International Studies has recognised the urgency of the situation in a recent report, stating that, ‘Dealing with these issues requires a grim degree of realism and pragmatism. Slogans, good intentions and half-formed concepts are not going to buy the US and its Gulf allies a significant amount of time.’ This kind of attitude should be adopted by Friends of Yemen, a group consisting of 24 members that aims to increase donor co-ordination and support for Yemen. Although the group has already pledged over US$7 billion in assistance for Yemen, aid frequently becomes tied up with politics and factionalism, requiring more to be done to facilitate the distribution of these funds. The Yemeni Government has stated that it is only capable of distributing US$700 million of economic aid per year.

Australia is a member of the Friends of Yemen, and Canberra can play an important role in encouraging practical steps towards its recovery. Some of these steps could include the installation of desalination plants, encouraging better irrigation practices, discouraging the production of qat and promoting the production of alternative crops, persuading the government to lift fuel subsidies, investing in non-oil economic growth, addressing corruption in the Yemeni Government and strengthening Yemen’s counter-terrorism capabilities. Australia should push for such recommendations to be addressed and pursued by the Friends of Yemen. These measures will go a long way towards averting a major security and humanitarian disaster, one that will likely occur if adequate international assistance is not provided soon.
References


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