The War in Yemen: Hard Choices in a Hard War
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The Middle East is filled with grim wars in failed states—Iraq, Libya, Somalia, Syria, and Yemen—none of which have good options for a lasting peace. The situation in Yemen, however, has moved beyond crisis, to the point of humanitarian nightmare. It has become a stalemate where the casualties from actual combat are limited, but where the fighting has produced a stalemate that has left the entire country without meaningful governance and security, and has crippled an already desperately poor economy.

At present, Yemen remains divided between two major factions: a mix of Houthi Shi’ite rebels and military supporters of its former president Ali Abdullah Saleh, and the Saudi and UAE-backed faction that supports a government led by his replacement in a one candidate election: Abdrabbuh Mansour Hadi.

Some two years of fighting have reached a near stalemate in which the Houthi-Saleh faction controls the capital and much of the populated northwest, and the Saudi-UAE-Hadi faction have taken Aden and other cities, and has a decisive edge in air power, but lack the ground forces to drive the Houthi-Saleh faction out of the areas it now controls. At the same time, other warring factions like Al Qaeda in the Arabian Peninsula (AQAP) and various tribal groups add to the fighting and instability in much of the rest of the country.

The result has become a massive humanitarian crisis that will continue to grow until the fighting ends. It has already inflicted a level of economic damage so serious that Yemen may take a decade or more to fully recover—even if the fighting does not resume and some form of effective national unity and governance is established.

Like Syria and Somalia, Yemen is a nation that lacks the resources to quickly recover. Worse, it has become a nation that will then find it difficult to move towards some form of sustained post-war development. No one can help Yemen unless it can acquire a level of unity and quality of governance that will allow it to help itself, but even then, it will have no clear prospect of growth and stability without massive outside aid.

This presents major problems in terms of conflict termination, and in finding some kind of U.S. policy option that can help give Yemen a meaningful future. Putting an end to the conflict can only be a first step in easing Yemen’s growing agony. No ceasefire or settlement that leaves a weak, ineffective, and divided government in power can end Yemen’s humanitarian crisis or allow it to move forward.

Real peace and stability can only come if Yemen can reach a level of unity it has lacked in the past, create a modern enough central government to actually focus on recovery and development, and attract major levels of outside aid. Simply ending the fighting may reduce its level of suffering in the short term, but will inevitably prolong it and may well be a prelude to new levels of conflict.

This presents the problem that the United States must seek some solution that will either fully defeat the Houthi and Saleh faction, or find some kind of compromise that will lead the Houthi-Saleh faction to accept an effective central government. At the same time, even the most decisive
military victory by the Saudi and UAE-backed government of Abdrabbuh Mansur Hadi offers little hope of effective leadership. The Hadi government may be more secular and free of Iranian influence, but it is far from clear it can lead or govern effectively.

Like America’s role in its other “failed state wars,” winning a war will only be meaningful if it is the prelude to winning a peace. Like it or not, this means giving nation building the same priority as winning some form of military victory. If anything, this may well be the greater challenge.

**A Failed State Long Before the Civil War Began**

Yemen has long been unstable, and has been a demonstration that strongmen may dominate a nation for years, but do so at immense cost, and with a high probability of eventually producing a civil war. Like his counterparts in Iraq, Libya, Syria, and Somalia, Ali Abdullah Saleh was a strong man that could hold Yemen together for decades, but at the cost of creating the conditions that steadily weakened and divided it.

Modern Yemen’s unity has been tenuous for other reasons. It is the result of the awkward unification in May 1990 of two failed states: a de facto military dictatorship under Ali Abdullah Saleh in North Yemen (the Yemen Arab Republic or YAR) and a quasi Marxist South Yemen (the People’s Democratic Republic of Yemen or PDRY). This unification only came after South Yemen imploded because of fighting and tensions between its various factions, and was tenuous at best.

This unification tied two nations together that had long fought sporadic battles, and had fought major military clashes in 1972 and 1979. They clashed again after unification in 1994, and many in South Yemen continued to favor separation while Saleh and the North had to deal with serious tribal and sectarian tensions. These included a border war with the Houthi in 2009, and a fight against violent Islamic extremism in the form of Al Qaeda in the Arabian Peninsula (AQAP).

The broad failures in the Saleh government to meet popular needs and provide a solid basis for unity rather than playing one faction and tribe off against another—came to a head along with the political upheavals that began in the entire region in 2011. They almost inevitably led to fighting in Yemen, and Yemen’s current government is the result of Hadi’s rise following the wounding of Saleh in an attack in June 2011—one serious enough to force Saleh to go to Saudi Arabia for medical treatment.

Hadi was a vice president coming from the south and Aden, and had uncertain political support at best. He did keep power after Saleh’s return to Yemen, but largely because Saleh was then so unpopular and weakened by his wounds that he could not take back the presidency. Hadi did manage to be the compromise candidate in an election that formally elected him as president for two years in a one-candidate election in February 2012. He then had his term extended by the legislature for a year. He did not, however, prove to be an effective leader, was not able to deal with hostile factions like the Houthi, and many of the Yemeni military stayed loyal to Saleh and his son.

It was this political weakness that enabled the Houthi—a major Shi’ite faction in the north—to emerge as a key power. The Houthi also formed an alliance with Saleh and had at least some ties to Iran, and steadily gained in power. They forced Hadi to resign from the Presidency in January 2015, and the Houthis then seized the Presidential place and put Hadi under house arrest. The Houthis then began a military effort to seize control of all of Yemen, although Hadi escaped to
Saudi Arabia in March 2015—as the Houthis approached Aden and a potential takeover of all of Yemen.

This triggered today’s brutal civil war. Saudi Arabia had already fought a border war with the Houthis in 2009-2010, and saw the rise of the Houthis as potentially putting an Shi’ite faction linked to Iran in power in a nation with a 1,307 kilometer long border with Saudi Arabia, and that could potentially put control over access to the Bab el Mandab, the Red Sea, and Suez Canal into hostile hands. This led Saudi Arabia and the UAE to form a military coalition to support the Hadi faction, to invade Yemen, and to try to use airpower as substitute for large enough ground forces to drive the Houthis out of power.

The civil war, however, is only part of the story. Yemen has never had true national unity, effective governance, or an effective economy. It also is another demonstration of the myth that a strong man creates lasting stability rather than puts a cap on forces that can eventually lead to civilian conflict. Like Syria, Yemen had a terrible government and economy long before regional political upheavals began in 2011, and a serious civil war broke out in 2014.

**Figure One** shows that the World Bank rated Yemen as having one of the worst and most corrupt governments in the world long before the crisis and civil war began in 2011, and it was deeply divided at the tribal and regional level. This failed governance interacted with massive population growth in a country with limited arable land and water resources.

According to the U.S. Census Bureau, Yemen had a population of only 4.8 million in 1950. It was 17.2 million in 2000, 23.2 million in 2010, and 26.1 million in 2014. In spite of flight and refugees resulting for the civil war, it still rose to 28 million in 2017. Yemen's lack of arable and water meant that the vast majority of the population had to concentrate in the southern Sarawat Mountains, located in the far western region of the country.

Population pressure created a massive "youth bulge" of young men and women entering the labor market. The CIA estimated that 40.5% of the population was 24 years of age or younger in 2017, and 21.2% was aged 15-24. Population pressure also led to hyperurbanization, with 35% of the population in urban areas in 2015, and urbanization growing at over 4% a year.

Population pressure, however, was only one factor in Yemen’s economic instability. The IMF provides a relatively kind summary of Yemen’s economics problems, in a study entitled *The Economics of Post-Conflict Reconstruction in MENA*, but it is still one that provides a grim warning of the forces that divided and weakened Yemen before the civil war:

Yemen, an oil-based economy, supported the same “Arab social contract” as the rest of the countries in the MENA region. For the past three decades, Yemen has relied on oil for more than one third of its GDP ($31 billion in 2010), half of government revenues and 90 percent of its exports. For years, particularly during the high oil prices of the 2000s, the government enjoyed more than $3 billion oil revenues annually, allowing it to support a large public sector and investment in infrastructure. Oil resources remained the main driver of growth, shaping the long-term economic trajectory of the country. Growth was high but volatile, reaching 7.7 percent in 2010 (due to the gas liquefaction investment). Average growth for the period of 1970 – 2010 was a reasonable 3.8 percent).…Despite such high growth, GDP per capita in Yemen remained the lowest among all countries in MENA, due to a high fertility rate of about 5.4 children born per woman and population growth rate above 3 percent.

Despite improvements in education and health indicators, poverty remained high. The percentage of people living below the poverty line of $1.9 per day (PPP) increased from 44.9 percent in 1990 to 46 percent in 2010. At $4 a day (PPP) more than 85 percent of people lived below the poverty line in 2010. Yemen also had one of the highest malnutrition rates in the world, with almost 60 percent of children under the age of...
five having chronic malnutrition, 35 percent underweight, and 13 percent having acute malnutrition in 2012.

There are multiple reasons for the high poverty rate including water shortages that reduced availability of agricultural products, the inflated public sector that has reduced job opportunities elsewhere, and mismanagement of economic policy. For example, Qat plantation represents about 30 percent of the agricultural production but half of the employed adult males working in the sector grow Qat, a low level drug-like leaf that consumes water and is estimated to be six times more profitable than other food crops, while the country imported over 90 percent of its food.

Studies have shown that Yemenis spend one-quarter of their income on Qat, more than they do on food. Spikes in food prices during this period exacerbated the situation, throwing large numbers of Yemenis into poverty. About one million were hired in the public sector and between 8 to 10 percent of them worked mostly as “ghost employees” who were salary earners but either did not exist or were listed on the payroll of other services, cashing in two or three salaries plus benefits. Government wages and salaries remained a burden on expenses, reaching 11 percent of GDP in 2009. Subsidies also constituted a big share of government expenses, standing at 14 percent of GDP in 2008.

A number of factors led to the 2011 uprising in Yemen, alongside other Arab Spring countries. A broken social contract, low levels of education, with approximately half of the youth illiterate and even those with university degrees lacking skills to be absorbed in the labor market, resulted in an ongoing youth unemployment crisis (standing at an estimated 60 percent). The drop in oil prices after 2009 that led the government to rethink its obligations towards expanding public-sector jobs; lack of voice and accountability; low quality of social services; high rates of poverty and malnourished people; all in a multi-sect, tribal society, triggered the protests in 2011. The long-serving President, Ali Abdallah Saleh, was removed from office.

A process of national dialogue to write a new constitution was established. A few months after the national dialogue concluded, a group led by the Houthis, who were not part of the national dialogue, rebelled. The civil war that started in March 2015 is sometimes called a proxy war because it consists of military operations by a coalition led by Saudi Arabia battling the Houthis, who are thought to be supported by Iran. Now in its second year, the civil war has produced the worst humanitarian crisis in the history of Yemen.

Put more bluntly, failed governance and economic planning/reform ensured that Yemen’s economy had grown too slowly and in ways that did not meet its peoples’ needs. A combination of population pressure, a lack of water and steady drain of fossil water reserves, chronic failures in overall development, and popular dependence on Qat—one of the world's least attractive narcotics—all added to Yemen's problems. Yemen's economy only functioned before the civil war, because of limited oil exports, massive remittance payments from Yemenis who had left the country, and foreign aid.4
Figure One: Reaching for the Bottom: World Bank Estimate of the Decline in Yemeni Stability and Governance from 2000 to 2016:

Long term Failure in All Six Areas of Evaluation

The Cumulative Decline resulting from War: Drop from an Already Very Low 25 Percentile to Under 10 Percent

The Rise of the Current War

Yemen had competent technocrats and some well-meaning ministers before the upheavals began in 2011, but it was terribly governed and did not serve its peoples interests. The upheavals that began in 2011 became serious enough to drive Saleh from power, and critically wounded him in one attack, but did not defeat the Saleh faction or cut its links to the army. The one-candidate election of Abdrabbah Ali Hadi in 2012 brought a figure to power that could not lead effectively and little control over the army and security forces.

The Houthis—a major political and military Shi’ite faction concentrated in the Sa’dah Governate northwest and along the Saudi border—had long felt excluded from power and a share of the nation’s wealth, and never endorsed the 2012 election. A national Dialogue Conference did nothing to convince them that the Hadi government would serve their interests, and fighting between them and local Sunni factions soon spread beyond the Houthi areas.

This created an effective power vacuum in a divided nation that allowed the Saleh faction, and a significant part of the Army loyal to Saleh, to cooperate with the Houthis in making an effective grab. As was noted earlier, the Houthi-Saleh forces seized Sana’a in September 2014, seized the presidential compound in January 2015, and then took power in much of the country. By late March, the Houthi forces had approached Aden and effectively pushed most of the Hadi forces and government out of the country. This, the fact that the Houthi and Saleh faction were reportedly linked to Iran, provoked the Saudi and UAE intervention that has led to the current war.

Saudi and UAE intervention was able to use enough airpower to seize Aden, deploy Saudi and UAE troops, and allow the Hadi faction to return to Aden in the southeast. Airpower alone, however, could not compensate for a lack of ground forces or score more than limited gains against the largely Shiite areas in the west and the capital in Sana’a, or secure many of the rural areas in southern and eastern Yemen, some of which came under the control of Al Qaeda in the Arabian Peninsula (AQAP).

Today's Humanitarian Nightmare

There are no reliable data on the number of Saudi and UAE strike sorties flown in the civil war, their intended targets, the number of civilians killed, and the level of collateral damage. There is a tendency, however, to focus on the air war to the exclusion of the rest of fighting. The reporting on actual total casualties is weak and uncertain at best, and often fails to fully address the responsibility of each side or faction.

The casualties from the air are certainly serious, but are generally reported by incident with uncertain validation and in ways that make estimates of a total guesstimate at best. When it comes to the total casualties, the UN has produced different estimates in press reports that have almost no validating evidence or analytic support. Some in 2016 put the total at 16,200 people killed, including 10,000 civilians. A UN OCHA official put the total at over 10,000 dead and 40,000 wounded in January 2017. Another UN estimate on March 24, 2017, put the total at 100 civilians a month and 4,773 dead and 8,272 wounded. The higher estimates are possible, the level of precision in the lower estimate is impossible to the point of being absurd.

What does seem clear is that the war has been far more serious in humanitarian terms than in terms of direct casualties from combat. Virtually all sources report that there are no reliable estimates of just how much education, medical service, and employment have been hit by the
impact of the fighting—which goes far beyond the impact of the airstrikes which are the focus of most media reports. Fighting between factions on the ground—which include Al Qaeda in the Arabian Peninsula, tribal factions, and some elements of ISIS—as well as the main fighting between the Houthi/Saleh forces, and the Yemen government/Saudi/UAE forces—has created far more suffering than air strikes and has affected far more of the country's territory and population.

**Figure Two** shows the UN Office for the Coordination of Humanitarian Affairs (OCHA) estimate of the immediate threat to Yemen's people at the start of May 2017. Some 3.0 million people—11.3% of the total population—are currently internally displaced away from their homes and livelihoods, and (2.0M) and there are another 1.0 million initial returnees (1.0M). In most cases, these returnees have gone back to areas that remain violent, have few jobs, where housing and businesses have been hard hit by the war, and where returning is far more a matter of having nowhere else to go and stay than any recovery in the area of return.

**Figure Two** also warns that 17.0 million people, or 62% of the total current estimated population, are in need of food assistance. The UN estimates that 1 in 4 Yemenis has lost purchasing power for food and other essential goods and services. Food is the priority need for 75% of the internally displaced and 51% of returnees. Food insecurity has reached the point where 6.1 million out of a total population of 28 million people face stress in getting the food they need, 10.2 million of Yemen's 28 million people face a food crisis, and 6.8 million face a food emergency.

The World Bank uses somewhat different numbers from OCHA, but summarizes Yemen's plight in similar ways,

> The ongoing conflict in Yemen has caused a catastrophic humanitarian crisis. As of March 2017, an estimated 17 million Yemenis (about 60 percent of the total population) are estimated food insecure and a further 7 million severely food insecure. Malnutrition has increased by 57 percent since 2015 and now affects close to 3.3 million people, 462,000 of which are children under five. The United Nations Children's Fund estimates that a child dies every ten minutes from preventable causes.

> About half of Yemen's population of about 26.8 million live in areas directly affected by the conflict. Over 21.1 million Yemenis (80 percent of the population) are in need of humanitarian assistance and 2.8 million Yemenis have been forcibly internally displaced.

The IMF has not done an Article IV report on Yemen since the war started in 2014, but it has done a study of *The Economics of Post-Conflict Reconstruction in MENA*, that provides a further picture of the humanitarian crisis:

Social indicators in Yemen were weak before 2015, but the escalation of conflict has destroyed progress made in the past two decades. The 2015 Human Development report ranks Yemen 160th among 188 countries, a setback from 154th rank in 2014. The effect of the conflict has been catastrophic to the Yemeni people. The civilian death toll is estimated to have exceeded 6,000, with about 28,500 wounded. As of end 2015, 2.5 million people were estimated to be internally displaced in Yemen. The poor are suffering the most: 21.2 million Yemenis or more than 80 percent of the population are in need of emergency humanitarian assistance; 14.4 million Yemenis are facing chronic food insecurity, an increase of 35 percent since the conflict began; and 19.3 million Yemenis are without safe drinking water or sanitation. According to UN OCHA, this has led to a sharp increase in malnutrition and disease burden as reliance on water from unprotected sources makes people, particularly the young, vulnerable to diseases.

...Continued violence has taken a toll on Yemeni children. Data gathered by UNICEF show that six children have been killed or injured every day since March 2015, a sevenfold increase compared with 2014. Combatant parties have also recruited children to join the fighting. In 2015, the United Nations documented 848 cases of child recruitment, with reports suggesting that children as young as 10 were pulled into battle.
There are estimates that about 3,600 schools have closed, bringing the total school-age population that is out of school to more than 3.4 million, or half of all school-aged children in the country. At least 51 attacks on education facilities in Yemen have also been verified.

This situation could deteriorate far more in the next few months if the food impacts to the Houthi-Saleh controlled areas are halted by a Saudi/UAE effort to shut off the port of Hudaydah. Moreover, Yemen's current suffering is only part of its problems. Yemen was a failed state by every possible measure before the political upheavals that led to its current civil war began in 2011.

**Figure Two: The Humanitarian Nightmare in Yemen**

The humanitarian crisis, however, is only part of the story. Like Syria, Yemen's broader economic problems have grown far worse as a result of war, and have become so serious that experts can only guess at the cost and time needed for recovery if peace and stability ever return. The CIA notes that, 10
Prior to the start of the conflict in 2014, Yemen was highly dependent on declining oil resources for revenue. Oil and gas earnings accounted for roughly 25% of GDP and 65% of government revenue. The Yemeni Government regularly faced annual budget shortfalls and has tried to diversify the Yemeni economy through a reform program designed to bolster non-oil sectors of the economy and foreign investment. As part of these reform efforts, Yemen exported its first liquefied natural gas in October 2009. The international community supported Yemen’s efforts toward economic and political reform in part by establishing the Friends of Yemen group. In 2012, the Friends of Yemen pledged nearly $7 billion in assistance to Yemen. In July 2014, the government continued reform efforts by eliminating some fuel subsidies and in August 2014, the IMF approved a three-year, $570 million Extended Credit Facility for Yemen.

However, the conflict that began in 2014 stalled these reform efforts. Rebel Houthi groups have interfered with Ministry of Finance and Central Bank operations and diverted funds for their own use. Yemen’s Central Bank reserves, which stood at $5.2 billion prior to the conflict, currently stand at $1.5 billion. The Central Bank is exposed to approximately $7 billion in overdraft, more than three times the legal limit, directly linked to the Houthis withdrawing $116 million on a monthly basis. The private sector is hemorrhaging, with almost all businesses making substantial layoffs.

The Port of Hudaydah, which handles 60% of Yemen’s commercial traffic, was damaged in August 2015 as a result of the conflict and is only operating at 50% capacity. Access to food and other critical commodities such as medical equipment is limited across the country due to security issues on the ground. The Social Welfare Fund, a cash transfer program for Yemen’s neediest, is no longer operational and has not made any disbursements since late 2014. Yemen will require significant international assistance during and after the protracted conflict to stabilize its economy. Long-term challenges include a high population growth rate, high unemployment, declining water resources, and severe food scarcity.

The CIA can only make "guesstimates" as to just how serious Yemen's economic situation has become since the fighting started in 2014. Even in 2014, however, the CIA estimated that unemployment approached 34% and 54% of the population was below the poverty line. The CIA estimates the GDP shrank by at least 32% between the start of major fighting and 2016, and that GDP per capita dropped from a low $3,900 in 2014 to $2,500 in 2016—a cut of 36%, and one that left Yemen ranking a dismal 198th in the world. A major gap between imports and exports also reached the crisis level. Exports dropped from $1.364 billion in 2015 to $124.3 million in 2016, but imports went from $3.624 billion in 2015 to $4.793 billion in 2016. The World Bank makes somewhat different estimates from OCHA and the CIA, but summarizes Yemen's economic plight in very similar ways,12

Basic services across the country are on the verge of collapse. Chronic drug shortages and conflict-related destruction restrict around 14 million Yemenis, including 8.3 million children, from accessing health care services. In addition, more than 1.8 million additional children have been out of school since the escalation of conflict, bringing the total number of children out of school to more than 3 million. Over 1,600 schools remain closed due to insecurity, physical damage, or their use as shelters for displaced people. Aid delivery has been affected by violence and security concerns.

Official statistical reporting on Yemen is no longer available. However, the data gathered suggests that Yemen’s GDP contracted since 2015 by about 40%, cumulatively. Economic and social prospects in 2017 and beyond will depend critically on rapid improvements on the political and security fronts, and ultimately whether an end to the on-going conflict will allow for re-building the economy, the productive sphere, and Yemen’s social fabric.

The IMF has not done an Article IV report on Yemen since the war started in 2014, but has done a study of The Economics of Post-Conflict Reconstruction in MENA. This study estimates a 28.1% drop in between 2014 and 2015, and 9.6% drop in GDP in 2016. It also estimates a 37.2% drop in fiscal balance as percent of GDP during 2014-2017, and a 54.4% percent drop in the current account balance as a percent of GDP.13
The IMF study notes that, "The results of the 2017 Gallup survey show that compared to the pre-Arab Spring years, people in Iraq, Yemen and Syria are suffering most: the dissatisfaction index (how satisfied they are with their lives) has increased by 15 percentage points on average in 2016 compared to 2010. It reports that, "The conflict in Yemen has touched every aspect of Yemenis’ lives, limited their access to food, water, and health care, deepened poverty, and forced millions of children out of school.” It also makes yet another casualty guesstimate: “More than 7,000 people have been killed, and over 31,000 wounded. So far, more than 15 percent of Yemenis have been displaced or have fled the country." 

What is most important is the degree to which the IMF study estimates that war has made Yemen’s economic and development challenges far worse.

...The civil war in Yemen is still ongoing and therefore estimates of the costs of damage to infrastructure, physical capital and human capital are incomplete. A joint study by the World Bank, United Nations, Islamic Development Bank and European Union put an early estimate of damage costs (still partial and incomplete) of $15 billion, consisting of almost $7 billion in economic losses (in nominal terms) and over $7.3 billion in production and service delivery. The cost estimates assess residential damage only in the cities of Sana’a, Aden, Taiz and Zinjibar, to be about $3.6 billion but data collection was cut off in October 2015 -- about seven months into the conflict. The cost to reconstruct damaged energy facilities in the four cities was an estimated $139 million, most going to repairing damaged or destroyed power plants. A survey by Yemen’s education ministry showed that of 1,671 schools in 20 governorates that suffered damage, 287 need major reconstruction, 544 were serving as shelters for internally displaced persons, and 33 were occupied by armed groups. Based on a sample of 143 schools, the estimated cost of the damage was $269 million. Estimates by the Ministry of Public Health and Population, show that 900 of 3,652 facilities providing vaccination services were not operating in early 2016, leaving 2.6 million children under 15 at risk of contracting communicable diseases.

...Yemen has a history of instability but the recent war has pushed the country into a humanitarian crisis. Economic activity has collapsed in almost all sectors of the economy, particularly oil; access to social services including health and education has dropped significantly; and imports have contracted substantially. Oil production, the main source of government revenue, declined sharply following the uprising in 2011 due to increased insurgencies in oil fields and later on as a result of the ongoing proxy war that started in March 2015.

The economy contracted sharply in 2015 and 2016 by 28.1 percent and 4.2 percent respectively. The UNDP Business Survey Report estimates several firms suspended their operations, including 35 percent in the service sector, 29 percent of the industrial enterprises and 20 percent of trading companies. This swelled further the already critical unemployment rate in the country. Combined with the effects of conflicts on other sectors (social, agriculture, fishery and livestock, trade and industry, banking system, etc.), this worsened the living condition of Yemenis.

Inflation reached 39 percent in 2015, and is expected to increase further as fiscal performance is continuously weakening. The fiscal deficit has widened and foreign financing of the budget has largely come to a halt, as many development partners suspended their engagement. On current expenditure, the premium on wages and salaries were cut as a response to lower oil prices and government’s shrinking finances as well as a large cut in subsidies from 8 percent of GDP in 2011 to less than 1 percent in 2015.

Public investment was low prior to 2011 but effectively halted afterwards to less than 0.2 percent of GDP in 2016. The Yemeni exchange rate has come under stress due to the loss in oil revenues and lack of foreign financing. International reserves declined to less than $2 billion in late 2015 (2 months of imports). Consequently, in February 2016, the central bank stopped supporting imports at the official exchange rate except for wheat and rice. The government’s reliance on central bank financing of the fiscal deficit led to inflation and an increase in domestic debt stock by about 18 percent of GDP to an estimated 53 percent of GDP in 2016.

War has lasting direct human costs that has to be added to these warnings. It produces crippling casualties with long-term costs, children with little education but schooled in fear and violence,
new sectarian and tribal tensions, and the need to combine all of the complex governmental, social, and economic challenges of recovery with the challenge of development. So do forms of conflict resolution that do not provide any effective path to deal with such problems. Simply halting the fighting, dividing the country to create ceasefires, and/or creating leadership who can move away from violence but cannot govern effectively delays any serious and coherent effort at both recovery and development.

The IMF Warning on Conflict Termination

The IMF also adds another important element to its analysis. One key problem in most studies of the impact of war in Yemen is that they do not warn that the war may go on for years, and that a partial or wrong form of conflict termination can have serious negative effects over time. In contrast, the IMF also warns that there is no real way to estimate the cost of recovery and development during a war and until it is clear what level of post conflict governance, unity, and resources actually exist,

The scale of damage is such that just bringing the economies of Syria, Yemen and Libya back to their pre-war levels will require a colossal amount of resources. Estimates of the order of two to three times the country’s 2010 GDP would not be unreasonable. However, any recovery program should strive for going beyond reproducing 2010 GDP since, as shown above, the economies would have grown significantly in the absence of a civil war. Syria, for instance, had an historic opportunity to break the lower-middle-income barrier and become an upper middle-income country by 2025. Catching up to this long-term trajectory could take several years and trillions of dollars. Yet it is only fair to the people of these countries that any reconstruction plan keep its eyes on this seemingly unattainable trajectory and seek to achieve as much of its promises as possible.

In addition, much of the damage to human capital - children pulled out of school, re-emergence of communicable diseases, psychological trauma - will have long-term, possibly intergenerational consequences. Hence the focus of reconstruction should go beyond restoring the current lost output to preventing a long-term and possibly permanent stagnation in the economy.

Arriving at an estimate of the resources needed is only the first step. The next one is identifying how the funds will be raised. In the cases of Syria, Yemen and especially Libya, the oil sector—when it is back in production—could represent an important source of financing, just as it did for Iraq. To be sure, oil prices are unlikely to go above $60 per barrel (Devarajan and Mottaghi, 2016a) and restoring oil production will itself require financing. But the experience of other post-war recoveries shows that countries with significant natural resources are able to revive their economies faster than those without (Devarajan and Mottaghi, 2016b). So prioritizing the resumption of oil production could both help revive the economy and finance further reconstruction.

That said, even a fully functional oil sector would not generate enough resources to finance the post-conflict reconstruction in any of these countries. This is where the international community needs to step in. Given the sizable spillovers of these wars to neighboring countries and places further away such as Europe, it is in the international community’s interest that peace, once achieved, should be sustained. And this requires that the post-war reconstruction program be adequately financed. Indeed, agreement around a reconstruction program could be the point of convergence among different regional and international players in the current conflicts.

It is important to stress that the IMF analysis assumes a level of petroleum resources and export income that may suit Iraq and Libya, but are not realistic for Yemen. At the same time, the IMF warns that many aspects of the U.S. effort in Iraq between 2003 and 2011 were a failure, and that,
While the financial and technical support of regional and international partners is critical, the reconstruction program should be a national-driven and not a donor exercise. It should be based on national visions and agendas developed through inclusive forums of debate. Donors can reinforce this process by working through national institutions, even if they are nascent, rather than impose a foreign entity in an already fragile situation.

While raising the necessary financing is important, the pace and rhythm by which the money is spent is just as important. The experience of Iraq (and possibly Afghanistan), as well as other high-aid developing countries, teaches us that spending beyond the absorptive capacity of the recipient can create huge distortions, rent-seeking behavior, and possibly make the situation worse (See Box 2.2). If complementary inputs such as technical knowledge and incentives are not in place, large amounts of financing will serve to raise prices beyond reasonable levels. It can also lead people to favor expedient, short-term investments (to show that the money was spent) at the expense of longer-term, institution-building measures. Rather than focusing on just raising the total amount of money estimated as needed, the principle should be that no sensible and realistic post-conflict reconstruction activity should be financially constrained.

...Any reconstruction program will require prioritizing and sequencing of interventions. In Syria, for example, should they first rebuild Aleppo or Homs? Should electricity be restored before restarting children’s schools? Given that all three countries followed an autocratic, state-led development model in the past—a model whose breakdown led to the Arab Spring protests that, in turn, led to civil war—it is essential that the reconstruction strategy not reproduce the old social contract (Devarajan and Mottaghi, 2015b). Rather, it should be people-led, driven, and controlled. Decisions on resource allocation, even for large-scale infrastructure projects, should not be taken exclusively at the central-government level. There should be mechanisms by which the public is consulted and their voice has an impact on the decisions.

Giving citizens voice in decision-making is important for two reasons. First, as just noted, it would be a departure from the old social contract, which has clearly broken down. Fuel subsidies, for instance, are not only inefficient and regressive, but they serve to disempower people, especially poor people. For the only way they can get a benefit from the state is to consume fuel (Devarajan and Mottaghi, 2014). Replacing these fuel subsidies with cash transfers not only reduces inefficiencies such as pollution and congestion associated with excess fuel consumption, but it gives people a choice of what to consume out of the benefit they receive. In this spirit, the post-conflict reconstruction program should try to give people a choice over what types of benefits they wish to receive.

The second reason for consulting with the public before, say, building infrastructure is that the three civil wars have become sectarian conflicts with a large number of displaced people. In Syria, over half the population has left their homes. Inasmuch as they were fleeing violence perpetrated by groups different from themselves, some of these people may not wish to return to whence they came. They may not even wish to live with people of their own sect.

In a study of rebuilding post-war Bosnia, Whitt (2010) finds that people do not unconditionally trust their co-ethnics and universally distrust other groups. He suggests that factors other than ethnicity could create trust among different sects in society. Institutions that cut across ethnic or sectarian lines, but build trust, can be critical in rebuilding post-war economies. While helping these institutions emerge, one concrete measure of post-conflict reconstruction could be to give citizens cash transfers and let them decide where to move before rebuilding infrastructure. Not only will this avoid wasteful infrastructure spending, but it would empower citizens and possibly incentivize local governments to attract citizens, both of which would help build trust in the state.

A particular way for the reconstruction program to be people-led is to crowd in the private sector. A post-conflict government will have neither the resources nor capacity to rebuild the economy. But the private sector can - and will - be the engine of growth in the aftermath of the war. The government should promote a dynamic business environment and institutional reforms, based on a consensus emerging from an inclusive dialogue on reconstruction, so that the power of the private sector can be unleashed. Privileging the private sector will also be important in facilitating the return of refugees, many of whom abandoned their businesses during the war. Finally, a dynamic private sector is the strongest antidote to a resumption of conflict.
Like the warnings in the lessons reports of the Special Inspector General for Iraqi Reconstruction (SIGIR) and the Special Inspector General for Afghan Reconstruction (SIGAR), the IMF study makes a critical point. Outside efforts to transform different states and cultures are likely to be expensive failures, but no amount of outside aid can provide the help a state needs unless its government is capable of helping itself.

**The Challenge for U.S Policy**

The war in Yemen is arguably the worst case demonstration of the fact that none of the wars the United States is now intervening in can be “won” without some form of nation building that ends in creating a government or governments capable of bringing lasting peace, stability, recovery, and development to the people’s concerned. Afghanistan, Iraq, Libya, Syria, Somalia, Yemen and the nations where the U.S. plays some military role in South Africa are very different in many ways. What they all have in common is that any form of conflict termination that only ends in creating an awkward and uncertain end to the fighting will not bring lasting peace or stability and will continue to have tremendous costs in humanitarian and development terms.

This does not mean simply ending the fighting has no value. It clearly does. However, setting goals like defeating ISIS do not necessarily even end the fighting, and the same is true of any military options that the U.S. has in Yemen. Backing Saudi Arabia and the UAE in using airpower to force Houthi-Saleh concessions might bring some form of lasting ceasefire or even allow the Hadi government to return, but it might also simply lead to a pause in the current fighting, leave AQAP and other fighting to continue, and might well do nothing to help Yemen fully recover and develop.

If the United States is to ever play an effective role in ending the war in Yemen, it will not be enough to either provide enough military aid to allow the Saudi and Yemeni coalition to force the Houthis to negotiate, or create yet another ineffective and unstable coalition in Yemen. A ceasefire that leaves the country divided and unable to recover and develop will be even worse. It will not solve Yemen’s shorter-term humanitarian problems and will leave it so unstable that it will almost certainly be the prelude to future conflicts.

Regardless of how the fighting is resolved, the United States must at least try to learn from its past failures in Afghanistan and Iraq. It needs to do everything possible to create a Yemeni government capable of bringing some degree of unity, managing recovery, and moving toward development. Any real kind of “victory,” requires a Yemeni government that can develop and plan its own recovery and development efforts. This is the minimum criterion for success, and it means an active effort to both create Yemeni capacity for nation building and support of a successful Yemeni effort.

The United States should also consider supporting some form of international aid effort that is clearly tied to effective Yemeni efforts to plan, execute, and use aid money effectively. The U.S. cannot afford to fund some new form of Marshall Plan for every failed state, nor will such plans work if the recipient government is not capable of using the money and force to use it effectively. It can, however, work with other states to create an aid program that will act as a major incentive for countries to help themselves, play an important role in supporting recovery and development, and have the kind of international character that will minimize outside rivalries and interventions.


7. Stephanie Nebehay, 100 civilians killed a month in Yemen war, most by coalition: U.N., Reuters, World News, Fri Mar 24, 2017 | 11:18am EDT.


