

# Conflict, Peace-Building and Post-Conflict Reconstruction in Yemen

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**Working Paper No. 1391**

**April 2020**

This paper was prepared for the ERF project on Conflicts, Governance and Post-Conflict Economic Transition in War Afflicted Countries. The project is led by Samir Makdisi, Raimundo Soto and Ibrahim Elbadawi. The Project will be completed by 2021 with special thanks to the Ford Foundation.

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First published in 2020 by  
The Economic Research Forum (ERF)  
21 Al-Sad Al-Aaly Street  
Dokki, Giza  
Egypt  
[www.erf.org.eg](http://www.erf.org.eg)

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### **Abstract**

Violent conflicts are not new to Yemen. For centuries, the country has been plagued by political and social instability, inadequate and inefficient state institutions, insufficient infrastructure, and absolute poverty. Prior to the current conflict, Yemen was already identified a “failing states”. The current violent conflict has entered its sixth year with little hope for the return of peace to the impoverished country. This paper aims to provide a basic understanding of factors that led to the uprising of 2011 and the eruption of hostilities three years later. For Yemen, the conventional explanation of violent conflicts through economic, social, political, ethnic, and religious grievances is an oversimplification of other realities. This analysis instead suggests that such grievances represent means by which the elite struggle for power and resource-capture. Therefore, in order to arrive at long-lasting peace and prevent reoccurrence of the conflict in the long run, the peace-building process must start by uncovering the root causes of the conflict. On the other hand, post-war reconstruction requires the implementation of a sound economic agenda that involves learning from pre-conflict mismanagement of the economy and experiences of other war-affected countries but taking into consideration the distinct nature of the Yemeni economy and society.

**Keywords:** Civil war, counterfactual, cost of conflict, economic reconstruction, peacebuilding, political transition, post-war Yemen.

**JEL Classifications:** C22, D74, D72, H56, H77, N40, O40, P16.

## **1. Introduction**

Violent conflicts are not new to Yemen. For centuries, the country has been plagued with political and social instability. The current conflict is, however, the longest, bloodiest, and most destructive in Yemen's recent history. This paper seeks to explore and understand the underlying causes of the conflict including the presence of a weak state, economic deterioration, foreign intervention, corruption, and marginalization of key local areas and groups. Our analysis aims to correct some ubiquitous misconceptions found throughout the literature about the Yemeni conflict. We also seek to examine the dire consequences of the current conflict on the economy and the social fabric of the country and discuss the peacebuilding process and post-conflict economic reconstruction. Finally, we conclude with a summary of findings and policy implications.

## **2. The Road to Conflict**

The weakening of the central state in Yemen and its eventual degradation has its roots in a plethora of factors that can be dated back to the arrival of the first Hashemite Imam (al Hadi) from Medina (in the current KSA) in 897AD. Al Hadi and later his descendants succeeded in preaching Zaydism in Northern Yemen and ruling the country intermittently until the revolution of 1962 (Knights, 2018)<sup>4</sup>. In the early 20th century, the Mutawakkilite royal dynasty, descendants of al Hadi, seized power from the Ottomans and ruled Northern Yemen for a half-century.

The revolution of September 1962 in North Yemen toppled the religious rule of the Mutawakkilite Imams and established the Yemen Arab Republic (YAR)<sup>5</sup>. Subsequently, civil war broke out between the Republicans, backed by Nasser of Egypt, and the Royalists, backed by KSA and the Hashemite king of Jordan with covert support from Britain. In 1967, Republicans lost military support from Egypt in the wake of the Arab-Israeli war. The two Yemeni combatants resorted then to dialogue, reaching a peace pact in 1970, which laid the ground for power-sharing arrangements in a newly formed Republican government. Meanwhile, South Yemen gained its independence from Britain in 1967 and established the Marxist People's Democratic Republic of Yemen (PDRY), supported by the former Soviet Union.

The relationship between the two new states in the North and the South was frequently punctuated by intermittent and brief armed conflicts. In 1990 the PDRY lost the Soviet support inducing Ali Salem al-Beidh, the then ruler of PDRY, to approach the late president Ali Abdullah Saleh (Saleh) of YAR asking for unification of the two states. The two leaders announced the creation of the

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<sup>4</sup> Although considered a branch of Shiite Islam, the doctrinal gap between Zaydism and mainstream Sunni Islam is relatively narrow. Zaydis are sometimes referred to as the Sunnis of the Shiites and they make up a third of Yemen's population. There are substantial differences between the Shiite Twelver Imamate doctrine that is dominant in Iran, and Zaydism.

<sup>5</sup> The revolution of 1962 ousted the Imam but kept the Hashemites dynasty intact, sharing power with the republicans according to the 1970 peace pact. Zaydi Hashemites claim their kinship to prophet Mohammad grants them the exclusive right to rule Yemen.

current Republic of Yemen (ROY) on the 22<sup>nd</sup> of May 1990. The unification pact provided an arrangement of *equal* power-sharing, and Saleh became the head of ROY while al-Beidh became the vice president.

The equal-power-sharing arrangement proved unsuccessful, and relations between the two leaderships deteriorated quickly<sup>6</sup>. Southerners accused Saleh of excluding them from executive decision-making and of leading an assassination campaign of senior southern officials (Williams et al., 2017). In 1994, North-South tensions led to a brief war and a failed violent secession attempt by al-Beidh and other southern officials. The army and some Southerners loyal to Saleh were able to quell the attempt and expel secession leaders outside the country. The central government in Sana'a regained control over all ROY territories, including the South<sup>7</sup>.

## **2.1. Spring 2011 Uprising**

Following the failed secession attempt in 1994, Saleh ruled the ROY with little opposition until November 2005 when the Joint Meeting Parties (JMP), an alliance of five major political parties, declared its opposition to Saleh's plan to run for another term in the 2006 elections, as well as his preparations to groom his son to succeed him in power. Political tensions increased when the JMP called on Saleh to step down and announced its support for his opponent in the 2006 elections. Saleh won a new 7-year term despite signs of public discontent that led to the 2011 peaceful youth protests, one of the Arab Spring revolutions. The 2011 "Revolution of Change" was overtaken by the JMP, notably Al Islah Party<sup>8</sup>, joined by other enemies of Saleh, including the Houthi movement located in Sa'da governorate.

After a period of unrest, Saleh agreed to step down in exchange for complete immunity from prosecution under terms of a GCC-brokered initiative. On 21 February 2012, VP Abd-Rabbuh Mansour Hadi was unanimously elected as president to lead a transitional period of 2 years, during which the international community brokered a National Dialogue Conference (NDC)<sup>9</sup>. The Conference prepared a document outlining a road map to peace and stability through means of establishing a federation of six districts. The road map was approved unanimously by participating delegates in NDC and a presidential panel in February 2014. In addition, the NDC drafted a new constitution, and plans were to hold a popular referendum to approve it shortly. However, Houthis and their new ally Saleh pulled out of the NDC agreement and announced their opposition to its proposed federal system, which they claimed would have threatened the country's unity.

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<sup>6</sup> The 50/50 power sharing agreement ignored demographic realities. YAR and PDRY had 4 to 1 population counts.

<sup>7</sup> The military conflict lasted from 5<sup>th</sup> of May to 7<sup>th</sup> of July 1994.

<sup>8</sup> Official name of Muslim Brotherhood Movement in Yemen.

<sup>9</sup> NDC was held in Sana'a and lasted from March 18, 2013, to January 24, 2014.

## 2.2. From Uprising to War

The rise of Houthis began to pick up momentum, when in September 2014, Hadi's controversial decision to cut fuel subsidies led to massive hikes in prices and resulted in public discontent against the transitional government (William et al., 2017). Houthis supported popular demonstrations, and their leader Abdul Malek al-Houthi requested that fuel subsidies be reinstated (Feltman, 2018). They were also demanding a more representative form of government that would reflect the seats allocated to political groups and independent activists during Yemen's NDC (Al Batati, 2015). Houthi armed groups advanced from Sa'da and took control of the city of Amran, 50 Kilometers north of the capital Sana'a. With help from their former enemy Saleh, who maintained control of most of the official armed forces, Houthis advanced towards Sana'a, finally capturing it on the 21<sup>st</sup> of September 2014.

Once the country was mired in political deadlock, the situation escalated rapidly. In January 2015, Houthis arrested the chief of staff and placed Hadi and his government under house arrest. When Hadi managed to escape to Aden on the 21st of February 2015, Houthis announced the dissolution of the parliament and appointed a new Houthi-led presidential council. In March 2015, the Houthi–Saleh alliance advanced towards the city of Aden, prompting Hadi to flee to the Kingdom of Saudi Arabia (KSA). Upon his arrival in Riyadh, Hadi's plea for help prompted KSA to announce the formation of the “Arab Coalition,” with a proclaimed aim of uprooting the Houthis and restoring the legitimate government to power<sup>10</sup>. The coalition began a military campaign, dubbed “Operation Decisive Storm” in March 2015.

In the meantime, the capture of Sana'a by the Houthis and Saleh attracted local, regional, and international condemnation. In April 2015, the UN Security Council issued resolution 2216 imposing sanctions on individuals it said were undermining the stability of Yemen, in particular the Houthis and Saleh. The Council also demanded that Houthis withdraw from all areas seized and surrender military and security establishments and arms they had captured. It also demanded that Houthis cease all actions falling exclusively within the authority of the legitimate government and fully implement previous Council resolutions. Acting under Chapter VII of its Charter, the Council also called upon the Houthis to refrain from any hostilities or threats against neighboring countries, release all political prisoners and individuals under house arrest or arbitrarily detained, and end the military recruitment of children. (UN Security Council, 2015).

The coalition waged a major air campaign against the Houthis and armed forces loyal to Saleh. The situation continued to deteriorate, as witnessed by the 5-year ongoing war between the internationally recognized government backed by the KSA-led Arab Coalition and the new de

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<sup>10</sup> The coalition initially consisted of 12 countries, but only KSA and United Arab Emirates (UAE) have actively engaged in the military operations. Also, a few thousand soldiers were sent to Yemen by the government of Sudan to engage in ground operations on behalf of KSA.

facto Houthi government in Sana'a. Since then, the country has witnessed a rise in the number and intensity of terrorist attacks, street protests, tribal clashes, kidnappings, and growing tension in the South. In December 2017, Houthis turned on and killed Saleh after he announced his intention to switch sides and join forces with the KSA-led coalition. The war continued with no decisive victory by any of the combatants. In August 2019, tensions within the coalition surfaced when Hadi's government accused the UAE of militarily supporting the Southern Transitional Council (STC) which captured two southern governorates and forced Hadi's government out of the temporary capital Aden. This development was the last in long-subsumed tensions between UAE and KSA objectives in Yemen.

### **3. Understanding the Roots of Conflict in Yemen**

There exists a prevalent perception in the political science literature that violent civil conflicts are related to one or more genuine grievances resulting from economic and social inequality, political repression, and ethnic and religious aspects. However, Collier (2000) argues instead that economic analysis suggests that rebellion is more likely *a form of organized crime*, and rebels are not public-spirited heroes fighting against injustice. Once started, violence is promoted and continued when there are revenues to be made by warlords. The risk of civil war becomes higher when the country's resources and level of development become short of the elite's ambitions. The policy implications of this proposition are that if we neglect the economic dimensions of civil war, we miss substantial opportunities for promoting peace. Makdisi and Sadaka (2005) concluded that in the Lebanese civil war (1975-1990), religion rather than ethnic fractionalization was the main factor leading to the civil war. They point out that there is little evidence on the significance of economic factors, but they could potentially explain the relatively long duration of the Lebanese war, a conclusion that agrees with Collier's.

In the case of Yemen, several writers consider the conflict in Yemen a sectarian war, but many indicators suggest otherwise. Most signs point to local political greed for power capitalizing on numerous existing grievances<sup>11</sup>. In addition, foreign powers used rifts among political groups, nourishing such groups to promote their agendas, including the control of the country's natural resources. The NDC was meant to come up with "a new resilient social contract" but only Yemeni political elites and outside powers were present (Abu Alasrar, 2018). Political elites and local groups, including those who presented their grievances during the NDC, showed that their aim was to seize more power and control of the country's economic resources, rather than preaching sectarian principles. Yemen's mountainous terrain, tribal loyalties, and sectarian divide as well as the destruction of the social contract by Yemeni elites were factors that have played a significant role in creating a fertile environment for the current struggle. In what follows, we present some of the critical factors that paved the road for a power struggle in Yemen and a civil war that is likely

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<sup>11</sup> Even though Houthis belong to the Zaydi sect, a branch of Shi'a, it is observed that the two sides of the conflict include both Sunni and Zaydi members.



to continue for the foreseeable future.

### 3.1. Geography

Geography plays a vital role in the foundation of the Yemen's political economy, and the strategic location of the country has made it susceptible to regional and international influences that have nourished local competing political groups, contributing to its everlasting political instability. Yemen lies on the Bab al-Mandab strait through which much of the world's oil shipments pass. It occupies around 528 thousand square kilometers on the southern end of the Arabian Peninsula. Its population in 2018 was estimated at a little over 30 million, 70 percent residing in rural areas. Trade has been vital for the country since ancient times when Yemen was once home to the ancient trading state of Sheba. Nowadays, trading ports such as Hodeidah, Aden, and Saleef are a significant source of revenue and are essential for political control of the country (Easterly, 2018). Much of Yemen's poverty is a result of acute water shortages. The country has only 3 percent arable land and one of the lowest per capita freshwater supplies in the world. In the capital Sana'a, less than half of the residents are connected to the main water supply, and tap water only flows intermittently in most major cities. (Hincks, 2016).

### 3.2. Economic Factors

Before the recent conflict, Yemen was the Middle East's poorest country with overall weak economic and social indicators (Table 3.1).

**Table 3.1. Yemen and MENA Selected Economic and Social Indicators before the Conflict (2010)**

Indicator	Yemen	MENA
Population (million)	24.4	325
GDP per capita (current \$)	1283	2000
HDI Rank	133	--
% of population below the poverty line	43	16.9
% of urban population	31	58
Life expectancy at birth (Year)	63	71
Infant mortality rate (for every 1000 births)	78	27
% of malnourished infants (under 5 years)	43	12
% of Population with access to safe water source	62	87
Health expenditures (% of GDP)	2.1	4.8
Adult illiteracy rate (%)	39	26

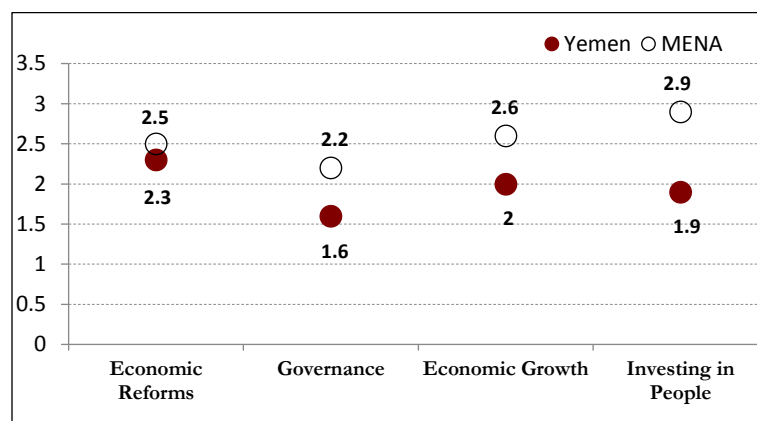
Source: World Bank (2019)

In 2012, about 44 percent of the population were undernourished, with about 5 million requiring emergency aid (Hincks, 2016). According to the World Bank data, indicators showed slight improvements in health, primary education, and literacy rate during the last few decades. These

improvements, however, were not enough to satisfy the aspirations of the Yemeni people for a better life, and certainly did not reflect the country's potential. The percentage of those below the poverty line increased as well as the rate of malnourished infants. The increase in per capita GDP resulted mainly from the influx of oil export revenues, which were used pro-cyclically. The significant oil revenues were mainly used to finance current expenditures, notably higher wages and salaries, which had negative consequences when crude prices later malformed.

Not only was the economy performing relatively poorly, it also showed low performance in almost all development-related indicators. As Figure 3.1 indicates, Yemen scored below the average of MENA region in such indicators as economic reforms, governance, economic growth and investing in people<sup>12</sup>.

**Figure 3.1. Yemen Development Profile (2010)**

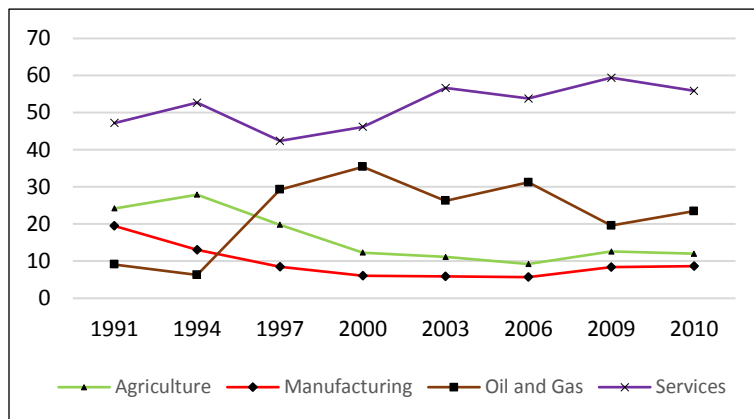


Source: Adopted from USAID (2011).

Agriculture has been the leading sector for employment, providing around 55 percent of employment in 1991, but the real impact of agriculture on GDP was remarkably low at 24.2 percent (Figure 3.2). The contribution of agriculture to GDP decreased to around 12 percent in 2010. Prior to 2011, 69 percent of the country's population was living in small, self-sufficient, agricultural mountain villages.

<sup>12</sup> Based on a 1 to 5 scale, with 5 representing most advanced worldwide

**Figure 3.2. Contributions of Economic Sectors to Yemen's GDP (1991-2010)**



The incidence of poverty in rural areas was 43 percent, nearly twice as much as in the urban areas and continuously growing, with marked regional differences in poverty levels. The rural areas in the governorates of Sa'ada, Hajjah, Amran, and Hodeidah were the poorest. Unemployment averaged 13% in 2010 with almost 20% unemployment among females and 22% among youth and is believed to have fueled the public discontent that preceded the current conflict. Before the current conflict, the workforce in Yemen was mostly uneducated, informally employed, and male-dominated (ILO, 2015). The bulk of those employed worked either in the agricultural sector or in wholesale and retail activities. Most of the employed were engaged in “own-use production,” including subsistence foodstuff producers.

The long-standing structural weaknesses in the country's economy, particularly the lack of access to stable fuel supplies, electricity, along with increasing inflation and high rate of unemployment have been continuously damaging the national economy and the lives of citizens across the country, with major impacts on those residing in geographically unfavorable areas. Some analysts have pointed to the poor economy, and government's inability to provide badly needed services to ordinary citizens, to explain why the government has been grappling with southern secessionists, Houthi militant group, Al-Qaeda threat, and tribal issues (England, 2010). Public services had been deteriorating rapidly, partially due to falling public revenues for many years prior to the uprising. In addition to a weak economy, the lack of government presence in the country was evident. Even before the current conflict, Yemen was plagued with violence between tribes over land and water, and a lack of transparent processes for settlement of disputes, negatively affecting prospects for significant improvements in the economy.

### 3.3. Social Organization

One of the characteristics of the Yemeni state is the absence of formal institutional capacity due to the long-prevailing dominance of personal networks to bypass institutions and impede proper institutional development. The enforcement of the law continued to be mainly implemented

through informal channels. The pre-conflict administrative system developed into a mix of corruption and elite dominance, which tended to provoke growing street protests, tribal clashes, terrorist attacks, and kidnappings, all of which signaled state failure in Yemen. The country has also been generally portrayed as a state in a critical condition on the verge of collapse, as it is running out of oil and, even more alarming, water. However, there are other dimensions that affect social grievances in the country. The anthropologist Paul Dresch argues that, in the 1990s, the traditional categories used to describe the Yemeni elite, such as "merchant, shaykh, officer, and modernist," finally collapsed and the categories used to define Yemeni elites have never been mutually exclusive and have become more fluid in recent years<sup>13</sup>.

Although Yemen has clear maritime and land borders that may portray the country as a unit, the reality is that it is a segregated country with multiple regional power hubs. Socio-political units and religious communities comprise tribes, governmental administrative units, political parties, and different religious communities. Tribal structures are particularly strong in the North. Southern tribes generally have less influence on the national level as South Yemen pursued detribalization before unification<sup>14</sup>, hence the well-known divide in the country between North and South. Since the civil war of 1994, grievances among the Southerners have led them to continuously express their desire for a separate state in the South, and the southern grievances resulted in the emergence of the Southern Peaceful Movement (SPM) in 2007. However, neither the North nor the South had stable socioeconomic systems or structures.

### **3.3.1. Exploring the Local**

Responding to demands for decentralization of authority, which rose after the 1994 civil war, the central government of Yemen issued the Local Authority Law (LAL) in 2000, as a blueprint for creating local councils in the country. Local authorities were technically allowed to make use of revenues obtained from utility bills and "zakat" revenues<sup>15</sup>. However, since the final budgets were approved in the Parliament, the councils suffered chronic underfunding, resulting in impediment to any significant developmental work by the local district level councils (al-Awlaqi & al-Madhaji, 2018). The local councils' effect on development gradually declined as most councils were misallocating available funds for personal and political purposes in the absence of a system of checks and balances.

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<sup>13</sup> Yemen traditional elite which used to be composed of "merchant, shaykh, officer, and modernist," finally collapsed as, in recent years, each category in the elite composition began to assume functions of other categories, Shaykhs becoming officers, and doing business, officers engaging in commercial activities, and modernists allying with Shaykhs, etc.

<sup>14</sup> Detribalization in the South proved not very successful and the area lately witnesses a strong revival of tribalism.

<sup>15</sup> Zakat is an Islamic tax that of 2.5% of all types of wealth above a certain value that has stayed in one's position for an entire year.

Given an array of state levels and a large number of localities<sup>16</sup>, little coordination took place among public bodies, especially in rural areas, which further damaged the already collapsing public services (Mitchell, 2012). As of 2007, per capita public health expenditures was US \$11, and only 4.9 percent of total government expenditure was allocated to health, much lower than comparable countries (UNDP 2008). The poorest households sought their medical care from the private rather than public health facilities, as the government was not providing the necessary assistance to the population.

### **3.3.2. Urban Pressures**

Demographic pressures have been a significant problem in the major cities of Yemen. Official sources estimate that the population of the capital rose from 135,000 inhabitants in 1975 to over two million before the start of the conflict. The growth rate in smaller towns has also been rapid, averaging 10 percent annually between the 1980s and the 2000s (Stadnicki, 2014). The informal settlement population in Yemen's urban areas grew by 229 percent in the last two decades, and in 2019, it was estimated that 70 percent of urban residents live in informal settlements in the capital and other regional capitals<sup>17</sup>. The government has been unable to secure essential services for most of the urban population, leading to further distrust and discontent.

### **3.4. Political Factors**

The political system which was developed after the unification in 1990 was layered onto a strong tribal structure, leading to a complex multilayer political structure. Despite the population differences between the Marxist PDRY and the traditionalist, free-market YAR<sup>18</sup>, an equitable power-sharing agreement was reached laying out the path for future disputes. Leaders pursued integration of both former republics together with their tribes and sectarian diversities. Even with initial appearances of democratic willingness, regional rivalry, together with the atmosphere of intense distrust between the leaders, led to the 1994 secession attempt and the recent discontent in the southern part of the country.

The electoral system in Yemen is based on dual legislature; the Shura Council (Majlis Alshoora) has 111 members designated by the president, and the House of Representatives (Majlis Annwab) 301 members chosen by plurality vote in single-member constituencies. Both houses have six-year terms and were controlled by the General People's Congress (GPC), Saleh's party, until the uprising of 2011. Direct presidential elections for a seven-year term presidency were first held in

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<sup>16</sup> According to Yemen's National Population Council, the country has more than 11,000 rural and urban settlements. They are assigned to 21 governorates (including the Sana'a municipality) that are subdivided into 333 districts that in turn are subdivided into 2,210 sub-districts and then (as of 2001) into 38,284 villages (not settlements).

<sup>17</sup> Informal settlements are localities with no urban planning or public services, and Residents in these settlements are mostly neglected poor migrants, lacking political connections and formal representation.

<sup>18</sup> The population of the two states at time of unification was estimated as 5 to 1 in YAR and PDRY, respectively.

1999 and another in 2006. Saleh was able to win both terms, discouraging a change in the accountability of officials or distribution of power. Saleh's patronage system benefitted from the dominance of GPC in both the Shura Council and House of Representatives, to steadily modify the Constitution in order to run for re-election. This continuous exploitation and abuse of the electoral system strengthened the gradual deterioration of trust in the state, and the eventual popular uprising of 2011.

### **3.4.1. The Patronage System**

Before the war, the patronage system was a favorite tool used by Saleh to maintain his control over the country. Recognizing the strong presence of social forces, Saleh was known for avoiding exclusion and direct confrontation with opposing individuals and groups. Instead, his preferred tactics were co-option, compromise, and divide-and-rule resulting in a relatively wide circle of clients who supported the regime. By mid-2000s, the regime's dwindling resource foundations due to the decline in oil revenues gave way to a change in the patronage system with a focus on resource distribution to selected figures of the Saleh family only. As a result, grassroots leaders in the North and South began to organize themselves to protest the undermining and marginalization of them and their territories.

In the meantime, the South experienced a wave of "re-tribalization" after unification. Southern leaders did not enjoy the financial and political support from Saleh afforded to their peers in the North, which was perceived as aggravating inequalities. Some exceptions existed, including the frequent appointment of southern cabinet heads and several ministers who are loyal to President Saleh. Economic exclusion also reinforced feelings of resentment and alienation in the South. Southern areas provides 80 percent of Yemen's oil, but the bulk of revenues were monopolized by the government in Sana'a. This eventually contributed to the emergence of the SPM, with moderate demands regarding equality in employment, local decision-making power, and greater command over the South's economic resources. Later, elements within the SPM, led by the Southern Transitional Council (STC), shifted to engage in secession from Yemen and the rebuilding of an independent South Yemen.

Civil society was incapable of counteracting the regime which resulted in their inability to promote a democratic transition in the country. Two essential barriers prevented civil society from forming an effective counterbalance to the regime. First, civil society was inclined to rearticulate a system that encourages the elite. The effectiveness and solvency of actors in the civil sphere, political activists, advocacy groups, newspapers, and professional syndicates were derived mainly from their closeness to the leadership, which meant most civil society actors were essentially part of the regime. Second, the law, or more often the lack of its enforcement, prevented civil groups from pressuring the regime without risking penalty. Civil society was able to expand and slightly liberalize regulatory laws but this did not result in loosening the regime's grip on power.

### 3.4.2. Rampant Corruption

In 2017, Yemen ranked 176 in Transparency International's Corruption Index out of a total of 180 countries<sup>19</sup>. Corruption in all Yemeni state institutions is deep-rooted, with widespread partiality embedded—in both the public and private sectors. Even before the outset of the 2015 war, the legitimacy of the state had been weak because most of the country's "economic benefits were redistributed among corrupt patronage networks" (Yemen Polling Center, 2013). Not surprising, tax evasion had been widespread in the country with tax revenue accounting for only 7.3 percent of the country's GDP in 2010. State institutions did not adequately protect citizens or ensure security or justice. This, combined with the inability of markets to provide adequate job opportunities, contributed significantly to the public discontent that preceded the outbreak of the Yemeni conflict. The war has aggravated the situation as security institutions and services in Houthi-controlled areas, and areas run by UAE-backed forces, operate with no liability. Also, with the conflict, corruption has become pervasive in the customs sector run by Houthis and the legitimate government, especially since levels of transparency have been extremely low.

### 3.4.3. The Interplay between Oil Rents, Sectarianism, and Political Institutions

As emphasized by rentier theory, oil wealth influences the nature of the state and its relationship to society (Elbadawi and Makdisi, 2017). Oil resources in Yemen are relatively limited in comparison to neighboring countries. However, oil has been an essential commodity for the domestic economy for the last two decades. Between 2000 and 2009, the hydrocarbons sector, including refining, accounted directly for 20–30 percent of Yemen's total gross domestic product (GDP), 80–90 percent of its exports, and 70–80 percent of government income (Salisbury, 2011). The energy sector was a valuable source of state revenue, which aided the late president Saleh in preserving his power through patronage.

Even though sectarianism is not historically a feature of Yemen's recent religious culture, observers have recently noted a rising sectarian polarization originating from the use by politicians of the sectarian divide as a means in their struggle to gain popularity, and eventually rule the country. The Zaydi Houthis have used Shi'ite sectarian slurs from the conflicts in Syria, Lebanon, and Iraq to promote their ambitions to regain the Hashemite rule in Yemen<sup>20</sup>. On the other hand, their *political* opponents have used slogans popular among the Wahabi, Salafi and Muslim Brotherhood doctrines<sup>21</sup>. Sects in Yemen are largely social categories whose theoretical limits are

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<sup>19</sup> To access Transparency International's Corruption Index for the year 2018, please check <https://www.transparency.org/country/YEM>

<sup>20</sup> The main slogan of Houthis, called the scream, reads "“God is great, death to America, death to Israel, curse on the Jews, victory to Islam.”"

<sup>21</sup> Most Yemenis follow the Shafi'i school of Sunni Islam. Only 35 percent to 40 percent of Yemenis are Zaydis, and the highest number of members of this school live in Yemen. Despite its roots in Shi'ism, the Zaydi school of Islam has traditionally been viewed in many ways as being the closest Shi'iti sub-sect to Sunni Islam.

defined in religious terms, but whose relevance to politics derives primarily from political competition rather than doctrinal differences.

The Houthis' capacity to transform their religious, political, and social identities, enabled them to become one of the most influential political and social groups in Yemen. Not only did they speak to religious communities, but they also spread their power by bringing together the Hashemites-influential, mostly Zaydi families, who claim descent from the Prophet Muhammad. By including the Hashemite identity, they spread their influence outside of Houthis authority areas. Most notably, Houthis brought to the Zaydist stronghold the Iranian "Twelver" branch of Shia Islam. Prominent Saadah-based cleric Badreddine al-Houthi, as well as his sons Hussein and Abdulmalek, resided and studied the Twelver branch of Shi'ism in Qom, Iran.

On the other hand, Salafism was introduced in Yemen for the first time in the 1980s but Salafis have mainly refrained from political matters. They would underline issues of faith (*'aqīda*) and preach (*da'wa*) instead of questions related to social justice and politics, but some recent attempts have aimed to diverge from this doctrine. For instance, Salafī cleric Abū al Ḥasan al Ma'ribī, who backed Ṣaleḥ's campaign for reelection in 2006, reevaluated in 2011 the priorities of his educational and missionary work, admitting that engagement in politics may be necessary to facilitate that work.

Prior to the introduction of Zaydism, and Salafism, Yemeni population followed the Shafī'i school. Currently, Zaydis occupy most of the far northern areas of the country and constitute between 30 and 35 percent of the population; the rest are Sunni Shafī'i followers, with a small minority of Salafis. Since the arrival of the Zaydi Imam, Al Hadi, and the spread of Zaydism, recurrent violent clashes have characterized the relationship between the followers of these sects. Some critical Yemeni groups, including many analysts, have presented Zaydi and Salafī movements as intruding novelties, extraneous to "authentic" Yemeni culture, brought from KSA and Iran. (al-Waday, 2017)<sup>22</sup>.

### **3.5. Foreign Intervention**

International and regional interventions in Yemen are not new to the country. In recent history, the Ottomans invaded Yemen in the seventeenth century but did not have full control over the country. They eventually gave way to the Zaydi Imam Yahya Muhammad who created the Mutawakkilite Kingdom in Northern Yemen in 1918. The September Revolution of 1962 removed the Imams dynasty and established the YAR. The British colonized Aden in the nineteenth century and established several protectorates (Sultanates) in the southern and eastern areas. In 1967 the

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<sup>22</sup> A new nationalistic Yemeni movement called "Yemeni National Movement" or "Aqyal" has surfaced lately, with an announced objective of restoring the old Yemeni identity and heritage away from the current religious doctrines.



South gained its independence from Britain and the Marxist PDRY was established but came under Soviet influence. The North maintained good relations with the Soviets (who helped to defend the republican regime during the 1962-1970 civil war) but had closer ties with the US. After the collapse of the Soviet Union and the unification of the two Yemeni States, the US gave more leverage to regional powers, specifically KSA, to influence Yemeni politics. Following the 9/11 terrorist attacks and KSA's link to them, the US increased its direct involvement in Yemen, helping the government combat terrorist groups like the AQAP and ISIS, and waging drone raids on suspected terrorists in Yemen.

Since 2105, the violent war in Yemen has been propagated by a plethora of regional and international actors. The strategic location of Yemen adjacent to the strait of the Bab-el-Mandab, which controls access to the Suez Canal and seaborne trade routes to Asia and Europe, and its shared borders with vital oil-producing countries in the Gulf, made the country susceptible to the ambitions of foreign powers. While foreign influence has been more political than religious, the recent conflict between the KSA (and the West), on one side, and Iran, on the other side, has resulted in the KSA introducing itself to the Sunni population of Yemen as the protector of Sunni Islam, while Iran is seen by the Houthi group as a stand-up nation against the alleged injustice of the US, Israel and KSA (Baron et al., 2016). The foreign policy of Iran in Yemen does not appear to have been a significant factor in Yemeni affairs before the current conflict, even though Tehran has long preserved diplomatic presence in Sana'a. Tehran's policy seems to be based more on ideology rather than on theology. However, this does not inhibit the regime in Iran from using Shi'ism as a soft-power tool or to organize Shi'ites in the region to serve its own agenda. The openness of certain Zaydi leaders towards Iran's foreign policy and its Twelver Shi'ism gave Iran the channel to develop its influence in Yemen.

While Iran's role in Yemen had been negligible until recently, its neighbors in the GCC have actively engaged in the country's politics. GCC countries, notably the KSA, have long perceived Yemen as the weak link in the region – a prospective mine of instability for the Arabian Peninsula and vital maritime routes. Among GCC countries interfering in Yemen's affairs, KSA undoubtedly stands out. The relationship between Riyadh and Yemen is a lengthy and twisted one. In Yemen, many citizens regard the northern Kingdom as a young, nouveau riche upstart that possesses disproportionate influence in the region, and the Saudis perceive Yemen as a troublesome and populous state in their own 'back yard' – which compels both attention and caution. Saudi leaders have long advocated a policy of "containment and maintenance." From the "Keep Yemen weak," that King Abdelaziz is rumored to have said on his deathbed a narrative that reflects long-standing worries that a prosperous Yemen could form a significant threat to Saudi domestic security. Saudis are, however, also watchful of a state collapse of a neighbor which, as

the poorest and second-most-populous state in the Peninsula, could lead to a severe influx of economic migrants into the Kingdom (Salisbury, 2014)<sup>23</sup>.

After the republicans prevailed in 1970 in YAR, Riyadh grew into a direct patron of both the Yemeni government and tribal and military chiefs in the 1980s, remunerating them monthly stipends. This remuneration continued for almost the first 30 years of Saleh regime, in support of Sana'a in its battle with the leftists during the 1970s and 1980s (Adam, 2019). While the stronger and wealthier neighbor was indeed providing economic assistance to YAR, it was also covering the country with schools based on Wahhabi Islam that are politically and ideologically faithful to the ruling al-Saud. Meanwhile, Houthis have developed a narrative of ideological opposition against Wahabi KSA, though this has not always been the case<sup>24</sup>. Later, ROY also became a target for Riyadh's counter-terrorism strategy when the country began to focus on tackling Islamist extremism. Yemen became the hub for Al-Qaeda operatives fleeing from KSA, and both the Saudi and Yemeni branches of the organization collaborated until their merge as AQAP in 2009.

As the role of GCC countries in Yemen increased, so did the tension among them. Prior to the 2011 popular uprisings, KSA and Qatar had conflicting strategies regarding Yemen. Riyadh has supported Saleh's efforts to defeat the Houthis since 2008, fearing that Zaydi and Shi'iti minorities in southern KSA could follow in their steps. Doha on the other hand tried to position itself as a mediator in the conflict. Five years into the conflict, the legitimate government of Hadi accused members of the Arab Coalition, particularly UAE, of helping STC seize the country's interim capital of Aden. The UAE supported General Aydrous al-Zubaidi<sup>25</sup> – who is openly opposed to President Hadi -- to form the STC after Hadi dismissed him as Aden's governor (Sharp, 2018, p. 8). UAE was also accused of forming several militias loyal to it in the liberated southern areas, including the Security Belt Forces in Aden and the Shabwah and Hadramawt Elite forces in the respective governorates. The UAE is also charged to have seized the island of Socotra, in the Gulf of Aden, and established an airbase on the island of Perim located to the west of the Bab al-Mandeb strait (Salisbury, 2017).

The latest development in the standoff between the Yemeni government and the UAE was the massacre of the national army by UAE war jets on the outskirts of Aden. Yemeni Ministers of Interior and Transport claimed that the UAE war planes supporting the STC launched 15 airstrikes targeting the army in the interim capital Aden and the city of Zanzibar, the center of Abyan

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<sup>23</sup> Ironically, the least of the few Yemeni (or any Arab) refugees found their way to KSA, and the Kingdom made significant efforts to completely seal its borders in face of Yemeni refugees.

<sup>24</sup> In the 1960s, Riyadh assisted the ousted Shi'iti (Zaydi) Imam in his struggle to regain power against nationalist republicans, an act that refutes the claims that current KSA intervention in Yemen is to prevent Shi'ism from controlling Yemen.

<sup>25</sup> He announced the creation of a 26-member STC following armed clashes with pro-Hadi's forces in the city of Aden (Mushakhaf, 2018).

province<sup>26</sup>. The Yemeni Defense Ministry declared that the UAE air strikes on government forces left more than 300 people dead or wounded. These developments reflect the fragile ties between the Hadi government and Coalition members, namely UAE and KSA, and their divergent agendas. When the KSA and its allies intervened in Yemen in March 2015, they initiated a war with what appears to be unclear vision and strategy. They claimed to have set several goals, including reinstating the legitimate government and preventing Houthis and their allies from ruling Yemen. Also, a primary aim of the war was preserving the security of KSA and neighboring countries. After almost five years of war, however, the legitimate government is still in exile, and Houthis continue to control most of the highly populated areas, including the capital Sana'a. The Houthi threat to the security of KSA also appears to be more imminent, including Houthi attacks on Saudi airports and oil facilities.

Independent reports have documented that civilian targets and economic infrastructure witnessed a higher proportion of attacks by the coalition than Houthi military targets during the first three years of the conflict. Notably, Sa'ada, Taiz, and Sana'a were most heavily targeted by Coalition air strikes (Mundy, 2018). After the first few months of the war, which witnessed the liberation of most of the southern areas, there were almost no advances on the ground, and Houthis strengthened their grip on the areas they control. The coalition did not show further interest in liberating additional areas except capturing part of the western coastal region of Hodeidah governorate by military forces loyal to the UAE. Instead, there have been increasing coalition airstrikes on the legitimate government forces that have been trying to advance into Houthi-controlled territories and those strikes were considered "friendly fires". Some observers have pointed out that the coalition does not show clear determination to accomplish its announced objectives and reach an end to the war, indicating other objectives that have to do with achieving economic and political goals, including getting access for KSA oil supply to the Gulf of Aden, and controlling the long Yemeni coasts along the Arabian and Red Seas (Howard, 2018).

#### **4. The pathway to Peacebuilding and Political Transition**

As indicated earlier, the mismanaged unification of Yemen in 1990, followed by several years of instability, together with tribal structures contributed to lack of a strong central authority; government control outside of major cities was minimal leading several marginalized local groups to begin speaking up against the elite in Sana'a. The social discontent was used by competing political factions and by regional and foreign powers to serve their divergent agendas, leading to the current conflict. Therefore, ending the conflict and healing the wounds it has created requires a long process of peacebuilding, followed by a comprehensive plan for social and political reconciliation and reconstruction of the economy.

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<sup>26</sup> These comments are the latest in a series statements by Hadi officials indicating that the UAE and KSA have deviated from the original Coalition objectives and become occupying forces.

#### **4.1. Thwarted Path to Peace**

It is common for states in a post-conflict phase to perceive federalism as a pathway to peace, leading to an inclusive government that incorporates previously marginalized voices. As such, participants in the NDC proposed a federal system motivated by the rooted Southern and other grievances and the need to decentralize Yemen. Also, hopes that decentralization would help rectify the political and social crises, were among the reasons that spurred support by Yemenis for the proposed federal system (Williams et al., 2017, p. 5). Yet, NDC representatives struggled to reach necessary political consensus on the formation of federal regions, the distribution of power considering the location of natural resources, and the social and political structures. Federalism, which was a major component of the transition plan, "came to be viewed (by some) as a red herring and a symbol of division" (William et al., 2017, p.10). Houthis and their ally Saleh pulled out of the transition agreement upon the conclusion of the NDC and denounced the proposed new constitution draft, which called for a federal Yemen. The subsequent seizure of the country's capital Sana'a in 2015 by Houthis and forces loyal to Saleh reflected the long-standing ambition of the two to win back their lost control of the country.

Some analysts however have attributed the failure of the transitional process between 2012 and 2014 to the mismatch between the needs of the Yemeni people and the priorities of the transition's foreign sponsors, and the lack of accountability or transparency imposed on Hadi (Salisbury, 2016). Others viewed Hadi's transitional government as illegitimate and unrepresentative of the demands and concerns of the Yemeni people (Barakat, 2016). Additionally, the reluctance to remove Saleh from the political scene may have contributed to the failure of the transitional period (Rashad, 2011), not to mention that it did bring the predicted stability to the country. Instead, it ensured the transition from "one authoritarian leader to one who proceeded to monopolize power" (Salloukh, 2017, p. 48).

The role of the UN Security Council in the transitional arrangement was confined to issuing, but not enforcing, Resolution 2216 and sending special envoys to broker a long-awaited peace plan. Furthermore, resolution 2216 paved the way for a catastrophic regional intervention by the Arab Coalition which resulted in more misery to the country and its people. The international community watched the situation deteriorate as the Houthis and Saleh captured more regions and sent the entire government to exile. As was the case in Syria and Libya, the Council started "marathonic" peace moderation in Yemen by sending 3 special envoys since the start of the conflict; the Moroccan Jamal Benomar, the Mauritanian Ould Cheikh, and finally the British Martin Griffith.

In light of events that accompanied the work of UN envoys in Yemen, and the historical record of failures of the UN and the international community in resolving violent conflicts in several other regions around the world, a breakthrough by the international community in brokering a peaceful

end to Yemen's conflict has become more questionable<sup>27</sup>. There is an increasing perception among Yemenis that the international community, represented by the U.N. and the major regional and international powers, has in fact been instrumental in prolonging the conflict and preventing its conclusion. In a letter to the UN Secretary General in May 2019, president Hadi criticized the U.N.'s special envoy to the country for what he said legitimizing Houthis and treating them as a de-facto government, contrary to provisions of the Security Council resolutions, including resolution 2216. On the other side, Houthis have charged the UN envoys of not considering their legitimate demands. Furthermore, the absence of the Arab League from the Yemeni scene has also raised question marks regarding the possible role of major international powers in preventing the League from performing its expected role in finding a peaceful solution to the Yemeni crisis. Regardless of the type of intervention of the international community might have in solving the crisis in Yemen, the path to peacebuilding starts with the international community becoming resolute to enforcing the Security Council resolutions and call for the various groups to put arms aside and engage in the transitional peace process.

#### **4.2. Alternatives to the Absence of the Central State**

Prior to the crisis in Yemen, the central government ruled the country through weak to non-existent institutions. At the onset of the 2015 war, the central state collapsed, but one cannot claim that the state has completely disappeared. Today, state functions and security are being carried out by non-state actors, including militias, armed groups, and tribes. Political or local groups emerged and created their own internal order. They created "mini states" to compensate for the absence of a central government. The Houthis formed their own cabinet, seized government facilities in the North and performed the role of the state. Secessionist groups in the South became more organized, particularly after the support they received from the UAE, which has been at odds with Saudi-backed Hadi.

In general, and for all groups inside the country, overland trade continued. Despite the war, oil, weapons, food, medicine, and other goods continue to flow across Yemen, but with the majority of the population having little financial means to obtain their necessities. As such, trade routes have become an increasingly profitable business for local actors and control of customs collection points has become lucrative for all warring sides. Salisbury (2017) notes that trucks traveling into Houthi-controlled areas pass through multiple custom entries, at the land border with Oman and KSA or the Hodeidah and Salif ports, and then when they head to the Houthi-controlled regions of the country. The ports of Aden and Al Mukalla have been under the control of the UAE-backed militias, while pro-Islah forces currently control the Al Wadiyah crossing with KSA in northern Hadramawt. Tribes in Mareb, Shabwah, and Hadramawt seized the oil fields in their governorates.

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<sup>27</sup> The UN failed to stop wars and massacres in Palestine, Kashmir, Cambodia, Somalia, Rwanda, Bosnia and Herzegovina, Darfur, Iraq, Syria, Libya, South Sudan, Myanmar, and Yemen, among others. Millions of people have been victims in these conflicts.

Meanwhile, gas production in Mareb continued and the refinery has been running at or close to capacity since late 2015. Revenues from oil and gas in Mareb are used to pay for local militants, civil servants, water, electricity, and infrastructure services (Salisbury, 2017). Hadi's government has been financed by handouts from the Coalition.

Restoring the centralized Yemen is not viable without a strong and effective government capable of addressing key problems and ensuring the fair distribution of resources. In the country's new reality however, restoring a central government will not be a popular choice due to the mismanagement of resources and the absence of equality and justice it has brought in the past. In addition, interest groups are likely to fiercely oppose any settlement that restores the central government's grasp on the country's resources. These groups include profiteering armies, militias, and tribal groups who will lose their war-created incomes. Hence, the creation of a federal system, suggested by the NDC, with high economic autonomy for different regions, the most viable arrangement for post-war Yemen.

## **5. Rebuilding Post-war Yemen**

Poor pre-war economic performance combined with devastating war damages to the physical capital and social fabric of the war-inflicted countries suggest that post-war reconstruction must be both a *nation and peace building exercise*. In any war-damaged country, rebuilding the physical capital of the economy must be combined with building adequate institutions that will help in treating the root causes of the conflict, facilitating the society's self-initiative, and healing its wounds. For example, it was estimated that resources required to bring the economies of the war-inflicted countries in MENA region back to 2010 levels might be in the order of two-to-three times each country's GDP (Devarajan & Mottaghi, 2017).

### **5.1. Political and Social Reconciliation**

Most MENA countries have shared similar social contracts. Rulers provided public sector jobs for their people, subsidized access to public services and basic foodstuff, as well as energy, in return for loyalty and limited political rights. In the 1980s, the shift to a market-based economy led many of the region's countries to reform economic subsidies and social assistance, but with no change to the political structures. Furthermore, governments in the region failed to encourage the development of a vibrant private sector, leading to "soaring rates of unemployment" and popular uprisings (Larbi, 2016, p. 32). Countries with the weakest institutions and governance have been the most susceptible to violence and instability and the "least able to respond to the internal and external stresses" (Barayani et al., 2011, p. 7).

In Yemen, the state often sought to consolidate its status by maintaining intertwined alliances among the social, political, economic, military, and tribal elites of the country instead of

establishing a social contract with the people. These actions led to rivalries among elites for control over state institutions and the country's resources, thus hampering the development of these institutions and resources. The 2011 uprising failed to remove the old elites, undermining the capacity to start necessary reforms (Larbi, 2016, p. 44). The post-uprising war has made Yemen's already fragile state institutions even less able to meet the most basic needs of the Yemeni people, further undermining state legitimacy.

The presence of Hadi's internationally recognized government outside Yemen, particularly in the Saudi capital Riyadh, and the hesitation of the Coalition to permit Hadi and his government to return to Aden, has also contributed to decreased levels of state legitimacy. Civil servants in areas controlled by Hadi's government received their salaries intermittently over the past three years while the civil servants who work in Houthi-controlled areas did not receive salaries during the same period. The failure of state institutions to forge a relationship with the population has been evident in the reliance on international non-governmental organizations to deliver essential health, education, and humanitarian services. Although international organizations play a crucial role in providing vital needs in the wake of the violence, particularly in Houthi-controlled areas, they have weakened the trust and the bond between citizens and the state.

### **5.1.1. New Social and Political Contract Needed**

For a comprehensive political and social reconciliation, a new post-war social contract that puts an end to old policies and governance systems is needed. Accountability and impartiality must be the core principles for a new negotiated settlement with inclusive political institutions instated. These institutions must emerge from "a balanced increase in state capacity" and the distribution of power in society (Acemoglu & Robinson, 2016, p. 1). As such, the government can initiate this new social contract by demonstrating transparency to restore the trust of the citizens. Also, more public participation and social dialogue is crucial at this stage, especially since expectations are low and government promises are no longer trusted (Barayani et al., 2011, p. 8).

A 2011 report by the World Bank argues that establishing legitimate institutions that can prevent repeated violence might take a generation. It states that "even the fastest-transforming countries have taken between 15 and 30 years to raise their institutional performance from that of a fragile state" (Barayani et al., 2011, p. 10). Therefore, Yemen needs quick reform-oriented leadership that commits to changing the old social contract followed by a phased economic reform process while taking into consideration that the effects of such reforms will not be felt for many years (Larbi, 2016, p. 45). The role of civil society organizations is also very critical considering the ongoing violence that has prevented the government from performing its role. Acemoglu and Robinson (2016) argue that pressure and demands from civil society are crucial because elites rarely create inclusive political institutions willingly. Yemen has strong local leaders across the country and a large number of registered civil society organizations that could be instrumental in after-war

reforms, if they are freed from elites' influence.

The development of strong judicial system and legislatures that can truly restrain the executive authority is needed as it can reduce the risk of renewed conflict. Starting the legislative process requires uniting the two parliaments, and two Central Banks in the Houthi-controlled capital Sana'a and legitimate government temporary capital in Aden. Simultaneously, the government should seek to develop a robust and vibrant private sector and competitive markets, seeking to embrace a more inclusive economy.

### **5.1.2. Growing Need for an Inclusive Power-Sharing Agreement**

Sambanis (2019) contends that negotiated settlements are the most common ending for civil wars and are usually reached with the help of external actors. Such settlements can be reached through power-sharing where inclusion of all segments of the society is achieved. Electoral power-sharing is considered the most common result of peace negotiations. A power-sharing formula in Yemen does not seem very far-fetched despite the many obstacles. There is no doubt that Yemen is in dire need of frank and open negotiations that ensure long-term political and security provisions. Once the parties agree to come to the table, a negotiated settlement should include a power-sharing arrangement that "grants all factions political and economic benefits roughly commensurate with their demographic weight" (Knights et al., 2019). *However, considering the power sharing arrangements in Iraq and Lebanon, which have failed to stabilize these two countries, religious sectarianism should never be a part of any future power sharing agreement in Yemen.*

During the past two decades, Yemen's leadership addressed political standoffs by signing informal power-sharing arrangements among tribes and regional groups in the absence of political institutions or a legal framework. Most of these agreements or understandings were short-lived, or never implemented. At the same time, Western engagement in Yemen has been based on a state-building framework involving mostly security. If the same pattern is adopted, reconciliation will most likely fail even if the current war ends, sowing the seeds for conflict recurrence. Thus, the post-conflict phase must be based on inclusivity and accountability because bringing about sustainable peace in Yemen will require an inclusive political system that ensures meaningful participation of marginalized actors. In addition, to begin reconstruction, an assessment of state institutions should be conducted after a ceasefire is reached.

Another challenge that threatens the transitional period is reforming the security apparatuses. Local communities in Yemen have been relying on local and self-created forms of security provision, which means that "any single nationwide effort at security sector reform will need to contend with the weakened capacity and legitimacy of security services and decide whether or how to integrate these local security providers into the public system" (Yadav & Lynch, 2018).



Likewise, the education system needs to be restored and reformed in order to promote long term inclusion (Anderson et al., 2017, p. 2). In addition, both before and during the conflict, KSA and the UAE created, built alliances with, and provided support to, groups in Yemen that operate outside the Yemeni government sphere. Thus, for true state-building to be realized in Yemen, it will be necessary for the Yemeni government's backers to reevaluate their involvement in the country (Ahmed & Al-Rawhani, 2018).

### **5.1.3. Prospects of Lasting Peace**

Due to the previous highly centralized nature of the government in Yemen, new allocation of power in the country will pose a challenge, but this can be alleviated through a "phased approach," which could involve drafting "an interim constitution," thus giving Yemenis adequate time to increase institutional capacity, and carry out political and economic reforms (Williams et al., 2017, p. 18). This interim constitution should then be replaced by the permanent constitution that the NDC prepared. In addition, to restore its legitimacy, the Yemeni government needs to re-create the bond between the state and the citizen, especially since it lacks a real presence on the ground. Restoring confidence requires a determined political will and readiness to revive the role of state institutions. Establishing national support for change through collaboration between the government and other sectors of the society as well as with regional powers and donors and identifying priorities and interests of the various communities could be the starting point (Barayani et al., 2011, p. 12). The upcoming stage should avoid the mistakes of the 2012-2014 transitional period. State institutions should undergo full-fledged reforms to promote broad participation, transparency, and accountability. There might be a need in the post-conflict phase to propose a new candidate to lead the transitional period, a person who could win the support of Yemenis countrywide.

Any post-conflict governance system in Yemen needs to recognize the de facto authority of local groups (Salisbury, 2018, p. 56). The UN Security Council will need to agree on a new resolution that can generate realistic approaches for future talks between the warring sides, without compromising the merits of Resolution 2216, which prevents rewarding forceful capture of power. A compromise that would give some sort of autonomy to different provinces identified by the NDC within federal Yemen would be a viable option. This compromise, which will fulfill demands of autonomy by Southerners and integrate the Houthis within the political system, while giving tribes proper representation, should be encouraged by the international community. For example, governors and officers elected by local tribes would make tribes feel that they are genuinely represented.

Ultimately, and most importantly, pressure should be exerted on foreign and regional powers, including Iran, KSA, and UAE, which hold leverage over the Houthis and several local groups including various militias, to put an end to the ongoing war. No magic trick exists to transform the

current status quo into fully functioning peace. However, all future deals should address the grievances of all local groups, and stop foreign intervention in Yemen affairs, or else Yemen risks renewed and endless wars in the future.

## **5.2. Rebuilding the Economy**

The determinants of economic recovery in Yemen are more complex than mere good planning and adequate financial resources. The conflict has entered its fifth year with no promising signs of an imminent ending, and its damages are accumulating. The dire consequences of the conflict include the destruction of the country's meager economic infrastructure and displacement of millions of people. Overall, the conflict has brought the economy to a complete halt. More importantly, the conflict has created deep rifts in Yemen's social fabric, reanimated long-forgotten sectarian divide, and destroyed the already weak structure of the state.

In addition to economic aspects, a host of interdependent pre-war challenges, war effects, and post-war political, social, and security developments determine the extent to which a satisfactory economic recovery in post-war Yemen is possible. Implementation of any well-designed economic agenda may fail if political and social ills and security concerns are not addressed. New realities that arose due to the war must be considered. For example, while the war has devastated the economy and livelihood of most ordinary Yemenis, several groups and individuals have built massive war-created fortunes and are likely to resist any changes to the status quo. Therefore, for any economic agenda to succeed, it must take into consideration ordinary citizens' needs as well as concerns of influential groups and warlords who are likely to see their interests threatened by the upcoming peace. Not addressing such concerns will increase the probability of peace relapse and will render post-conflict macroeconomic policy ineffective.

### **5.2.1. Exacerbating Humanitarian Crisis**

The vicious fighting between the Houthis and the national army, supported by the Saudi-led coalition, has compounded the suffering of Yemenis and dramatically aggravated the humanitarian crisis. According to the Yemen Data Project, an independent Yemeni group that monitors the war, almost one-third of the Saudi-led coalition airstrikes have hit "non-military" targets<sup>28</sup>. Attacks on civilians have also been blamed on Houthis and other militant groups fighting for dominance, mainly the secessionist movement (STC), and several terrorist groups. Many public schools and other buildings have been occupied by the militants, and reports indicate that Houthis continued forcefully recruiting child soldiers for front-line combat. Overall, the Yemen conflict has created the world's worst humanitarian crisis in recent years.

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<sup>28</sup> Of the coalition's 19,748 airstrikes to date, 6,295 hit "non-military" targets in several governorates with Sa'ada recording the highest number (1,650) as well as 6,729 raids hitting "unknown targets."

The U.N. warned that an estimated 24 million people, amounting to 80 percent of the population, need critical assistance and that 20 million people are food insecure (UNDP, 2019). The UN's Integrated Food Security Phase Classification has confirmed the presence of pockets of "catastrophic hunger in some locations, with 238,000 people affected" (Relief Web, 2019). Famine still looms at large, with 14.3 million people classified as being in acute need, including 3.2 million requiring treatment for acute malnutrition. More than 2 million people have been internally displaced, and 280,000 people have become refugees in other countries. In June 2019, UNICEF said that every two hours, one mother and six newborns die because of complications during pregnancy or birth. Aid organizations have also struggled to deal with the largest cholera outbreak ever recorded that has "resulted in more than 1.49 million suspected cases and 2,960 related deaths since April 2017" . Since March 2015, fighting has destroyed more than 2,500 schools, and many families have enlisted their children as combatants to provide income. UNICEF estimated at least 2,419 children recruited in the fighting (UNICEF, 2019). It is estimated that as of 2019, the conflict has set back human development in Yemen by 21 years. It will be set back an entire generation if the conflict were to end by 2022 (UNDP, 2019). The number of combat-related deaths has passed the 100,000 mark and indirect non-combat deaths due to lack of food, health services, and infrastructure have exceeded combat deaths by a large margin.

Furthermore, the food shortage situation was exacerbated further by the militant groups' frequent confiscation of food aid provided by international organizations<sup>29</sup> and the massive increase in food prices. Trade with the outside world has become more costly due to increased shipping costs and insurance premiums. The flow of imports has become slower due to the naval and air blockade by the Arab coalition. Combined with the loss of employment and income due to the war and the increase in food prices, the population have become unable to obtain their necessary food requirements. Militant groups, including Houthis and other groups belonging to the legitimate government are in control of roads connecting ports with major cities in the North, leading to an unprecedented increase in the cost of food and medicine and an outbreak of contiguous diseases like cholera and diphtheria. Throughout the war, Houthis have been accused of torturing and killing journalists and critics, siphoning off aid supplies, using civilian infrastructure as a shield for military activity, and persecuting the country's Jewish and Baha'i minorities. The conflict has been placed among the most destructive conflicts since the end of the Cold War (UNDP, 2019).

### **5.2.2. New economic challenges due to the conflict**

At the aggregate level, GDP experienced a negative rate of growth in real terms of almost 13 percent during the 2011 uprising. It recovered between 2011 and 2014, with an annual average

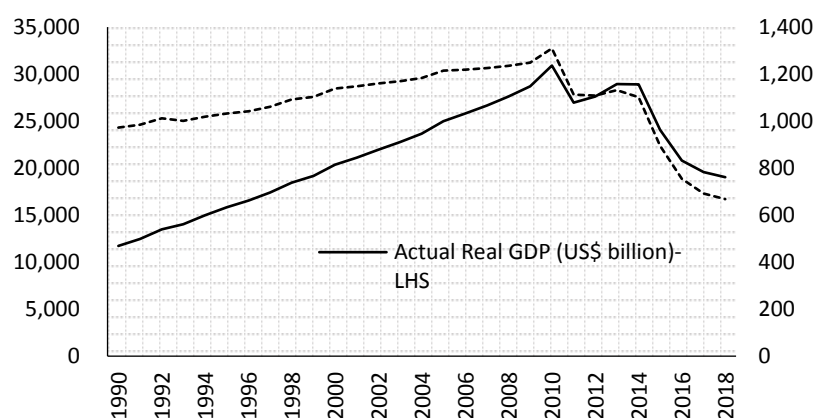
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<sup>29</sup> Amid allegations that aid was being diverted for profit by the Houthi militant group, the World Food Program (WFP) announced in June 2019 a partial suspension of food aid in the capital Sana'a after the Houthis rejected WFP plans to implement a biometric system to insure transparency of food distribution to those most in need.

GDP growth rate of 3.6 percent. However, since the outbreak and escalation of violence in March 2015, the economy has again deteriorated sharply. The cumulative contraction in the economic activity between 2015 and 2018 is estimated at approximately 40 percent (World Bank, 2019). The value of real GDP plummeted to US\$ 18.98 billion in 2018 compared to more than US\$43 billion in 2014 (IMF, 2019). As a result, real GDP per capita bottomed out at US\$668 in 2018, the lowest among countries of the MENA region and down from \$1309 in 2010 (Figure 4.1).

Since Houthis became the de facto authority in the capital city and most of the densely populated northern governorates, Hadi's government has lost the bulk of tax revenues to the group<sup>30</sup>. Additionally, production and exports of oil and gas have nearly come to a halt, depriving Hadi's government of another vital source of revenue. The fiscal deficit since 2016 has led to major gaps in the operational budgets of basic services and unreliable salary payments in the areas under its control. Civil servants and pensioners in Houthi-controlled areas have not been paid salaries since mid-2016, which severely comprised the population's access to essential services (Relief Web, 2019). Meanwhile, the Yemeni Rial witnessed unprecedented depreciation amounted to more than 60% between 2015 and 2019, further undermining purchasing power. These events have led to an apparent contraction in the economy as public and private spending declined substantially.

**Figure 4.1. Real GDP and per capita GDP in Yemen, 1990-2018**



Source of data: (World Bank, 2019)

### 5.2.3. Estimating the Economic Costs of the Conflict

The Institute for Economics and Peace estimated that the global measurable economic impact of violence in 2017 alone was equivalent to 12.4 percent of global gross domestic product (GDP), or \$1,988 per capita (Institute for Economics & Peace, 2018). At the local level, estimating the impact

<sup>30</sup>Hadi's government claims that the land area controlled by the de facto Houthi authority is currently less than 25% of the total area of Yemen. However, more than 70% of the population of Yemen now live under the control of the group.

of violence on the economies of conflict-plagued countries, and making those estimates available publicly, is essential for designing effective post-conflict reconstruction policies and deterring future conflicts.

Research on the effects of civil war on human lives and the economy of impacted countries is relatively new. Some of the existing research discusses the determinants of wars but few discuss their cost (Dunne & Tian, 2017)<sup>31</sup>. The cost of wars has been frequently estimated in the literature using impact evaluation or “counterfactual analysis”. This approach compares actual (observed) values of conflict-affected variables with their counterfactual (unobserved) values in the hypothetical case of no conflict<sup>32</sup>. A simplified version of the counterfactual approach in the context of civil war and the economy may be presented as follows:

$$I = (Y | C = 1) - (Y | C = 0)$$

Where  $Y$  is real GDP, and  $I$  is the impact of the conflict on GDP, which is the difference between the actual  $Y$  with the conflict ( $C=1$ ) and what the value of  $Y$  would have been in the absence of conflict, or the counterfactual ( $C=0$ ). While  $(Y | C = 1)$  is observed,  $(Y | C = 0)$ , the counterfactual, is not known and must be estimated.

Our task is to come up with a reasonable estimate of  $(Y | C = 0)$ . Several ways to estimate the counterfactual have appeared in the literature, with varying complexity. A popular way to estimate real GDP during the war in one country have usually been using data from other *similar* non-conflict countries during the period under investigation. Our counterfactual in war-torn Yemen will, however, be obtained from the out-of-sample forecast of an autoregressive model of real GDP using Box-Jenkins’s (1976) univariate Autoregressive Integrated Moving Average (ARIMA). The ARIMA model uses historical values of a single variable to forecast its future values. The advantage of this approach is that it requires no additional data other than the variable in question. This type of model has been shown to sometimes outperform structural models in producing good-quality forecasts in the short run. Indeed, it has been shown that univariate ARIMA models are theoretically justified and can perform as well as the more complicated multivariate modeling techniques.

We may write an ARIMA model in the context of real GDP using the Box-Jenkins backshift

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<sup>31</sup> Due to data limitations, most of the current literature has used cross-country data. Examples of such literature include Venieris and Gupta (1986), Alesina and Perotti (1996), Barro (1991), Mauro (1995), and Alesina et al. (1996).

<sup>32</sup> Costalli et al. (2017), Hoeffler, and Reynal-Querol (2003) used cross-country data in their counterfactual analysis of the costs of war, while Brück (1997), Abadie and Gardiazabal (2003), and Ali (2011) analyzed individual country data.

operator and extend it by adding the difference operator when the time series exhibits non-stationary behavior (which is common in economic data series) (Pankratz., 1983). The resulting (ARIMA) model is<sup>33</sup>:

$$\phi_p(B)(1 - B)^d y_t = \theta_q(B)\alpha_t \dots\dots\dots(1)$$

Where  $y_t$  is real GDP at time  $t$ ,  $\phi_p(B) = (1 - \sum_{i=1}^p \phi_i B^i)$ , are the autoregressive parameters to be estimated, and  $\theta_q(B) = (1 - \sum_{j=1}^q \theta_j B^j)$ , are the moving average parameters to be estimated, and  $d$  is the order of differencing. Finally,  $\alpha_1, \dots, \alpha_q$  are a series of unknown random errors that are assumed to follow a normal distribution. This formulation essentially indicates that the observed GDP at time  $t$  depends on the previous values of GDP plus current and past random shocks. This model is also referred to as an ARIMA( $p, d, q$ )<sup>34</sup>.

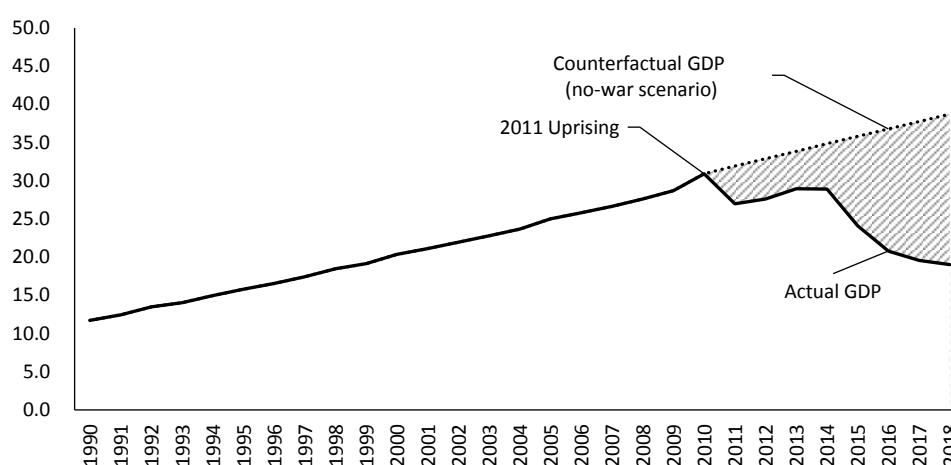
Following Abadie and Gardiazabal (2003), Ali (2011), and Costalli et al. (2017), we use counterfactual analysis and ARIMA forecasting to estimate the economic cost of the conflict in Yemen fully realizing the limitations that data shortages impose on such analysis<sup>35</sup>. Actual performance of the economy during the war years 2015-2018 is compared with its expected (counterfactual) performance in the absence of war, obtained from ARIMA forecasting. The resulting measure of the economic impact of the conflict is assumed to reflect its overall direct, as well as indirect, effects on different sectors of the economy<sup>36</sup>. Univariate Box-Jenkins (UBJ) three-stage model building process, which is well documented in the literature and has proven to provide reasonably robust forecasting models, was used to identify the best parsimonious forecasting model that provides short-run forecasts for real GDP in Yemen. To get our forecasts of real GDP, we used real GDP data in 2010 prices obtained from the World Bank’s World Development Indicators (World Bank, 2019). The data extends from 1990 to 2018. The forecasted values represent the values of real GDP had there been no war (the counterfactual). The fitted model for real GDP growth in Yemen withstood identification, estimation, and forecasting tests and performed reasonably well.

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<sup>33</sup> For more details on UBJ forecasting model, see Pankratz (1983).  
<sup>34</sup> For the formal derivation of the ARIMA (p,d,q) from the general ARMA (p,q) using backward shift operator, please see Pankratz., 1983.  
<sup>35</sup> The earliest known attempt to use counterfactual analysis appeared in a book by the economic historian Robert Fogel in 1962 (Fogel, 1962), and another attempt about 30 years later by sociologist Geoffrey Hawthorn (Hawthorn, 1991). Robert Cowley (1999) presented his series of "What If?" citing dozens of essays by historians or prominent writers about counterfactuals or "how a slight turn of fate at a decisive moment could have changed the very annals of time."  
<sup>36</sup> Since the conflict started, few attempts, including by international organizations including UNDP (2019), IRIS (2017), and Young (2017), have been provided to assess the economic costs of the current conflict in Yemen. Obviously, the war is still going on, and it is challenging to obtain reliable information and data on about it, or to estimate the ever-changing costs.

Figure 4.2 presents the actual real GDP (solid line) and estimated counterfactual real GDP, obtained from UBJ forecasts (dashed line). The forecast implies that if there were no war in Yemen, GDP would have continued to grow as depicted by the dashed line. The area between the solid and dashed lines represent the implied loss in real GDP due to the conflict, which is calculated to be around \$86.6 billion. This estimate implies that Yemen has lost the opportunity to increase its real GDP from about US\$31 billion in 2015 to a level close to US\$39 billion in 2018, an increase of about 26 percent. This also implies that real GDP per capita would have increased from US\$908 in 2015 to about US\$1428 in 2018, compared to an actual decline between the two periods, because of the war, to US\$668.

**Figure 4.2. Actual and counterfactual GDP in Yemen, 1990-2018**



Source: Authors' estimations

### 5.3. Post-war Economic Agenda

Reconstruction efforts ought to aim at compensating for economic growth that would have been attained had the war not occurred. Compared to other conflict-ridden countries in MENA, Yemen's limited resources and pre-war poor economic development performance, as well as the devastating impact of the conflict, point to even higher requirements than estimated. This implies that if peace in Yemen returns by the end of 2020, the economy must attain at least double the growth rates experienced before the war. Makdisi and Soto (2018) laid out a framework for the economic agenda to be implemented by the Arab countries affected by the 2011 uprising which may be adopted in Yemen. Nevertheless, they stressed the need to design the reconstruction agenda to fit the particular needs of each country affected by the uprisings. Therefore, the reconstruction agenda for Yemen must consider the country's political, social, and economic unique characteristics, the causes of the war, and the unique outcomes of the conflict.

As a prerequisite to economic recovery, government institutions must be rebuilt to have the ability to enforce law and order and deliver essential public services. However, empowering the private sector with minimal state interference should accelerate the recovery process. Government focus should be on enhancing the role of law and property rights, providing a healthy business environment through institutional capacity building, which encourages employment-creating productive investment and reduces risk to business initiatives. The government should seek to encourage the private sector involvement in reconstruction efforts and seek more inclusive benefits of economic recovery.

Of course, given the limited local natural, financial, and human resources, Yemen needs support from regional as well as international communities. Nevertheless, for post-conflict recovery strategy and policy to survive in the immediate post-war chaotic environment and the longer run, they ought to be designed with a significant contribution from local capacities. The reconstruction agenda should also consider the pre-war institutions and those war-created ones which were, and still are, instrumental in creating tensions and conflict. In addition, for the reconstruction efforts to help establish legitimacy for the new authority, they must be economically and socially inclusive and result in immediate higher equality and employment.

Any post-war reconstruction plans must also consider the lost opportunities due to the war and keep up with expanding population needs in the future. As indicated earlier, post-war reconstruction requires first to identify and evaluate war damages to the economy. We have in the previous section provided a crude estimate of the value of the real GDP loss due to the war, arguing that this estimate reflects the monetary value of the overall impact on the economy up to date. However, we have also indicated that there are future post-war losses that are not reflected in our estimate. In particular, the lost education opportunities due to the conflict, combined with losses in health services, are likely to affect an entire generation, leading to slower growth prospects in the future.

### **5.3.1. Macroeconomic Policies for Post-conflict Recovery**

Post-conflict economic performance in Yemen will be dependent on sound macroeconomic policies, which facilitates the required recovery of the economy and speed up the pace of such recovery. Given pre-conflict lack of adequate and efficient monetary and fiscal institutions, it is necessary that the international community takes an active role in helping Yemen into reconstruction and development.

Recovery benefits are meant to be inclusive, and they tend to replace existing pre-war and war-created networks of resource capture. This will most likely create discontent and resistance from influential groups, and persons who have been benefiting substantially from the absence of the



state during the war, leading to what UNDP calls “conflict trap” (UNDP, 2008), meaning that conflict may reoccur due to new grievances. Therefore, it is crucial to consider such interests when drafting reconstruction policies. Effective policies should be implemented incrementally to reduce shocks associated with the resulting change in the economic environment.

Post-war policies should be pro employment generation in order to reduce further public discontent resulting from the loss of income-generating opportunities. After all, one of the seeds of conflict has been the high unemployment rate that helped warlords recruit thousands of unemployed persons and send them to the frontlines. Overall, post-conflict policies should prioritize bringing down the risk of conflict reoccurrence.

The post-war *fiscal policy* represents the government's management of public finances following a long and devastating war. Pre-war fiscal institutions and policy were performing chaotically. Revenue generation, particularly tax management and collection, was inefficient. Budgetary targets were rarely met, and government budget was characterized by chronic deficits. During the war, the government's fiscal position has deteriorated further as tax collection declined and spending on military operations increased. As a result, the government resorted to inflationary financing.

The war has also been very detrimental to the pre-war suboptimal fiscal institutions that have the task of managing government fiscal policy and the macroeconomy. This necessitates rebuilding and reforming fiscal institutions to provide efficient management of both the revenue generation and spending. In the presence of the expected flow of reconstruction funds from international donors, setting some type of control mechanism will ensure efficient use of such funds. After-war fiscal policy must be constrained by sufficient fiscal rules to ensure acceptable fiscal behavior on the part of the government and hence increasing international aid effectiveness. These rules typically aim at reducing fiscal policy pro-cyclicality and ensure fiscal responsibility and public debt sustainability. Some rules include setting numerical limits on budgetary aggregates, deficits, and public borrowing. These rules should be enforced but also allow for some flexibility to deal with changing economic conditions, and without frequently changing the rules themselves.

Post-war monetary policy is important as well. Elbadawi and Soto (2010) have observed that the academic literature on policy have focused on post-conflict financial institutions and aid effectiveness, and largely ignored the *monetary regime and optimal exchange rate policy*, despite their importance. Pre-war monetary institutions and policy in Yemen had been performing relatively well. The Central Bank of Yemen (CBY) was to some extent successful through various monetary policy tools in managing inflation, the exchange rate, and the financial and monetary systems in general. After the war started, the CBY continued its relatively successful management of the country's monetary. The exchange rate of the local currency remained relatively stable,

close to the levels before the war, for about two years after the crisis started. Under the Houthis control, CBY's foreign reserves were depleted and consequently CBY Headquarter was relocated to the government's temporary capital Aden in late 2016<sup>37</sup>. This resulted in the creation of two different monetary institutions in Sana'a and Aden, weakening the conduct of monetary policy, which became under control of two adversaries. There has been a problem of liquidity shortages in local currency where banks became unable to satisfy withdrawal requests by depositors. The banking system, however, continued functioning despite being under pressure from the (two) financial authorities in Sana'a and Aden. Surprisingly, none of the local commercial banks have become insolvent, despite the tight liquidity.

Only the CBY in Aden is internationally recognized, but it controls a small fraction of the system. Despite financial support from KSA to Aden's CBY, the local currency started depreciating. Nevertheless, the depreciation has been relatively moderate if compared to other war-torn countries. Even after the CBY in Aden started losing control, the local currency lost around 64 percent of its value since the start of the war, compared to about 90 percent and 67 percent depreciation in the Syrian and Egyptian currencies during the same period, respectively. The CBY efforts to stop further currency depreciation sometimes resulted in temporary improvement in the exchange rate, but local currency is expected to continue depreciating unless the CBY receives continuous foreign exchange income in the future<sup>38</sup>.

Needless to say, in post-war Yemen recovery of the monetary system must start by reunifying CBY in one central institution responsible for managing monetary policy and regulating the country's banking system and overall financial sector. The performance of the pre-war monetary policy was relatively acceptable but needed to be improved. Therefore, post-war monetary policy should aim at enhancing pre-war practices and drafting new policies that ensure the stability of the economy and facilitate reconstruction efforts.

## **6. Conclusions**

Even before the recent conflict, Yemen was the Arabian Peninsula's poorest and less developed country. Combined with a host of grievances from economic and social inequality, political exclusion, rampant corruption, religious politics, and overall weak institutions, this created an environment of instability across the country, which has been used by local and foreign players to advance their agendas. Following the public uprising of 2011, traditional local powers used the public discontent to serve their political ambitions for power and resource capturing, pushing the country into a vicious war. In addition, foreign powers have been active in meddling in Yemeni

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<sup>37</sup> CBY foreign reserve before the crises (2014) amounted to more than \$4.7 billion.

<sup>38</sup> In late 2019, the CBY in Aden issued new currency bill to replace the old deteriorated bills, but the de-facto government in Sana'a banned its circulation in Houthi-controlled areas. Rumors indicate that Houthis Seized the new currency notes in its controlled areas and used them to buy foreign currencies in government-controlled areas, leading to further depreciation in the local currency and exchange differences between the two areas.

affairs leading to the conclusion that the Yemeni crisis has turned into a proxy war representing regional and foreign interests.

The current violent conflict in Yemen is the newest among several major and minor conflicts that have plagued the country's history. However, recent sociopolitical instability, inadequate and inefficient formal institutions, combined with the use of modern weaponry by local and multiple foreign militaries, have led to the creation of the worst humanitarian crises in recent times. After more than four years of war, Yemen's already fragile state institutions have been unable to meet the most basic needs of the people. Hadi's government presence in the KSA, and the apparent determination of the Arab Coalition to prevent the government from conducting its functions from inside the liberated areas, led to a failure of state institutions to forge a relationship with the population. Also, the evident reliance on international official aid and NGOs to deliver essential services in the wake of the violence, have weakened the trust and the bond between citizens and the state and contributed to decreased levels of state legitimacy.

Moreover, the conflict has likely reached a deadlock as there seems to be no possibility for military victory by either side or an imminent peaceful solution. The security situation remains volatile, and violence between the two leading powers (the legitimate government backed by the Arab Coalition, and Houthis backed by Iran) is not showing signs of coming to an end. In addition, the noticeable rise of several Coalition-created local militias, particularly in the South, is likely to prevent the return of stability even if a peaceful settlement between the two principal sides of the war is reached. The current lawlessness is likely to remain for the foreseeable future, including in the areas liberated from Houthis. Even if the major war ends, there is a risk that Yemen will experience a series of scattered smaller wars fueled by national and foreign actors, exacerbating the negative impact on the economy and the country.

Given the remote likelihood of a military solution, a negotiated settlement, with help from the international community, is the most likely scenario of ending the conflict. Such settlements may be reached through political (but not sectarian) power-sharing arrangements where inclusion of all segments of the society is guaranteed. Since electoral power-sharing is considered the most common result of peace negotiations after the end of a civil war, a power-sharing formula in Yemen, based on the National Dialogue Conference principles, does not seem very far-fetched despite the many obstacles. To achieve lasting peace and prosperity, Yemen may build on the outcomes of the National Dialogue Conference, an opportunity for political reconciliation that was lost when the state was dismantled in September 2014.

After a long-hoped-for settlement and a return of peace and stability to Yemen materialize, the country is expected to go through an extensive phase of reconstruction. However, for major reconstruction to succeed, a new social contract that is acceptable by all groups must be in place,

and political and social institutions must be intact. Given the massive scale of war damages to the country's economy and society, and the further weakening of their structures, the reconstruction of Yemen requires both regional and international efforts aiming at mobilizing adequate financial resources to achieve both urgent and long-term reconstruction goals. These efforts should benefit from experience in rebuilding war-torn countries. Moreover, a pre-requisite for achieving peace and prosperity is improving security and enforcing law and order throughout the country.

Post-war macroeconomic policies should aim at correcting mismanagement of the economy that existed before the conflict. These efforts must start with rebuilding and reforming fiscal and monetary institutions that are capable of conducting fiscal and monetary policies to facilitate a speedy and smooth recovery. Optimal macroeconomic policies after the war do not have to be different from those in times of peace but should have a war-specific ingredient: they should, in addition to facilitating reconstruction, aim chiefly at reducing the risk of conflict reoccurrence.

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