



RETHINKING
YEMEN'S ECONOMY

*Yemen's Expatriate Workforce
Under Threat:*

THE ESSENTIAL ROLE OF REMITTANCES IN MITIGATING ECONOMIC COLLAPSE



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May 2019

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This white paper was prepared by the Sana'a Center for Strategic Studies, in coordination with the project partners DeepRoot Consulting and CARPO – Center for Applied Research in Partnership with the Orient.

Note: This document has been produced with the financial assistance of the European Union and the Embassy of the Kingdom of the Netherlands to Yemen. The recommendations expressed within this document are the personal opinions of the author(s) only, and do not represent the views of the Sanaa Center for Strategic Studies, DeepRoot Consulting, CARPO - Center for Applied Research in Partnership with the Orient, or any other persons or organizations with whom the participants may be otherwise affiliated. The contents of this document can under no circumstances be regarded as reflecting the position of the European Union or the Embassy of the Kingdom of the Netherlands to Yemen.

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EXECUTIVE SUMMARY

Scarce opportunities to earn a viable livelihood in Yemen have, for decades, driven hundreds of thousands of Yemenis abroad in search of work. Given chronically poor access to education in Yemen, the majority of these have been unskilled or semi-skilled laborers. The proximity of Saudi Arabia and the robustness of its oil-driven economy has made it a natural destination for most of Yemen's expatriate labor force. The economic boom in Gulf Cooperation Council (GCC) states in the 1970s and 1980s, with the corresponding demand for labor, also drew many Yemenis to work in the GCC, with Saudi Arabia opening its borders to Yemenis without visa requirements.

Following the 1990 Gulf War – and the Yemeni government's decision not to support the United Nations Security Council resolutions against Iraq's invasion of Kuwait – Yemeni workers were forcibly deported en masse from GCC countries. Close to one million returned home from Saudi Arabia alone. The loss of remittances from these workers, along with the increased demands on public services and pressure on the labor market, caused rapid economic decline and social instability in Yemen. This in turn is regarded as a contributing factor to the country's 1994 civil war and today's economic crisis.

In 1990 Riyadh also initiated a program to increase the share of its nationals in the labor force, however, it was not implemented at the time. Thus, over the subsequent two decades the number of Yemenis working in the kingdom returned to pre-1990 levels. Following the 2011 Arab Spring uprisings around the region and in Yemen, GCC monarchies' security fears increased, as did their desire to increase employment for their nationals. Thus, in 2011 Saudi Arabia's campaign to nationalize its labor market was reactivated, with this becoming part of Riyadh's larger Vision 2030 economic plan in 2013.

The impact of these policies has become more pronounced in recent years, with greater restrictions on the number of job categories open to expatriate workers, fees to live and work in Saudi Arabia increasing for legally documented workers and their families, and undocumented laborers facing an evermore precarious existence and exploitation. This, along with Saudi campaigns to arrest and forcibly expel illegal workers, has resulted in tens of thousands of Yemenis being forced to return to their home country.

Concurrently, in 2015 Saudi Arabia and the United Arab Emirates launched a military intervention in Yemen in support of the internationally recognized Yemeni government, which had been deposed by the Houthi movement. The escalation of this conflict has caused widespread economic collapse in Yemen, mass loss of livelihood and the cessation of large-scale oil exports, previously the country's largest source of foreign currency. The result is that the survival of millions of Yemenis has become dependent on remittances sent home from relatives working Saudi Arabia, and elsewhere. These remittances – totalling billions of dollars annually – have also become the primary supply of foreign currency in the local market and critical to facilitating imports of basic commodities. Thus, remittances from Yemen's expatriate workforce have prevented their country's food security crisis, already the largest in the world, from being profoundly worse.

Should the mass expulsion of expatriate workers currently underway in Saudi Arabia continue at pace, it will have another catastrophic economic and humanitarian consequences for Yemenis. This in turn would spur further socioeconomic and political instability across Yemen and create an environment conducive to long-term armed conflict, regardless of whether a political settlement is reached between the parties currently at war. As many observers see Yemen's stability as a cornerstone of stability in the wider Arabian Peninsula, the ramifications would be regionalized, if not globalized. Thus beyond the moral obligation to prevent the intensifying of mass human suffering, it is in the self-interest of all local, regional and international stakeholders that the flow of remittances from Yemen's expatriate workforce be maintained.

It is incumbent on GCC states, and Saudi Arabia in particular, to allow Yemeni expat workers an exemption from the current labor nationalization campaigns, at least in the mid-term. Once the ongoing Yemeni conflict has reached a political resolution and the country has attained relatively sustainable economic growth – with a concurrent demand for labor that can absorb returning workers – the issue of the repatriation of Yemeni workers can be revisited responsibly.⁽¹⁾

1) Study Methodology: This study utilized primary and secondary sources. Primary data was obtained by conducting interviews with key informants, including Yemeni expatriates in the GCC, government officials including officials from Ministry of Expatriates and Social Affairs, as well as interviews with experts who enriched the study subject. In addition, this study's authors conducted a comprehensive review of secondary, open sources of information, including previous publications that focused on the study topic.

BACKGROUND

Scarce Opportunities and Unskilled Labor

The lack of adequate livelihood opportunities is at the heart of many socio-economic problems in Yemen. Prior to the ongoing conflict, the country already suffered from high unemployment and underemployment; while reliable statistics are unavailable, various estimates suggest that between a quarter and an eighth of the Yemeni workforce were unemployed, with these numbers substantially higher for youth and women.⁽²⁾ Demographic pressure has been a dominant feature of the labor market in the country. The annual workforce growth rate (estimated at 4.6 percent)⁽³⁾ is higher than the annual population growth rate (estimated at 3 percent). As such, the country's economy has been challenged with a rapidly increasing number of young people, who currently make up the largest proportion of Yemen's total population: more than 65 percent of the population is under the age of 25, while 43 percent are under the age of 15.⁽⁴⁾ Among these youths, only one out of five is employed. Among young men below the age of 25, one in three is employed; among young women, it is only one in 40.⁽⁵⁾

Based on International Labor Organization (ILO) estimates, The increase in labour market entrants means that the number of additional jobs the Yemeni economy would have to create on a yearly average to maintain an employment-to-population ratio of 75 percent equates to 150,000 jobs a year.⁽⁶⁾ Given this situation, Yemen's economy has evidently struggling to absorb the increasing number of new entrants into the labour market.

2) Estimates from the International Labour Organization estimated total unemployment at 13.5 percent. See: "Yemen Labour Force Survey 2013-14," International Labour Organization, 2015, https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_419016.pdf. Accessed May 19, 2019. Estimates from the International Monetary Fund differ, with total unemployment estimated in 2014 to be roughly 26 percent. See: "Republic of Yemen," International Monetary Fund, IMF Country Report No. 14/276, <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Yemen-2014-Article-IV-Consultation-and-Request-for-a-Three-Year-Arrangement-41901>. Accessed May 19, 2019.

3) Dr. Ali Mohammed Al-Nusairi, Undersecretary of the Ministry of Social Affairs and Labor for Labor Relations Sector, Summary of the report of the Republic of Yemen about the unorganized work, 2015. <http://www.annd.org/cd/arabwatch2016/pdf/arabic/20.pdf>. Accessed May 19, 2019.

4) Michele Bruni, Salvini Andrea, and Uhlenhaut Lara, "Demographic and Labour Market Trends in Yemen," International Labour Organization, 2014, https://www.ilo.org/beirut/publications/WCMS_358144/lang--en/index.htm. Accessed May 19, 2019.

5) Bruni et al., *Demographic and Labour Trends*, 37.

6) "Yemen Return Migrants Survey 2014," International Labour Organization, 2015, https://www.ilo.org/beirut/publications/WCMS_462691/lang--en/index.htm. Accessed May 19, 2019.

In general, Yemeni youth lack necessary skills and are poorly trained. Roughly half have not completed compulsory education (Grade 1-9) and fewer than a third have finished secondary education.⁽⁷⁾ Moreover, the majority of Yemeni workers are concentrated in sectors with low productivity such as agriculture (24.7 percent of workers), construction (10.6 percent), and trade (22.1 percent).⁽⁸⁾ Coupled with high unemployment, this reality — and misallocation of labor and human capital — has left Yemen economically underdeveloped.⁽⁹⁾

History of Expatriate Labor in the GCC

Yemen's long history of high unemployment, epidemic poverty, conflict, and ineffective reforms to its labor laws has driven mass emigration in search of work. Historically, the number of Yemeni migrant workers in Gulf Cooperation Council (GCC) states has been determined by several factors, including the economic status of the Gulf countries, the openness of their labor policies, the level of their political and economic relationship with Yemen, and the GCC's general inclinations towards Yemen.⁽¹⁰⁾ Yemeni expatriates are concentrated more in Saudi Arabia than in other GCC state due to Saudi Arabia's geographical proximity and the relative size of its economy. Yemen and Saudi Arabia also share extensive social, religious, and business ties. However, as is discussed in detail below, following a number of restrictive immigration policies, the number of Yemeni expats in Saudi Arabia is gradually declining.

In the 1970s and 1980s, an economic boom in the GCC — coupled with the lack of a well-trained local workforce in the Gulf labor market — attracted a significant number of Yemeni migrant workers. Saudi Arabia in particular opened its borders to Yemeni nationals without visas. The inclusion of Yemeni expatriate workers in the Gulf labor market benefited Yemen by helping to absorb unemployment, stabilizing the economy through remittances, increase political security and accelerate development in Yemen.

7) Ibid.

8) "Republic of Yemen: Unlocking the Potential for Economic Growth," World Bank, Report No. 102151-YE, October 2015, <https://openknowledge.worldbank.org/handle/10986/23660>. Accessed May 19, 2019. ILO estimates differ, with agriculture accounting for 29.2 percent of total employment and industry accounting for 14.5 percent. See ILO, *Labor Force Survey*, 7.

9) World Bank, *Yemen: Unlocking the Potential*.

10) In 1981, the six Gulf monarchies of Bahrain, Saudi Arabia, Qatar, the UAE, Oman and Kuwait agreed to establish the GCC, which was tasked with coordinating key domestic economic policies among its members.

Impacts of Expatriate Expulsion Following the 1990 Gulf War

In 1990, after Yemen did not support the 1990 United Nations Security Council resolution on the Iraqi invasion of Kuwait, more than 80 percent of the 1.3 million Yemeni expats estimated to work in the GCC states were expelled from their host countries.⁽¹¹⁾ Following the mass exodus of expatriates from GCC countries, the share of expatriates' remittances in the Yemeni GDP declined from 30 percent prior to the 1990 Gulf War to only 5 percent.⁽¹²⁾ This mass return of workers also worsened Yemen's political, security, social and economic conditions, as discussed below.

Many long-established expatriates, who had stayed for longer periods in Saudi Arabia to work in low-income jobs and without the intent of returning, lacked kin networks back in Yemen. This meant they were less able to reintegrate into the society and were generally deprived of housing, income, security and political rights. Many settled in large temporary tent cities in Hudaydah and Aden while. Though accurate statistics are lacking, some estimates showed as many as 75,000 remained in these tent cities as of 1996.⁽¹³⁾

Several months following the Gulf Crisis some 880,000 expatriates had returned,⁽¹⁴⁾ increasing the national population 7 percent and the workforce by 30 percent.⁽¹⁵⁾ The socio-economic implications of this return were myriad on Yemen, which had only become a unified state – merging the previously separate north and south Yemen – that same year. Heavily burdened with the costs of integrating two different civil service structures and economic systems, the merged state had additional burdens to create more jobs, schooling, housing,

11) According to statistics published by the Gulf Labor Markets and Migration project in 2014, following Iraq's invasion of Kuwait in August 1990, around 800,000 Yemenis fled Saudi Arabia in a mass exodus. This came just two months after the unification of North and South Yemen in May 1990, when tensions between the newly unified Yemen and Saudi Arabia were already mounting over border disputes and other issues. For more details see: Françoise de Bel-Air, "Demography, Migration, and Labor Market in Saudi Arabia," Gulf Labour Markets and Migration Explanatory Note No. 1/2014, January 2014, http://gulfmigration.org/media/pubs/exno/GLMM_EN_2018_01.pdf. Accessed May 19, 2019. According to the 1987 Statistical Yearbook of North Yemen's Central Planning Organization, around 19 percent of North Yemen's population and 5.2 percent of South Yemen's were expatriate workers in GCC states at the time.

12) Clive Sinclair, "Recovering Lost Remittances," United States Agency for International Development, March 1990.

13) Najwa Adra, "Social exclusion analysis - Yemen," Prepared for DFID and the World Bank, January 2006, <http://www.najwaadra.net/yemense.pdf>. Accessed May 19, 2019.

14) "The Impact of the Gulf Crisis on the Economies of Western Asia," United Nations Economic and Social Commission for Western Asia, December 1992.

15) World Population Prospects: The 2008 Revision, United Nations, 2009.

and to widen its capacity to offer basic social services such as water, healthcare, and electricity.

Subsequently, during the first half of 1990s, Yemen experienced severe macroeconomic challenges: the balance of payments deficit rose from 12 percent of GDP in 1990 to 16 percent in 1994; inflation rate rose from 33 percent in 1991 to reached 120 percent in 1994;⁽¹⁶⁾ and the Yemeni rial fell in value from YR12 per US\$1 in 1991 to YR160 per US\$1 as 1995 began, a depreciation of some 1,200 percent in the local currency. This destabilization is widely thought to have been among the factors contributing to the ignition of Yemen's north-south civil war in 1994.

Restrictive GCC Labor Policies Post-1990

Following the 1990 crisis, GCC states shifted their immigration policies significantly. Gulf states came to rely more on Asian workers — a workforce deemed less expensive, more flexible, less politically dangerous, and generally more manageable than Arab workers.⁽¹⁷⁾ While the number of Asian workers as a percentage of employed foreign labor in GCC has thus increased since 1990, the share of Arab workers in the Gulf labor market sharply decreased from 72 percent in the early 1970s to 35 percent in 1996 and down to an estimated 25 percent in 2010.⁽¹⁸⁾

Gulf states also launched nationalization policies to curb the number of foreign expatriates and replace them with their own domestic workforces. In early 2003, as part of a restrictive immigration policy, Saudi Arabia began the construction of a three-meter-high fence spanning a portion of its 1,458-kilometre border with Yemen.⁽¹⁹⁾ In 2007, Saudi Arabia deported more than 60,000 Yemenis from its cities, deeming their immigration illegal according to the “Saudization” policy, which was first formulated in the mid-1990s to restrict irregular migrants and create job opportunities for Saudi citizens.⁽²⁰⁾

16) Central Statistical Organization, Statistical Yearbook 1995, p. 310.

17) Jessica Forsythe, “Opportunities and Obstacles for Yemeni Workers in GCC Labour Markets,” Chatham House, September 1, 2011, <https://www.chathamhouse.org/publications/papers/view/178569>. Accessed May 19, 2019.

18) Ibid.

19) The wall consists of sandbags and pipelines filled with concrete. It is fitted with electronic detection equipment, claiming to prevent illegal immigration and drug smuggling. Due to a dispute between Yemen and Saudi Arabia, the wall's construction was halted in 2004 but resumed in 2008 in the Yemeni district of Haradh. As Human Rights Watch reported in 2014, Saudi border guards face difficulties in preventing the trafficking of Yemeni migrant workers along the border. See: “Yemen's Torture Camps: Abuse of Migrants by Human Traffickers in a Climate of Impunity,” Human Rights Watch, May 25, 2014, <https://www.hrw.org/report/2014/05/25/yemens-torture-camps/abuse-migrants-human-traffickers-climate-impunity>. Accessed May 19, 2019.

20) Hassan Abosaq, “The Implications of Unstable Yemen on Saudi Arabia, United States Army War College, 2012, <https://www.hsdl.org/?view&did=717320>. Accessed May 19, 2019.

However, the lack of qualified domestic workforces and proliferation of irregular employment in the Gulf, as well as people-smuggling networks between Yemen and GCC states – primarily Saudi Arabia – have made GCC efforts to reduce irregular migration relatively unsuccessful.⁽²¹⁾ GCC countries continue to remain highly reliant on foreign labor. Based on recent estimates, foreign workers comprise more than 50 percent of the employed population in Saudi Arabia. They make up more than 80 percent of the workforce in the private sector.⁽²²⁾

This reality has allowed for the number of Yemeni expatriates to gradually return to pre-1990 levels. According to World Bank estimates, 13 million expatriates were employed in the GCC as of 2014; of them, the number of Yemenis ranged between 1.0 million and 1.2 million. Yemenis thus represent an estimated 7 to 9 percent of the total employed workforce in GCC states.⁽²³⁾ Other sources estimate that there were more than 945,000 Yemenis working in the GCC between 2012 and August 2017 (see Table 1).⁽²⁴⁾

Table 1. Estimated Yemeni Diaspora in GCC States (2012-2016)

GCC State	Number of Yemeni Workers
Saudi Arabia	800,000
United Arab Emirates	90,000
Kuwait	10,762
Qatar	40,000
Bahrain	4,700
Total	945,462

Source: Gulf Labour Markets and Migration, “Demographic and Economic Database,” accessed October 10, 2018, <http://gulfmigration.eu/gcc-estimates-figures-foreign-nationals-selected-nationalities-country-residence-gcc-2012-2016>.

However, Yemeni expatriates hold very little bargaining power among foreign workers in Saudi Arabia. A recent ILO survey of Yemeni expatriates returning to Yemen in 2014 illustrated this in terms of

21) S. Irudaya Rajan, “India Migration Report 2016: Gulf migration.”

22) “Arab Migrant Communities in the GCC, Working Group Summary Report No. 12,” Georgetown University, School of Foreign Service in Qatar, Center for International and Regional Studies, 2015, <https://repository.library.georgetown.edu/bitstream/handle/10822/713078/CIRSSummaryReport12ArabMigrantCommunities2015.pdf;sequence=5>. Accessed May 19, 2019.

23) World Bank, *Yemen: Unlocking the Potential*.

24) Estimates of Yemeni migrant workers vary in the absence of a single official source of data. The Saudi Ministry of Labor and Social Development (MLSD) reported in March 2016 that there were 722,317 Yemeni workers in all Saudi sectors, excluding undocumented Yemeni workers. According to the World Bank, Yemeni undocumented workers account for an estimated 20 to 40 percent of total Yemeni expatriates in Saudi Arabia. See: World Bank, *Yemen: Unlocking the Potential*.

unskilled and uneducated labor: it found that 63.1 percent of them worked in construction, while only 4.8 percent had formal vocational training.⁽²⁵⁾ To give Yemeni expatriate workers a reasonable platform in the Gulf market, the GCC states and Saudi Arabia in particular pledged in 2009 to offer Yemenis comparative preference in private sector recruitment.⁽²⁶⁾ However, these pledges were never translated into concrete action.

Saudi Arabia's Kafala Sponsorship System

Under the Saudi kafala system, each legal foreign worker is closely tied to a Saudi sponsor or *kafeel*, who is responsible for the expatriate's legal status. If the *kafeel* fails to ensure that the expatriate has the appropriate papers, the expatriate becomes considered irregular. According to Saudi labor law, the expatriate is allowed to work only with the original *kafeel* who authorized his entrance. If the expatriate transfers his employment, with or without the sponsor's agreement, he becomes considered irregular.⁽²⁷⁾ Since 2014 however, the Saudi Ministry of Labor and Social Development (MLSD) has issued new adjustments to the sponsorship system, allowing under certain cases migrant workers to transform employment without the sponsor's agreement. These include but not limited to employers failing to pay workers' wages due for three consecutive months; delaying payment due for the third month; and the termination of the employment contract by the employer.

The poor terms and conditions of recruitment regulated under the *kafala* system and other consequences of the GCC migration policies are drivers of irregular migration.⁽²⁸⁾

25) ILO, *Yemen Return Migrants Survey*.

26) Edward Burke, "One Blood and One Destiny? Yemen's Relations with the Gulf Cooperation Council," London School of Economics and Political Science, 2012.

27) In some cases, if disputes arise between the sponsored worker and his sponsor over any issue related to the kafala system, the sponsor confiscates the migrant's passport and changes his status to irregular.

28) Ibrahim Awad and Nourhan Abdel Aziz, "Egyptian Irregular Migration in the GCC Countries - Gulf Labour," in Philippe Fargues and Nasra M. Shah (eds.), *Skilful Survivals: Irregular Migration to the Gulf*, Gulf Labour Markets and Migration (GLMM) Programme, Gulf Research Center Cambridge, 2017, <http://gulfmigration.org/media/pubs/book/BookChapters/GLMM%20-%20IM%20Volume%20-%20Chapter%20XI%20-%20Extract%20-%202017-05-19.pdf>. Accessed May 19, 2019.

This makes the sponsorship system, applied in all GCC, as a main contributor of irregularity in the labor market.⁽²⁹⁾ Given the onerous formal *kafala* system in the GCC states, an informal strategy of irregular immigration often benefits Yemeni expatriates and their employers alike. On one hand, employers have a chance to maximize their profits by hiring low-cost labor. Workers on the other hand avoid the high costs and financial burdens associated with formal Saudi recruitments. They thus accumulate savings to support their families back home. However, irregular immigration holds its own risks, with various international humanitarian organizations having documented that every year migrants attempting to enter Saudi Arabia illegally have been killed or injured by Saudi security forces at the Yemeni-Saudi border or within Saudi Arabia.

Irregular migrant workers in the GCC states can be classified into three types: First are undocumented expatriates entering illegally in order to work informally without visas or residence permits. Second are expatriates working or staying in a country after their permits have expired. Third are expatriates working with employers other than the *kafeels* who authorized their entrance under the *kafala* system or working in a job other than what is stated on his visa. In 2013, Dr. Ali Albaiti estimated that out of the 8.5 million legally documented expatriate workers in Saudi Arabia, half are employed by organizations other than their *kafeel*.⁽³⁰⁾ This means that according to Saudi labor law, 4.25 million documented workers are technically considered irregular. The number of Yemeni expatriates no longer employed by their *kafeel* is difficult to come by, but informal estimates put the number at 60 percent or more of all documented Yemeni workers in Saudi Arabia. As revealed by many of the Yemeni expatriates who were interviewed for this study, the *kafala* system has become a profitable business for *kafeels*: They often acquire more expatriate visas than needed, then release unneeded workers to work for other employers. The *kafeel* remains the expatriate's legal sponsor in exchange for regular payments from the expatriate.

29) Under this system, the migrant worker is highly tied into a Saudi local Kafeel who should have a full responsibility of his economic and legal aspects, including the issuance of national identity card or iqama upon arrival, recruitment fee, and medical examination. If the Kafeel failed to perform these legal duties, a migrant would fall under the irregular status. In some cases, if disputes raised between the sponsored person and his sponsor over any issue related to Kafala system framework, the later retains and confiscates the migrant passport and transfers his status to irregularity. Also, according to the Saudi labor law, the migrant worker should work only with his original Saudi sponsor (employer) who authorized his entrance. If the migrant worker transferred his employment without the sponsor agreement, he would fall in the irregular status. Even if the sponsor has allowed the foreign migrant to work with another employer, he also would fall under the irregular status. As revealed by the majority of Yemeni laborers in the KSA who were interviewed for this study, the Kafala system has become a profitable business for Kafeels who usually demand visas for foreign workers than they actually need and then set free unneeded workers to look for opportunities with other employers in exchange of time-based financial payments they should pay to their legal sponsors.

30) Dr. Ali Albaiti is the Founder and CEO of United Consulting based in KSA, which provides advisory & consulting services to private sector, government, banks and investment companies in various fields of financial and economic management.

IMPORTANCE OF REMITTANCES DURING THE CONFLICT

Economic Collapse in Yemen

Yemen is currently in the midst of a number of interlocking crises that, taken together, have had deeply destructive consequences on Yemeni lives and livelihoods. Following the 2011 political uprisings that subsequently developed into a multidimensional conflict in March 2015, the country has become more politically and socially fragmented. The economy has seen a dramatic decline during the conflict, leaving millions of Yemeni workers without jobs. Yemen is now facing the world's largest humanitarian crisis: In October 2018 the UN estimated that some 14 million people were on the cusp of famine.⁽³¹⁾

Before the escalation of the conflict in March 2015, the public sector provided jobs to 31 percent of the total employed population in Yemen.⁽³²⁾ Roughly 25 percent of Yemeni households depend on government salaries as a main source of income, while a further 3.2 percent rely similarly on government pensions.⁽³³⁾ Since the third quarter of 2016, however, most of Yemen's 1.25 million civil servants have not regularly received their salaries, with many hardly receiving any payments at all.⁽³⁴⁾

The conflict has caused physical damage to businesses and public infrastructure; spurred insecurity; created shortages of fuel and electricity; and led to a severe decline in economic productivity. As a result, public and private sectors alike have laid off a high number of workers. According to one study, as of October 2015, 41 percent of enterprises in the public and private sectors had laid off 55 percent of their workforce on average.⁽³⁵⁾

31) "Yemen Humanitarian Needs Overview 2018," United Nations Office for the Coordination of Humanitarian Affairs (OCHA), December 2017, <https://ochayemen.org/hpc/HNO-2018>. Accessed May 19, 2019.

32) ILO, *Labor Force Survey*.

33) "Yemen Emergency Food Security and Nutrition Assessment (EFSNA)," World Food Programme, UNICEF, Food and Agriculture Organization, January 26, 2017, https://reliefweb.int/sites/reliefweb.int/files/resourcess/efsna_-_preliminary_results_public_final1.pdf. Accessed May 19, 2019.

34) Since August 2016, the Central Bank of Yemen — which the Government of Yemen relocated to Aden in September 2016 — has experienced a shortage of physical banknotes and has been unable to pay the salaries of public employees. Public servants in Houthi-controlled areas have been the most adversely affected by the crisis, with most having lost the equivalent of more than one year's salary. Public servants located in areas controlled by the internationally recognized government have continued receiving salaries but only sporadically. At the same time, the Social Welfare Fund (SWF), a public cash assistance program which delivers monthly payments to around 1.5 million of the poorest and most vulnerable Yemenis, ended in late 2014, despite being briefly revived from July-October 2017 by quarterly cash transfers distributed by UNICEF and the World Bank.

35) A questionnaire of the Yemen's Business Climate Survey, conducted by Small & Micro Enterprise Promotion Service (SMEPS) during August-October 2015 in Sana'a, Aden, Taiz, Hadramawt and Hudaydah.

Remittances Helping to Mitigate Economic Crisis

As collapse threatens Yemen's economy, remittances from Yemeni expatriates represent a critical inflow of currency into Yemen. Annual reports from the Central Bank of Yemen (CBY) from 2014 to 2016 show that total remittances to Yemen from all Yemeni expats working abroad were estimated at US\$3.3 billion in 2014, US\$3.3 billion in 2015, and US\$3.4 billion in 2016. The World Bank estimated US\$3.4 billion in Yemeni remittances in 2017, meaning that this figure has remained relatively unchanged throughout the conflict.⁽³⁶⁾

The actual inflow of remittances to Yemen is likely much larger than these estimates indicate. Many Yemeni workers in the GCC, and in Saudi Arabia especially, refrain from sending their remittances through official financial networks to avoid being taxed or caught violating the labor regulations.⁽³⁷⁾ This, combined with the generally poor state of Yemen's financial system- only 3.5 percent of Yemeni population⁽³⁸⁾ have an account with a formal financial institution- means that a significant flow of remittances is channeled through informal foreign exchange shops or other financial networks in Yemen. One 2017 survey found that 83.8 percent of expatriate workers send their remittances through money transfer networks while 12.9 percent send them through relatives and friends.⁽³⁹⁾ This means that remittances sent through banks potentially account for only 2.9 percent of the actual total. Unofficial sources estimate that annual remittances to Yemen from abroad could add up to as much as US\$ 10 billion.⁽⁴⁰⁾

Yemeni expatriates working in GCC states represent the most important source for remittances, contributing around 90 percent of total remittances sent to Yemen in 2016. In 2016, remittances coming from expatriates in Saudi Arabia accounted for 61 percent of total

36) World Bank (2018), Annual Remittances Data (updated April 2018) <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>. Accessed May 19, 2019.

37) This avoidance of official financial channels is at least partly because expatriates' monthly transfers often exceed the expected income generated by the jobs officially registered on their visas, an income which often differs from the income from their unofficial jobs.

38) "Assessment of MSE financial needs in Yemen : final report (English)," World Bank, July 1, 2010, <http://documents.worldbank.org/curated/en/401331468171261673/Assessment-of-MSE-financial-needs-in-Yemen-final-report>. Accessed May 19, 2019.

39) "Yemen Humanitarian Update Covering 19 - 25 February 2018," UN OCHA, February 25, 2018, <https://reliefweb.int/report/yemen/yemen-humanitarian-update-covering-19-25-february-2018-enar>. Accessed May 19, 2019.

40) "How Many Yemenis in the Diaspora?" *Al-Moheet*, October 17, 2017, <http://almoheet.net/%d8%a7%d9%84%d9%8a%d9%85%d9%86%d9%8a%d9%88%d9%86-%d9%81%d9%8a-%d8%a7%d9%84%d9%85%d9%87%d8%ac%d8%b1-%d9%83%d9%85-%d9>. Accessed May 19, 2019.

remittances channeled to Yemen from all Yemenis working abroad. Yemeni expatriates in the UAE account for 18 percent, those in Kuwait account for 5 percent, those in Qatar for 5 percent, and those in Bahrain account for 1 percent.⁽⁴¹⁾

Remittances are particularly critical to Yemen's economy given the conflict's impact on the energy industry. In 2015, prior to the intensification of the conflict, the oil sector accounted for 24.1 percent of Yemen's gross domestic product (GDP), 83.3 percent of total merchandise exports and 45.3 percent of total public revenues.⁽⁴²⁾ According to the CBY's 2014 annual report, oil exports accounted for 65 percent of total exchange currency inflows to Yemen, while remittances accounted for 30 percent. However, the conflict has almost completely halted oil production. This has had a significant negative impact on exports, foreign direct investment, and foreign loans, as well as leading to the depletion of central bank's foreign reserves. With oil production largely suspended, remittances have become the primary sources of currency in a country that imports over 90 percent of its basic foods. The CBY estimated in 2016 that roughly 59 percent of total imports into Yemen were paid for with remittances.⁽⁴³⁾

As millions of Yemeni citizens lose their salaries and livelihoods due to the liquidity crisis created by the conflict, remittances become a critical source of household income. Due to the lack of credible data, it is difficult to determine accurately the proportion of Yemen's population that relies on remittances as a main source of income. However, estimates made by the Ministry of Planning and International Cooperation show that remittances from Yemeni expatriates represented 25 percent of the GDP per capita in 2017.⁽⁴⁴⁾ This indicates that remittances represent a vital source of income to thousands of households around Yemen, with a direct impact on poverty alleviation. Any substantial reduction in remittances would thus likely make the ongoing economic and humanitarian crises far worse.

41) "Migration and Remittances Data," World Bank, November 16, 2017, <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>. Accessed May 19, 2019.

42) "Yemen Socio-Economic Update, Issue 14," Yemen Ministry of Planning and International Cooperation, May 4, 2016, <https://reliefweb.int/report/yemen/yemen-socio-economic-update-issue-14-may-2016-enar>. Accessed May 19, 2019.

43) "Yemen Socio-Economic Update Issue 32," Yemen Ministry of Planning and International Cooperation, February 2018, <https://fscluster.org/yemen/document/yemen-socio-economic-update-issue-32>. Accessed May 19, 2019.

44) Ibid.

SAUDI ARABIA'S TIGHTENING LABOR RESTRICTIONS

Security Concerns in the GCC about Yemen

The 2011 political uprisings in Yemen and across the Middle East more broadly represented a turning point for the GCC's immigration policies. Following these uprisings, fears among GCC states about security and political stability intensified. Since 2011, all GCC states have taken a restrictive stance toward Yemeni migrants, with Saudi Arabia leading the way.⁽⁴⁵⁾

Saudi Arabia and the UAE have, since 2015, led a military intervention in Yemen against the Houthi movement and in support of Yemen's internationally recognized government led by President Abdo Rabbu Mansour Hadi. The conflict, which has virtually eradicated the presence of a formal state and has in turn made Yemen fertile ground for extremist groups, has correspondingly amplified fears in Saudi Arabia of radical offensive attacks based out of Yemen. Since early 2015, as a part of intense Saudi-Houthi fighting over the Yemeni-Saudi border, Houthi fighters have been firing medium-range ballistic missiles at Saudi cities, including the capital Riyadh.

GCC security and political fears of Yemeni migrants may originate from the lack of a centralized security identification system in Yemen to conduct a transparent clearing and screening process on migrants before sending them to GCC employers.⁽⁴⁶⁾ These Gulf fears have increased as the conflict in Yemen has drastically weakened the country's already-poor security apparatuses. The GCC has raised concerns that, in the absence of an established recording system, there is nothing preventing the return of Yemenis who have been deported for committing crimes in Gulf countries.⁽⁴⁷⁾

45) Confidential research interview conducted by the author in 2018.

46) "Tipping the Balance: A Regional Approach to Yemen's Economic Challenges," Chatham House, July 1, 2010, <https://www.chathamhouse.org/publications/papers/view/109382>. Accessed May 19, 2019.

47) Forsythe, "Opportunities and Obstacles."

Labor Nationalization Policies Implemented

The GCC labor market is based on supply-and-demand dynamics articulated by both government and private sectors. The recruitment process begins with private sector firms that directly -or indirectly through recruitment agencies-announce their needs of labor and ask government for visas for admitted applicants to join their workforce. Since 2011, GCC governments have been adopting restrained demography and nationalization policies to restrict the recruitment of foreigners in the private sector.

Saudi Arabia has been the most active among GCC countries in developing major restrictive policies to non nationals recruitment. The *Nitaqat* program launched by the Saudi government in September 2011 is the latest Saudization initiative intended to increase job opportunities in the private sector for Saudi citizens and to reduce the country's dependence on expatriate workers. The program is part of the Saudi Vision 2030 to cut the unemployment rate to 7 percent and to increase women's participation in the workforce from 22 percent to 30 percent. The *Nitaqat* program introduces specific quotas for employing nationals and corresponding sanctions to enhance compliance. It prohibits foreign workers from employment in certain industries, and it increases the cost of residence levies for expatriates.

Crackdowns on Irregular Immigration

Since 2013, Saudi Arabia has launched aggressive campaigns and restrictive policies against irregular immigration. In a push to reduce the abundant Saudi black market in labor, intensive security campaigns have been carried out to arrest, fine, imprison, and deport undocumented migrants.⁽⁴⁸⁾ In early 2013, the Saudi government launched an unprecedented nationwide campaign dubbed "A Nation Without Violations" to enforce labor code provisions and deport irregular foreign migrants. The campaign included detailed punishments for businesses and individuals employing irregular expatriates, such as barring employers from ever recruiting foreign labor in the future. A 90-day amnesty period from April to November 2013 was granted for

48) Stephanie Nebehay, "U.N. Urges Saudi Arabia Not to Deport Yemeni Migrants to War Zone," Reuters, May 9, 2018, <https://www.reuters.com/article/us-yemen-security-saudi-migrants/u-n-urges-saudi-arabia-not-to-deport-yemeni-migrants-to-war-zone-idUSKBN1IA1F7>. Accessed May 19, 2019.

irregular expatriates to leave the country, regularize their status, or be deported. Following the amnesty period, the Saudi Interior Ministry conducted raids on neighborhoods and businesses. It also established checkpoints to check foreign migrants' IDs, legal residence permits and labor documents.⁽⁴⁹⁾ The campaign reportedly resulted in 4.7 million irregular foreign workers regularizing their status during the amnesty period, while a further 1 million either left the country voluntarily or were forcibly repatriated.⁽⁵⁰⁾

Estimates of how many Yemenis left Saudi Arabia at the time vary. The Gulf Labour Markets and Migration program estimates that 200,000 Yemenis left as a result of the crackdown.⁽⁵¹⁾ The International Labor Organization (ILO) reported that more than 655,000 Yemeni workers were deported between June 2013 and December 2014, mainly crossing the border point of al-Tuwal located north of Haradh in Hajjah governorate.⁽⁵²⁾ Yemen's Ministry of Planning and International Cooperation estimates that 400,000 Yemenis left Saudi Arabia from 2013-2014.⁽⁵³⁾

Among 2,414 deportees surveyed by the ILO and Yemen's Central Statistical Organization in 2014, 95 percent were deported due to their lack of proper documentation.⁽⁵⁴⁾ Over the course of the deportation process, 35 percent of Yemeni deportees reported being physically abused, having possessions confiscated, not being given an opportunity to challenge their deportations legally, or being denied asylum.⁽⁵⁵⁾

Even those Yemeni expatriates remaining in Saudi Arabia have faced rough treatment. In the eyes of many Saudi security officers, Yemeni expatriates are adversaries, belonging as they do to a country at war with Saudi Arabia. Saudi security forces fear that Yemeni expatriates may engage in espionage, providing military intelligence to Houthi forces in order to target strategic locations in Saudi Arabia.⁽⁵⁶⁾ In Saudi

49) Researcher interviews with 20 Yemeni expatriates working in Saudi Arabia, April 2018.

50) Bel-Air, Demography.

51) Bel-Air, Demography, 10.

52) ILO, *Yemen Return Migrants Survey*, 11.

53) MPIC, "Yemen Socio-Economic Update," February 28, 2018, 1.

54) The survey covered four governorates: Taiz, Hajjah, Hudaydah and Al-Mahweit and was conducted by the Yemen Central Statistical Organization (CSO) with technical and financial assistance from the International Labor Organization (ILO) to study the phenomenon of 1414 Yemeni deported migrants returning from Saudi Arabia in late 2014.

55) ILO, *Yemen Return Migrants Survey*. Saudi law does not include the right for non-nationals to apply for asylum and has been criticized for such by many human rights organizations.

56) Confidential research interview conducted by the author in April 2018.

cities that share geographical borders with Yemen, such as Jizan and Najran, even legally established Yemeni workers are vulnerable to Saudi security campaigns. In interviews conducted by authors, Yemeni workers report being subjected to sudden and sporadic Saudi security campaigns.

In April 2015 – only one month after Saudi armed forces entered the conflict in Yemen – the Saudi government announced that it would grant more than 460,000 Yemenis the rights of official residence and regular passports.⁽⁵⁷⁾ The UNHCR reported that as of July 2015, around 355,000 Yemeni nationals were able to correct their status.

In November 2017, the Saudi Interior Ministry launched another “Nation Free of Violators”⁽⁵⁸⁾ campaign. It later announced that during the campaign it arrested a total of 928,857 foreign workers violating residency, work and border security laws. Out of this total number, 674,033 violated residency laws, 177,230 violated labor laws, and 77,594 violated border security laws. The Ministry also reported that over the course of 18 months from late 2016 to early 2018, 13,468 people were arrested while trying to enter Saudi Arabia clandestinely through its southern borders. Of them, 58 percent were Yemenis.⁽⁵⁹⁾

According to Yemeni expat workers interviewed by the authors of this paper, a significant number of Yemeni expatriates in Saudi Arabia, particularly low-skilled workers, remain living and working informally and essentially in hiding.⁽⁶⁰⁾ Some have only recently become considered irregular under new restrictive nationalization policies (discussed below), but are discouraged from regularizing their status by recent policies inflating the costs of formal employment.⁽⁶¹⁾ Others are vulnerable to becoming considered irregular at any time, as restrictions continue to change.

57) Saudi authorities announced that all undocumented Yemenis who had been in Saudi Arabia before April 9, 2015 would be eligible for a six-month renewable visa, enabling them to work and live legally in Saudi Arabia through a royal decree issued by King Salman bin Abdul Aziz. Regularization procedures include transferring employments to other *kafeels*, renewing career permits or changing titles of jobs.

58) While the 2013 campaign targeted the illegal residents, and the expats who work in non-occupations for which they were brought or work with another person rather than their *kaffel* (sponsor), the 2017 campaign targeted the violators who reside illegally and/or those who received a final exit visa and do not deported from KSA.

59) “1,500 Expats Leaving Saudi Arabia on a Daily Basis,” Saudi Gazette, April 11, 2018, <http://saudigazette.com.sa/article/532546/SAUDI-ARABIA/1500-expats-leaving-Saudi-Arabi>. Accessed May 19, 2019.

60) Researcher interview.

61) Confidential researcher interview, May 2018.

Quotas for Employing Saudi Nationals

In seeking to increase domestic employment and reduce their reliance on foreign labor, the GCC states have designed programs to replace foreigners with nationals and to increase the cost of employing expatriates. Under the 2011 *Nitaqat* program, Saudi Arabia created a tiered quota system for locals in private firms. Firms are classified into four categories⁽⁶²⁾ — Premium, Green, Yellow and Red — according to their compliance with Saudization quotas.⁽⁶³⁾ The share that each firm is required to allocate for nationals varies depending on the firm's size and the industry to which it belongs. Larger companies are required to allocate a higher share of jobs to Saudi citizens: companies with over 3,000 employees are required to have as much as 30 percent of their total employees be Saudis.⁽⁶⁴⁾

As the quotas vary from firm to firm, so does the intensity of the impact of the quota on the Yemeni diaspora in Saudi Arabia. According to two Yemeni businessmen in Saudi Arabia, the majority of Yemeni expatriates are employed by small to medium enterprises and are therefore not as vulnerable to the quota scheme in the short term. However, the Saudi government has announced its intention to further increase the quotas in the future.

The second phase of the quota program, which started in September 2011, included measures to increase the cost of employing foreign nationals in the private sector through an array of sanctions, while instituting benefits for private firms who increase the recruitment of Saudi citizens. For example, one sanction imposes a regular fee on private firms employing more expatriate workers than Saudi nationals.⁽⁶⁵⁾ This fee is often passed on to the foreign worker by the employer, with this fee increasing annually.

From the launch of the quota-based *Nitaqat* program in 2011 until 2014, the Saudization rate in the private sector reportedly increased from 10.8 percent to 15.5 percent, which in the process shut down around

62) The first two categories (Premium and Green) include companies with high Saudization rates, while Yellow and Red include the ones with low rates. Companies employing fewer than 10 employees are exempt from the program, but are still required to employ at least one Saudi citizen.

63) Hend Alsheikh, "Current Progress in the Nationalisation Programmes in Saudi Arabia," Gulf Labour Markets and Migration Explanatory Note No. 2/2015, Migration Policy Centre, 2015, <http://hdl.handle.net/1814/34580>. Accessed May 19, 2019.

64) Williams Jason Essomba, "Labor Immigration into the Gulf: Policies and Impacts," SciencesPo Kuwait Program, fall 2017, https://www.sciencespo.fr/kuwait-program/wp-content/uploads/2018/05/KSP_Paper_Award_Fall_2017_Williams_Jason_Essomba.pdf. Accessed May 19, 2019.

65) Confidential researcher interview, May 2018.

11,000 private companies within 16 months of its implementation.⁽⁶⁶⁾ As of early 2018, Saudi citizens occupy 90 percent of the jobs in the public sector but only 19 percent in the private sector.⁽⁶⁷⁾

After postponing the third phase of the program, which was to have begun in April 2015, the Saudi Ministry of Labor and Social Development (MLSD) introduced amendments to the existing *Nitaqat* system by increasing mandatory employment quotas of Saudi citizens. MLSD reports that as of September 2017, almost 60 percent of work visa (*iqama*) applications for foreign workers were rejected to encourage domestic recruitment.⁽⁶⁸⁾

Some sources have optimistically underestimated the impact of the quota scheme on foreign workers. They report that while companies are struggling to meet the defined quota, many of them try to bypass it by continuing to employ foreigners. Others, in an attempt to avoid sanctions or fines, employ Saudis only nominally, paying them a lower salary in order to have them as official employees without requiring them to work. Companies in the private sector are still reluctant to employ nationals, who are viewed as costlier and less productive than expatriates. Conversely, GCC nationals generally prefer to work in the public sector, which pays higher salaries.⁽⁶⁹⁾

This restrictive employment policy has negatively affected Yemeni labor in three ways: first, it restricts any potential influx of new entrants seeking to obtain work visas; second, it keeps Yemenis already considered irregular under prior nationalization policies from transferring employment to companies not already meeting the quota for employing nationals; third, it allows employers to take advantage of the vulnerable position of their foreign workers. If caught, foreign nationals violating Saudi regulations are subject to substantial fines, a long period of imprisonment, and ultimately repatriation. A group of ten Yemeni expatriates interviewed by the authors indicated that foreign workers violating the quota scheme experience substantial salary decreases. By lowering the payment of their quota-violating

66) Rita O. Koyame-Marsh, "Saudization and the Nitaqat Programs: Overview and Performance," *Journal of Accounting, Finance and Economics* 6, no. 2, September 2016, http://www.jafepapers.com/uploads/2016/September/2016_10_25_3.%20Rita.pdf. Accessed May 19, 2019.

67) "Research Note Saudi Arabia: Diversification Requires Deep And Structural Reform," February 7, 2018, https://www.iif.com/system/files/50233724_saudi_diversification_paper_feb_7th_final_draft_.pdf. Accessed December 7, 2018.

68) Dana Halawi, "Small Steps: The Long Road ahead to Meeting Saudi Unemployment Goals," *AMEInfo*, January 16, 2018, <https://ameinfo.com/money/economy/long-road-saudi-unemployment-goals>. Accessed May 19, 2019. The MLSD established new Nitaqat guidelines in September 2017, according to which only employers falling in the Platinum and High Green categories would be able to apply for new block visas. In addition, any visa applications for jobs that have been nationalized would be subject to refusal.

69) Researcher interview, May 2018.

foreign workers, employers profit from the workers' irregular status.

Saudization of Industries

In April 2016, Saudi Arabia marked a change in its policies when it launched an ambitious reform program with Vision 2030.⁽⁷⁰⁾ Vision 2030 seeks to set up new industries and to gradually diversify the sluggish Saudi economy by reducing dependence on oil and lifting subsidies on fuels and other commodities and services. Two key elements in Saudi Vision 2030 impact the millions of expatriate workers in Saudi Arabia: one is the Saudization policy, which prohibits the employment of foreign workers in select occupations. It “nationalizes” certain industries in the private sector by restricting the employment of expatriates in various categories in favor of its citizens. The other element of Vision 2030 that impacts expatriates is a sharp increase in residency levies. Discussed in further detail below, this policy makes it more expensive for foreigners to live and remain in the country.⁽⁷¹⁾

As part of the Vision 2030, in 2016 Saudi Arabia announced an economic reform plan to create a million new jobs for Saudis in the retail sector by 2020.⁽⁷²⁾ To meet this goal, it rapidly implemented a ban on foreigners in certain occupations in the private sector. Yemeni workers were first hit by such a policy in September 2016, when the Saudi government began Saudizing mobile phone sales outlets and repair shops — an industry that had previously been dominated by Yemeni expatriates. According to Yemen's Ministry of Expatriates, around 30,000 Yemeni expatriates worked in jobs related to mobile phones prior to the implementation of the 2016 reform. In December 2017, the Saudi government began implementing a 2009 decree to ban expatriate workers from the gold and jewelry industry, another industry historically dominated by Yemenis.⁽⁷³⁾

Despite the Saudi government's refusal to renew work permits for expatriates doing jobs reserved for Saudis, and despite a number of training programs for Saudi citizens, Saudi officials and unofficial media sources reported that the nationalization policies were ineffective in increasing the participation of Saudis in the private

70) The Saudization program was initiated in 1990 but was not been implemented at that time. In 2011 the program was reactivated and implemented from 2013 on, becoming a part of Vision 2030.

71) Dodo Dulay, “‘Saudization’ Will Change OFW Demographics,” *Manila Times*, April 3, 2018, <http://www.manilatimes.net/saudization-will-change-ofw-demographics/390161>. Accessed May 19, 2019.

72) “Saudi Arabia Restricts Work in 12 Occupations to its Citizens,” Reuters, January 29, 2018, <https://ara.reuters.com/article/businessNews/idARAKBN1FI0ZV>. Accessed May 19, 2019.

73) Forsythe, “Opportunities and Obstacles.”

sector.⁽⁷⁴⁾ Meanwhile, the Saudi unemployment rate rose from 12.8 percent in 2017 to 12.9 percent in the first quarter of 2018.⁽⁷⁵⁾ Failure was linked to several reasons: Saudis were not well-trained to replace foreigners, plans were not implemented in a set time frame, in-depth studies were lacking, targets were unrealistic, and business owners were disinclined to employ expensive Saudi labor.

In the midst of the conflicting interests between businesses and Saudi authorities, author interviews with Yemeni expat workers indicated that many Saudized shops and businesses have ceased operations.⁽⁷⁶⁾ In interviews, several Yemeni expatriates related that the new policies have pushed many firms and businessmen to shift their capital abroad, such as to Turkey or Malaysia. Yemeni workers in nationalized jobs, meanwhile, must make a difficult decision: to leave work in an industry in which they have built up long experience; to look for other work while competing fiercely with other foreign nationals for limited jobs; or to continue working as irregular workers, potentially to end up being forcibly repatriated.

Some Yemeni workers have succeeded in securing jobs in denationalized sectors. Given the low demand for foreign labor in Saudi Arabia due to economic austerity, others remain unemployed or have returned home.⁽⁷⁷⁾ Those choosing to remain in occupations that have been nationalized are vulnerable to arrest, as strict regular inspections are underway to arrest violators of the Saudization regulations. One Yemeni still working in Saudi Arabia revealed that many Yemenis have been caught during Saudi inspections; he explained that one of his friends was imprisoned for six months and then deported because during one inspection the Saudi Interior Ministry found spare mobile phone parts in his car. In late 2017, a spokesman for Saudi MLSD reported that inspections have succeeded in arresting a number of violators, and that each expatriate worker found illegally working in an already Saudized job faces a hefty US\$5,324 fine.⁽⁷⁸⁾

The restrictive Saudi laws have spurred the spread of illegally established businesses also known as *Tasattur* arrangements. Like other foreigners in Saudi Arabia, Yemeni expatriates have evaded the

74) Ali Saggay and Asthma Rates, "Labor-Use Efficiency in Saudi Manufacturing Sectors," *Journal of Reviews on Global Economics*, 2018, <http://lifescienceglobal.com/pms/index.php/jrge/article/view/5330/2983>. Accessed May 19, 2019.

75) "GASTAT: Saudis economic participation rate increased, total population rate is 6.1% and Saudis unemployment rate is 12.9%," General Authority for Statistics - Kingdom of Saudi Arabia, 2018, <https://www.stats.gov.sa/en/news/260>. Accessed May 19, 2019.

76) Confidential researcher interview, May 2018.

77) Researcher interview with Yemeni salesperson working in Jeddah, May 2018.

78) Dulay, "Saudization."

restrictive kafala sponsorship framework by paying one sponsor while working for another or illegally establishing their own independent businesses under the names of their *kafeels*.⁽⁷⁹⁾ Yemeni expatriates under this irregular arrangement risk losing their property or being forced to sell their business for less than its worth if caught by Saudi authorities.⁽⁸⁰⁾ One Yemeni businessman who owned a mobile shop with an estimated market value of SR300,000 revealed in an interview that after the nationalization of the mobile phone sector came into effect, he was forced to sell the shop for only SR30,000.⁽⁸¹⁾ According to other Yemen-based sources, many Yemeni expatriates were seen returning from Saudi Arabia transporting their goods in an attempt to rebuild their businesses within Yemen.

In early February 2018, the Saudi MLSD issued another nationalization decree to come into effect in September 2018 and to be implemented gradually through January 2019. The objective of the decree is to prohibit expatriates from working in twelve types of private sector businesses. The decree does so by suspending the renewal of iqama permits and banning new ones.⁽⁸²⁾ This step came as a response to the increase of the unemployment rate to over 12 percent in the last year as the government has seen its finances strained by low oil prices and the costly war in Yemen.

Although the number of Yemenis likely to be affected by this most recent nationalization decree is unknown, sources based in Saudi Arabia estimated in interviews that Yemeni expatriates working in these 12 occupations may account for up to 70 percent of legal Yemeni labor in Saudi Arabia.

One Yemeni employee who works as a marketing manager in a large furnishings company indicated that after the decree comes into full effect, the company will have to terminate the employment of thousands of expatriate workers in order to replace them with Saudis.⁽⁸³⁾ Yemeni workers, who account for 50 percent of the company's staff, will then face deportation.

79) علي البيتي: تقرير عن انعكاسات القرارات التصحيحية السعودية الخاصة بالعمالة على أوضاع الوافدين بالملكة العربية السعودية، 2013.

80) Researcher interview with a Yemeni businessman in Saudi Arabia, June 2018.

81) Researcher interview with a Yemeni businessman who had returned from Saudi Arabia to Dhamar City, June 2018.

82) These 12 activities and occupations are: electrical and electronics shops, outlets selling spare car parts, construction material shops, watch shops, optical stores, medical equipment stores, outlets selling all types of carpets, automobile and motorbike shops, shops selling home furniture and ready-made office material, outlets selling ready-made garments, household utensils shops and pastry shops.

83) The company is registered under the name of a Yemeni businessman who holds Bahraini nationality, while it actually belongs to a group of Yemeni investors owning the majority share in it.

High Residence Levies and Financial Burdens

In addition to nationalizing certain industries, Vision 2030 imposes higher levies on expatriate workers and their dependents. In an attempt to curb immigration, reduce huge financial deficits, address declining revenue in the aftermath of the decline in the global oil prices that began in 2014, and create more jobs for Saudi citizens, these residence levies – or “family tax” – were proposed in the 2017 Saudi budget. According to the Saudi Interior Ministry’s National Information Centre, the 11.1 million expatriates working in the private sector are accompanied by 2.2 million relatives, bringing their total number to 13.3 million.⁽⁸⁴⁾ Calculating the returns of such a tax policy, the Saudi government is expecting these residence levies to generate SR65 billion of revenue by 2020.⁽⁸⁵⁾

In July 2017 the residence levies — collected during the renewal of each expatriate’s identity card — were initially set at SR100 per month per dependent. This figure was to be doubled in July 2018, tripled to SR300 in July 2019, and quadrupled to SR400 in July 2020 where it is to remain fixed.⁽⁸⁶⁾ In addition, an expat is subject to another fee imposed under the Nitaqat quota formula.⁽⁸⁷⁾

For example, this means that an expatriate worker living with his wife and three children will have to pay for his dependents SR9600 upon the renewal of their residence permit at the end of 2018. This levy will increase to SR12,000 at the end of 2019 and SR16,800 at the end of 2020. This does not include the fee the expat himself is required to pay monthly for a residence permit, which is SR400 starting at the second half of 2017, to be doubled to SR800 at the end of 2020. Moreover, expatriate workers bear other costs under the functioning framework of the Kafala system. For expatriates who pay a *kafeel* in exchange for official sponsorship, these unofficial expenses can reportedly range

84) “Saudi Arabia Strategic Update,” Verocy, July 12, 2017, https://verocy.com/wp-content/uploads/Documents/Newsletters/ASWFM/PDFs/SASUP_10-2017.pdf. Accessed May 19, 2019.

85) In an interview, one Yemeni worker living with his family in Jeddah noted that many Yemeni families still living in Saudi Arabia initially entered on a visitor visa and are therefore legally exempt from family levies. However, upon any return back to Yemen, the family would not be allowed to re-enter Saudi Arabia without a residential visa, under which the family would be required to pay family levies.

86) “‘Expatriate’ Fees to Provide 133 Billion Riyals in 3 Years,” *Okaz*, December 19, 2017, <https://www.okaz.com.sa/article/1599056>. Accessed May 19, 2019.

87) Based on the quota formula, the employer will owe SR 4,800 per foreign worker at the end of 2018 (SR 400 per month) if it employs more expatriate workers than Saudi nationals. This fee is set to increase to SR 7,200 (SR 600 per month) in 2019 and SR 9,600 (SR 800 per month) in 2020. If the employer employs fewer expatriates than Saudi nationals, it will owe SR 3,600 per expatriate worker at the end of 2018 (SR 300 per month) and the fee will gradually increase to SR 8,400 (SR 700 per month) in 2020.

between SR2,000 and SR 10,000.⁽⁸⁸⁾ For expatriates working in sectors that have been Saudized, official and unofficial fees for securing a job may reach SR20,000.

Most Yemeni workers in Saudi Arabia have low-paying jobs in the construction, wholesale, retail, trade, or other sectors with monthly wages ranging between SR1,500 to SR2,500.⁽⁸⁹⁾ Using conservative estimates, a working individual can expect to pay at least SR700 each month for living and housing costs, SR400 for residence levies, between SR200 and SR500 as an unofficial payment to their sponsor in exchange for facilitating employment, and over SR300 for expenses such as transportation, clothes, phone bills to call the family, etc. If, as an ILO survey found, the average Yemeni expatriate sends half of their income as remittances to the family back home, this accounts for at least another SR1000 a month. Based on this calculation, a Yemeni worker receiving monthly wages of SR2000 or less would be unable to meet his financial obligations. As residential levies and living costs for expatriates increase in coming years, this financial pressure on Yemeni workers will only worsen.

In interviews, several Yemeni sources still working in Saudi Arabia and several who have returned to Yemen indicated that the majority of Yemeni workers are overburdened by the imposed levies. Most Yemenis are employed by small firms with lower salaries (ranging between SR1,500 and SR2,500). Many of these firms refuse to increase their foreign workers' pay in order to meet the levies, as they too have been financially burdened by the Saudization policy: they face additional costs for employing foreigners while also being required to pay higher salaries for Saudi citizens.

Since the imposition of the higher residence levies in mid-2017, hundreds of Yemeni families have returned to Yemen.⁽⁹⁰⁾ A senior official in the internationally recognized Yemeni government has said that around 40,000 Yemeni migrants left Saudi Arabia for Yemen in the three months following the implementation of the family levies. The official further stated that the number of Yemenis leaving Saudi Arabia may in fact be higher, as other Yemenis may have gone elsewhere to look for employment. A large number of Yemeni families are expected to leave Saudi Arabia when the family levies substantially increase in the coming years.

88) These figures come out of interviews conducted with ten Yemeni expatriates between April and May 2018.

89) ILO, *Yemen Return Migrants Survey*.

90) Batati, "Yemen Seeks Exemption."

In addition, Saudi Arabia has initiated selective policies to increase the costs of services delivered to expatriates. For instance, school fees for migrant families have substantially increased in recent years, effectively restricting their enrollment in educational institutions. One Yemeni migrant revealed in an interview that the school fees for his three children are estimated at SR20,000 annually, an amount it is difficult for him to afford on a low income while also coping with the high cost of living and other financial burdens.⁽⁹¹⁾

91) Researcher interview with a Yemeni worker living with his family in Riyadh, April 2018.

LOOKING AHEAD

Yemeni Workers Face Rising Costs and Increasing Competition

Besides the new levies, costs are rising for Yemeni families in Saudi Arabia. The Saudi government has initiated economic reforms in recent years to reduce subsidies on fuel, gas, bread, baby formula, electricity, medicine, and water. Prices of electricity and water went up by 30 percent between December 2016 and mid-2017 after the government reduced subsidies on those items.⁽⁹²⁾ In 2017 gasoline prices rose by 80 percent.⁽⁹³⁾ From January 2019, subsidies on electricity, water, and gasoline are limited to Saudi nationals. The likely result is that many expatriates will be financially overwhelmed with the high costs of their bills.⁽⁹⁴⁾

Slower economic growth in recent years has depressed demand for expatriates in the GCC labor market. Many private companies have laid off foreign employees or reduced their financial compensation. Saudi Binladin Group, the kingdom's largest construction conglomerate, laid off about 70,000 foreign workers during the first half of 2016 as oil prices decreased, forcing the Saudi government — its chief client — to cancel or postpone projects and to delay payments.⁽⁹⁵⁾ At the same time, demand for unskilled and semi-skilled foreign labor is being supported by various ongoing mega-development projects such as the UAE Expo 2020, Qatar's World Cup 2022, the Riyadh metro, and the Jeddah–Mecca fast train projects. Also supporting demand for foreign labor are the infrastructure and service projects needed to meet the growing trends of the GCC population, and the fact that nationals will not perform many jobs in the construction and agriculture sectors.⁽⁹⁶⁾

92) TK Devasia, "Saudi Arabia Family's Tax from 1 July Could be the Last Straw for Many Indians," *First Post*, June 22, 2017, <https://www.firstpost.com/world/saudi-arabias-family-tax-from-1-july-could-be-the-last-straw-for-many-indians-3733687.html>. Accessed May 19, 2019.

93) "Saudi Arabia Plans to Raise Gas Prices by 80% in January," Bloomberg, December 11, 2017, <https://www.bloomberg.com/news/articles/2017-12-11/saudis-are-said-to-plan-80-gasoline-price-increase-in-january>. Accessed May 19, 2019.

94) Researcher interview with an economic expert based in Sana'a, June 2018.

95) Katie Paul, "Saudi Conglomerate Binladin Pulls back from Financial Precipice," *Reuters*, July 19, 2016, accessed October 10, 2018, <https://www.reuters.com/article/us-saudi-binladin-financing-idUSKCN0ZZ1HJ>.

96) Froilan T. Malit Jr. and George Naufal, "Labour Migration, Skills Development and the Future of Work in the Gulf Cooperation Council (GCC) Countries," International Labour Organization Working Paper, October 2017, https://www.researchgate.net/publication/323321589_Labour_Migration_Skills_Development_and_the_Future_of_Work_in_the_Gulf_Cooperation_Council_GCC_Countries. Accessed May 19, 2019.

The push to nationalize the Saudi private sector labor market has taken a toll on all expatriates in Saudi Arabia. However, the prejudice in the GCC against Yemeni workers specifically — where they are viewed as having endemic skills deficits at all levels — further impedes their competitiveness and stands as a significant barrier to their integration into Gulf labor markets.⁽⁹⁷⁾ As such, GCC nationalization policies discussed above may adversely impact 81.5 percent of under-skilled Yemeni workers in the GCC labor market.⁽⁹⁸⁾

Further Labor Restrictions

Expatriates working in Saudi Arabia face further challenges as the Saudi government insists that it will nationalize other occupations and business activities in the near future. According to a report prepared by Banque Saudi Fransi, an expected 670,000 expatriate workers will leave Saudi Arabia by 2020, while the Saudi newspaper Mecca reported that 165,000 expatriates are expected to leave the country each year.⁽⁹⁹⁾

If the Saudization of other occupations and industries in the private sector is implemented, then over 70 percent of Yemeni workers in Saudi Arabia may lose their jobs after 2020. Their chance to secure jobs in un-Saudized activities would be limited and would depend on preferential measures that make Yemenis more attractive to the labor market.

Imminent Implications and Concerns

Maintaining a constant inflow of remittances to Yemen should be a top priority for all Yemen's stakeholders to prevent further economic collapse and humanitarian deterioration. On current trajectories, the mass exodus of thousands of Yemeni laborers from Saudi Arabia is imminent. This, while remittances accounted for 24 percent of GDP in 2017, offering a means of survival to millions of Yemenis who have lost their livelihoods due to the conflict, and provided badly needed foreign currency to finance imports.

97) Forsythe, "Opportunities and Obstacles."

98) Burke, 'One Blood.'

99) Verocy, *Saudi Arabia Strategic Update*.

Yemen suffered immensely from the mass expulsion of expatriate workers from GCC countries following the 1990 Gulf War. Given the dire circumstances already sewn by the ongoing conflict, a similar expulsion of expatriate workers now would have catastrophic consequences on the social, humanitarian, and economic situation around the country. Public service provision has already deteriorated to near-non-existent levels in many areas; as such, the Yemeni government would be utterly incapable to meet the increased demands for public services, as well as needs for housing and humanitarian aid, mass deportations from the GCC would entail. The poor state of the Yemeni economy make it highly vulnerable to further collapse under the burdens of rapid population growth, increased poverty, and unemployment, on top of the damage already caused by the ongoing conflict.

Even with a full resumption of oil production and exports⁽¹⁰⁰⁾ the economic benefits generated from the hydrocarbon sector would likely be insufficient to address Yemen's increased financing needs due to the conflict, given that Yemen has been facing substantial depletion in its stocks of oil over the past two decades. Thus, any further decline in remittances is likely to worsen macroeconomic indicators. These include widening deficits in the country's current account and balance of payments, decreasing foreign currency stocks, depreciation in the local currency, increasing inflation, and general shrinkage in economic activity. The cumulative impact of these would help undermine stability and create a facilitating environment for further armed conflict.

It is appropriate to assume that there is a strong correlation between worsening income opportunities and making the environment conducive to fuel more wars in Yemen. On the ground, both parties to the conflict have been directly or indirectly capitalizing on citizens' loss of basic livelihoods to attract more fighters to their side, as well as to other extremist groups. Under scarcity of economic prospects, it is possible thousands of deported Yemenis would take up guns to join the Houthis or al-Qaeda. There has been no reliable study of the number of returnees that have joined the battlefield. However, media investigations in March 2018 estimated some 10,000 Yemeni returnees from the GCC may have could have taken up arms.⁽¹⁰¹⁾

100) As the conflict surged in early 2015, international oil companies left Yemen and the country was deprived of an essential source of income contributing more than 70 percent of all public revenues prior to 2014.

101) "Yemen civil war: Saudi expulsion of Yemeni workers swells Houthi ranks," The Independent, March 11, 2018, <https://www.independent.co.uk/news/world/middle-east/yemen-civil-war-saudi-arabia-houthi-yemeni-workers-expel-deport-fighters-recruitment-al-qaeda-a8248506.html>. Accessed May 19, 2019.

It is also important to point out that even as the conflict in Yemen has amplified Saudi concerns about employing Yemenis, Saudi Arabia has played a role in creating the current chaos in Yemen. Any further restrictive policies toward Yemeni migrants would have destructive security implications for both Yemen and Saudi Arabia, as many observers see Yemen's stability as a cornerstone of stability in the wider Arabian peninsula. Thus, it is incumbent on GCC states, and Saudi Arabia in particular, to allow Yemeni expat workers an exemption from the current labor nationalization campaigns, at least in the mid-term. Once the ongoing Yemeni conflict has reached a political resolution and the country has attained relatively sustainable economic growth – with a concurrent demand for labour that can absorb returning workers – the issue of the repatriation of Yemeni workers can be revisited responsibly. Should the forced repatriation of Yemeni labor continue at pace, GCC states, and Saudi Arabia in particular, will be responsible for undermining Yemen's prospects for peace and socioeconomic stability – with the subsequent regional repercussions – regardless of whether a political settlement is reached between the parties currently at war in the country.

RECOMMENDATIONS

Safeguard Yemeni Expats in the GCC During the War

Given that Yemen is already experiencing the world's largest humanitarian crisis and extreme economic collapse, the prospective implications of the mass repatriation of Yemenis from the GCC – and Saudi Arabia in particular – are dire. The Yemeni government has as yet failed to convince Saudi Arabia to exempt Yemenis currently working in the kingdom from Riyadh's recent nationalization policies and labor market restrictions. Such steps would include:

- exempt Yemeni expats and their dependents from financial residence levies;
- place Yemenis in a privileged position compared to other foreigners under the Saudi employment quota scheme;
- ease procedures and lift dysfunctional legal provisions formulated under the sponsorship system, such as those involving residency permit renewal and the transfer of sponsorships between employers.

Yemen's key international stakeholders – in particular the United Nations through its Special Envoy to Yemen – should pressure GCC countries to offer Yemeni workers a competitive position in their labor market. This issue should be an utmost priority in all negotiations to address the humanitarian and economic crisis in Yemen. Any negotiations should seek to exempt Yemeni expatriates from the restrictive labor policies and financial burdens Saudi Arabia recently imposed on foreigners, at least until a political settlement is reached to end the conflict in Yemen. The international community must acknowledge this as an obligation for Saudi Arabia and other GCC members involved in the Yemen war, as a means to mitigate the conflict's adverse humanitarian effects, and as a commitment to rebuild Yemen post-conflict.

Launch Study of Emerging Threats and Support Working Expats

A technical committee should be formed under the management of the Yemeni Government's Ministry of Expatriate Affairs and in partnership with the Yemeni migrant community in the GCC. This committee should be assigned to do a comprehensive assessment of the Saudi government's short to longer-term nationalization policies and labor

restrictions, with a focus on their demographic impact on the Saudi labor market. To measure migrant challenges, the committee should develop a reliable migrant database to track working expats already impacted by, or seen to be susceptible to, the Saudization program. The committee should:

- offer immediate technical or financial assistance to Yemeni migrants losing their jobs to the Saudization scheme;
- help those stranded in Saudi Arabia;
- provide pre-departure guidance to involuntarily returned migrants;
- coordinate with the Saudi government regarding procedures to correct the legal status of Yemenis employed irregularly in Saudi Arabia;
- and search for effective ways to reduce the potential threats of Yemeni migrants to Saudi security.
- In addition, the Yemeni government should investigate the establishment of an emergency fund, in cooperation with Gulf states, to mandate that private firms compensate Yemeni workers whose jobs have been terminated.

Invest in Yemeni Workers

Building the skills and working capabilities of Yemeni labor in the GCC labor market should be a key priority for all donors and stakeholders engaged in Yemen. They should coordinate efforts to launch a labor fund and implement skills and vocational training programs to increase the competitiveness and market awareness of Yemeni migrant workers. Building the competitiveness of Yemeni labor could take two parallel pathways. First, the Yemeni government should seek a constructive partnership with international donors and Gulf countries to establish a labor fund and facilitate the establishment of Gulf-based training programs. These should aim to increase the recruitment prospects of Yemeni workers and to eliminate skills barriers restricting their deeper immersion in the Gulf labor market. The second training platform could be launched in Yemen through a joint effort between the national government, the private sector and INGOs to initiate training and vocational programs. This should use the appropriate assessment tools to qualify workers to meet the recruitment standards and skill needs of countries seeking foreign labor, with a focus on fields that are unlikely to be subject to future labor restrictions. This vocational program should also address skills gaps in the Yemeni labor market.

Develop Strategies to Accommodate Returning Expats

While pursuing negotiations to lessen the impact of Saudi nationalization policies on Yemeni expat workers, the Yemeni government should also prepare itself to respond to the socio-economic consequences and pressing needs of potential Yemeni migrant returnees. In coordinating with international humanitarian organizations, key stakeholders intervening in Yemen, the private sector, and Yemeni migrant communities abroad, the Yemeni government should adopt effective and proactive mechanisms. These should include:

- launching emergency funds to provide needed humanitarian relief;
- empowering basic service provision channels to meet the increasing demands of returnee expatriates for water, health, education, and housing services;
- initiating nationwide programs to increase the qualifications of poorly skilled labor;
- creating jobs for vulnerable returnees;
- and helping their re-assimilation into society.
- In the medium-term, Yemeni stakeholders should design structural adjustment programs to lower the socio-economic marginalization of vulnerable groups.

Capitalize on Migrant Returnees and Remittances

In the context of the ongoing, multifaceted conflict, the mass return of Yemeni workers might have adverse socio-economic and security consequences in the absence of an effective national strategy to attract and deploy expats' savings in the developmental process and in mitigating humanitarian and economic crises. The assigned technical committee with joint participation from relevant governmental entities, the private sector, and representatives of Yemeni migrants should develop practical national mechanisms and agree on safe channels to invest expats' money. In a conflict-ridden country, the Yemeni government should initiate legal reforms to remove or amend restrictive legal provisions, formulated under the Yemeni Investment Law, to attract the investment of returning expats. These should include offering special duty and tax breaks on investments, and exemptions on the importation of goods and capital investment assets returning home. As some Yemeni governorates, in particular Marib and Hadramawt, have shown successful decentralization models and are viewed as safer environments for investment opportunities, these

governorates could be potential destinations for returning expats to place their investments.

In addition, the Central Bank of Yemen should study international experiences in involuntary migrant repatriation and the resulting contexts. This should inform investigations into the possibility of introducing financial products and services within the formal banking system to attract investments of returning migrants. The banking system could offer saving systems to open foreign currency accounts not subject to foreign exchange regulations. For instance, the central bank may issue bonds denominated in foreign currency and offered at higher interest rates to attract middle-to-upper income expats to fund development projects.

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ABOUT THE “RETHINKING YEMEN’S ECONOMY” INITIATIVE

This two-year project, which was launched in March 2017, is an initiative to identify Yemen’s economic, humanitarian, social and developmental priorities in light of the ongoing conflict in Yemen and to prepare for the post-conflict recovery period. The project aims to build consensus in crucial policy areas through engaging and promoting informed Yemeni voices in the public discourse, and to positively influence local, regional and international development agendas.

The project has four components: (1) in the Development Champions Forums, Yemeni experts and professionals in social and economic development will identify key issues for intervention and provide recommendations towards tackling these issues; (2) in the Research Hive, we will – based on the issues and recommendations of the Development Champions – conduct research and identify best practices and lessons learned from international experiences to create knowledge capital for the Rethinking Yemen’s Economy initiative; (3) in the public outreach component, we will implement consultation workshops with local stakeholders, including the private sector, youth and civil society organizations; moreover, we will conduct campaigns through both traditional and social media outlets to engage the wider Yemeni public; (4) and through regional and international engagement we will inform stakeholders of project outcomes and aim to motivate and guide the international community’s policy interventions to the greatest benefit of the people of Yemen.

Implementing Partners

The project is implemented by a consortium of the following three partners:



The Sana’a Center for Strategic Studies is an independent think-tank that seeks to foster change through knowledge production with a focus on Yemen and the surrounding region. The Center’s publications and programs, offered in both Arabic and English, cover political, social, economic and security related developments, aiming to impact policy locally, regionally, and internationally.

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