



MALDIVES ECONOMIC REVIEW

ISSN 2708-4787

Volume 3 Issue 3 March 2022

Middle-income status is not destiny: How the Maldives can become a developed country by reforming civil service

Also in this issue:

- ◆ Revisiting cowrie shells of the Maldives: Trade networks
- ◆ The skipjack industry: Is it time to allow private sector actors to be more active?
- ◆ China: Observations and expectations from afar
- ◆ The Last Read: War pain: Channels of pass through

Editorial Team

Editors

Ibrahim Athif Shakoor
Fazeel Najeeb

Editors at Large

Dr Ali Naseer Mohamed
Mr Bandhu Ibrahim Saleem
Dr Ibrahim Zuhuree
Ms Shafeenaz Abdul-Sattar

Writers

Capt. Abdul-Azeez Mohamed (Ret.)
Mr Abdul Haleem Abdul-Latheef
Uz. Umar Hilmy

Occasional Writers

Dr Abdul Azeez	Mr Ibrahim Ali Jaleel
Mr Abdullah Kamaludeen	Mr Ibrahim Mohamed
Dr Ahmed Jamsheed Mohamed	Dr Ibrahim Yasir
Mr Ahmed Saleem	Prof. Mehmet Tosun
Mr Ahmed Shafiu	Mr Mohamed Naseem
Ms Ahmed Zubair Adam	Mr Mohamed Rasheed, Bari
Ms Aishath Isra Abdulla	Mr Mohamed Shahudh
Mr Ali Khalid	Mr Mohamed Zuhair
Dr Aminath Jameel	Ms Muna Mohamed
Ms Aminath Mihdha	Ms Rifaath Hassan
Mr Anil Adam	Dr Sheena Moosa
Ms Claire Burkhardt	Dr Sheeza Ali
Ms Fathimath Abdullah Kamaludeen	Dr Shiham Adam
Ms Humaida Abdulghafoor	Ms Sofoor Kawsar



MALDIVES ECONOMIC REVIEW

Volume 3. Issue 3

March 2022

Editorial	4
Middle-income status is not destiny: How the Maldives can become a developed country by reforming civil service <i>Ali Naseer Mohamed</i>	6
Revisiting cowrie shells of the Maldives: Trade networks <i>Ibrahim Zuhuree</i>	16
The skipjack industry: Is it time to allow private sector actors to be more active? <i>Ibrahim Athif Shakoor</i>	23
China: Observations and expectations from afar <i>Abdul Azeez Mohamed</i>	26
The Last Read: War pain: Channels of pass through <i>Fazeel Najeeb</i>	30

Opinions and views expressed in the Maldives Economic Review are those of the authors. They do not necessarily reflect the opinions and views of this publication.

Editorial

In Issue 3 of Volume 3, we are delighted to offer a collection of articles across a span of economic, commercial and indeed of general interest to stimulate the intellectually curious.

Our cover article for this issue is another estimable contribution from Ali Naseer Mohamed. In the present offering titled ‘Middle-income status is not destiny: How the Maldives can become a developed country by reforming civil service’, he looks at the interesting perspective of reforming the Civil Service of the country as a means and as a prerequisite for attaining developed country status for the country. Naseer argues that a strong civil service is a must and has shown to be an essential feature of all countries that have gained developed country status.

With ‘Revisiting cowrie shells of the Maldives: Trade networks’ Ibrahim Zuhuree takes a fresh look at the trade of cowrie shells in the Maldives from the 9th century onwards. In keeping with his penchant of taking the topic and extending it beyond the normal course of discourse, Zuhuree in this article examines not only the collection and processing of cowrie shells for export, but also examines the direction of trade and how the value had varied over time. An intellectually stimulating read for the inquiring mind.

Captain Abdul Azeez Mohamed in his second offering examines the development of China from pre-Christian times to its present-day model of development in ‘China: Observations and expectations from afar’. In this article Capt. Azeez

views the interactions with Maldives over time and comments on the model of Chinese development.

In ‘The skipjack industry: Is it time to allow private sector actors to be more active?’ Athif looks at the several state organized investments that have taken the skipjack industry of the Maldives to its present-day status and the difficulties perennially faced by the Industry every year during the high season, and ponders if the time is indeed ripe for greater access by the private sector.

For this issue Fazeel, in his ‘The Last Read’ column, takes a look at the potential pass through channels of impact on the economy and the country due to the war in Ukraine. His article, ‘War pain: Channels of pass through’, also provides an overview analysis of potential channels of impact on the world.

We are, as always, deeply indebted to our contributors and especially to our readers who give us the energy and will to continue this work, albeit through times that have been slightly tough for us. We are however, even with difficulties, committed to continue the work and contribute to healthy discussion of matters economic.





Explore more... with **VISA**

Accepted everywhere

Use your VISA debit card at all local POS, ATM and domestic online payment platforms *everyday*

Easy & Secure

Pay with ease using touch to pay and instant SMS transactions alerts



**everyday
benefits**



mib.mv/GetDebitCard

Maldives Islamic Bank

📧 customercare@mib.com.mv 🌐 m.me/maldivesislamicbank
🐦 [mibmv](https://twitter.com/mibmv) 📱 [MaldivesIslamicBank](https://www.facebook.com/MaldivesIslamicBank) 🌐 www.mib.com.mv

Middle-income status is not destiny: How the Maldives can become a developed country by reforming civil service

Ali Naseer Mohamed

Every country wants to be prosperous. But just a few succeed. The Maldives has been quite successful in achieving an extraordinary speed of socio-economic growth in the forty year-period between 1980 to 2019, recording a GDP per capita growth rate of more than 3,800 percent, which was among the fastest rate of growth in the world. The Maldives was also among the top performers in other development indicators, such as adult literacy, primary school enrolment, infant and maternal mortality, and life expectancy. But the fallout from Covid-19 changed the growth trajectory dramatically. Per capita GDP declined by 34.7 per cent in 2020, the sharpest drop in any country in the world. It reduced income level by ten years, pushing the country to where it was in 2010. Moreover, since the outbreak of the pandemic, the Maldives also experienced significant declines in other indicators, including employment, real wages, inequality, especially gender equality, and access to health services.

Two years since the outbreak of the pandemic, the Maldives is currently on the path to a quick economic recovery, however. The World Bank's latest estimates suggest that the Maldives economy will bounce back to the pre-pandemic level in 2023 and will regain and maintain its previous growth levels. Yet, the pre-pandemic development trajectory of the Maldives was one where there was a profound need to ensure that economic gains are more widely and equitably distributed, growth is more resilient and climate friendly, and that the rule of law is maintained and respected throughout the society. Unless the

Maldives makes simultaneous advances in these areas, the country will remain locked in the so-called "middle income trap"—a situation where a country reaches a certain level of development, but after that its overall competitiveness becomes stagnated or increases at much slower pace.

Becoming a developed country

Middle-income country status is not the destiny. Not for the Maldives or for any other country. And there is nothing inevitable about the middle-income trap either; it is the result of choices that countries make. As the Maldives recovers from the economic fallout of the pandemic, it can decide either to regain to its pre-pandemic growth patterns and remain at middle-income level, or take a leap of faith, setting a target for reaching developed country status, say by 2050. (The average GDP per capita among the OECD countries—generally regarded as the group of developed countries—is over USD 39,000 in 2019.) It is well within the realm of possibilities for the Maldives reaching such a target if it is set through a shared and inclusive political process.

The path for the Maldives becoming a developed country is one where it is able to increase its productive capacity by investing in and strengthening of the country's state capacity. The United Nations Conference on Trade and Development (UNCTAD) has developed a Productive Capacity Index (PCI) for every country and published it 2020. The Index score ranges from 0 to 100, and in 2018, the United States had the highest PCI with 50.51.

Table 1: Productive Capacity Index (PCI) of the Maldives 2000-2018

Year	2000	2002	2004	2006	2008	2010	2012	2014	2016	2018
Institutions	59.4	59.2	50.7	53.6	47.3	48.6	45.0	49.8	46.6	46.6
Structural change	18.2	17.2	16.8	14.2	14.4	16.7	14.6	14.8	14.7	14.8
Human capital	46.7	46.5	46.8	48.5	49.9	50.0	51.7	55.2	55.9	56.3
Natural capital	50.8	52.4	52.0	50.3	50.3	50.2	50.1	50.2	50.2	50.2
Energy	25.0	25.7	26.4	26.7	26.9	28.2	28.0	27.9	28.1	28.5
Transport	21.2	20.0	20.2	20.3	20.1	21.2	26.3	28.5	28.8	29.2
ICT	3.9	4.5	5.2	6.9	9.7	9.6	10.7	11.8	13.4	14.8
Private Sector	78.3	78.2	78.5	79.5	79.7	78.3	77.2	76.7	76.7	76.6
Final PCI score	28.3	28.6	28.6	29.4	30.4	31.3	31.8	31.2	33.6	34.1

Source: Compiled from UNCTADstat

The Maldives PCI score jumped from 28.3 in 2000 to 34.1 in 2018, placing it at 72nd out of the 193 member countries of the United Nations. The first category of PCI in Table 1, “institution” is the most relevant for the current discussion. It measures the state’s efficiency through its regulatory quality, effectiveness, success in fighting criminality, corruption, and terrorism. Countries, such as The Netherlands, Japan, and Singapore have a score close to 90 for that category. Progress in institutions also pushes scores in other categories, such as “structural change”, which captures the sophistication of exports, the intensity of fixed capital and the weight of industry and services on total GDP. Countries that have a consistently high PCI are those that have strong state capacity. In political science literature, state capacity refers to the ability of the civil service in implementing the policy choices of the government. Any increase in that ability, according to several empirical studies,

will improve the country’s productive capacity. Upward shifts in the abilities of the civil service is driven by knowledge, skills, the experience of civil servants, and their autonomy for operationalising and executing policies.

Why invest in civil service

Reforming the civil service might not be the first thing that would naturally come to mind when we think of reaching a specific development target. Yet, every country that joined the exclusive group of developed countries has done so by having a strong civil service to manage and steer the country’s progress. And no country, not even those endowed with most resources, has made to the top tier of socio-economic development without having an exceptionally strong civil service. When a country embarks on an ambitious development journey, it would prepare a plan that would include physical infrastructure, building the necessary human

capital, and then mobilizing finance, including massive amounts of foreign investment. Yet, such a level of financial and other capital will come only if there are institutional mechanisms that enjoy unquestionable credibility, predictability, and certainty which are not dependent on election cycles.

The Maldives, of course, experienced a phenomenal rate of growth during the period 1980 to 2000, without benefitting from a properly constituted and a highly trained civil service. Per capita GDP grew by record levels, accompanied by dramatic improvements in other indicators, including primary school enrolment, adult literacy, and life expectancy. Yet, the advances that the Maldives made in these sectors started from a very low base and therefore the rate of growth would tend to be relatively faster in such situations. Moreover, the political landscape in the country during this period was less competitive, that gave an expanded space for the government to gain greater level of acceptance for its policies and actions. As the operational environment gradually became more contested, the qualities of public service began to decline, and the pace of socio-economic growth, when compared to other countries, slowed down. For example, during the period 1980 to 1999, the Maldives experienced a per capita GDP growth of 752 percent, which was the second fastest rate of increase in the world. In the next twenty years, 2000-2019, per capita grew by 373 percent, which was again quite an impressive achievement, but the pace was remarkable for its relative decline, going down from 2nd to 35th place in the world. The declining trend was even more striking during the period 2010-19, registering a mere 49 percent increase, pushing the country to the 39th place. Such trends are typical of countries locked in the middle-income trap. What is most striking is that the relative slowdown in the pace of growth was associated with sharp drops in the quality of civil service, as measured in the World Bank's World-wide Governance Indicators (see Table 2).

A high-performing civil service is, therefore, an essential pre-requisite for escaping the middle-income trap. It will enable maximising investments in establishing high quality schools, universities, and research labs that will facilitate accelerated speed of development. Even after having established, such facilities will perform at optimal levels only when there is an institutional framework to harness the human talents, encourage innovation, and protect intellectual property rights. Escaping the middle-income trap and reaching a developed country level would require, above all, a sustained level of economic growth driven by knowledge and technological innovations, but progress will not gain the required depth, acceleration, and the momentum, unless the Maldives puts in place the essential building blocks of an effective state; a civil service that has the institutional, intellectual, and technical capacities for formulating and implementing policies; a civil service that would enjoy the highest level of credibility in honouring the commitments that political leaders make to the people, to the entrepreneurs, and to the investors.

Terms, such as “civil service”—which refers to the government agencies and their permanent staff (except the military, judges, and elected officials) for delivering services to the people, and “bureaucracy”, which refers to the system of official rules, processes, and procedures for service delivery, sometimes invoke negative sentiments. They are often associated with undesirable attributes, such as inefficiency, rigidity, unresponsiveness. Looking at the developing world, including the Maldives, it would be quite easy to level such charges. But that is not because civil services or bureaucracies are inherently flawed: we do not ban motor vehicles just because they are involved in crashes; we instead, improve the conditions of the cars, the skills of the drivers, and qualities of the roads, to avoid fatal crashes and accidents. In a similar fashion, civil services and bureaucracies are the

instruments whose performance can be kept at optimal levels with regular maintenance and improvements.

Recalibrate the civil service

There has always been a profound need for fundamental reforms to the way in which public service is provided in the Maldives. But the response has been, at best, underwhelming. “The system of administration [in the Maldives] is not adequate to meet the needs of a developing country” declared the UNDP in its very first assessment of development requirements of the Maldives in 1966 and called for transforming the existing government employees into a “proper service”. The World Bank, in its report on the Maldives in 1980 pointed on the need to organise government employment into a clearly structured professional cadre with “a clearly perceived career path for advancement” and for establishing mechanisms to train officials within the service with specialised skills. These recommendations did not translate into any form of action, however. A quarter-century later, in 2005, the Asian Development Bank (ADB) carried out an assessment of public bureaucracy in the Maldives, amid unprecedented changes at systemic level introduced at dizzying speed. The ADB emphasised on the need to get the fundamental pre-requisites right when introducing changes to the country’s public administration system. It advocated for establishing a civil service on merit

-based recruitment, promotion and career planning, salary setting rules, wage bill control, due process protection for the employees, and de-politicisation of government employees. The recommendations came at a time when the Maldives was overwhelmed with proposals, both from internal and external stakeholders, for urgent political reforms, all seeking immediate attention of the country’s political leaders. It is, therefore, quite understandable why a technical proposal from ADB for reforming public administration would not make to the priority list of reforms in the government.

A proposal for reforming the public administration did, however, make its way to the Parliament in October 2005 in the form of the Civil Service Bill. It aimed at establishing a separate civil service and transfer the responsibility for the management of government employees from the then Public Service Division (of the President’s Office) to an independent Civil Service Commission. Significantly, however, the Bill was not an initiative of the government. Instead, it was formulated and sponsored by an “independent” member of the Parliament. The MP was a senior member of the governing party. The Bill was not the result of any known nationwide assessment for identifying and designing the best institutional fit for a country that had never had a statutorily mandated, de-politicised public administration system in its over 800-year

Table 2: Worldwide Governance Indicators for the Maldives 1996-2018

	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016	2018
Accountability	30.35	26.37	22.89	15.87	20.19	37.02	46.45	33.80	34.98	26.60	28.99
Control of Corruption	43.30	43.15	51.01	43.90	33.17	21.36	34.76	27.96	43.75	28.85	17.31
Rule of Law	43.00	54.46	49.01	50.72	51.67	50.00	45.02	36.15	33.65	36.54	31.73
Regulatory Quality	77.72	74.87	75.00	51.72	63.73	41.75	39.71	38.39	40.38	34.62	34.62
Government Effectiveness	80.31	67.18	67.35	57.14	59.51	46.60	46.89	47.39	42.31	41.35	35.58
Political Stability	88.83	87.83	84.13	63.11	69.57	38.94	40.28	36.02	69.05	61.43	51.42

Source: Compiled from the World Bank’s Worldwide Governance Indicators

political history. And no Maldivian public official had any practical experience of serving in a professional civil service. The parliament, after deliberating on the Bill for nearly two years, adopted it as law in 2007, and with that the Maldives Civil Service was established.

The shift from “government employees” to “civil service” in 2007 had an immediate impact; it dramatically accelerated the declining of quality of service that the government agencies provided to the public. According to the World Bank’s “Worldwide Governance Indicators” (Table 2) the qualities and abilities of the Maldives public bureaucracy went down from a score of 80.31 in 1998, to 46.6 in 2008. Ten years later, in 2018, it went even further down to 35.58.

The speed with which the quality of service had been dropping is shocking but not entirely surprising. Most high-performing civil services, typically, have four defining characteristics: merit-based recruitment with a clearly defined career path, specialised skills development mechanism, security of tenure, and political neutrality. The Maldives civil service, at its inception in 2007, had some of these elements, but not as defining features. But it requires all four characteristics to become a fully formed, high-performing, professional service that can propel fast-paced, sustainable, and inclusive socio-economic growth. For that to happen, fundamental reforms are required to the civil service as a matter of urgency.

Get the best

The reforms to the Maldives civil service should start by changing the civil service’s recruitment from “position-based” to a “career-based” method to ensure that “merit” is determined through a general, open, competitive, written exam conducted by an autonomous board. “Career-based” method is one where recruitment is done only at the entry level through a general, competitive exam, open to all, combined with interviews. Candidates for any

position, above the entry level, should be sought exclusively within the existing pool of civil servants based either on experience (number of years served at certain levels), performance appraisal, promotional exams, or a combination of these methods. Countries, including France, South Korea, China, and India use career-based, written exam method of recruitment with promotions limited to internal candidates only.

“Position-based” method, in contrast, is one where vacancies in the service are open to both internal and external candidates. Internal candidates, regardless of the sector-specific specialised skills they may have acquired over time, must compete with external candidates for upward mobility in the service. New Zealand, Australia, and the Netherlands are some of the countries that have adopted position-based method of recruitment in their civil services.

The strongest argument in favour of the Maldives adopting a “career-based” method is that it is one where there is relatively less room for perceptions of patronage and nepotism. Patronage means giving public jobs in exchange for political support, and nepotism means giving unfair advantages to members of one’s own family. There is solid empirical evidence showing that the perception of patronage and nepotism—even when they are not widely practiced—have an outsized impact on the credibility of a bureaucracy. Such perceptions help facilitate rent seeking behaviour, discourage high-performance, and cause long-term institutional decay. It is for these reasons that countries where there is risk of patronage or nepotism, position-based recruitment method have not produced the desired results. Even the United States—which historically has had a high level of tolerance for patronage—returned to the general exam-based recruitment in 2015. Countries go to various extent in avoiding the perception of patronage and nepotism in public bureaucracy, including enacting specific laws—and in some instances, having constitutional provisions—to disallow favouritism. Germany,

Portugal, and Spain, for example, have specified in their constitutions, that all unelected government officials must be employed based on proven knowledge and skills, and not through political or family connections.

Perceptions, and indeed, the actual instances of patronage and nepotism in the public bureaucracy have a direct bearing in attracting more business and investments into the country. The Worldwide Governance Indicators—which is extensively used by investors in assessing country specific business risks—for instance, use the prevalence of patronage and nepotism as indicator of the extent to which government decisions are being influenced by “private” interests. As Table 2 shows, indicators for the Maldives have had sharp fluctuations, going down from 43.30 in 1998 to 21.36 in 2008 (the year when the civil service was operationalised), and then improving significantly to reach 43.75 in 2014, before sinking to all time low of 17.31 in 2018. Similarly, the US-based consultancy firm, the PRS Group, which prepares country specific International Country Risk Guide (ICRG) for investors, include patronage and nepotism in its indicators of corruption in public bureaucracy. It is important to stress that scores in these assessments are based on perceptions, rather than on objective and observable incidents. Perceptions, therefore, matter. Empirical research from case studies and cross-country analyses find that entrepreneurs are extremely reluctant in investing in countries where there is strong perception of patronage and nepotism in its bureaucracy.

Introducing a written exam to determine “merit” and using merit as the basic criterion for entering the civil service is therefore crucial in ultimately eliminating the perception of patronage and nepotism. Yet, written exam is not a silver-bullet for fixing the problems in the civil service. In fact, there is no such a thing as a silver bullet. For centrally organised written exam method has the reputation for being overly rigid, slow, and cumbersome to conduct. Top performers in

exams can often be the crammers, not the cream of the crop. The response, however, should not be a no-exam and settle in the comfort and convenience offered in CV screening method. The solution, instead, must be to innovate and improve the design of exam, use the state-of-the-art technology—such as the animated avatars and video simulations that some countries have introduced in their civil service exams—to select the brightest in the society.

Groom the talents

Reforming the Maldives civil service requires transforming it to become a high-performing institution, in which the civil servants are highly motivated, equipped with the specialised skills, knowledge, and expertise required for serving the public and the country’s political leadership. If the recruitment method is reformed as suggested here, every civil servant would enter the service with a minimum level of skills. Those skills are further leveraged by tailor-made training that are made mandatory both at the start and at every promotion in a person’s career, to equip the civil servants with the required type, level, and depth of knowledge and expertise.

Having the specialised, context-specific expertise is the basic precondition that would allow civil servants gain the credibility, respect, and trust of the political leaders and the public they serve. The Maldives civil service does not, as yet, have the institutional framework for building, accumulating, and retaining the specialised skills required for making the civil servants a high-performing team. The absence of such training is having a serious impact on the productive capacity of the Maldives, as shown in the PCI indicators in Table 1 and in the governance indicators in Table 2.

The dramatic drops in the quality of public service are perhaps expected. For the civil service’s current selection system’s design appears to suggest that it even disincentivise experience. The required qualifications for the position of Permanent Secretary—the top civil servants at

every Ministry—for example, are four years of work experience and master’s degree, or six years of work experience with a bachelor’s degree. With that qualification, a person can barely move to the second bottom tier in well-established civil services either in the developing or developed countries. It is therefore questionable whether a person with just four years of experience would have accumulated sufficient practical experience for translating the political leadership’s strategic vision into policy priorities, or for leading, managing, and inspiring a diverse group of large number of civil servants in any Ministry, to turn those priorities into actions.

It is therefore imperative that reforms are introduced to the civil service to ensure that every civil servant is equipped with context-relevant knowledge and skills. A proven method for sustaining such levels of knowledge is by carefully identifying skills and experiences required for every paygrade and ensuring that everyone serving at every level meet the requirement. The system should be designed in a way the skills-set becomes progressively complex and sophisticated as the civil servant makes career advances, moving horizontally across various agencies of the government, as well as vertically upwards in the service. By the time the civil servants reach senior leadership levels, they would be at the cutting-edge of experience and expertise in formulating policy advice to the political leaders and in providing services to the public. It is that quality that would facilitate accelerated human development in the country, increasing investors’ confidence in the system, enforcing property rights, promoting the rule of law, and in achieving inclusive socio-economic growth.

Protect them

The Maldives Civil Service Act provides for security of tenure for civil servants. But the term “tenure” is yet to acquire a widely shared interpretation. For analytical purposes tenure

refers to the length and conditions of office for civil servants, protected by law. Security of tenure, along with high pay and a clearly defined path for career advancements, are key factors that attract the brightest to the high-performing civil services.

The purpose of having legally protected tenure is to prevent political leaders from dismissing or taking actions against civil servants, for reasons of political expediency, or for following the rules, norms, and decision-making procedures in the government. Equally important objective of having security of tenure is to foster a culture of critical and creative thinking for improving service delivery and in promoting policy innovation. Unless there is such a culture, civil servants will retreat to the comfort zone of “following instructions” of political leaders. It is such comfort zones that develop perceptions about civil service being lethargic or lacking dynamism. Moreover, investments in developing civil servants with years or even decades of experience together with cutting-edge expertise will be of no use if there is no sufficient space for new ways of thinking for making the civil service a high-performing entity.

Empower them

The one attribute that will bring an immediate improvement to the performance of civil servants is giving a certain degree of autonomy to them. Autonomy here refers to the extent to which civil servants at all levels are empowered to contribute in translating the political leaders’ vision into policy priorities and make decisions on the practical aspects of service delivery. The emphasis here is on the process, rather than the contents; the latter follow the vision and strategic direction set by political leaders. Empirical research has established for some time now that even a slight increase in autonomy to the civil servants result in bringing a significant shift in output, especially in service delivery. That is true even in situations

where state capacity is relatively weak. There is therefore a strong case for the Maldives to introduce urgent reforms that will grant a clearly articulated levels of autonomy to the civil servants for improving the performance in the public sector.

Yet, expanding the space for autonomy would be fruitful only if it is accompanied by reforms on three other aspects relating to the delivery of public goods: political neutrality of civil servants, ministerial responsibility, and clarifying the role of presidential appointees.

A defining feature of a civil servant anywhere in the world is the person's political neutrality demonstrated in their actions. It is this feature that allows the civil servants to provide political leaders with high quality policy advice and maximise impact in policy implementation. The Maldives civil service came into existence in 2007 with the aim of cultivating political neutrality among the civil servants. Yet, instead of promoting the norm further, subsequent changes have facilitated civil servants become politically active, that in turn, has allowed the emergence of a deeply rooted view that political neutrality is not a value worth promoting in the delivery of public service.

Minimizing presidential appointees in the bureaucracy is the other aspect of reform that would ensure that autonomy to the civil servants is utilised in the most effective fashion. Countries that have virtually eliminated executive appointments to the bureaucracy, such as Japan, South Korea, New Zealand, and Britain cultivated and fostered that norm for a long period of time by designing specific policy interventions that enjoy a high-level of consensus across the political spectrum. Britain, for example, while recognizing the need for Ministers to receive politically grounded advice, introduced a separate category in the bureaucracy, called "Special Advisers" and kept the number to two per a Minister.

The Maldives can also identify potential entry points to approach in overcoming the challenges of presidential appointments. But in the absence of having a tradition of professional civil service, and in the face of a rapidly legitimising norm in favour of presidential appointments, reforms will be difficult to shape and implement. Government employees, at every level, were all presidential appointments prior to the Civil Service Act of 2007. When political space became more competitive and contested in the first few years of the twenty-first century, government employees were expected to become politically active in favour of the government. That expectation profoundly influenced on how the concept of civil service is conceived and understood in the Maldives. As a result, presidential appointees continue to balloon in public bureaucracy to the extent that it might even exceed civil servants in some agencies in not-too-distant future. Unless reforms are introduced and implemented as a matter of urgency, therefore, the current trend in executive appointments will gravitate the civil service towards incompetence and inefficiency and promote misallocation and sub-optimal use of resources.

Leverage governance

Any country with the right investment can equip its civil service with the best and the brightest, who are as politically neutral as can be, and who have maximum space for autonomy, guaranteed by law. And yet, very few are able to deliver public goods at the highest possible quality. "Absence of political will" in deploying the civil service for achieving that quality is a frequently cited reason. Willingness is indeed a key driver of purpose and intentions, yet, by itself, not sufficient to a guarantee that the civil service can be elevated to high-performing level. Even after reaching that level, political leaders often do not, or are unable to, deploy the civil service to deliver such quality of performance.

Governance—the sets of mechanism that facilitate interaction between the government and non-government actors in designing and implementing policies, decision making procedures, and normative standards—is even more powerful force that would allow political leaders to deploy the civil service to propel the country towards prosperity. The governing order that emerges through such processes, especially those that enjoy the consensus of the key stakeholders, has a greater chance of success and legitimacy. Such outcomes also facilitate the emergence of enduring norms that are valued, respected, and upheld by the society.

The Maldives, in its socio-economic development journey, has reached a point where it is required to make a strategic choice: whether to remain locked in the middle income trap, or bring about a paradigm shift in development, fostered by a high-performing civil service. A highly capable civil service can help the Maldives

redefine what “development” in fact means to different groups and segments of the society; harness creative thinking to foster new solutions to old challenges, that include reducing the disparity between the highest and lowest income groups, between Malé and the atolls, and between various regions in the country. Similarly, a civil service that is equipped with the right skills, the required type and level of experience and expertise is necessary for upgrading the social protection system in the Maldives to ensure that the rights of the vulnerable members of the society are fully recognized at every level of policy making and in service delivery. Only such a high-calibre civil service can create and harness equal opportunities for everyone to have productive employment and decent work, and equal opportunity to succeed in life for everyone. For a high-performing civil service is the lifeblood that will allow the Maldives march with destiny.



Ali Naseer Mohamed holds PhD in Diplomatic Studies from the Australian National University and Master of Arts in Diplomatic Studies (with Distinction) from the University of Leicester in the UK. He had been in the Maldives Foreign Service since 1985, and held a number of senior leadership positions including Foreign Secretary of the Maldives, Ambassador to the United Nations, Ambassador to the United States, and Director-General (Political Affairs). The views expressed in the article are that of his own and not the views or opinions of the Maldives Government.

All round, unparalleled

economic stories

ISSN 2708-4707

كع خا لاما
اااااااا
اااااااا

MALDIVES ECONOMIC REVIEW



**BRITISH PROTECTORATE STATUS
(1887-1965)
AND CONNOTATIONS FOR
THE MALDIVIAN ECONOMY**

#VOLUME 3, ISSUE 2, DECEMBER 2021

ALSO

- INTERVIEW: SAARC SG WEERAKOON:
“... PEOPLE OF SAARC REGION HAVE NOT FULLY ENJOYED THE BENEFITS UNDER SAFTA”
- WHAT DO CONSUMERS VALUE IN TOURISM?
- TIME TO SAY “NO THANK YOU” TO FOREIGN AID?
- AN EYE WITNESS’S VIEWS ON THE DEVELOPMENT OF DUBAI: LESSONS FOR MALDIVES
- THE MALDIVES CAPITAL MARKET: A PATH FOR A SHARED FUTURE.
- THE INTRODUCTION OF MINIMUM WAGE IS A GOOD START, AND IS BEST UNDERSTOOD AS JUST THE START
- THE LAST READ: WHEN FOREIGN EXCHANGE RESERVES AREN'T IN RESERVE

insights into the past

and present



Revisiting cowrie shells of the Maldives: Trade networks

Ibrahim Zuhuree

Introduction

Indian Ocean trade, exchange of cultures, religions, and peoples provided an important connection from East Asia to East Africa. In this article, we revisit the cowries trade in the Indian Ocean trade networks. While the Maldives is a small and isolated nation in South Asia, literature suggests that since 9th century cowrie shells from the Maldives joined up the Atlantic and the Indian Ocean trades, in a complicated relationship of interdependency – implying an early example of globalization.

Although there are over 250 species of cowrie shells, ‘*Cypraea moneta*’, more commonly referred as money cowrie of Maldives (hereafter MCM) was used for exchange purposes in different regions of the world including the Indian subcontinent, parts of China, and West Africa (refer to Figure 1). The other less common type of money cowrie used was ‘*Cypraea annulus*.’ Cowrie use in the Indian subcontinent was also connected to the cowrie trade in the Indian Ocean, linking the Indian Ocean with Africa and the Atlantic slave markets which were connected to West Africa and the Americas.

Figure 1. Money Cowries



(a) *Cypraea moneta*



(b) *Cypraea annulus*

Collection, processing and transportation of MCM

The collection and treatment of MCM had unique ‘manufacturing qualities’ on two accounts. First, MCM had to meet the export standard (called “live Maldives”) which had certain minimum criteria with respect to cleanliness and luster of shells. For instance, in order to preserve the gloss, shells had to be collected while they were still alive, and unique processing techniques were required to remove the flesh inside the shell. Second, shells were needed in large quantities and of a particular type and size.

Figure 2 illustrates the production and transportation process related to MCM. In general, there were two methods of collection and processing. Method A of collection and method 1 of processing was common before 14th and 10th century respectively, when demand for shell was not high. The collection and processing of MCM were labour intensive and time-consuming activities. The production process took at least a few weeks to a few months. Thus, there was a capital aspect to the production of the shells and accompanying the need for work long before the reward. In the domestic market, cowrie was simply a commodity for export and had no real monetary value. However, cowrie was

not the first or only export products from the Maldives. In fact, production of coir rope and dried fish for export was more complicated and time-consuming compared to cowrie shells. For this reason, by the time cowrie trade increased, islanders had already developed systems to cater for

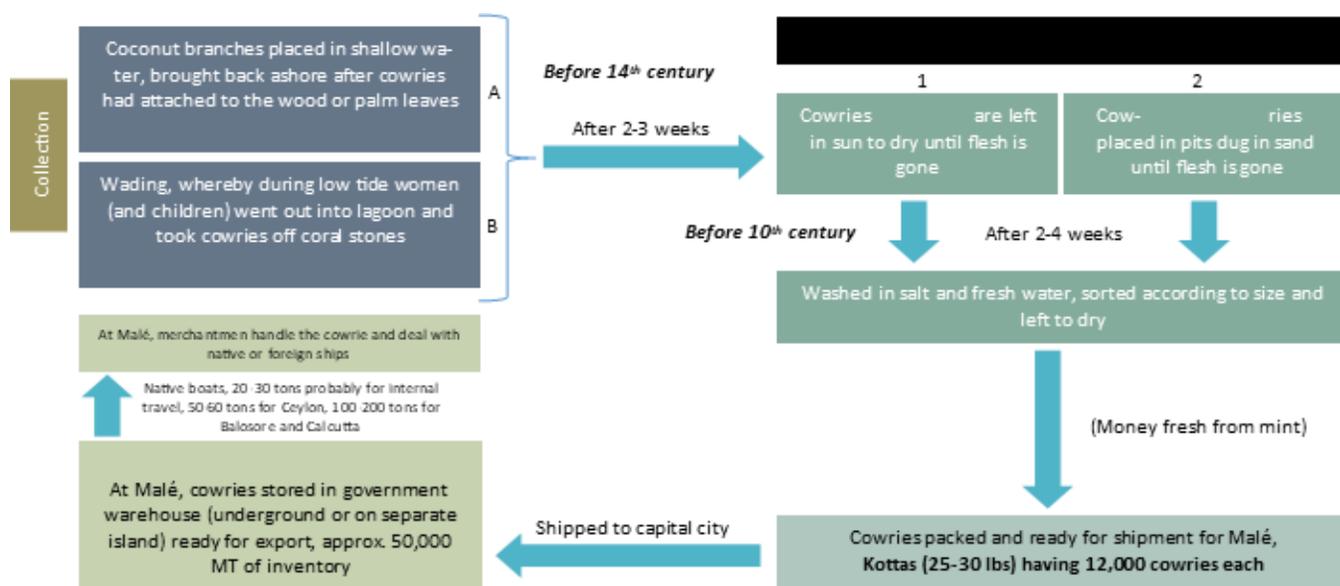
changes in elasticity of supply.

Available historical sources indicate that the Maldives had continuity of government for centuries and the Sultanate was in succession since the islands converted to Islam from Buddhism in 1153 A.D. In addition, the central government in the Maldives had a well-functioning royal monopoly on import and export trade. Maldives ruling elite saw the need for a close watch on traders. In the mid-eighth century, for example, because of Arab expansion of trade within the Indian Ocean, there was increased demand for export products, especially coir rope, from the Maldives. Thus, royal monopoly became an important instrument in the

textiles, pottery, and metal objects. This dependence further consolidated the power of the Sultan. Evidence of such relationship comes from the oldest and most accurate Maldives records, copperplate grants from the late twelfth century known as “loamaafaanu”. These plates cast valuable insights on the system of government and way of life that existed in the country from the ninth century– suggesting that the Sultan controlled the people through “atoll chief” and “island chief” in their respective islands and atolls. They collected tribute and taxes and also enforced restrictive trade laws.

Trade links and networks

Figure 2. Collection, processing and transportation of MCM



evolution of the Maldives as a distinct independent geopolitical unit.

Long-lasting royal monopoly together with increasing demand for export of coir and cowries also meant that economic activities in the islands, in terms of allocation of resources and labour, changed from subsistence-oriented production—mostly fishing—to export-oriented production. For this reason, in exchange for exported goods, people in the islands became more dependent on imported items such as rice,

Early recorded travels of Maldivian seafarers included frequent visits to Sri Lanka, Indian Sub continent; a visit to Rome to the court of Emperor Julian; and two visits to China carrying gifts to the Chinese Emperor. Written records also bear witness to regular voyages to Aceh. Historical evidence about the Maldives seems to suggest that the Maldives may be within the trade network of Roman expansion of monsoon trade in the Indian Ocean in the first century. Moreover, taking account of adaptation and evolution of

boat-building skills together with Dhivehi words related to maritime trade, Maloney (2013) suggests that the Maldives was well within the South Indian trade networks controlled by Tamils before the sixth century. Furthermore, trade links could be the reason why at least one of the famous Ming naval expeditions reached the capital city Malé during the fifteenth century.

Several Arab, European and Asian writers (e.g. al-Mas'udi', died in 956, al-Biruni 973-1048, al-Idrisi 1100-1166, Ibn Beitha, died 1248, Wang Ta-yuan 1330s or 1340s) spoke of the fish, coir rope made from coconut palms, tortoise shell and cowrie as export commodity products of the Maldivian islands. Indeed, "Sulayman al-Tajir", who traveled extensively between Persian Gulf to India and China, wrote that by the ninth century there was frequent and organized cowrie trade between the Maldives and port cities in India such as Bengal. However, it was Ibn Battuta – visited the Maldives between 1343-1346 – who provided eyewitness information about cowrie in the Maldives as well as abroad, including how cowrie was fished; indigenous counting system; price and exchange rate of cowrie; and he also mentioned how export of MCM was linked to other parts of the world such as Bengal, Yamen and West Africa.

Spread of MCM and trade networks

Present knowledge about the method of diffusion of cowrie from the Maldives is still limited. Mikkelsen (2000) proposed the hypothesis that Buddhist religion and culture was established in the Maldives to utilize cowrie trade. Mikkelsen pointed out that Buddhist monks would have used their connections in South and Southeast Asia to spread cowrie through Arab, Chinese and Indian merchants in return for other commodities such as beads, silver and gold as well as metal objects which were not available in the Maldives.

Second method of diffusion of MCM is as ballasts via regional and international trade. During the early Indian Ocean trade, all ships

required ballasts for stability. For this reason, relatively heavy materials such as sand, stone, and even metallic items were used as ballasts. As trade intensified and required long distances, the opportunity cost of using a worthless material as ballasts also increased. Thus, from the economic point of view, ballast that also has a commercial value became preferable. For this reason, as soon as merchants in the Maldives understood the commercial value of MCM, they preferred cowrie as ballasts. For example, in the fourteenth century, Ibn Battuta described well established eastward trade from the Maldives toward Bengal and a westward trade with Yemen, where Yemeni traders used cowries for ballast in their ships in place of sand. Likewise, cowrie use as ballast also explains why the cowrie trade became so popular among the Portuguese, Dutch, and English during European domination in the Indian Ocean since the fifteenth century.

Whatever the diffusion method may be, by the ninth century, MCM trade has become significant enough to be frequently mentioned by a number of travelers. Interestingly enough, these time periods fall well within the period when the long-distance trade by Arab traders between the Middle East and China was replaced by organized trade in shorter segments based on local networks and port cities in the Indian Ocean. For this reason, it may be necessary to take a closer look at the cowrie trade in the Indian Ocean and its connection with long-distance trade.

Long-distance trade

In the context of long-distance trade Maldives' geographical position is unique and requires some elaborations. In this regard, there are two important points to consider. First, the beginning of Islam (in Maldives?) corresponded to Li Yuan's accession to the throne in China and the establishment of the T'ang dynasty, which led to a period of stability that lasted until the beginning of the fifteenth century leading to connections between two great geographical divisions of the

Indian Ocean to trade. In particular, between the eighth and eleventh century, Arabs organized long voyages to China, only stopping at minimum ports for market opportunities. Moreover, gradually, this long-distance trading was discontinued in favor of shorter routes using port-cities in the Indian Ocean rim. Second, early long distance journey by Red Sea-based mariners were not only dangerous—due to pirates and storms—but required at least two to three years for a return journey.

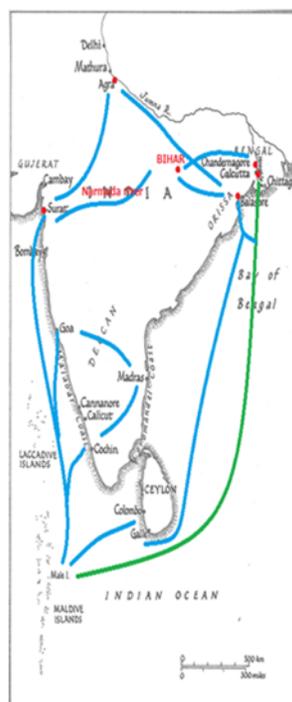
As an alternative, from the eleventh century onwards, the strategic position of the Maldives in the Indian Ocean became relevant. The Maldives is a gateway between the western Indian Ocean chokepoint of the Gulf of Aden and the eastern Indian Ocean chokepoint of the Strait of Malacca on the other (refer to Figure 4). Accordingly, Red Sea-based mariners learned that Indonesian seamen have been using the Maldives as port of call on their way to East Africa and back. Soon, during the southwest monsoon, trading ships arrived from Arabia and Persia on their way to the Southeast Asia and China, following the spice trade. Excavations in the Maldives have revealed that there was a constant trade with vessels from East Asia and Arabia. Indeed, by the fourteenth century and before the Europeans entrance to the Indian Ocean, Maldives was well within the established network of long-distance trade routes in the Indian Ocean. During the thirteenth century, although Sri Lanka took considerable diplomatic efforts to lure trade from West as well as the east of Indian Ocean, the stable central government in the Maldives with favourable trade policies may have contributed to the decisions of Indian Ocean merchants.

Maldives-Bengal as participants of Indian Ocean trade networks

Although Maldives export trade in cowries was going in two streams to east and west from Malé by the twelfth century, it was the eastern branch of the trade, mainly to Bengal, which

connected the Maldives to Indian subcontinent, and hence to the regional trade networks. The fact that Ibn Battuta chose to sail to Bengal (Chittagong) from the Maldives (Malé) seems to indicate frequent and safe passage between these two cities. Before the European entrance, as part of Indian Ocean trade system, Maldives and Bengal already formed a sub-system based on the

Figure 3. Cowrie trade routes in Indian subcontinent

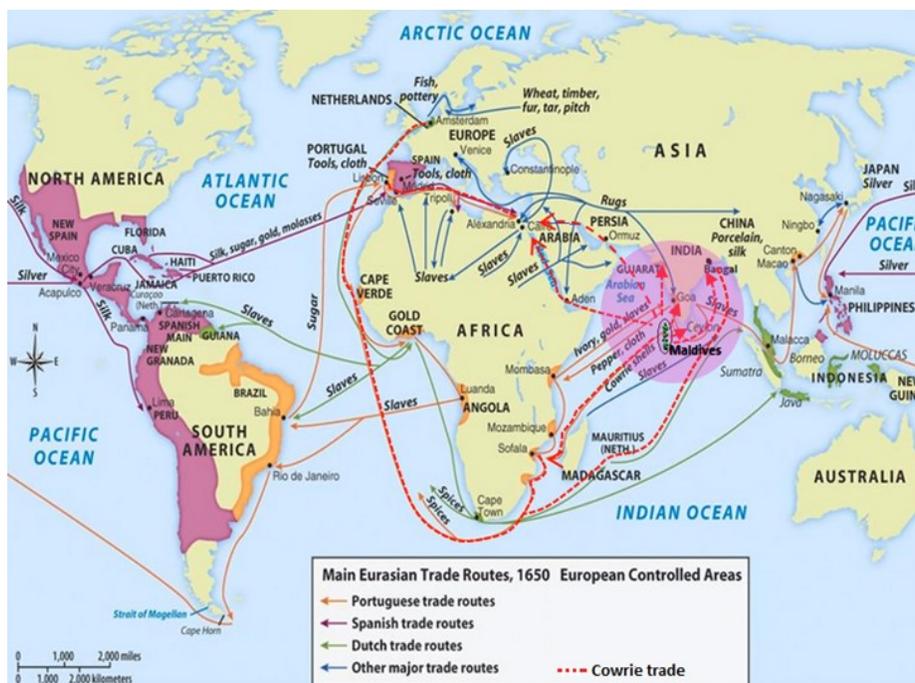


dual aspect of cowrie as currency and commodity. Maldivians traded shells for rice and other commodities to merchants in Bengal, who used these shells as currency for small transactions and other purposes.

As Maldives was being used as a port-city by east and west of Indian Ocean countries, there was a considerable amount of knowledge transfer in improving local ship building techniques. This allowed Maldives to increase its trade contacts within the region especially with Bengal. Thus, diffusion of MCM accelerated towards Southeast Asia, Persian Gulf, and more importantly to Bengal through local as well as foreign ships. Indeed, when Portuguese entered into the Indian Ocean, in the sixteenth century, they found vital and dynamic trade networks in the Indian Ocean.

Figure 3 illustrates the trade routes. For example, until the fourteenth century, Maldives was mainly trading with Bengal (green), but soon after the Europeans expanded their trade in the Indian Ocean there was a huge demand for cowrie—refer to trade routes in blue.

Figure 4. Connection between regional trade networks to long distance



Source: Hogenborn and Johnson

International trade

Cowrie trade can also be used to show how local sub-system such as Maldives-Bengal was connected to long distance trade in the early spice trade by Arabs or slave trade and palm oil trade by Europeans. For example, soon after their entrance into the Indian Ocean, Portuguese had introduced Maldives cowries to West Africa. From the sixteenth century onwards, European merchants, as well as Indian traders, purchased cowrie from the Maldives and carried them back to Europe, where they were sold at a profit. Those purchasing the shells in Europe were slave traders who brought them to West Africa as capital to buy slaves. In West Africa, the shells were absorbed into the West African economies and used as a medium of exchange for small transactions. Figure 4 shows how the local sub-system (marked with a circle) was connected to long distance trade.

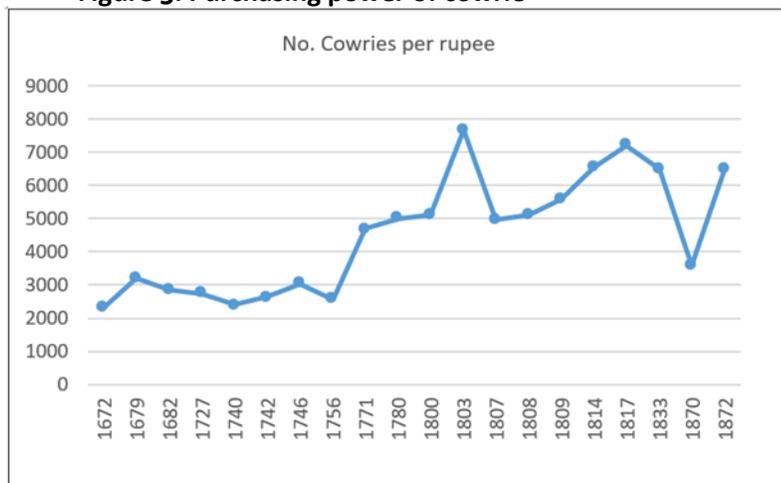
When Europeans entered the Indian Ocean, they quickly took advantage of the already established local networks. Accordingly, the Portuguese dominated the cowrie trade until the

mid-seventeenth century, and when the Portuguese hegemony in the Indian Ocean was waning, and Maldivian officials made arrangements to deliver cowries to the Dutch East India Company in Ceylon. The eighteenth century was a prosperous period for the cowrie trade because of Atlantic slave trade. As a result, the Dutch monopolized the cowrie trade until 1750. However, the proportion of shells traded by the Dutch dropped steadily, falling to zero in 1796 when the European War ruined Dutch commerce. As a result, the English controlled the

cowrie trade until 1807, when the abolition of the legitimate slave trade rendered the system unprofitable from British point of view.

The boom and bust for the international cowrie trade affected the Maldives as a geopolitical unit. This was because Maldives as a centralized state was well integrated into

Figure 5. Purchasing power of cowrie



economic development in the Bengal-Maldives sub-system, which in turn was connected by the long distance trade routes. For this reason, being a small country and opened to changes to the world

trade, Maldives had to adapt continually to changes taking place in the Indian Ocean as defined by cowrie or coir trade. Figure 5 illustrates that the number of cowries per rupees shows a relative stability for almost a century until 1770, followed by a huge variation.

Indeed, the cowrie price variation fitted well into what was happening far away from the tiny nation, yet directly affecting the Maldives and Bengal. For example, the abolition of the slave trade caused a temporary slump in the cowrie trade going between India and Europe, and Europe and Africa. Cowrie trade was once again revived with the growth of palm oil exports from West Africa. Finally, the cowrie trade entered an unprecedented expansion in the 1840s. Consequently, Maldives could not supply enough moneta. Thus, shells from Philippines and probably from other sources came to the market. However, the final phase of the shell trade was the period between 1851 and 1869, when five private German and French companies captured the trade and shipped over 14 billion shells directly to West Africa. This frantic trade exploded the cowrie bubble dropping the price of shells dramatically, making trade unprofitable, which led to the abandonment of cowry currency in Bengal.

Conclusion

Cowrie trade from Maldives played a crucial role when early long distance trade was changed to shorter segments of local trade networks in the Indian Ocean. Strategic geographical position of the Maldives due to monsoon winds, a strong central government, and flexible dealings with merchants contributed to making Maldives favourable port of call. This article highlighted that by the ninth century Maldives had established trade connections with local networks in the Indian Ocean and by the fourteenth century there was a well-connected sub-system between the capital city Malé and Bengal. What is evident is that intra-regional trade in South Asia was already high when Europeans crossed the Indian Ocean. In fact, Asian merchants including Maldivian merchants, were involved in sophisticated trade transactions linking local trade routes to long-distance trade networks. For this reason, more analyses of the role of cowries in early intra-regional trade in the Indian Ocean should supplement our understanding of regional trade networks and its linkages to long-distance international trade.



Ibrahim Zuhuree works at the Ministry of Foreign Affairs of Maldives. Currently, he is the Deputy Permanent Representative of Maldives to the United Nations. Born in N. Holhudhoo in 1976, he graduated from the University of Western Australia in 2004, with B.Sc. in Mathematics and Physics. In 2007, he completed M.Sc. from Carnegie Mellon University, Adelaide, in Public Policy and Management. In 2017 he received PhD in advanced policy studies focusing on tourism economics from National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan.

Thought leading articles on issues and matters that matter

ISSN 2708-4787

ދިވެހިރާއްޖޭގެ
އިކޮނޮމިކް
ފޮތްތަކުގެ
ފަންނީ
ފަންނީ

MALDIVES ECONOMIC REVIEW

**IT'S TIME TO TAKE A PAUSE
AND REFLECT ABOUT LEASING
ADDITIONAL TOURIST RESORTS
TO BRIDGE THE FISCAL DEFICIT**

ALSO

- OP-ED BY FAYYAZ ISMAIL, MINISTER FOR ECONOMIC DEVELOPMENT:
BUILDING AN INCLUSIVE ECOSYSTEM FOR SMEs
- CATALYSING DEVELOPMENT:
THE EARLY YEARS OF MALDIVES PARTNERSHIP WITH THE UN SYSTEM
- EVOLUTION OF TOURISM INDUSTRY IN THE MALDIVES
- COMPETITION IN HIGHER EDUCATION:
IS LIMITED PROSPECTIVE STUDENTS AFFECTING QUALITY?

VOLUME 3. ISSUE 1. SEPTEMBER 2021

by thought leaders



The skipjack industry: Is it time to allow private sector actors to be more active?

Ibrahim Athif Shakoor

Fate and fortune have favoured the nation of Maldives with vast marine resources and have enabled Maldivians to build their fortune from the bounties of the sea. Unlike many coastal, small island nations we have, from time past, decided that our marine wealth be explored sustainably and that the resources contained therein, will be ‘protected’ and explored by us, Maldivians.

An island nation of fisherfolk, all of whom grow up by the sea, the bounty of marine wealth nurtured us and have been the main source of foreign currency earnings from our ancient past. Fishery still remain the main source of protein and will remain as our leading primary industry. Therefore, it is not surprising or unbecoming that the state had been in the past, and continue even today, to invest in the development of the fishery industry.

Past investments to develop the industry have come from the states’ own limited resources, augmented with multi-lateral, and bi-lateral loans and assistance. These included projects that built and offered long term lease of dhonis to fisherfolk; spurring growth of the fishery effort to new generations. Ice plants, fuel tanks, freezer and collector vessels were built and deployed. Investments to upgrade the 8 MT cannery and infrastructure at Felivaru, and brand-new facilities at L. Maandhoo and at G.A Koodoo were also undertaken. Of late, a receiving facility have been

built in S. Meedhoo and several new ice plants continue to be installed.

Impact of the many development projects of the past

The many fishery development projects propelled the fishery industry onwards and helped to grow the harvesting capacity to almost 3 times; from an average of 50,000 tons in the 80’s to an average of 148,000 tons in the first decade of the new millennium. Record harvests

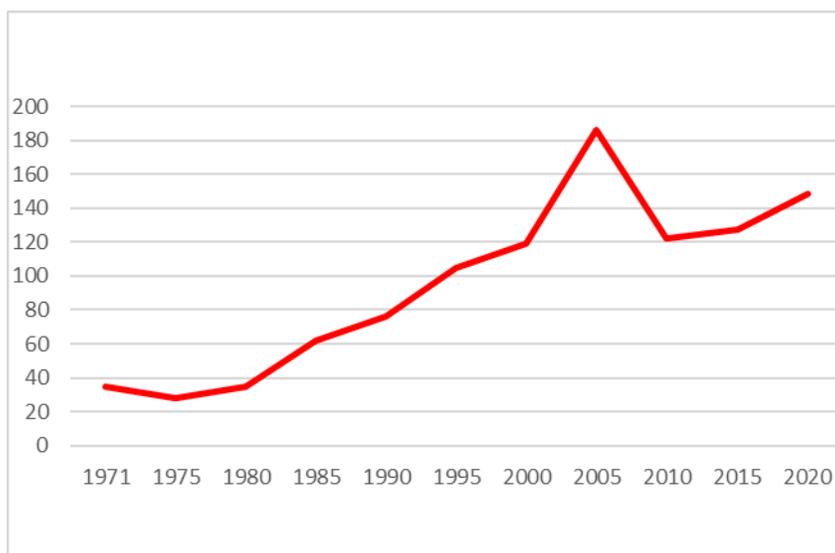


Figure 1. Total Catch in '000's mt. (1971 -2020)

were received in 2006 at 184,000 tons, after which fishing had plateaued to around 120,000 thousand tons annually.

Increase of size of dhonis and reasons for the same

The confidence of fisherfolk including boatowners, were boosted by the many state initiated

developmental efforts and led to considerable private investment, to enhance harvesting capacity. These private, and important to emphasize, individual efforts, resulted in the increase of the average size of fishing dhonis; growing from 50 ft to 100 plus, some were equipped with twin engines. In fact, the harvest of just one fishing vessel overwhelmed the 'new and improved' capacity of the 50 mts of brand new 'larger' collector vessel designed for Koodoo in its first year of operation.

While the state continued its investments to increase receiving capacity, private parties, individually invested to increase harvesting capacity. And even though the effort from both the state and private sectors have been almost continuous and indeed parallel, there continued to be a growing gap between the receiving capabilities and the harvest of the fisherfolk during the high season.

Three associated features; may be identified as the main reason for the gap between built capacity to receive and the collective harvesting capacity of the dhonis.

1. The nature of fishing. Fishing being seasonal, means that fisherfolk are only able to harvest good catches during the limited high season. The pole-and-line method also mean that harvesting must happen while the school is feeding. Therefore, because fishing is seasonal and because sizable feeding schools are not guaranteed every day, fisherfolk, are inclined to fish as much as possible, when a school is found and while it is feeding.
2. Race-to-the shore. As an adjunct to the above feature of having to fish as much as possible when a school is feeding, is the fact that all

fisherfolk are aware that the landing capacity is limited during the high season. This results in a 'race-to-the shore' as it were, to get in front of the inevitable queue to ensure sale of the harvest. Therefore, resulting in larger and bigger boats

3. Convergence at the location of good fishing. Today's dhoni's being sizable, with faster engines and designed to accommodate multi-day fishing trips, fisherfolk from the length of the country converge to wherever feeding schools are located. Therefore, receiving capacity available at any geographic location, quite naturally tend to be overwhelmed.

Driven by rhetoric of the state committing to keep up with the harvesting capacity, a vicious cycle soon developed. When industry actors invested to increase collection capacity, individual fisherfolk invested in bigger boats, faster engines, and technical capacity to keep the landing fresh. And they all converged at any location where fishing was abundant.

The sum total of the individual harvesting capacity of the fisherfolk, in good season, have out-paced the capacity of the industry actors. And this gap is expected to last as long as commercial considerations for new investments need to be taken into account, as they inevitably need to be.

The importance of the primary sector in all economies

Countries tend to protect their primary industries for a variety of reasons. The favorite and perennially touted reasons around food security have always been a common theme. Covid 19 have laid bare the importance of our primary industries; presently accounting for less than 5% in GDP share. As lockdowns gripped the country and borders were closed, we were dependent on fishery landings and the modest harvest of local farmers for nutritional needs.

Countries with richer primary industries were able to offer greater comfort to their people and

were able to endure stricter and longer lock-downs. Therefore, the importance of nurturing and growing the primary sector, which in the local context is largely the fishery industry, has taken additional national significance.

Throughout the world, farmers and fisherfolk, are often able to punch above their economic weight when it comes to political power. While the fishery industry in UK account for less than 1% of GDP, much of the unhappiness in post Brexit UK arises from the terms agreed regarding the access to fishery resources. Farm subsidies are the largest line item in the EU budget even while agriculture account for only a 1.1% share. Rice farmers in Japan receive ever increasing state budgetary support even while their absolute numbers and GDP share continue to decline. Similarly, in Australia and the US too, the primary industry can exert influence and attract subsidy that are not explained by their economic significance.

Perhaps the best way to explain the political strength of the primary industry is in reference to their influence in state assemblies and parliaments. Parliaments comprising of elected representatives, quite naturally hold the protection of the interests of their electorate as the principal duty and responsibility. Many MP's represent folk from rural, farming, and coastal areas. Their collective bargaining power is therefore considerable in many legislatures, thereby accounting for the power over and above their GDP contribution of the industries they represent. As long MP's are elected to represent geographic areas, there power will remain, and the interests of primary industries will hold considerable sway in the larger state agenda.

In the Maldives we all take our first breaths, enjoy childhood, raise a family and look after our grandchildren, in a space less than 500m from the shoreline. We are all fisherfolk. Therefore, quite naturally the fishery industry holds sway in our collective conscience and manifests its strength into the national agenda.

Therefore, apart from well-meant, and often quickly forgotten statements around food security, it is almost inevitable, that the fishery industry of this island nation will continue to play a significant role in the national agenda.

So what's next?

The state has, for the past half century, invested massively into development and growth of the fishery industry. These investments from the state's own limited resources and through bilateral and multi-lateral sources continue to date.

However, the results of such investments, especially in the last decade, have not afforded the expected scenario to the fishing community or to the state. Instead, fish landings at the peak season, almost inevitably, overwhelm the landing capacity. Leading to loud headlines, confusion, disillusionment and anger.

Additionally, the investments by the private sector into bigger boats with faster engines and additional preservation measures continue to be open to commercial risk.

Tried and tested methods have not ONLY NOT yielded expected results but have also added to the confusion and disillusionment. The novel concept of 'neighborhood processing facilities', promoted by the present government too, have not only not been implemented but is highly unlikely to be a comprehensive solution.

It is apparent now that novel new methods need to be tested. 'Out-of-the-box thinking', even though a tired term, needs to be employed.

Perhaps it's time to re-think the whole model. Remove all boundaries for industry actors, scale back, or at a minimum halt fresh new investments by the state and allow private actors to play a larger more active role both in the harvesting and processing sectors and throughout the length of the country, especially in the deep south.



China: Observations and expectations from afar

Abdul Azeez Mohamed

Maldives-China relations

China Maldives relations date back hundreds of years. A Chinese record from Tang Dynasty 618 to 907 AD documents a Maldivian delegation taking gifts to the Chinese emperor.

Ibn Battuta wrote in 1344 about the process of drying fish which was then exported to China. In 1355 he wrote about how the Maldivians extracted the juice (toddy) from the sap of the coconut palm flower and made it into an 'elegant honey' (jaggery) which was purchased by Chinese merchants.

Perhaps the most informative records about this time come from accounts from the Ming Dynasty (1377-1644 AD), when the renowned Chinese explorer, Zheng He, visited the Maldives. While exact details of his trips are sketchy, it is believed that he visited the Maldives twice, first in 1412 and then in 1430. Zheng He's records provide some details about the Maldives' products and customs, among others.

Chinese archives also inform us that in 1417 AD, the Maldivian King Yusof sent an ambassador to visit the Emperor in Nanjing, the then capital of China. It is also believed that the king sent an envoy to China a further two times.

Francois Pyrad's book in 1611 describes his voyage around the world, including a stop in the Maldives, in which he describes the dazzling wall-hangings imported from China and displayed in the King's palace. He also mentions that the king ate from Chinese porcelain and that the soldiers and king's officers carried daggers from Indonesia and China.

Furthermore, there is a poem in Dhivehi

dating back to the 18th century which describes a fleet of 50 vessels arriving in China.

Foreign policy

China has helped many African and Asian countries in destitute situations, without attaching difficult conditions. Such countries include Sri Lanka and many African countries, such as Kenya, Ethiopia, etc. Maldives too has benefited immensely from Chinese aid.

Since olden days, Chinese merchants have migrated to different countries of the world. Thus, majority of them become citizens of respective country they migrate to. Therefore, a considerable size of ethnic Chinese population is found all over the world.

China was not an affluent country then, like she is today. One of the strategies they used for economic development was to lease its sovereign territories. Hong Kong, for example, was leased to the UK for 99 years.

In the last 45 years, China has risen economically and industrially, and developed modern infrastructure. It is amazing and delightful that China has undergone such positive and qualitative changes in multiple aspects, especially the growth of capitalism.

Economic development

To speed up the ambitious Chinese economic plans, she joined the WTO in 2001 and opened up her economy to the world. One thing striking was that after Chinese entry into the WTO her pace of development quickened as borrowing became much easier than before.

As efficiency in movement of people and goods facilitate economic growth, China placed an

order with Japan to build what could be the fastest three trains in the world. Meanwhile China built complete some 600 cities for workers, including super and mega cities.

China has a blend of capitalist and socialist economy. Unlike capitalism, the socialist

but she has elevated 180 million people out of poverty, and provided them good education. she has the world’s largest middle class with 570 million people who are highly educated and experienced.

China is not Saddam Hussain’s Iraq, nor



Sina-Male’ Bridge. Photo: CCCC, China

economic system is not left to function automatically by itself by the rule of supply and demand. The Chinese economy in general is doing very well as an export-oriented open market economy. Competitive Chinese items are exported to many countries.

Through good planning, pragmatism and valiant efforts by the Chinese government and its diligent and industrious labor force, China has become an affluent country. It has the world’s second largest number of billionaires next to the U.S. this class keeps on growing. Thus, China has become not only world’s second largest economy,

Afghanistan, or Yemen. We are seeing a transformed China economically and technologically. Its people are more patriotic than people from many western countries.

Economically China is ahead of many comparable countries in terms of its innovation, science, technology, and production capacity and competitiveness.

Looking ahead

China is a global economic power and is on course to surpass the U.S. in terms of the size of the economy. Maldives is a developing country and needs more done for national

development to reach to the level of other, more advanced developing countries. Thus, we have to expect to get both concessional and non-concessional aid as well as grant aid for expansion of infrastructure or adding to the landmass. We may therefore continue to have good relations with China. But we may also approach other countries such as Japan, Singapore, Thailand, Australia, South Korea, Germany, France and our

friendly as well as brotherly Arab and Islamic countries like Saudi Arabia, UAE, Qatar, Kuwait, Jordan, Bahrain, Oman, Pakistan, Turkey, our neighbouring India and many other countries in the international community.

Maldives must endeavour to enhance and maintain higher levels of friendship and cooperation with these and other countries.



Captain Abdul Azeez Mohamed is a retired master mariner in the shipping and logistics services industry. He served for nearly four decades as a captain at GAC Abu Dhabi, the UAE's leading shipping and logistics service provider. Captain Azeez is an avid writer, and an enthusiast of journalism. He wrote many articles to some of the most well-known and established papers in the country, including Amaazu, Hafthaa, Haveeru and Hukuru, on issues ranging from governance, development and politics among others.

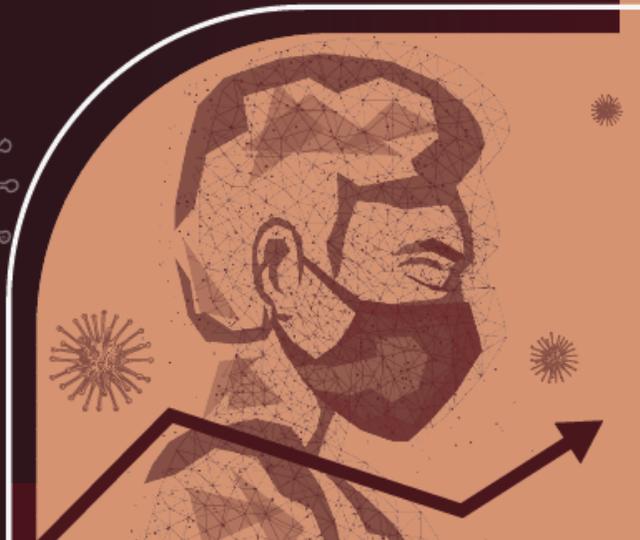
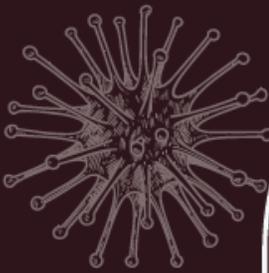
Insightful analyses by
economists and experts

ISSN 2708-4787



MALDIVES ECONOMIC REVIEW

#VOLUME 2, ISSUE 4, JUNE 2021



THE IMPACT OF COVID-19 ON THE ECONOMY, GOVERNMENT REVENUE AND DEBT IN THE MALDIVES

ALSO

- COMMERCIAL DIPLOMACY OF THE MALDIVES
- WHAT NEXT FOR SAARC?
- TRANSPORT IN MALDIVES: DEVELOPMENT OF AVIATION INFRASTRUCTURE
- ARE OUR ISPS ENJOYING A FREE RIDE?
- THE MALDIVES STOCK EXCHANGE: GROWING OR STUNTED?

from home and abroad



The Last Read

War pain: Channels of pass through

Fazeel Najeeb

At the turn of the new year things were looking up following the significant success of the vaccines against COVID-19 and the economic, mainly fiscal measures to counter its devastating economic impact. But on 24 February this all changed. A war was caused to start somewhere in Eastern Europe and the prevailing grounds at the time for optimism quickly faded away.

Economic openness

Physical distance does not afford insulation against matters occurring far from our shores. Over 6,400 km away from the war zone, Maldives is confronted with heightened risks looming over the economy.

Maldives is a highly open economy as it meets most of its needs through imports due to its productive and industrial capacity limitations. The country is one of the most import-dependent countries in the world. This means that Maldives must ensure the continuous availability of sufficient foreign exchange to maintain payments for its imports at all times.

The country maintains one of the least regulated foreign exchange systems, albeit its currency is pegged to the U.S. dollar. Inward and outward remittance, operation of foreign currency accounts, and withdrawal of foreign currency are all allowed. One bank provides ATMs that allow depositing and withdrawal of foreign currency. Quotation of prices and payments in foreign exchange and operation of foreign exchange black market are commonplace. According to media reports, some such operations are organised and managed by expatriate workers physically and on platforms such as Viber followed

up with physical exchange of cash or electronic transfers.

The black market serves to ensure that the shortage of foreign currency that the official maintenance of the exchange rate system fails to make available is met. Operations of the official and black markets therefore simultaneously support the country's foreign exchange needs.

Pass through

The relevance of meeting foreign exchange needs and imports to the war in Ukraine is principally on two external side factors: availability of foreign exchange, and availability of imports. Both have the potential to heighten inflation to alarming levels.

On the one hand any impact on tourism arrivals from the two warring countries both of which were significant markets for Maldives up to the start of the war could adversely affect the country's foreign exchange earnings. This could shrink the official market and ramp up inflation. On the other hand, shocks resulting from severe disruptions in the world supply chain could hamper import supplies leading to shortages, also fueling inflation. The combined impact on inflation from both these factors could cause to intensify pressures already being felt in the economy before the war started. Domestically, a third factor, public finance, could come under severe stress as revenues slump amid slowing economic activity. Already high levels of public debt that has ballooned following the all-out fiscal measures could likely add to the strain.

The IMF believes that at global regional level,

the impact of this war will flow through three main channels. (1) Commodity prices: higher prices of food and energy will push up inflation further, in turn eroding the value of incomes and weighing on demand. (2) Economies of countries neighboring Russia and Ukraine will grapple with disrupted trade, supply chains, and remittances as well as a historic surge in refugee flows. (3) Reduced business confidence and higher investor uncertainty will weigh on asset (e.g. bonds, treasury bills) prices, tightening financial conditions and potentially spurring capital outflows from emerging markets.

Both Russia and Ukraine are major producers of commodities, and disruptions resulting from the war have already caused global prices of oil, gas and food to soar. Brent prices trended sharply upwards since the start of the war. It peaked at USD 127.98 per barrel on 8 March. Gas prices too followed similar direction. The UN believes that the war in Ukraine has caused a food crisis for hundreds of millions of people in the Middle East and North Africa. Russia and Ukraine together account for 30% of global exports of wheat. The price of wheat has shot up since the start of the war, peaking at USD 1,425.25 on 7 March.

The war has also impacted the sugar market. Sugar prices increased following the start of the war. Compared to the pandemic average of USD 422.5/T, the price was hovering over USD 550 at the time of print.

According to the IMF, countries with direct trade, tourism, and financial exposures and links with the two warring nations will feel additional pressures, and economies dependent on import of oil are likely to experience wider fiscal and trade deficits accompanied by higher inflationary pressures.

The main pass-through channels of the impact for Maldives is likely to be tourism, trade in goods (food, fuel, and other imports) that may be

affected as a result of shortage of supplies from these countries and due to supply chain disruptions globally.

A closer look into imports shows that Russia and Ukraine are important suppliers of frozen whole chicken and frozen cuts and offal of chicken.

	2019		2020		2021
Brazil	45.7	Brazil	27.5	Brazil	56.1
Russia	16.2	Ukraine	22.3	Ukraine	11.7
Ukraine	9.0	Russia	11.7	Russia	10.4
Austria	7.0	UAE	7.5	UAE	6.4
Singapore	5.5	Sri Lanka	7.1	Singapore	4.7
Nether-					
lands	2.2	Austria	5.7	Sri Lanka	2.8
France	2.2	India	4.3	Argentina	2.3
Argentina	2.2	Argentina	4.1	Australia	1.2
India	2.2	Uruguay	2.5	Austria	1.0
Sri Lanka	1.8	Singapore	1.9	Turkey	1.0
Denmark	1.6	Turkey	1.2	France	0.8
Turkey	1.2	Malaysia	1.1	Germany	0.5
UAE	0.8	China	0.7	Malaysia	0.4
				Switzer-	
Malaysia	0.7	France	0.7	land	0.3
Uruguay	0.6	Denmark	0.4	India	0.2

Table 1. Import of frozen whole chicken, per cent of total
Source: Maldives Customs Service

Table 1 shows that in 2019 Russia was the second largest supplier of frozen whole chicken, accounting for 16.2%, followed by Ukraine as the third largest supplier with 9% of the total.

In 2020, positions of the two countries were swapped, Ukraine jumping to the second position with 22.3% and Russia third with 11.7%. The positions remained unchanged in 2021 albeit the relative size of imports from the two countries fell. Ukraine's size dropped nearly by half to 11.7% while that of Russia decreased to 10.4%.

The two countries' shares in the total import of frozen cuts and offal of chicken are shown in Table 2. In 2019 Russia was the third largest supplier with 5.2% of the total, and Ukraine the fifth (4.6%).

In 2020 Ukraine rose to the third position with

	2019		2020		2021
Brazil	48.8	Brazil	50.6	Brazil	50.9
UAE	12.1	UAE	17.0	UAE	14.5
Russia	5.2	Ukraine	6.8	Sri Lanka	7.0
Austria	5.2	Sri Lanka	6.5	India	5.4
Ukraine	4.6	Singapore	5.5	Singapore	4.1
Sri Lanka	4.6	United states	2.1	Ukraine	3.8
Singapore	4.0	Turkey	1.8	Russia	3.8
Belgium	3.5	Austria	1.8	Malaysia	3.0
Malaysia	2.7	Germany	1.6	Australia	1.7
United States	2.3	France	1.5	United states	1.5
Australia	1.7	Australia	1.3	Germany	1.1
Turkey	1.4	India	1.2	Switzerland	0.8
Germany	1.3	Russia	0.9	Turkey	0.6
France	0.7	Denmark	0.4	France	0.4
Netherlands	0.6	Belgium	0.3	Austria	0.3

Table 2. Import of frozen cuts and offal of chicken, per cent of total
Source: Maldives Customs Service

6.8% of the total and Russia dropped to 13th position with a mere 0.9% of the total. In 2021 Ukraine fell to the sixth position with 3.8% of the total and Russia rose to the seventh position with 3.8% but only behind Ukraine marginally.

Import of other food items may also be affected due to disruptions in production in the Russia and Ukraine which is likely to result in shortage of supplies and therefore higher prices. Such effects are likely to become acute if the war is prolonged.

Russia is the world's second largest crude oil export after Saudi Arabia. Although Maldives does not import fuel directly from Russia, a hike in global oil prices means that that STO, the main importer of petroleum products in the country has to pay higher prices for their purchase of oil.

Given that Maldives is dependent on import of food, particularly the staple food (rice, sugar and wheat flour), any impact on these commodities is likely to affect Maldives adversely. It is conceivable that a disruption in the supply of grains in the world market and supply chains could pose adverse risks to food security in Maldives.

The high degree of Maldives' dependence on tourism means that any loss of arrivals from the

two warring countries is likely to have a significant impact on tourism receipts and economic growth if substitute markets cannot be found to compensate the loss of arrivals from the two countries. Finding substitute markets and/or increasing arrivals from existing markets must therefore be made a priority.

To reduce risks of shortage of essential items such as food and fuel, arrangements for sufficient stocks must be made which may necessitate the increase of storage. Other items such as construction materials may also need attention.

Hard choices

The pinch being felt from COVID-19 could morph into a chokehold if the war prolongs. On the tourism side, the potential adverse effects of the war could be at least partly mitigated by making up for the loss of tourist arrivals from the two warring sides by arrivals from other markets. While this does mean an increase in the expenditure on advertising and marketing, the net pay off could be greater than costs due to the highly distributive effect that tourism has in the economy, in addition to being the largest foreign exchange earning sector in the economy.

Also on the external side, it would be desirable to reduce the concentration of import source countries by diversifying sources aimed at mitigating the impact of supply chain shocks. Such a strategy should basically include petroleum, essential food items, vegetables, and other items of great importance to the sectors that propel the economy. Simultaneously though, efforts must also be made meanwhile to ensure that such items are imported at required levels.

Another challenge in importing is the endemic pressures on the exchange rate. It appears that the existing de facto system has worked alright for the past several decades with occasional policy measures mainly in the form of devaluations of the currency against the dollar at

times of exceptionally impactful shocks. Any attempts to “find a lasting solution” to the problem is likely to yield limited, if any, success. Such measures often recommended by some and attempted include enforcement of the official exchange rate with penalties on infringing parties. The latest initiative by the central bank is an attempt to impose surrender requirements, effectively a standing order on foreign currency earners to surrender fully or partially their foreign exchange earnings. This is yet to be announced officially as a policy measure, but the governor earlier shared with this paper the central bank’s plans to proceed with the matter.

The impact on prices is likely to be felt by the consumer, firms as well as the government in the form of inflation, particularly in food and

transport. Moreover, the government’s ability to maintain the provision of subsidies to cushion consumers is also being strained. Given the unprecedented high levels of public debt, the government could be compelled to take painful fiscal measures. In this regard, a hike in taxes – especially at a time when government debt is burgeoning – could be on the cards. In theory this could serve two purposes. Firstly, it could suppress inflation as consumer demand falls in response to the hike; but inflation is not at an alarmingly high level yet. Secondly, it could also aid to reduce debt. But for this measure to be successful it must be accompanied by measures to rein in expenditure in effective ways.



Interviews with top public officials

ISSN 2708-4787



MALDIVES ECONOMIC REVIEW

#VOLUME 2, ISSUE 3, MARCH 2021

INTERVIEW WITH **GOVERNOR ALI HASHIM** AT MALDIVES MONETARY AUTHORITY



- REVISING MEASURES TO ADDRESS THE DOLLAR SHORTAGE
 - INCLUSION OF EXPATRIATES IN MINIMUM WAGE
 - DIVERSIFYING THE FINANCIAL SECTOR
 - COMPETITIVENESS OF THE BANKING SECTOR
- MORE ...**

ALSO

- TOURISM OCCUPANCY TRENDS AND IMPACT
- SUBSIDIES NEED TO BE BETTER TARGETED
- THE ELEPHANT IN GOVERNMENT
- ADMINISTRATION AND ECONOMY OF THE UNITED SUVA DIVE ISLANDS – SOME INSIGHTS
- NEW DEVELOPMENTS FORESEE A MORE ENERGETIC CAPITAL MARKET IN THE MALDIVES

**responsible for
economic policy**





mer.mv

