MALDIVES ECONOMIC REVIEW

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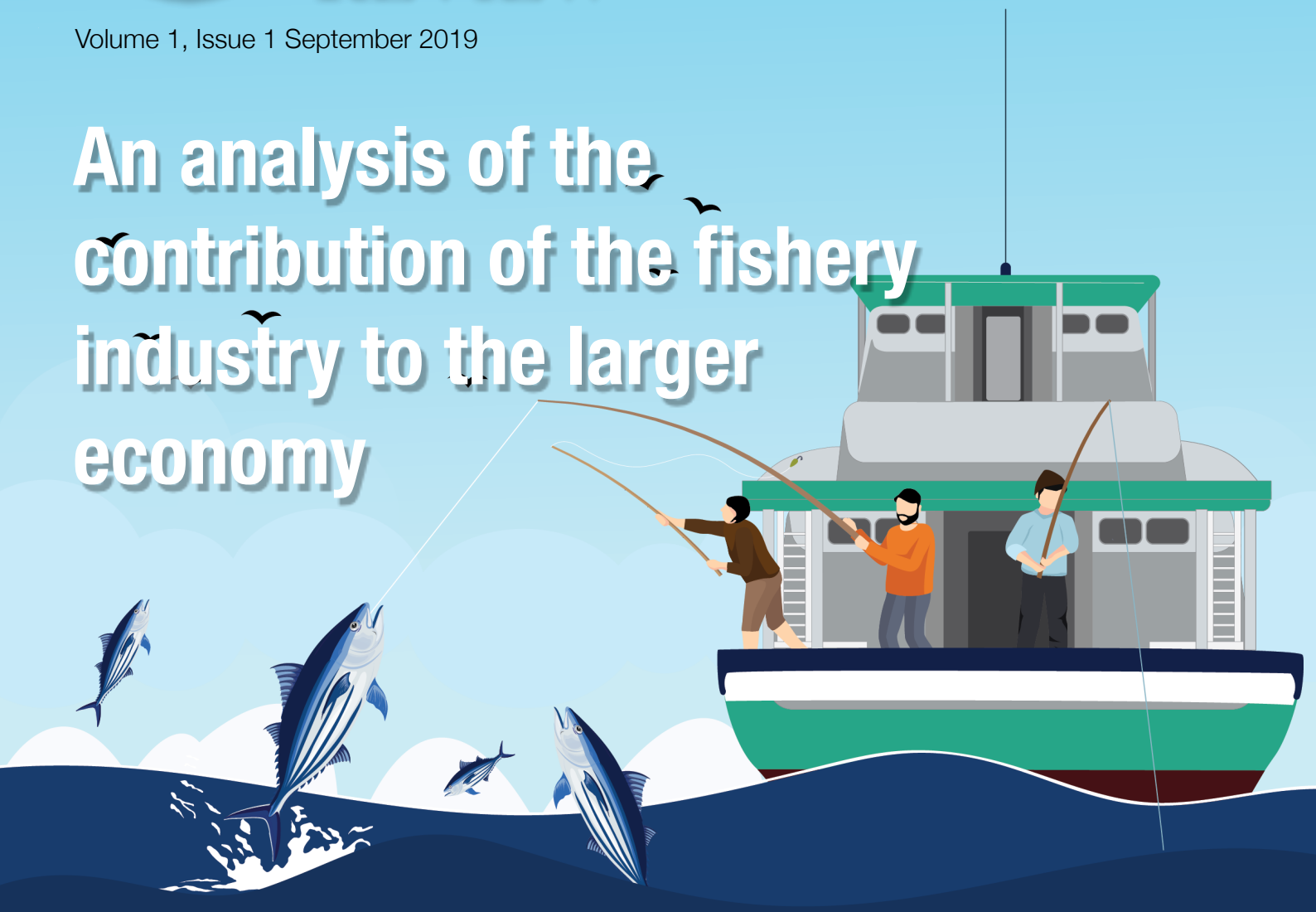
An analysis of the contribution of the fishery industry to the larger economy



also…

IN THIS ISSUE

The Maldives Economic Review (MER) is published with the primary aim of fostering and encouraging informed discussion about policy development and analyses on prevailing and prospective conditions and situation in the economy. In addition, MER also aims to build a reservoir of academic and professionally written articles and research findings on the Maldivian economy.

Borne out of a more than two-decade long wish of the editors to produce a publication of the exact same name to serve the same objectives, we were only able to publish our first article on the 1st of February this year. Yet, the sparkle burns bright.

We wish to thank those who have contributed to this first edition: Ms Shafeenaz Abdul-Sattar, Dr Mohamed Shiham Adam, and Mr Abdul Haleem Abdul Latheef.

With this first publication we hope to encourage more contributors to take time to lay down their already well formulated thoughts into articles so that they are available to policy makers, academia, independent analysts and commentators, both internal and external.

For it is the depth and width of published articles, especially by informed non-official sources that will enhance, enrich and improve policy discussions and therefore better informed decisions and outcomes.

We hope that you find time to read and benefit from this collection and urge you to please contact us with criticisms, comments and suggestions for improvement.

Co-editors
Ibrahim Athif Shakoor
Fazeel Najeeb

An analysis of the contribution of the fishery industry to the larger economy: An ode to the fishery industry

Ibrahim Athif Shakoor

This essay will attempt an analysis of the contribution of the Fishery Industry to reach a better understanding of how the industry contribute to the economy over and above the modest share represented in the GDP figures.

A look at the GDP figures

National Account statistics show that the fishery industry grew by only 3.4% during the five-year period (2014-2018) and that it accounted for only a 3.8% share of GDP during the period. Together with 0.5% share for 'fish preparation' (accounted for in the Secondary Sector) the total share of the fishery sector in National Accounts is only 4.3% of GDP during the period.

While the share in the National Accounts are modest at best, the contribution of the fishery, industry arising out of the feedback loop into the economy need to be understood to appreciate the importance of the fishery industry to the economy and the livelihood of Maldivians.

Contribution according to GDP figures

Statistics published by MMA allow even novice analysts to better understand the figures published in the National Accounts for Fisheries. They offer earnings from the fishery industry for exports, volume of in-country purchases and the prices at which landings have been purchased.

During the 5 year period 2014-2018, the country earned a total 12 b. MVR as export earnings from the fishery industry.

Table 1: Fishery contribution to GDP

	Export Earning ($) in Mn	Export Earning (MVR) in Mn
2014	139.15	2,145.67
2015	137.33	2,117.55
2016	134.80	2,078.58
2017	193.15	2,978.31
2018	173.82	2,680.30

This income was earned in scarce foreign currency by local fishery companies exporting locally caught fishery products to third countries. The export companies are all 100% local companies with local shareholders. Therefore, the export earning of fishery industry is directly attributable to the local economy. Additionally, because of the cost structure of the fish processing, such export earnings are received back in-country instead of being deposited in accounts outside the country.

MMA statistics also show the average prices paid for such purchases by local exporters as input raw material for their production. Using purchased volumes and purchase prices offered by MMA, conservative estimates show that fisherfolk would have earned 10.8 b. MVR

Table 2: Earning from Fish Purchase

	(MVR) Mn
2014	1,722.73
2015	1,909.05
2016	1,989.69
2017	2,531.72
2018	2,671.99

Together, the export earnings for the local companies and fish purchase earnings by the fisherfolk, there's a total of 22.8 b. MVR . am average 4.5b. MVR earning arising from the fishery industry during the period 2014-2018. Table 3.

	Export Earning ($) Mn	Export Earning (MVR) Mn	Earning from fish purchase (MVR) Mn	Total Earnings (MVR) Mn
2014	139.15	2,145.67	1,722.73	3,868.40
2015	137.33	2,117.55	1,909.05	4,026.60
2016	134.80	2,078.58	1,989.69	4,068.27
2017	193.15	2,978.31	2,531.72	5,510.03
2018	173.82	2,680.30	2,671.99	5,352.29

Table 3: Total earnings from fishery between 2014 and 2018

The feedback loop into the larger economy

The fishery industry is almost unique in the way it is constituted in the economy. The fishermen are local, the boat owners are local and the companies that process fish and export are local. And while a high percentage of the fish processing staff are today expatriate labour (accounted for in the Secondary Sector), the earnings of the industry are, by and large still, retained within the economy and distributed here.

With the infamous local saving pattern, it is probable that a large percent of the received income would be expended and would have worked itself through the multiplier effect. Such expenditure, in the local economy would work itself into the economy through down-stream avenues converting into income for other parties.

Entrepreneurs and small business owners running small shops, café's and restaurants. Traders importing the latest cool gadgets, transport companies and their crew, carpenters, welders, mechanics and other skilled craftsmen, and all associated businesses will all have down-stream benefit from this revenue. And of course, whatever amount is saved would work itself back into the economy as small loans to entrepreneurs and enhanced trade facilities for trading companies. A reliable estimate for the multiplier effect not being available, it is best to shy away from conjecturing a numerical figure.

The landing effort too are very much a local activity. The fishing boats are locally owned by local entrepreneurs and the fisherfolk are local. Even while, it is evident that some expatriate labor are presently being used on fishery vessels (even while it is not allowed) anecdotal evidence indicate that they are mostly used as engineers or as cooks in the vessel.

In contrast, there is considerable foreign ownership/management in the tourism industry. The Statistics Yearbook published by Statistics Bureau, published a table offering the breakdown titled 'RESORTS BY TYPE OF LEASE HOLDER, OPERATOR AND MANAGEMENT' until 2015. In 2015, the last year this table was published, 77 resorts, 66% of the total were local. Additionally, only 49 resorts (42%) were operated by locals and Management were under local parties for only 40% of the 115 resorts in operation. This means that in 2015 Joint ventures and total foreign investments held the lease for 34% of resorts, operated 58% of resorts and managed 60% of resorts.

While, the current break-down is not accessible publicly, the industry today boasts 145 resorts and all indications are that local ownership and operation/management has in effect decreased % wise.

Meanwhile, even as the Construction industry grew by a massive 17.8% during past 5 years, with above 25% growth in 2014 and 2015, the majority of projects were large-scale infrastructure projects. These mega projects that drove the construction industry of the last 5 years arrived in the country en masse, as it were, with a full complement of equipment, material, labour, housing and even on occasion, the majority of the food requirements for the workforce already having been already procured.

Even in the absence of large-scale infrastructural projects, financed and implemented by foreign companies, our construction industry will always continue to depend on imported labour and raw material as a high percentage of the input cost of the industry.

In sharp contradiction, the fishery industry of the Maldives is very much a home-grown activity with local fisherfolk fishing on vessels owned by local entrepreneurs. Even while there is growing evidence of expatriate labour active in fishing vessels, the traditional pole and line fishery and the hand line fishery that drive the majority of landings and income to the industry are overwhelmingly local.

The Nutrition Effect

In bygone days, Maldivians lived and subsisted, for a main part, from the landings of the fishery effort. Fish and fish products provided much of the dietary requirements for the people. While our diet is much more varied now and protein in-take comes from a larger more varied menu, even today, a large proportion of our daily food intake consists of items made with fish. Fish flavors our breakfast, lunch, dinner and all tea breaks in-between.

Even while landing figures for 2018 has not been published (as of end August 2019), only 43% of the total landings in the preceding 4 years (2014-2017) had been purchased for by local companies for processing for export. Which leads to an estimated average of 75,000 mt of landings being consumed in-country each year for the period 2014-2017.

Today, it is not only locals who consume fish and fishery products, the 1.4 million tourists who grace our shores on an annual basis and the 150,000 plus expatriates who live with us every day, consume and nourish themselves from the landings of the fishing industry.

While a monetary value can be approximated for the average 75,000 mt of fish consumed yearly, the nutritional benefit arising from consumption is much harder to determine. Even more difficult to approximate would perhaps be the opportunity cost that otherwise would have to be borne if the major source of nutrition is met from imported poultry or meat and the increase in foreign currency requirements to pay for the elevated imports.

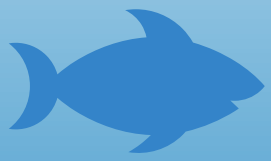
Therefore, even while this analysis does not attempt to arrive at a monetary figure for the benefit of the nutrition derived from the local landings and the opportunity cost of alternatives, it is important to recognize the Nutrition Effect of the fishery industry in the livelihood of the Maldivian people and the Maldivian way of life.

Even if a majority of us today live in more crowded urban environments, as a nation we grew up by the sea and live our lives near the sea. As a nation we have always depended on the bounty of the Maldivian seas for nutrition and for protection. We are a nation of fisherfolk and our meals and accompaniments are made of fish and taste of fish. We have grown and learnt to subsist on the nutrition and protection provided by our seas.

Conclusion

Private and State fishery companies have invested in considerable infrastructure with 2 canneries already operational and a third under live testing and are all locally owned and managed. The more modestly sized yellow-fin factories and the smaller smoke-drying houses are too, largely locally owned and locally managed. Even with, the proviso that the processing staff are totally expatriate, the businesses are largely locally owned and under local management.

Therefore, even while there's no doubting that direct input of the fishery industry is below 4% of GDP estimates, the contribution of the fishery industry to the nation, through its contribution to nutrition requirements and its unique feedback loop through the multiplier effect, make the fishery industry a more vital and essential industry to the Maldivian way of life and our Economy.



Rebuilding the Indian Ocean Yellowfin Tuna Stock

Indian Ocean yellowfin is assessed overfished and subjected to overfishing since 2015. IOTC has a stock rebuilding plan effective January 2017 which aims to reduce catches by at least 7-8% relative to 2014 level of 430,000 MT. Evaluation of the catches in 2018 showed the total catch has increased by 3%. Rebuilding of stock is difficult at the best — requires genuine cooperation among all fishing nations on all fronts of fisheries management, including ability to conduct robust assessment of the stock. The issues are hampered by uncertainty in (and lack of) critical fishery data. The recent IOTC Commission Meeting in June showed how difficult and complex it is to adopt effective conservation and management measures for our shared stocks of Indian Ocean tunas.

Shiham Adam

The Maldives is one of the most important nations catching tunas in the Indian Ocean. Maldives currently catches roughly 14% of the Indian Ocean skipjack (~75,000[1] MT per year) and 13% of yellowfin (~50,000 MT per year). Total Indian Ocean catches of skipjack is about 500,000 MT per year while yellowfin catches are about 400,000 MT per year.

Following run-up to the annual meeting of the Indian Ocean Tuna Commission (IOTC) held June this year in Hyderabad, India, and whilst the meeting was going on, lot had been said in the media about the status of the Indian Ocean yellowfin tuna. There were position statements from NGOs, letters to the IOTC, backed by retailers from the industry, and an appeal from the global NGO Tuna Forum[2]. Intense lobbying and pressure were brought to bear on the national delegations during the meeting for adopting more stringent measures to rebuild the yellowfin stock as recommended by the Scientific Committee. Press releases made after the meeting complained that IOTC failed to adopt effective measures to rebuild yellowfin stock[3].

In this article I want to unpack some of these issues for a Maldivian audience and provide a slightly technical but also general information surrounding the issue, including how stock rebuilding measures are adopted in IOTC, and what it may mean to the Maldivian fishery industry.

Single Stock

First and foremost, it is important to appreciate tunas (skipjack, yellowfin, bigeye) are highly mobile and spread out into the entire ocean basin. They constantly roam across the ocean crossing EEZ boundaries of several countries during their lifetime. Schools of tuna found the in Maldivian waters could be in Sri Lankan waters the next week, followed by Pakistan EEZ or indeed in the western Indian Ocean some weeks later. 'Mark and recapture' experiments in the Indian Ocean and elsewhere have proved that their distribution is ocean-wide (Figure 1). It is fundamental to appreciate that management of tuna requires international cooperation - cooperation among all fishing nations.

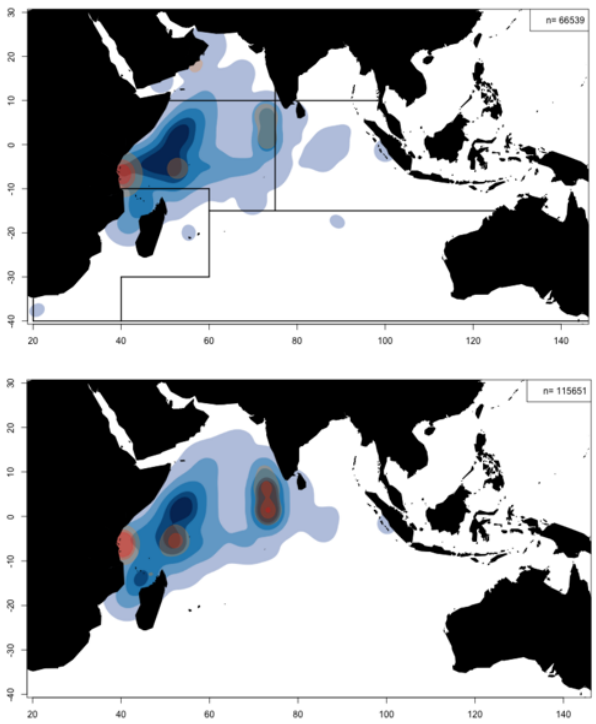


Figure 1: Yellowfin (top) Skipjack tuna (bottom) - Densities of releases (in red) and recoveries (in blue). Includes specimens tagged during the IOTTP and Indian Ocean (Maldivian) tagging programmes during the 1990s.
Source (IOTC www.iotc.org).

Collective Responsibility

This means for the purposes of managing the fishery, there is very little Maldives alone can do to effectively manage the fishery: a decrease in size of large yellowfin being caught in the Maldives' handline fishery would mean there is also a decrease in average size of fish taken in purse seine fishery in the western Indian Ocean or in Pakistan's gillnet fishery.

Its management requires cooperation of every fishing nation in the Indian Ocean; they should share fishery information; catch and fishing effort and size data. They should take part in scientific meetings; they should engage in dialogue with stock assessment scientists and collectively agree and endorse recommendations for conservation and management measures and finally implement those at the national level in each country.

The IOTC

The IOTC is a regional fishery management organisation (RFMO) under the FAO. Came into effect in 1996, its headquarters are on Mahé, Seychelles. Currently there are 32 members. The Maldives became a member in 2011.

Countries or parties fishing for IOTC species (16 tuna and tuna like species) have a duty to cooperate under the UNCLOS[4] and its implementation agreement – UNFSA[5], for the purposes of conserving and managing the tuna resources. The IOTC is the organisation mandated to manage the Indian Ocean tunas.

The highest body of the IOTC is the Commission represented by heads of delegations under credentials from respective governments. The Scientific Committee serves the Commission providing advice and recommendations for conservation and management of IOTC species.

Working Parties, attended by national scientists and NOGs, review the status of the fisheries and conduct regular assessment of the stocks. The Compliance Committee assesses the compliance on various resolutions in force relating to conservation and management of IOTC species.

Weak Science

Stock assessment of yellowfin tuna is conducted every three years unless the Commission recommends otherwise. The assessment of the stock considers data reported by all members states. Reporting of nominal catch, catch associated with fishing effort, including data on representative sizes taken by the fishery. In addition, biological data on growth, natural mortality and information on exchange of fish between various fisheries are often required for the stock assessment. Unfortunately, fishermen reported data can often be unreliable, unrepresentative or incomplete. At best the accuracy and representativeness of the data are uncertain. Stock assessments must take into account this uncertainty in the data and stock assessment models; for models are only a representation of the data and underlying population it represents. These are contentious issue and a lot of time is spend discussing how best uncertainty can be captured and quantified when reporting the stock status.

The Working Party on Tropical Tuna's assessment of yellowfin in 2015 showed the stock was overfished and subjected to overfishing[6]. The Scientific Committee recommended that catches should be reduced by at least 20% to allow recovery of stock by 2023, but with confidence of only 50%.

Stock Rebuilding Plan

In 2016 the Commission adopted an interim measure for rebuilding of yellowfin tuna stock. The adoption of the measure was a compromise after a difficult and lengthy negotiation among the Members. The Maldives and the coastal states were at the forefront of this proposal on the rebuilding plan.

Effective 01 January 2017 members agreed to reduce yellowfin catches with respect to gear being used. For fisheries catching more than 5,000 MT per year, following was agreed:

- Catches from purse seine fleet should reduce 15% relative to the 2014 level
- Caches from gillnet fleet should reduce by 10% relative to 2014 level

- Catch from Longline fleet should reduce by 10% relative to 2014 levels
- Catch from all other gears (e.g., pole-and-line, hand-line, trolling) should reduce 5% of the relative to 2014 level.

While those, even if implemented perfectly, may not reduce 20%, but the expectation was that it would reduce by at least 7-10% taking into consideration the limits imposed on the use of drifting fish aggregating devices (dFADs) in the purse seine fishery.

Reality Check!

While the Commission in 2018 was eager to know how the measure fared the reduction in catches, the Scientific Committee later in the year reported that yellowfin catches actually increased by 3% in 2017 rather than the expected decrease. No single country may directly be blamed, for there were relatively large increases in catches from fisheries that were exempted (catching less than 5,000 MT per year). But substantial increase of catches (of yellowfin and skipjack) from purse seine fleet was also reported. An explanation cited in the reports were that purse seine fleet shifted their targeting strategy; they were targeting more dFADs schools which attract juvenile yellowfin tuna. Normally purse seiners would target free swimming schools which takes large (>90 cm) large yellowfin. But targeting free swimming schools would mean their quota may exceed much earlier in the year than would otherwise. This change in fishing strategy by purse seine fleet may have serious implications to skipjack tuna stock as well.

The Maldives was among the few countries who reduced the catch fully complying the Rebuilding Plan. Maldives reduced its catches from both hand-line and pole-and-line component by 5% - the Maldives was in full compliance with the reduction measure of 2017.

Stock Assessment Woes

A fresh assessment of the stock was attempted by the Working Party on Tropical Tuna in October 2018. The results did not change much. The stock continued to show that fishing mortality rate was above the target level[7] and the biomass was below the target level. But one thing that was evident from the meeting report was that scientists had a very low level of confidence with the results; uncertainty in data and in the assessment models, overwhelmed the ability to robustly assess the stock.

A critical piece of data used for yellowfin stock assessment is the time series of longline catch and effort data (also known as catch per-unit-effort or CPUE data) which is traditionally used as a proxy for stock abundance. But the catch rate (catch per 1,000 hooks, for example) should be standardised – a process that take into account for the increase in fishing efficiency over time. Unfortunately, there are several issues in the longline data that compromise the standardisation process, mainly related to low level of data coverage in recent years[8]. Standardising of purse seine catch rate data is more complicated due to a multitude of factors attributed in increasing fishing efficiency over time. Pole-and-line and hand-line data is limited in spatial coverage in representativeness of the ocean-wide stock, and usable gill-net data is (almost) non-existent.

What was Agreed in Hyderabad?

At the last Commission meeting in Hyderabad, June 2019, there were three proposals that attempted to revise the existing Interim Plan on Rebuilding of Yellowfin Tuna, mainly aimed at tightening the existing measures (increasing reduction levels, introducing penalties for over-catch, and more tighter monitoring and restriction on use dFADs). After much debate the countries were unable to agree to increase further cuts; instead agreed to reduce the number of dFADs, more stringent measures of dFAD monitoring and reporting, and penalties for over-catch. The effect of these would have to be seen in 2019/2020.

NGOs and Market Connections

The market has been influential in shaping RFMO policies on tuna conservation and management. Fuelled by retailers, NGOs pressure RFMOs in developing robust harvest strategies, improving data capture, improve monitoring control and surveillance and better management of dFADs. For the case of IOTC, in Hyderabad, there was pressure calling for action to end overfishing and to adopt more

stringent measures for rebuilding of yellowfin tuna stock in the shortest time possible.

Major retailers, especially in the UK, responding to demands by consumers, expect to source sustainably caught fish. Therefore, retailers have a vested interest to ensure tunas are sustainably managed in the Indian Ocean. Therefore, overfished status of the Indian Ocean yellowfin may also affect market access of the Maldives tuna.

On the marketing and promotion side, the Maldives may be under-selling the 'Maldives brand'. The Maldives has the best sustainability story to tell. One-by-one tuna fisheries are people-centric; they support livelihoods in coastal communities, the fishery is 100% locally owned and is responsibly caught with minimum harm to the environment and ecosystem components. There is much to do and much to talk about to promote the sustainable tuna story of the Maldives - in this there's a role for NGOs can play in partnership with the industry and the government!

What's Happens Next?

At the last Scientific Committee meeting in December 2018, a Work Program was endorsed to specifically address the issues of uncertainty in the data and in assessment models. The Chairs of the Working Party and the Scientific Committee are coordinating the interim sessions' work among national scientists supported by some member countries and the industry. The work would be presented at the October meeting of the Working Party on Tropical Tuna in San Sebastian, Spain. In the meantime, Indian Ocean yellowfin tuna remains overfished and subjected to overfishing!

1. Figures are average of last 5 years, taken from IOTC published literature (www.iotc.org)
2. Readers interested to what was posted on IOTC meeting website may visit to: https://iotc.org/meetings/23rd-session-indian-ocean-tuna-commission -see the heading Information Paper.
3. https://iss-foundation.org/iotc-takes-decisive-action-on-fads-but-fails-to-adopt-effective-measures-to-rebuild-yellowfin-stocks/; http://ipnlf.org/news/ipnlf-disappointed-by-latest-iotc-outcomes-urges-accelerated-progress
4. United National Convention of Law of the Sea of 10 December 1982
5. The United Nations Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks
6. These are formal terms; overfished –biomass is below the agreed biomass target; subjected to overfishing - fishing mortality rates is above the agreed fishing mortality target.
7. Management Target levels agreed by the IOTC for yellowfin tuna are Maximum Sustainable Yield (MSY) levels. Fishing Morality Target = Fishing mortality at MSY; Biomass Target = Biomass at MSY.
8. Most of the Indian Ocean longline fleet (Japanese, Korean and Taiwanese) left north western central Indian Ocean due to Somali piracy issue and have not completely returned since.

About the Author

Dr. Mohamed Shiham Adam is Director General at the Ministry of Fisheries, Marine Resources and Agriculture. Previously Dr Shiham was at the Marine Research Centre (now the Maldives Marine Research Institute). He chaired IOTC Working Party on Tropical Tuna from 2015-2018. He is the current vice chair of the WPTT and interim-chair IOTC Scientific Committee.

Disclaimer:

The views expressed does not represent the Ministry's or the IOTC. They are purely author's view of the situation based on his knowledge and understanding of the issue.

Averting a Fiscal Crisis: Ageing, Employment and Pensions

Abdul Haleem Abdul Latheef

This paper examines the state of national pension system within the broader context of social protection in the Maldives against the backdrop of a rapidly ageing population and labour market outlook, characterised with low labour force participation and increasing reliance of migrant labour for economic growth.

The public expenditure on pensions has already reached over a MVR 1 Billion. The total spending on welfare, transfers and subsidies has already reached over MVR 3 Billion, which is equivalent to healthcare spending.

The escalating public expenditure on pensions and social protection shows that the pension reforms that took place early 2009 is under considerable stress. The old-age dependency ratio is deteriorating fast with an ageing population and declining fertility rates. At the same time, the population profile is changing fast in terms of nationalities.

Ageing

The Maldives population is projected to reach 533,941 by the end of 2019. This represents the total resident population including those from other nationalities. In terms of fertility, the figure stands at 2.1, just enough to replace the current population. A decline in fertility, the most likely scenario, would result in a receding population in Maldives.

The old age population would have the fasted growth rate, indicating a rapidly ageing population. The growth projections show that Just in five years from now, the ageing population would grow by 30% and in 35 years time, this age group would have grown by 402% to a total of 90,000 from just over 17,000 currently. The growth in working age and young population lags far behind that of elderly population.

As a consequence, the old age support ratio (the ratio of working age to elderly) would deteriorate fast. Currently, the old age support ratio is 21:1. This figure will decline to 12:1 in just 20 years from now. This is taking into

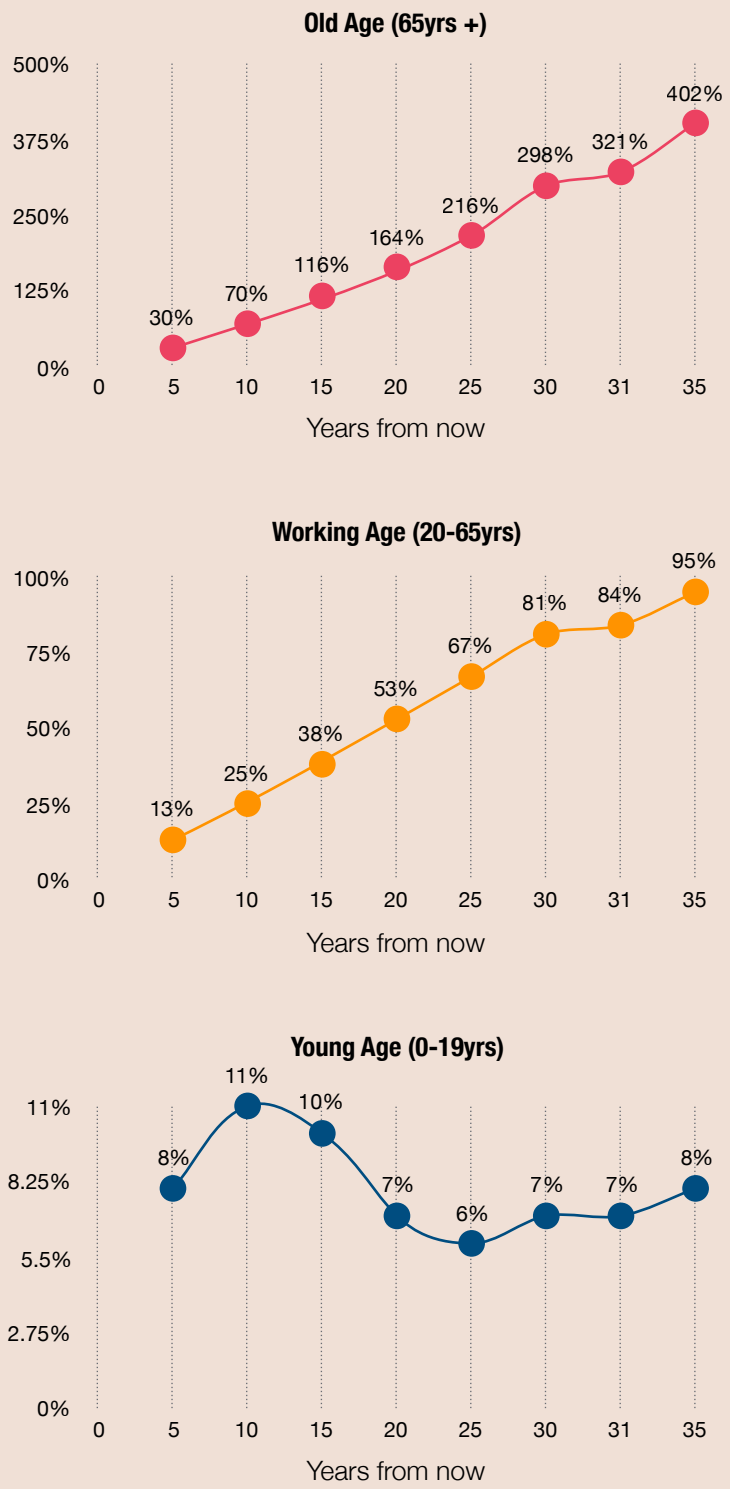


Figure 1: population growth in percentage for Old age, Working age and Young age.
Source: National Planning Data

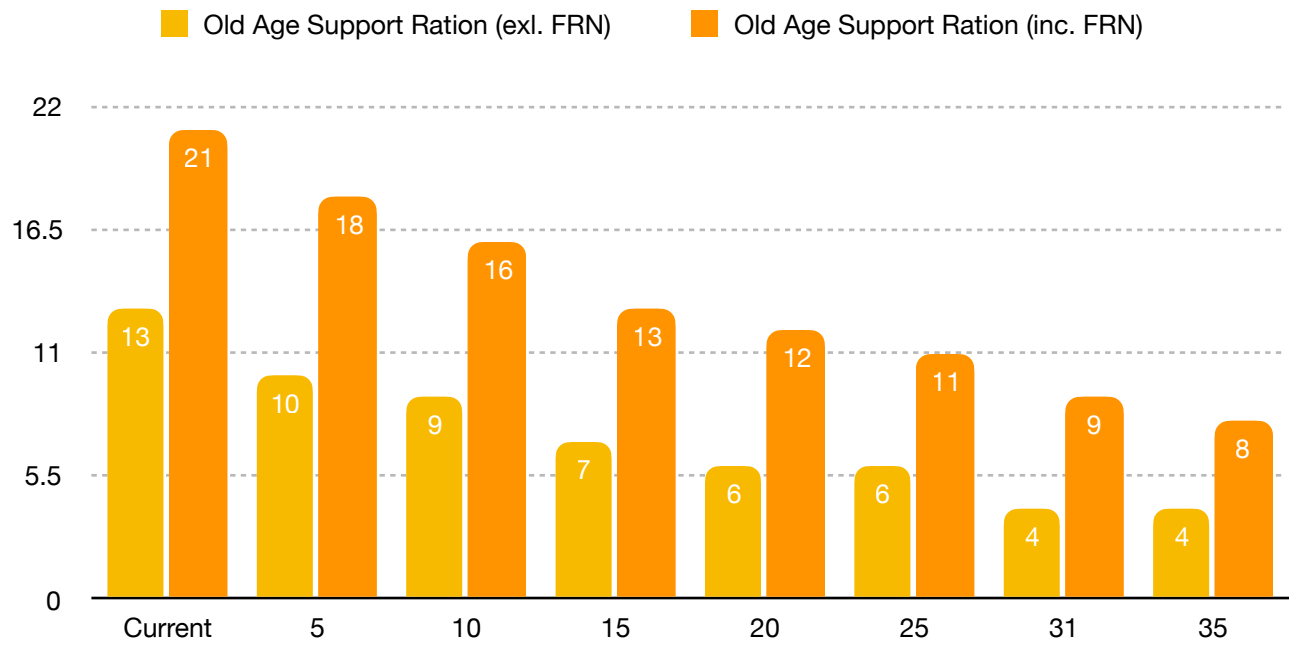


Figure 2: Dependency Ratios, National Planning Data
Source: National Planning Data

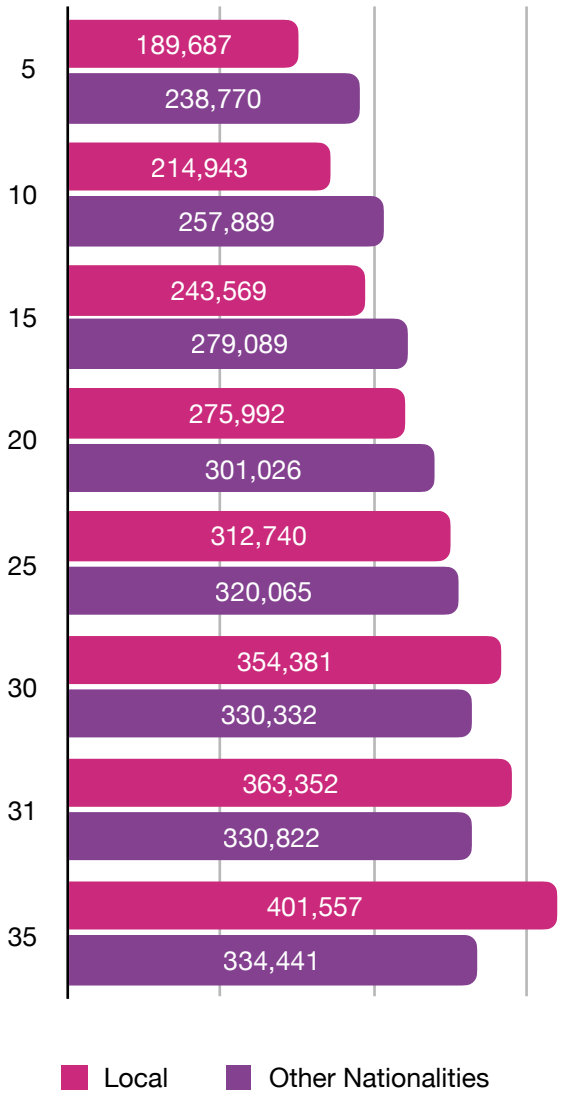


Figure 3: Workforce Composition,
Source: National Planning Data.

consideration migration would continue as predicted. When migration is excluded, the ratio weakens significantly as shown in the graph below. For example, when migration is excluded from the analysis, the old-age support ratio in 20 years from now would be 6:1.

Employment

The structure of population plays an important part in productivity and economic growth. Economic growth is linked to national income and overall prosperity of a nation. The Maldives, being a service-based economy, would depend on its labour force for economic growth and development.

According to HIES 2016, the labour force participation ratio is 57.6%, employment to population ratio is 54.1% and the unemployment ratio is 6.1%. However, there are serious limitation in using these ratios to make an assessment on national level employment due to the survey design and its intended purpose.

According to HIES 2016, the main objective of the HIES 2016 is to capture the spending pattern of households that live in normal / regular households. Given the differences in the food and other consumption expenses of households living in non-administrative islands (such as tourist resorts) and collective living

quarters (ten or more unrelated people living together, mostly foreign workers in labour quarters) were excluded from the sample of HIES 2016.

Nevertheless, the survey alludes to an important and fundamental shift in Maldives labour force dynamics; the Maldives would reply of migrant workers for its economic growth for the years to come.

It is predicted that from 25 years and onwards, the representation of other nationalities in Maldives labour force will outweigh that of locals. This would have implications on current local-centric employment laws, welfare system and overall polity. It would be unfair to discriminate workers based on nationality status in an increasingly globalized world.

Maldives with its very high nationalistic sentiments, need to prepare itself to embrace inclusiveness to maintain its national reputation, attract talent and investment for growth and prosperity.

Pensions

Against this backdrop of a rapidly ageing population and labour market outlook, characterised with migrant labour for economic growth and development, an important public policy debate should take place on the county's social security system, especially the pension system.

The pension system has broad implications for the operation of labor and capital markets and the fiscal systems. The Maldives Pension reform that took place in 2009 envisaged the changing trends in population and labour market dynamics.

However, due to several factors including successive change of governments, popular politics and employer-led resistance, what remain in place as the national pension system to ensure old-age income security may not be as promising.

The Maldives pension system is a mixed model with reminiscent of the old civil service pension system mindset (Institutional), old-age pensions and mandatory defined contribution scheme for all workers, excluding non-citizens. Both Institutional and old-age are unfunded and paid by general government revenues. In the absence of a central agency responsible for national pension policy, these individual systems operate in silos.

In terms of expenditure, it is predicted that by the end of 2019, old-age pensions would reach over a Billion. The total unfunded pension bill would reach over MVR 1.2 Billion

	2018 (MVR)	2019 (Est) (MVR)
Old-age pensions	993,975,872	1,020,788,681
Instituti-onal	280,456,179	287,693,110
Total	**1,274,432,051**	**1,308,481,791**

Figure 4: State Funded Pensions, MPAO and own estimates.

with the inclusion of institutional pensions. Pension became part of popular politics in Maldives since its introduction in 2009. The initial pension amount of MVR 2,000.00 was revised during budget debates in 2012 and became MVR 2,300.00. In 2014 again the old age pension became MVR 5,000.00 as a presidential promise.

The changes brought to pension system have been ad hoc and motivated by popular politics without regard for future sustainability and integrational fairness.

A simplified prediction shows that in 30 years time the expenditure on pensions would reach over MVR 4 Billion even if the current amount of MVR 5,000.00 is kept unchanged, which is highly unlikely amidst a culture of policy change based on popular politics. The figures also assume pension will be only entitled for Maldivians as it is currently the case and undercasts the possible expenditure under a more plausible scenario of universal pension rights in accordance with universal norms where no one is discriminated based on national identity.

The table below shows predicted pension expenditure with different rate increment assumptions from 5% to 10%. It should be noted that these incremental rates are below the historical incremental rates. Another

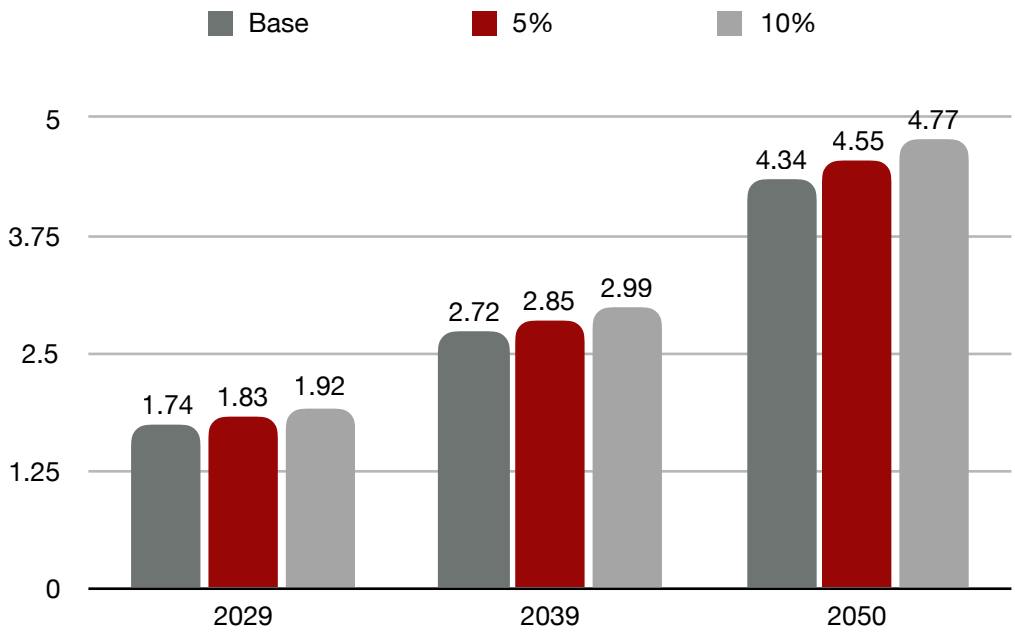


Figure 5: Predicted State Funded Pensions, own estimates

worrying aspect of Maldives pension system is the institutional pensions. These are pensions/other benefits for state employees under various regulations made by state institutions.

This spending is unfair from a social justice point of view because it is entitled only for those who work for the state and legitimised by virtue of them having the powers to make their own regulations.

State employees received over MVR 250 Million as pensions/other benefits per annum on average during the last five years. Each year this expenditure is also increasing as seen in the graph below.

Maldives with its own challenges in building a robust economic model, over-reliance on a single industry for government revenue, coupled with exchange rate challenges and high debt levels, would face serious fiscal constraints if current pension system is not addressed in a timely manner.

Successive budget deficits and borrowing has already worsened the Maldives fiscal conditions. Further expenditure will only lead worsening of the situation in the absence of new revenue measures. According Medium Debt Strategy Report (MoFT), it's expected that debt levels to reach MVR 64 Billion by 2022.

Maldives Retirement Pension Scheme (MRPS)

MRPS is the national pension scheme mandatory for all working Maldives, both in private sector as well as public sector. It is based on the Defined Contribution (DC) model where pensions are accumulated through savings (contributions) to a fund and investment returns. Under this scheme, the employer does not guarantee the pension amount. The guarantee is for the contribution to be made according to the law.

The contribution amount, length of contribution and investment returns are the

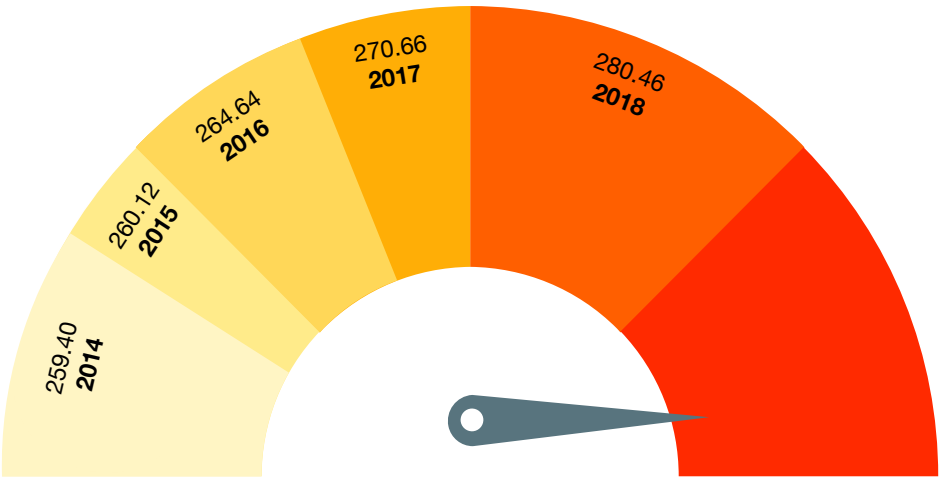


Figure 6: Institutional Pensions in MVR , MPAO

determinants of the ultimate pension income under the MRPS.

In terms of the original design of the scheme, contribution to the scheme (administered by the Maldives Pension Administration Office (MPAO) formed under the Pension Act) was mandatory for all workers irrespective of nationality. The mandatory participation requirement under the Pension Act for all workers irrespective of nationality was later amended.

As already highlighted, the labour dynamics is rapidly changing. The Maldives work force would comprise of majority non-nationals in years to come. There will be intermarriages and social assimilation, as well and ageing among them. Ignoring this very fundamental shift in population and labour market outlook in public policy debate and design of pension system would be perilous.

The MRPS has over 96,000 active contributors. However, the women representation in the scheme is comparably low at 34%. At the same time, women are particularly disadvantaged as far as the determinants (The contribution amount, length of contribution) of pension under the DC model pension system.

Another deficiency of DC is its reliance on financial market-based returns for growth of accumulated contributions. Additionally, the liquidly and pricing efficiency of the financial market is an important factor for a successful DC scheme.

The Maldives has a credit-based financial system with very limited financial market. The MRPS has its challenges of generating investment returns, pricing and managing liquidity. The lack of financial market and resulting inability to invest and diversify the pension savings result in erosion of value of pension savings due to inflation and loss of utility.

By design as well as due to capital market limitations, MRPS does not have an explicit replacement rate target and thus its performance cannot be assessed in terms adequacy in the absence of such targets. Financial market conditions also led to the inevitable consequence that MPAO performing the dual role of administrator as well the asset manager for pension savings, which may lead to suboptimal and compromised decision making at governance level.

DC systems became popular during 1980s and its adoption in Chile and the resulting positive contribution to the pension administration system that existed, and, the growth of Chilean financial sector led to the popularity of this model, with strong advocacy from the World Bank. DC as an alternative for DB to provide old-age income security is yet to be proved.

Final Thoughts

With impending ageing crisis, labour market outlook and escalating pension expenditure with already high debt-to-GDP ratio, the Maldives should take stock of its social security and pension system to avert a crisis. The continued exclusion of workers from the pension system based on nationality is discriminatory and counterproductive.

The total debt in Maldives is expected to be 65% of GDP and twice that of national income by 2022 according to Medium Term Debt Strategy Report published by MoFT.

Although MRPS is an important pillar in the national pension system, the scheme has its own challenges. A coherent policy framework for pensions is necessary for Maldives as the current system is fragmented and operating in silos without any specific national level objectives and targets in terms of adequacy, sustainability and coverage.

About the author

Mr Abdul Haleem Abdul Latheef was the former CFO at the National Pension Office. He joined the office in 2009 as an accountant. He has extensive experience in accounting systems, controls and financial reporting. He led the finance team at the National Pension Office and established its investment management, investment operations and financial management functions. He is a chartered management accountant with membership of CIMA (UK). Earlier he held the position of Head of Department of Accounting and Finance at Faculty of Management and Computing of the Maldives National University. He engages in private consulting and teaching.

MMA's plans to review the exchange rate regime: Overdue or premature?

Fazeel Najeeb (PhD)

This article was first published online earlier this year on maldiveseconomicreview.com. The analysis is based on data available at the time of its first publication.

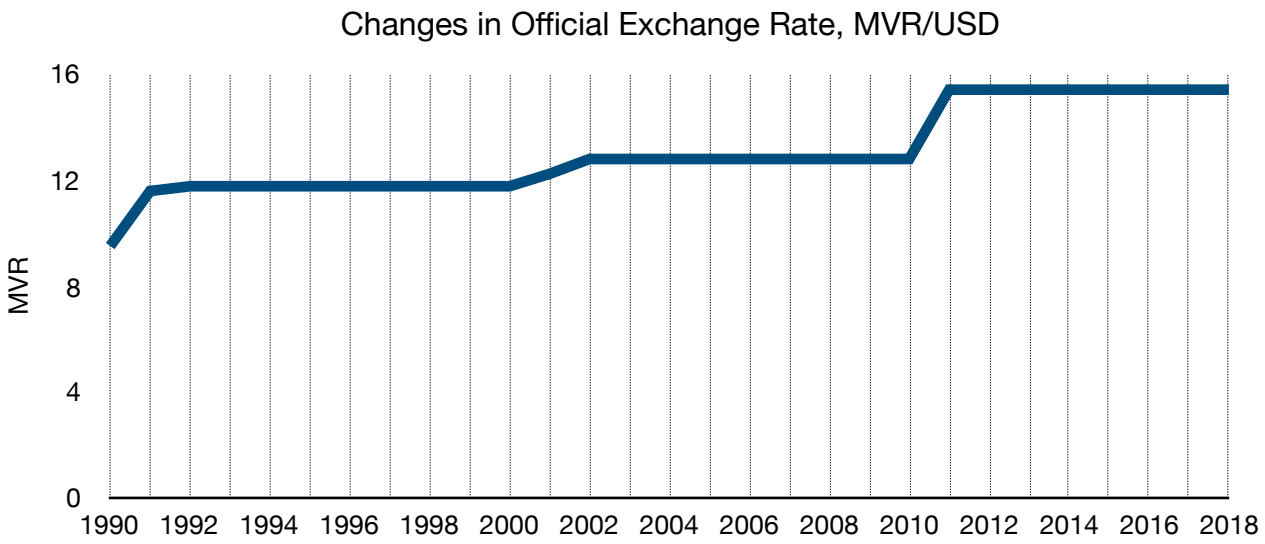
On Wednesday, 5 March the IMF published on its website a statement issued by Mr Philippe Karam who led the IMF staff team that visited the Maldives from 20 February to 5 March for the 2019 Article IV consultation.

One of the key messages in the statement is that the fixed exchange rate, the rufiyaa's peg to the U.S. dollar, has served the Maldives well and remains appropriate. The statement also says that the IMF staff welcomes the MMA's plans "to review the current exchange rate regime with the aim to strengthen exchange rate stability, accumulate foreign reserves and increase resilience to external shocks." The statement adds that updating the exchange rate management to better meet the needs and challenges of the Maldivian economy is desirable.

In the 2017 Article IV consultation, the IMF Executive Board, the organisation's highest decision-making organ, "took note of the weakening external position [of Maldives] and agreed that strong fiscal adjustment, combined with a tighter monetary stance and more flexibility in the pegged regime, could better support the peg and help build foreign reserves." In simple language, strong fiscal adjustment means sharply reducing government budget and/or increasing government income, tighter monetary policy stance means MMA acting on removing excess rufiyaa liquidity circulating in the economy, and more flexibility in the pegged regime means widening the exchange rate band which is currently at MVR 10.28-15.42.

Where does the MMA stand on the IMF Executive Board's recommendation of a tighter monetary policy stance and more flexibility in the pegged regime? The answer is in MMA's Strategic Plan 2018-2022, an impressive document published in 2018. In it, goal 1 is to strengthen monetary policy to maintain price stability. Under this goal are four broad strategic objectives, one of which is to design and implement strategies for de-dollarisation and to develop the foreign exchange market, and under this objective are four policy measures, one of which is to review the current exchange rate regime in order to maintain exchange rate stability.

Providing for more flexibility in the pegged regime, as recommended by the IMF Executive Board, and reviewing the exchange rate regime, as committed to by the MMA may be described as two different but related matters. Broadening the exchange rate band



is a matter of determining the degree of flexibility that has to be provided at the time in question; it does not necessarily require a review of the regime.

The commitment to review the regime, therefore, may be a public recognition implied by the MMA that there is reason, perhaps in the spite of an oligopolistic foreign exchange market, to at least assess the appropriateness of the peg. An accompanying policy statement in the strategic plan appears to cement such a conclusion. The policy statement declares that:

"We [MMA] will work to enhance our monetary policy transmission mechanism through de-dollarisation and by pursuing the most appropriate exchange rate regime for the Maldives to maintain price stability. In line with these changes, our monetary policy instruments will be redesigned by establishing added incentive mechanisms for local currency. Legislative and operational changes will be considered to develop a well-functioning foreign exchange market."

Here the use of the phrase "by pursuing the most appropriate exchange rate regime" leaves open for interpretation that there exists a possibility that the pegged system would be continued if it was found to be appropriate after MMA's planned review of the current exchange rate regime. However, this interpretation appears to be negated when the policy statement goes on to state an intention in the second sentence, that *"In line with these changes* [emphasis added], our monetary policy instruments will be redesigned by establishing added incentive mechanisms for local currency." This appears to suggest that "these changes" will be made, since continuing with the peg cannot be described as a change. "These changes" is, of course, also open for interpretation. Finally, the third and last sentence in the statement, "Legislative and operational changes will be considered to develop a well-functioning foreign exchange market" appears to allude to a flexible exchange rate, given the use of the phrase "a well-functioning".

One could argue that the pegged system may be described as "well-functioning". The IMF has always said that the fixed exchange rate system has served the country well and it remains appropriate for the economy.

The Guest-House Segment of the Tourism Industry 3
Findings and Recommendations.

Ibrahim Athif Shakoor

This is the third and final article of the series published on mer.mv about the growth, the significance and the impact of the Guest House segment on the larger tourism industry and the economy. The first of the series looked mainly at the growth in numbers and geographical spread of Guest Houses mostly since 2008. The analysis showed that the number of beds in the Guest House segment had grown by 1900% since being officially promoted from 2008, expanding to account for nearly 20% of the beds in the tourism industry today. According to published statistics the segment grew by a massive 30% while the larger tourism industry grew by a modest 3.49% during the past 5 years 2014-2018.

The major conclusion of the first article was that the guest-house segment is here to stay and that 'it's time for the larger tourism industry to recognize this truth and work with the segment for the larger good of the Tourism Industry'.

The 2nd article attempted a deeper analysis of the numbers through the contribution to GDP and the inclination of the incoming tourists to prefer the guest houses as their preferred option. While the growth of the Guest House segment was remarkably impressive, the segment had not been able to make its impact felt in GDP figures quite so manifestly. The average GDP share of the segment, over the 5-year period (2014-18) is a modest 1.68% and only reaches 2.6% in 2018. For comparison, the Fishery Industry contributed an average of 3.8%, Construction Industry 6.2% and the resort segment of the larger Tourism Industry contributed an average of 21.2% to GDP figures during the same period. Therefore, even while the growth in beds in the Guest House segment have been robust and even widespread, the contribution of the segment to the larger economy remain modest.

Meanwhile, the hoped for growth of middle-income tourists being attracted to the Guest House segment because of its more affordable prices, are also not evident in published numbers. The Green Fund Tax Report published by the Ministry of Finance and Treasury from January to July 2019 shows (the previous analysis was done only on data available then for January and February) that only 6.3% of the those who paid Green Fund tax stayed at Guest Houses while 88% of visitors stayed at resorts. (The analysis was done after adjusting for the difference of Greed Fund Tax of 6 $ for resorts and 3 $ for other accommodation services.)

Additionally, while guest houses had opened through-out the country, close to 87% of those who preferred to stay at a guest house limited their stay to guest houses in close proximity to the capital; in guest houses in Kaafu, Ari and Vaavu Atolls.

To summarize, the major findings of the two articles are

- That the Guest House segment is here to stay. Small Investors have invested in 548 Guest Houses spread throughout the country and more are being built.
- That incoming tourists are still, by and large, preferring to stay at resorts.
- That 87% of those who prefer the Guest House segment are still limiting their choice to the Male' Atoll and the 2 atolls closest to Male'; V and Ari.
- That the contribution to the economy remain modest at an average of only 1.7% in the national accounts.

We shall, as indicated in the 2nd article, attempt to offer a set action points comprising of thoughts which could benefit the prospects of the Guest House Segment of the Tourism Industry

Lower ROI

Firstly, while there is no doubting the potential of the Guest House segment to improve the prospects for entrepreneurs and small business, the numbers show that the segment is not performing to expectations.

While there are obvious data gaps in the published statistics, there can be no doubt that close to 90% of incoming guest still prefer resorts and that 87% of those preferring guest houses are still limiting their choice to those in close geographic proximity to the capital.

September statistics for the segment show that presently there are 1,765 beds in 132 Guest Houses in atolls other than Kaafu, Ari and Vaavu. While they represent only 18% of the 9,350 total beds in the Guest House segment, the entrepreneurs who had invested in this 132 Guest Houses, will, to say the least, be rather disappointed.

As anticipated ROI's do not materialize, this disappointment is unlikely to be limited to mental and emotional distress and would surely, at least in most instances, be financial too, even if some of them maybe self-financed.

Therefore, and in order to maintain the vitality and to meet the potential of the segment, it is important to recognize the specific difficulties of those entrepreneurs and offer them financial and tax incentives.

The pitfalls and lower ROI's in the segment, need also to be made more widely known, such that would be entrepreneurs are more aware of the reality of the landscape.

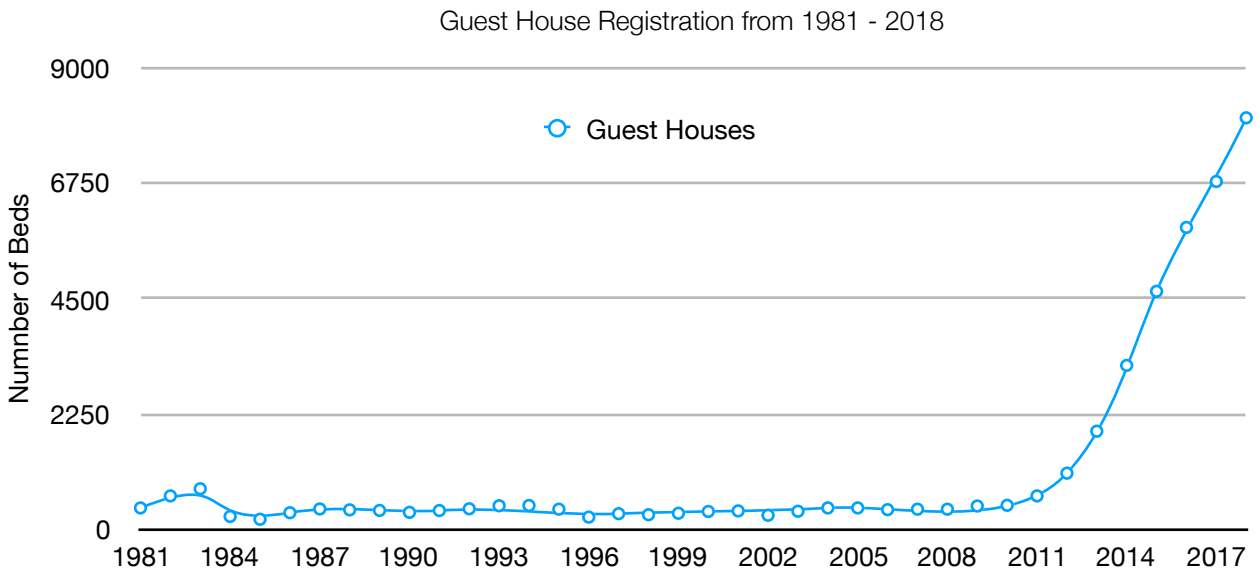
Transportation hurdles

It is widely acknowledged that the high cost of travel to the islands further away from the capital, dampens the enthusiasm of travelers who might otherwise have decided to stay at Guest Houses further away. Therefore, innovative and more entrepreneurial ways to overcome the transport cost need to be identified before guest houses in the further atolls become more attractive.

While the more affluent of the traveler might decide on a resort further away because of brand loyalty or because of personal choice, there is no doubt that high transfer costs to the outer atolls, will in fact deter all class of travelers, regardless of whether their intention was a resort or a guest house.

Yet, more tourists being able to stay at accommodation that are geographically further away, will, ceteris paribus, help stated national objectives of spreading the positive effects of tourism to further atolls.

Therefore, a national incentive scheme targeting transport providers to offer more modest travel charges will help boost and encourage travellers to resorts, hotels to guest houses in the further atolls.



Working together

As stated before, and quite obviously, the Guest House segment is here to stay. The segment has got to be recognised as an inherent part of our tourism landscape today. Yet, even today, there are misunderstandings, mutual mistrust and cynicism between the Resorts and Guest House segment.

The average Maldives dream holiday is still an expensive affair and largely affordable to the rich and the wealthy. But the Guest House segment avails itself to a different market category of middle-class travellers, enabling the less affluent, who has heard and dreamt of the fabled Maldivian holiday to experience the Maldives on a budget. The market for the Guest House segment is significantly different with little crossover and in effect no competition between the 2 segments. This fact needs to be absorbed, accepted and more widely spread such that the fog of confusion may be lifted.

There is mutual benefit and profit to be made when the resort operators and the Guest House segment are, finally able to work together. Joint marketing and promotional effort, perhaps even including joint holidays split between stay at guest house or 2 for a period and culminating in a night or two at resort can be and will be both attractive and mutually beneficial.

Significance of statistics

There are obvious data gaps on the published statistics. This is very evident in the published information on the Green Fund Tax as for example apparently not a single tourist visited Meemu Atoll in the month of July. The low % of visitors to Guest Houses in the further atoll may perhaps also be affected because of such black holes in data collection. Such black holes will surely exist in other data and statistics too. Yet, it is important to acknowledge that good decisions and policy initiatives can and should only be drawn from sound statistics.

Guest Houses in islands and especially in Male'- the capital, were a known and an important feature allowing for visitors to stay, enjoy and explore the country in times past. George Corbin and his team who visited in 1971, conducted their initial exploration into the possibility of starting a tourism sector in the Maldives, stayed at guest houses. Earliest statistics on the number of guest house beds show that there were 161 beds registered as Guest Houses in 1981.

As statistics so fluently demonstrate, the Guest House segment had 'survived' and then thrived and grew as the segment was officially recognized and promoted by the state since 2008. Today it is a feature of the Maldivian tourism landscape. Numerous small investors have invested in the segment and it had grown rapidly and made their presence known in all atolls of the country.

The Guest House segment, even though making modest contributions to the National Accounts today, have the potential to be an important player and help thrive and develop the tourism industry, the larger economy and as an added bonus, boost the Entrepreneurial spirit of the country. However, these will happen, only with the appropriate assistance from the Government and in partnership with the more established resort segment.

IN-DEPTH FEATURE

Maldives: Trade, Economy and International Integration

Shafeenaz Abdul-Sattar

The Republic of Maldives as it is now known has been referred to by various names in the writings of historians, geographers and explorers from different parts of the world over the centuries. Such references indicate that the country has a long history, with its first settlers arriving from other regional countries and developing into a population of seasoned seafarers who travelled regularly to neighbouring and distant nations both by design and by chance. Foreign travellers who either got marooned on the islands that lie in the middle of the Indian Ocean spanning several of the major international sea routes, or opted to stay after stopping over on their travels, contributed to the growth of the local population over the centuries.

Being a low-lying group of over a thousand small islands with limited commodity production, the Maldivian economy has always been highly open to foreign trade. Exports throughout the centuries have been based around fish and marine products, and also coconut-based products, coir rope and cowrie shells in earlier times, while in recent decades the service trade has dominated with the advent of tourism. While the locals historically depended to a large extent upon the few varieties that could be grown in the country, rice has become a staple that has been imported for many years along with spices and other necessities, and today, numerous varieties of food and other items. With increased affluence of the growing population, the economy has over the years become more and more import dependent to cater to its consumption and investment needs as well as to the needs of the burgeoning tourism industry.

History of International Trade and Travel

Through centuries past, Maldives was witness and beneficiary to much of the ancient spice and slave trades that criss-crossed the Indian Ocean as evidenced by cowrie shells (cyprae moneta) from Maldives dating as far back as circa 2000 BC having been found in China and the Middle East. The 'Divis' (Maldivians) have been recorded in 362 AD to have sent gifts to Roman Emperor Julian. Chinese writers have also documented gift-bearing visits of emissaries of Maldivian rulers to the Tang Dynasty Emperor of China around the middle of the 7th century, and Maldivian traders are documented as having visited the Persian emporium at Ormuz around the mid-fifteenth century.

While Maldives was never colonised as such during its known history, perhaps largely due to the dearth of orthodox sources of economic wealth desired by the colonising powers of yesteryears, from time to time, its trading partners such as those from Malabar along the coast of India, made attempts to exploit the advantageous location of the islands. This led Maldivian rulers to approach foreign powers strongest in the Indian Ocean at a given time with requests to assist in driving out the influence of such elements, sometimes in return for various trading incentives. However, the pernicious nature of trade relations among competing forces at the time meant that such agreements never lasted for very long, and in later times, protection was availed in return for annual tributes comprising of locally produced goods and items of monetary value sent to the relevant foreign powers.

In the early years of the 16th century, Vasco da Gama came across the archipelago on the return journey from his second trip to India, when he travelled through the channel at the northern tip of the Maldives. From then on, the Portuguese, being well established along various parts of the Indian Ocean at the time and having been in the process of studying the seas and islands, developed an interest in the various channels that ran through the archipelago, and in fact attempted to develop trading posts at various strategic points. They are also recorded to have ruled over the islands for 15 years during the 1500s after slaying the then Sultan, until they were driven out by the Maldivians.

Hogendorn & Johnson (1986)[1] note that 'during the sixteenth and seventeenth centuries many documents on the Maldives

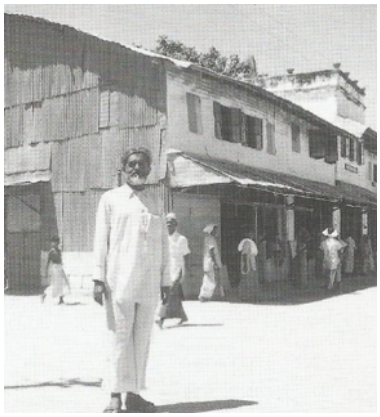
are related to trade, especially in cowries' (which was at the time frequently used as a medium of exchange in international trade) and 'though the capital Male' sporadically functioned as a sort of "port-of-trade" selling merchandise - notably cowry shells - directly to visiting ships', that 'Maldivians preferred to bring their goods on their own smaller ships to certain harbours of the Indian coast and Ceylon, usually buying rice and cloth with the profits'. This ancient practice was of a seasonal nature that depended on the wind enabling local traders to sail out with their goods when it was blowing in a south-westerly direction and return some months later when the winds shifted and facilitated their journey. In the later years of this type of trade which ended with the introduction of mechanised vessels to Maldives in the twentieth century, the cargo consisted largely of what is known as Maldive fish, essentially cooked and dried skipjack tuna, salted dried tuna, the locally brewed fish paste known as rihaakuru, coconut and coconut-based sweets and sugars, while coir rope and tortoise shell also featured among Maldivian exports over the centuries. While Bengal was a standard trading destination, some merchants travelled as far as Indonesia and China at times, returning with goods ranging from fabrics, spices and medicinal herbs to perfumes. These traders would often be given lists of items to procure for individual households and more affluent members of society. Trips to Arabia for the Hajj pilgrimage in Mecca were also another routine exercise that took several months.

Traders from various parts of the Indian subcontinent and Ceylon who visited Maldives also followed a similar pattern of travel. They would sail in during the North East monsoon and remain in Maldives for a few months before sailing out again during the South West monsoon. At the time, Male' was the main point of exchange for goods from within the atolls as well as from visiting traders. Goods brought into Male' "were usually rice, dates, salt, leaf-tobacco, arecanut, cotton cloth, handkerchiefs, curry stuffs, chinaware, earthen pottery for domestic purposes, coarse brown sugar, small quantities of steel, brass wire, thread, ghee" (Bell, 1940)[2] .

Some form of taxation has been levied on foreign trade for centuries in Maldives; Pyrard in his writings of the early 17th century noted that the rice that was distributed as wages and emoluments by the Sultan was appropriated from vessels that arrived in the country for trade. According to these writings, the details of all goods that were brought for trade by foreign vessels had to be submitted to the Sultan who decided what was to be appropriated for state use and how much would be paid for these goods. Of the appropriations, he would distribute some part to relatively well-off islands, the residents of which had to pay for them in kind with local products, costed at half the regular price. These local items would then be exported to some extent, the proceeds going to the Sultan's coffers. The occasional find on the ocean or along a beach of a large piece of ambergris, supplemented the national coffers from time to time and served as a means of payment for various goods and services.

Political Economy in the Nineteenth and Twentieth Centuries

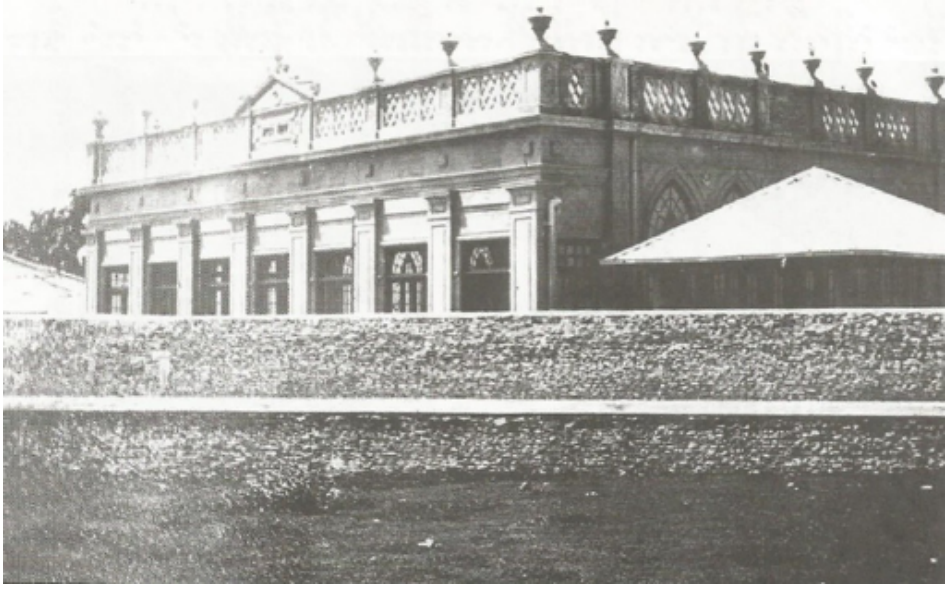
Unlike today, Male' was then a fortified capital island, with a wall that linked forts and bastions along its perimeter and the visiting traders were not allowed to set up shop within the wall – they traded along the outside of the wall until they were first permitted in 1857 to set up warehouses and shops within the Male' perimeter. Several factors, both in the domestic and international spheres led to this event. Nasheed surmises in 'Dhagandu Dhahanaa' that at the time, British activity across the seas in the region had made travel relatively safe, enabling greater trading activity in most ports, and that foreign traders would have desired to remain in the country in order to increase their profits. They eventually received this permit at a time when the power wielded by the Sultan had been undermined by in-fighting among his senior aides and the advice of the Head of the Treasury and Prime Minister who was from a family with a strong trading background that had much experience, connections and wealth, was disregarded. (This gentleman eventually resigned from all his State positions and moved away to Galle in Ceylon with his family where he proceeded to conduct business very successfully even with Maldives, and lived until his death.)



Shops with a merchant in forefront

Thirty years on, in 1887, when the Prime Minister of the time (also Head of Customs) was, according to Bell (1940) 'entrusted with the financial and all other important business of the Maldivian Government' he 'soon found that great care and economy must be exercised to settle the large State debts. Expenditure exceeded Revenue and indebtedness had increased yearly….He realised that endeavours must be made promptly to collect larger Revenue; otherwise the Government would soon be insolvent.' By this time, the foreign trade of the Maldives was almost fully in the hands of the Borah traders, with the wealth and prosperity that Maldivians had previously enjoyed having diminished; a noteworthy feature of this transition being that only 4 of the 28 vessels owned by Maldivians for transporting goods in and out of the country remained by then, and even those 4 vessels were being used by the foreign traders. There were 7 large shops of the Borah merchants and about 10 shops of small businessmen from Galle in Male' at the time, which were state owned and let at rents of between 15 to 50 rupees per month. Outstanding debts to these businesses amounted to about MVR 50,000-60,000 with state revenues (for the most part dependent upon Customs duties on imports) amounting to around MVR 30,000 annually.

According to Bell (1940) 'Making fullest allowance for the crying and immediate need for drastic measures to save the State from virtual shipwreck, …. the Prime Minister's undissembling financial proposals were so sweeping, and on many grounds, so manifestly open to objection, as to forbid their acceptance - the more so in a discordant community saturated with intrigue and self-seeking. The contemplated scheme included the settlement of outstanding State Debts due to the Borah Merchants by waiving all Customs Duties and the acceptance, in lieu thereof, of an Annual Payment of Rs. 100,000 by the Merchants jointly.' However, given the 'constant machinations among rival Bodun – fostered for their own sordid ends by certain of the Borah merchants settled at Male' with the object of obtaining undue or exclusive concessions', only one merchant agreed to this proposal up front. Not long afterwards, the Bodu Hulhu or Great Fire/successive fires incident occurred in Male' (which at the time had a population of around 2,150), in which all of the merchants' shops (along with all the financial records kept therein), warehouses and much personal property of locals were destroyed. It took months for the issue to be resolved, with British government officials based in Ceylon also intervening in investigating the proceedings on account of complaints received from the Indian and Ceylonese merchants, who were British subjects at the time. By the end of this process, Maldives had witnessed two changes in leadership and the sending into exile of the Prime Minister who had had the



Bandaara Miskiyy, mosque built by Borah community

audacity to initiate the reform measures, several other Bodun or nobles, and ordinary locals. (Interestingly, this Prime Minister was the son of the Prime Minister who had objected to the permits being given to foreign merchants to set up trade in Maldives in 1857 and who had subsequently moved his family to Galle. He (the son) had become a Consul for Turkey in Galle in 1883 and subsequently been nominated as a Justice of the Peace by the British government in Ceylon before his return to Maldives.) Two years later, with the reinstatement of the earlier Sultan, this gentleman was returned to the Prime Minister's post and proceeded to change the state revenue structure by introducing duties on imports and exports in line with international norms. He served on two separate occasions for several years under different rulers; subsequently his son also took on the post and served an equally lengthy term.

The first formal protection agreement with a foreign power was signed by Maldives in 1887 with the British (who were then well established in Ceylon and India) as a consequence of the above proceedings. Under this agreement, Britain was to conduct all Maldives' foreign relations and heads of state of Maldives also had to be accepted by Britain before they could be recognised by any other foreign nation.

In 1932, another comprehensive set of economic reforms was implemented in the country by virtue of the first constitution of Maldives, the initiation of which was assisted by Britain. The new law included domestically controversial aspects such as the prohibition of trading by parliamentarians along with other measures to establish more democratic and development oriented norms among the population. This first constitution too, was short-lived and mobbed out a year later, being deemed too far ahead of the reality on the ground in Maldives. Several of the senior state officials were hurriedly exiled to Ceylon (for their safety and upholding of order in the country) and later brought back to be banished to various islands of Maldives.

In the interim years, the First World War was fought, during which Maldives was under the protection of Britain, and although she underwent severe economic hardships and starvation (Bodu Thadhu), remained relatively insulated from the fighting. In wartime, Maldivians rescued marooned military personnel from time to time and viewed an aircraft for the first time when a Japanese warship arrived with three of them. As the protectorate agreement did not allow intervention in domestic affairs, it was only during the Second World War that the integration with Britain deepened notably. The British first sought the cooperation of Maldives in November 1939 in their war effort to utilise the strategic location of the archipelago in the Indian Ocean, initially to establish a refuelling stop in/near Male' for seaplanes of the Air Squadron based in Singapore, and later to establish a strong presence of the Royal Navy Fleet Air Arm in Addu Atoll and a smaller one in Kelaa of Haa Alifu Atoll which were major refuelling points for Allied shipping during the War. This investment of the British in Addu consisted of infrastructure and installations including a lorry road in several islands, a bridge between Gan and Feydhoo, wells and piped water in Gan, an airfield, several buildings for office, housing, medical and entertainment purposes, storage facilities and cemeteries with an estimated financial investment of 180,000 Sterling pounds. Britain also assisted with procuring food for the residents of Addu for most of the war, albeit at Maldivian government expense. Meanwhile, Maldives contributed financially to the war effort of the allied forces alongside other friendly nations, sending MVR 35,000 to the British through her Governor in Ceylon.

The Borah traders still dominated much of the inward and outward trade of the Maldives during the World Wars and thus controlled the prices of imports as well as the price at which they bought export products from the locals. By the time of the Second World War, some of the younger echelons of the Maldivian nobility who had returned to Maldives after being educated overseas were involved in Government, so perhaps keeping in mind the widespread starvation and hardship faced by the nation during the First World War, used their newly acquired knowledge and influence to implement various interventions during this period to alleviate the desperate conditions that once again arose in several of the islands. These measures included price controls, bulk buying and resale of items, food rationing, providing advice and information on growing

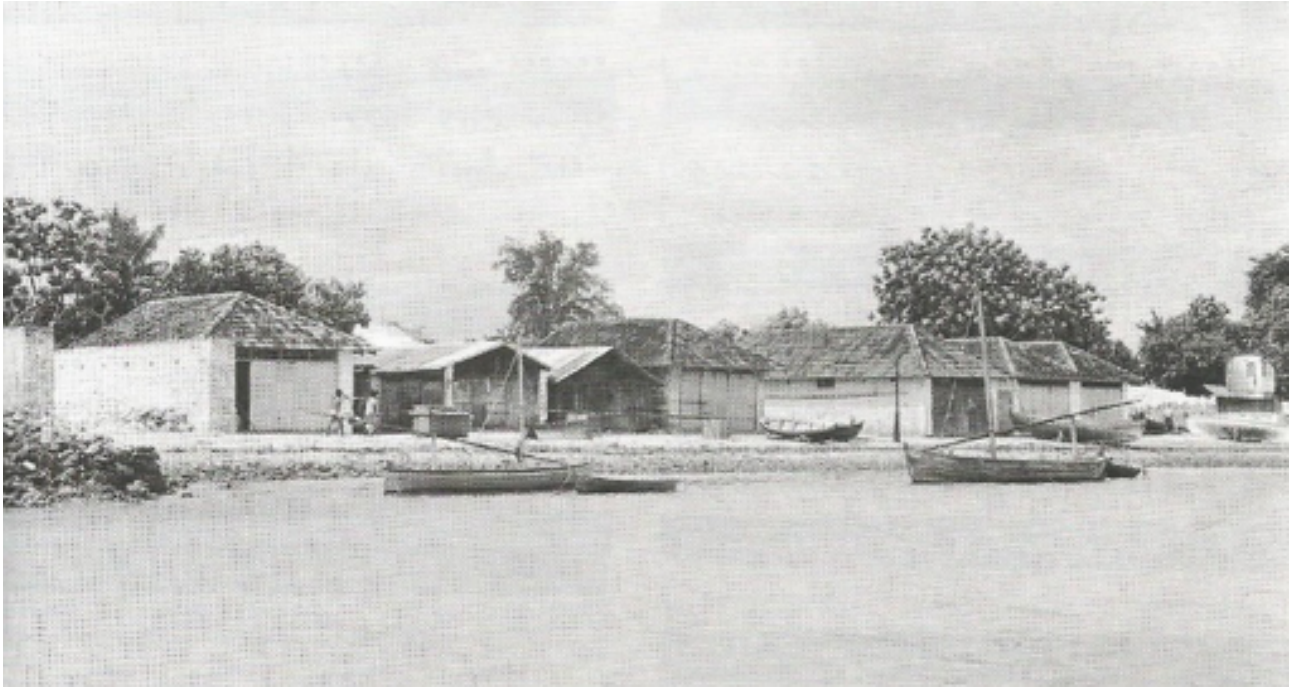
food crops and producing more exportable goods, linking distribution or sales of food to productivity – i.e. to fish catch and other income generating activities or gainful employment. Further, in December 1942 the Dhivehi Rayyithunge Bodu Store was established under an Act of Parliament. The Bodu Store was operated under the Treasury as an intermediary that purchased Maldive fish directly from fishermen and sold it on to traders, and with its initiation, the purchase price of fish from the central atolls was set at MVR 25 per hundredweight and of that from Huvadhu atoll at MVR 35 per hundredweight. These purchases were sold to traders at MVR 30 and MVR 40 per hundredweight respectively. Prior to this the Borah traders established in Male' who had been dominating this trade had dropped their buying price to MVR 6-7 per hundredweight.

Fast Tracking Progress

The British troops based in Maldives departed in March 1946 following the cessation of hostilities between the Allied and opposing forces. Maldives too entered a phase of regeneration and socio-economic development that included a whole host of activities such as establishing roads on inhabited islands, increasing educational opportunities in Male' to include a limited number of children from the other islands and initiating electricity and telephone services on Male'. Notable developments on the economic front included the setting up of a formal trading company, the Dhivehi Raajjeyge Qaumee Ekuverikamuge Kunfuni or the Maldives National Trading Corporation (MNTC), in 1948. Not long afterwards, MNTC (Ceylon) Ltd was established and set up operations in Colombo. The first ship chartered by MNTC arrived in Male' in 1949, and in that year 90 percent of the food imported into the country was being procured by the company according to Amin (1949)[3]. In addition, in July 1949, a showroom for Maldivian products was opened by the company.

Male' Henveiru bazaar area prior to being demolished in late 1961

Despite these ambitious ventures, the people of the islands of Maldives continued to remain in poverty and in the early 1950s the leaders of the nation requested Britain for economic aid to rejuvenate the Maldivian fishing industry, to obtain some powered vessels and to arrange the provision of technical advice for Maldivians on all matters from agriculture to the national economy. Another plea was made later to international sources 'for the immediate provision of a thousand tonnes of food grain to help avert a famine in the archipelago.' Pakistan responded with a gift of 500 tonnes of rice and Ceylon offered a further loan of Rs 300,000 conditional upon it being used to purchase food from Ceylon. Towards the middle of the 1950s, Britain responded by gifting the Maldives with 20,000 yards of sailcloth, 1000 pounds of cotton yarn, 3000 ft of ¼ inch diameter rod for making fish hooks, 2000 bamboo fishing rods, 5 tonnes of crude fish oil and 400 lbs of lead which was sufficient to refurbish several hundred fishing boats. At this time (1373(H)-1954), the state was still spending in excess of its earnings, registering an annual revenue of MVR 2,102,355 and expenditure of MVR 2,413,916. After much back and forth discussion between British and Maldivian officials in the search for an appropriate powered vessel, a 400 tonne motor schooner was eventually sourced, but already in poor condition, suffered several mishaps on the way to Male' and had to undergo several repairs before being handed over to the Maldivian government. (Doling, 2003/4)[4]



Northern waterfront, early1960s

Around this time, the British also initiated discussions with Maldivian leaders to redevelop the facilities established in Addu Atoll during the war into a strategic air base. Following a controversial Heads of Agreement initialled between the then Maldivian Prime Minister and the British government in December 1956 to lease Gan and designated area of Hithadhoo to Britain for 100 years for a rent of 2,000 Sterling pounds a year, they returned to Maldives with the airstrip in Addu Atoll Gan having been transferred to the British Royal Air Force (RAF) in 1957 for use by RAF planes as a staging post on the way from and to Britain and the Far East. Despite the political implications of this undertaking, according to the UN's first economic report on Maldives, it had 'a deep impact on the economy (of Addu). Prior to the establishment of the base, Gan island used to be the gardenland for the neighbouring islanders who cultivated yams and vegetables in its fertile soil, while in addition engaging in their fishing activities. The coming of the airbase halted the production of food and also relocated some of the population' but created alternative employment for a significant percentage of the population providing them with a regular income and certain other benefits such as medical services and the facilities of NAAFI (Navy, Army and Air Force Institutes) stores. The base also procured fish from the local community, and some amount of poultry to bridge supply gaps[5].

By 1950, developments in Male' were such that about 50 shops owned by the foreign traders had been established. As a measure aimed at changing this status quo, in 1961, the government informed the traders that after 31 July 1962, they could only sell items that they imported or produced themselves, that they could not provide capital to Maldivians to trade through them, and that they were permitted to export only those goods that they produced. However, since none of the traders had made any effort at such production, the licences provided to them for selling imported goods were cancelled effective 1 August 1962, compelling them to settle their affairs and leave Maldives. This paved the way for local traders to flourish and by the mid-1960s there were four companies in Maldives, all of which had government participation. However, in 1967, all four companies were abolished and all trade of the government became consolidated under one account called the Athireemaafannuge Trading Account (ATA); this trade was linked to the Bodu Store that had been inaugurated during WWII and was now called Maldivian Government Bodu Store (MGBS). The ATA was the beginning of what became the State Trading Organisation or STO in 1976. By then, the private sector had the opportunity to bring in imports from overseas using Letters of Credit facilities from banks, bank drafts or

For the first time in history, import duties were levied on 31 st day of July 1958.

Duties are exacted in cash calculated on the cost price of imported goods as follows:-

1. Foodstuffs 10%
2. Dates 20%
3. Essences 30%
4. Children's requirements 15%
5. Honey 10%
6. Syrups (Lime Juice) 50%
7. Areecanuts 50%
8. Biscuits 40%
9. Butter 25%
10. Cakes 100%
11. Canned meat, fruits and vegetables 60%
12. China ware 30%
13. China ware (besides plates) 50%
14. Glass 25%
15. Feeding bottles 10%
16. Smoking bulbs 15%
17. Petrol 40%
18. Battery 50%
19. Electrical equipment 40%
20. Stoves 30%
21. Engine oil 20%
22. Sulphuric acid and poison 60%
23. Tiles, asbestos and iron corrugated or otherwise 20%
24. Cement 20%
25. Accessories required for bicycles and tricycles 20%
26. Luxurious accessories for bicycles 100%
27. Needles, cigarettes and gulak 100%
28. Materials required for the manufacture of cigarettes, cigars etc. 40%
29. Live animals 40%
30. Mackintosh 25%
31. Plastic materials 50%
32. Furniture (wooden ware) 30%
33. Cane 50%
34. Brass, copper and nickel 30%
35. Slippers 30%
36. Slipper manufacturing material 20%
37. Brushes 25%
38. Bath room equipments 50%
39. Playing cards 100%
40. Decorating articles 100%
41. Cinema film per 10' @ 1 cent
42. Corks 25%
43. Polishes 20%
44. Water bottles (rubber) 25%
45. Gold and silver 35%
46. Gold plated articles 100%
47. Caps 50%
85. Gram.Records 50%
86. Aluminium Ware 30%
87. Locks 20%
88. Joints 40%
89. Nails, Screws 20%
90. Cisterns, Tanks 20%
91. Curry-stuffs 15%
92. Tamarind 15%
93. Housing equipments 20%
94. Carpentary equipment 30%
95. Maldive products 150%
96. Coir products 150%
97. Coir ropes 150%
98. Watches etc. 40%
99. Iron and brass netting 40%
100. Iron, brass and lead pipes 30%
101. Vans and lorries 40%
102. Motor cars and cycles 75%
103. Motor launches and dhonys 25%
104. Shaving equipment 30%
105. Soaps (talcum) 75%
106. Soaps (washing) 40%
107. Hukku and equipment 60%
108. Spectacles 20%
109. Sponge 25%
110. Cotton textile 30%
111. Textiles(general) 60%
112. Cotton yarn 15%
113. Thread 30%
114. Paper 20%
115. Printing materials 25%
116. Civet and musk 35%
117. Sago 25%
118. Files 30%
119. Scents and perfumes 60%
120. Thermos flask 30%
121. Shellac and lacquer 25%
122. Fire works 150%
123. Toys 150%
124. Fountain pen and stationary 20%
125. Pencils 20%
126. Drawing materials 25%
127. Colours (eatable) 60%
128. Fresh fruits and vegetables 15%
129. Ornaments- gold 100%
130. Musical instruments 50%
131. Salt 25%
132. Ornaments- ordinary 50%
133. Cutlery 30%
134. Wheat 25%
135. Cocoa 25%
136. Ovaltine 25%
137. Coats, trousers and ties 120%
138. Gunny bags- empty 30%
139. Engines 15%
140. Radios and accessories 40%

Fig 11.1. Translated details of the duties to be levied on goods imported by Maldivians. Source: Abdullah Afif Didi via V Kendrick

Translated details of the duties to be levied on goods

Entirely New Tax imposed on all sailing craft with effect from the 1st day of January, 1959 :-

Registration of sailing craft :-

(1) Owners of sailing craft shall get their vessels registered at the Ministry of Home Affairs.

(2) A Certficate of Registration issued for each vessel registered shall bear a stamp of 1/- (rupee one) only.

(3) If a sailing craft is sold, exchanged or given away as a gift to another person, the same craft shall be registetred anew, in the manner stated above. Unregistered vessels will be fined, at the discretion of the Home Ministry.

The Tax or fee levied on all sailing crafts :-

The Maldivian measurement of length called a "Riyan" equals to 27 inches.

(1) A sum of Rs 2/- (rupees two) per riyan per year shall be levied on all sailing craft under 5 riyans in length.

(2) A sum of Rs 5/- (rupees five) per riyan per year shall be levied on all sailing craft having a length of 5 to 10 riyans.

(3) A sum of Rs 12/- (rupees twelve) per riyan per year shall be levied on all sailing craft having a length of 10 to 17 riyans.

(4) A sum of Rs 25/- (rupees twenty-five) per year shall be levied on all sailing craft having a length of 17 to 25 riyans.

(5) A sum of Rs 30/- (rupees thirty) per riyan per year shall be levied on all sailing craft having a length of 25 or more riyans.

The above are extracts (translation) from the booklet entitled "Notice to Owners of Sailing Craft" issued from the Ministry of Home Affairs, Male, under the signature of Ibrahim Nasir, Minister of Home Affairs, on 15th October 1958.

Fig 11.2. Translated extracts from 'Notice to Owners of Sailing Craft'. Source: Abdullah Afif Didi via V Kendrick.

Translated extracts from "Notice to Owners of Sailing Craft

foreign currency, which they did mainly from Ceylon, India and Singapore. With the British resident in Addu Atoll until the mid 1970s, there was also some direct inward trade to Male' from London and trade also flourished between Gan and Male', with Adduan traders being operative middlemen for forwarding goods imported into the NAAFI stores there.

Customs duties based on the price of goods were enforced in late 1958. Duty rates ranged from 10 percent on foodstuffs to 100 percent on gold ornaments and decorative articles, 120 percent on coats, trousers & ties and 150 percent on coir and Maldive products, toys and fireworks. Along with these revenue-enhancing measures, sailing craft were also required to be registered with the Ministry of Home Affairs effective January 1959, and began to be taxed based upon the length of the craft. The attempts of the Maldivian government to enforce taxation on foreign trade of merchants from the southern region resulted in an endeavour of the three Southern atolls to secede and form their own nation. Although this was largely attributed to the relative empowerment of the Adduans based on the British engagement in the atoll, it was fairly short lived running from the end of the 1950s through to the early 1960s. With the commencement of negotiations between the Maldivian and British governments for the amendment of the Heads of Agreement document, matters were sorted out at a state level and the southern atolls too returned to Maldivian government rule.

Britain continued to be the Maldives' main source of foreign funds until the protectorate agreement was discontinued and an independence agreement was signed between the two nations in July 1965. At a bilateral level, letters were exchanged in February 1960 between the United Kingdom and Maldivian governments, under which 'provision was made for an immediate payment of £100,000 to the Maldivian government and for a further sum of £750,000 over a period of five years or more for specific projects of economic aid'. The Colombo Plan also assisted in channelling aid, such as that from Ceylon, for the construction of an airstrip at Hulhule'. By this time, state revenues had been diversified to include minor traders' tax, government hospital revenue, motor vehicle, bicycle and boat license fees, foreign tax and overseas stamp sales in addition to import and export duties, stamp sales and postage revenues and revenue for commercial activities. (United Nations, 1966). The RAF remained at their

base in Gan even under the independence agreement, until Britain's mid 1970s decision to abandon the RAF's Indian Ocean bases in Gan & Mauritius as part of the reduction of the British presence east of Suez.

Diplomacy and Development

Following the gaining of independence from Britain, Maldives initiated its own diplomatic efforts in the international arena. It sought membership of the United Nations (UN) which was granted shortly thereafter, enabling its Permanent Representative to address the General Assembly in October 1965 on behalf of the smallest member of the body of nations, that 'We believe in peace and friendship; we need both, in quest of which our aim is to maintain good relations with all countries and peoples' and in 1966, that 'the guiding principle of our external policy is based on Non-Alignment and peaceful co-existence' and that 'in complete conformity with the principles and teachings of Islam, we want to make contact with the nations of the world and establish friendly relations based on a solid foundation of mutual understanding in due conformity with the Constitutions of the respective countries. We would welcome all those who respect our independence and integrity, for we believe in universality and peaceful coexistence.'[6] Furthermore, while Maldives had become a member of the Colombo Plan prior to independence, diplomatic links could now be established with other sovereign nations, enabling it to avail of financial and technical assistance much needed for national development.

The late sixties and early seventies saw Maldives enroute to a new phase of investment and development. In 1967, the Maldives Shipping Limited (MSL) was established in order to complete the necessary requirements to register Maldivian vessels that had previously been sailing under the British flag, under the Maldivian flag. Meanwhile, in 1972, the potential of the islands of the archipelago to attract foreign tourists was tested for the first time, with the establishment of the first resort for guests on the island of Vihamanaafushi. Around the same time as this development came a less favourable one; the decision by its major export partner, Ceylon, to significantly reduce quotas for import of dried fish from Maldives, with an ultimatum that Maldives should seek alternative markets by the time the quotas would be fully abolished in six years' time. This development however, propelled Maldivian policymakers in a completely new direction – they were able to come to an agreement with Marubeni Corporation of Japan the same year for collector vessels of their subsidiary Hoko Fishing Company to buy fresh fish directly from Maldives, which later paved the way for investment in a tuna canning factory to be established in one of the central atolls. (Maniku, 2011)[7]. Mechanisation of fishing vessels was also commenced, and the fisheries industry witnessed a paradigm shift from which it has not looked back. Subsequently, proceeds from exports kept growing, from MVR 12.8 million/US$ 3.3 million in 1974 to MVR 125.1/US$ 17.8 million) in 1984 and MVR 554.6 million/US$ 47.9 million in 1994. At the same time, the tourism experiment was proving to be a huge success, providing Maldivians the opportunity to enter into the hospitality trade in a significant way for the first time. Supporting infrastructure and services were introduced with establishment of the first international telecommunications link, the Bombay/Male' telecommunications link, and a branch of the State Bank of India inaugurated in Male' in 1974. (Incidentally, the first bank in the Maldives archipelago was established in what was then the United Suvadive Republic, the southern atolls that seceded from the Maldives in the early 1960s). Telecommunication services were further bolstered when British company Cable & Wireless Pvt Ltd set up operations in Male' to provide international telecommunication services effective from 1977. The telecoms provider, while having steadily evolved into a significant corporate entity in Maldives is still partly foreign owned, but the non-locally owned shares (52 percent) have now been transferred to BTC Islands Limited (Batelco), a Bahraini entity.

The nineties witnessed the Maldivian government go into joint venture agreements with international parties to bolster service delivery in various requisite sectors. The Maldives Inflight Catering Ltd was incorporated to serve the significant demand generated by increased flight movements in and out of the country on account of the expanding tourism sector and the Male' Water

and Sewerage Company was established to develop the sewerage network and pipe safe water in Male'. On the financing side, the sector regulator Maldives Monetary Authority (MMA) was established in mid 1981 to work under the supervision of the Finance Minister-cum-Governor, and despite the fact that several more institutions were licensed to operate in the financial sector, the MMA remained thus for another two and a half decades before it received full autonomy by law. The only Maldivian bank, Bank of Maldives came into being in 1982 as a joint venture with a Bangladeshi entity that owned 40 percent of the shares until the Government of Maldives bought these in 1992 and had an initial public offering a year later. In terms of international integration, the financial sector now incorporates thirteen licensed foreign or joint venture entities including seven banks, two of which are jointly owned by local and foreign shareholders, two insurance providers, two local/foreign joint venture finance leasing companies one of which specialises in housing finance and four money remittance companies that use reputable international remittance providers. In addition, 390 money changers are currently licensed to provide foreign exchange services.

When the British left Addu in 1976, they left behind significant investment, with, according to Doling (2003/4), movable assets estimated at 'at least 1 million pounds and the fixed assets valued at about ten times that', with redundancy payments to local staff totalling approximately 134,000 Sterling pounds. The facilities remained underused for many years despite initiatives to utilise them such as through setting up foreign investment financed garment factories in the support service buildings (to avail of quotas under the Multi-Fibre Agreement) until they closed down towards the end of the agreement period that ceased in 2005. (As with most other such factory type or repetitive work in Maldives however, these ventures were unable to retain the locally employed labour and ended up employing expatriate workers in order to meet their productivity needs.) Subsequently, in the past few years the airport has undergone upgrading and now holds international airport status, catering to charter and scheduled flights that serve the growing tourism and local demand in the south. Gan International Airport currently also provides facilities for the operations of the Asian Academy of Aeronautics, a foreign investment venture that trains both local and international students.

International Cooperation and Social Integration

Maldives has obtained membership of several multilateral organisations and international bodies since opting out of British protectorate status and currently has diplomatic relations with 170 nations. Taking pride in a 'hundred percent Muslim' identity as a cornerstone of her nationhood has however meant that over the years Maldives to an extent moved away from the idealism of the post-independence period to the realism of the international environment and the strong forces that shape it, leaning towards stronger political ties with the Arab world. In an economic context, Maldives became a member of the International Monetary Fund, the International Development Association (in both organisations, Maldives notably remains represented on the respective Executive Boards by Directors who represent a diverse group of Middle Eastern countries) and the Asian Development Bank in 1978, and having held membership of the General Agreement on Tariffs and Trade since 1983, has been a member of the World Trade Organisation since its inception. It is also a member nation of the Islamic Development Bank, a founding member of the recently established Asian Infrastructure Investment Bank and party to the South Asia Free Trade Agreement (SAFTA) and the South Asia Subregional Economic Cooperation (SASEC) program. In addition, as a member of the Organization of Islamic Cooperation (OIC), in April 2006 Maldives signed and ratified the OIC Framework Agreement on Trade Preferential Systems (TPS-OIC). Having graduated from Least Developed Country status of the UN in 2011, Maldives however lost preferential trade access for its fish exports 'to certain major markets (e.g. Canada, China and the EU)', as well as access to 'some WTO commitments/ benefits (e.g. TRIPS), and possibly the level of Official Development Assistance and technical assistance' (WTO, 2016)[8]. Following these developments, Maldives sought bilateral trade arrangements with several countries and has notably established a free trade agreement with China in December 2017, in addition to

becoming a signatory to the Belt and Road Initiative.

In terms of representation in country, there are currently seven diplomatic missions resident in Male', including Saudi Arabia, Japan, China and four South Asian nations, and volunteer agencies like the British VSOs and Japan's JOCV established themselves in the country from the early 1970s onwards, while the British Council and an American Centre are more recent additions. Specialised UN agencies, multilateral organisations and the International Federation of the Red Cross and Red Crescent Societies now also have representatives in Maldives in addition to the World Islamic Call Society and the World Muslim League. Most, if not all of these offices employ both local and expatriate staff, and the diplomatic missions resident in Male' or in neighbouring countries with accreditation to Maldives hold cultural events and activities, some of which are open to the local public as well.

Being a country that had rarely been subjected to natural disasters of a large scale, following the Asian tsunami of December 2004, Maldives welcomed several international aid providers outside of the established UN and bilateral agencies. It was only after experiencing the administrative difficulties of working with such international aid providers that the Maldivian Red Crescent (MRC) came into being; now the MRC itself contributes at an international level, sending its trained staff and volunteers to assist in disaster relief efforts abroad. Chapters and affiliations of international non-government bodies now also function in Maldives across spectrums of politics, sports, development, commerce and youth activities, enabling locals to participate in administering international activities that range from football regulation to election monitoring.

In addition to attending various international fora, Maldives has resident missions to the United Nations in New York and Geneva, the European Union in Brussels and embassies in Sri Lanka, India, Pakistan, Bangladesh, United Arab Emirates, Saudi Arabia, Singapore, Malaysia, Thailand, China, Japan, Germany, European Union, United Kingdom, United States of America, some of which have attached cultural centres where the Maldivian diaspora hold various gatherings and events. Furthermore, honorary consuls for Maldives and of several countries in Maldives contribute to trade, tourism and social integration with the nations they represent. Several inter-country friendship associations and alumni associations are in existence now, enabling continued interactions of various forms between locals and foreigners, and large employers of expatriates in the country such as in the health and education sectors also undertake various initiatives that encourage cordial relations among their staff and staff families. Greater Male' now boasts several international food outlets and the cuisine of several countries can be availed by locals and visitors alike, whereas not too long ago, only the resort islands catered to diverse palates.

Of Maldivian nationals resident overseas (apart from individual students at higher education institutions abroad), a large proportion are based in Sri Lanka, India and Malaysia. While historically much of the emigration from Maldives and non-return of Maldivians who went overseas for education was related to political and various associated oppressive aspects, in the freer environment nowadays, many families from Male' and other islands of Maldives cite the relatively high cost of living and congested conditions of Male' where the better facilities are available, as reasons for moving overseas to seek their preferred education, health and life quality experiences out of country. There are now also several cross-nationality marriages of Maldivians to non-Maldivians (2 percent of all marriages registered in 2017) including to expatriates living in Maldives. It is interesting to note however, that despite continued friendships among locals and the foreign merchant community from the mid-19th century through to the mid 1960s, there appears to have been relatively little family integration during the years they were resident in country, with just one family that developed from a marriage between a Borah trader established in Male' and a local.[9] This is perhaps due to the somewhat proprietary nature of the traders who were entrenched in the Colombo market, and may also be attributable to the fact that they were British citizens until their respective countries gained independence. The inherently cautious nature of Maldivian elders who had long been wary of domination-oriented forays by outsiders

would have kept them on the defensive as well. (Nevertheless, it is also fact that a son of the Prime Minister who enforced the regulations that made the Borah traders depart was joined in marriage during his lifetime to the youngest daughter of the only merchant who married into a local family). Another fact that may have had some influence is that the traders belonged to a different sect of Islam from that practiced in Maldives, and this dichotomy was so strongly entrenched among the communities at the time that the traders opted to build their own mosque for worship. Today, the many thousands of Bangladeshi workers resident in Maldives, many of whom also belong to a different sect join their Maldivian colleagues in prayer at the same mosques.

Along with good aspects of international integration, adverse aspects are also bound to be felt, and Maldives appears to have become victim in recent decades to some amount of religious militancy as well as to alarming levels of transnational organised crime; in particular, drugs, money laundering, terrorism financing, and human trafficking that also includes networks that exploit children for sexual activities.[10] Among other negative socio-economic externalities, this has resulted in Maldives now being host to a significant number of foreigners many of whom remain in violation of immigration regulations, a large cohort of young and not so young people who are addicted to various forms of narcotics, and many traumatised families.

Growth and Integration in Numbers

At a numerical level, the international receipts and payments that flow in and out of Maldives are reflected in the national Balance of Payments statistics. Continued expansion of tourism in the country has seen the Current Account of the Balance of Payments being dominated by services, which in recent decades offset the merchandise trade deficit that is a necessary evil of an import dependent nation. However, in the last few years, even the net receipts from services has not been able to offset the large merchandise import bill. There has been significant spending on infrastructure with continuous growth in housing and public infrastructure in addition to tourism related construction, and hence on related imports, with total imports of wood, cement, metal and aggregates, machinery, mechanical appliances and parts, and electrical, electronic machinery equipment and parts increasing from US$ 275.4 million in 2012 to US$ 895 million in 2018. Meanwhile, the bill on petroleum product imports which is heavily influenced by international oil prices as well as domestic growth activity, increased flight movements and local consumer demand, grew by 27 percent in 2017 and 44 percent during 2018, registering US$ 453.7 million during this period. More affluence among the population and a burgeoning tourism sector has seen a significant growth in spending on consumer items as well and therefore, increased imports of non-essentials/luxury goods. Import value of electronic and electrical appliances and other (non-food/petroleum/industrial) items doubled between 2012 and 2018 from US$ 36.2 million and US$ 313.4 million to US$ 75.3 million and US$ 691.7 million in 2018 respectively, while imports of furniture, fittings and fixtures trebled over this period from US$ 47.6 million in 2012 to US$ 138.2 million in 2018. Although there is no information readily available on trade diversification in terms of production origin of imports or trade vs aid aspects, over the past few years the average domestic shopper has witnessed a significant diversification in terms of varieties of goods available, their source nations, and therefore the price ranges. The variety of locally produced and packaged food items have also increased on the shelves in recent years, although how much of such production is export oriented is not clear. The tourism market is largely catered to by imports – of food and other consumables, capital goods as well as some of the requisite labour, with expatriate employment in the tourism sector comprising 12 percent of total expatriate workers in the country in 2017 according to official statistics. However, fish and fresh seafood, and some fruit and vegetables are sourced locally. Take home items available in the resort gift shops and local souvenir shops are also quite extensively imported while entertainment at the resorts (live music and dance, DJs, children's activities etc.) is catered to by both locals and expatriates.

On the services side, while travel has historically dominated, transport, construction, insurance and pension services

and telecommunications also took on a more significant role in recent years. Tourism inflows or travel credits registered an estimated US$ 2.7 billion in 2017, having grown from US$ 1.6 billion in 2008, while net inflows from travel registered US$ 2.4 billion and US$ 1.4 billion in these years respectively. In line with the increased imports, freight transport has also witnessed increases, registering a net outflow of an estimated US$ 250.9 million in 2017, while passenger transport registered a net inflow of US$ 82.1 million owing mainly to increased services by resident air and seaplane operators. Furthermore, with exponential growth in the use of telecommunications and Maldivians becoming more and more information technology savvy, telecommunication, computer and information services have been registering net inflows in recent years, registering US$ 11.1 million in 2017 as opposed to a net outflow of US$ 3 million in 2008. Meanwhile, construction services registered a net outflow of US$ 92 million in 2016 and US$ 144 million in 2017 with several exceptionally large public sector projects ongoing at the same time (such as the China Maldives Friendship Bridge project connecting Male' to Hulhule and Hulhumale', the new runway at Velana International Airport, the new twenty five storey building at Indira Gandhi Memorial Hospital), as opposed to amounts below US$ 20 million prior to 2016. Outflows on account of insurance and pension services registered US$ 49.8 million in 2016 and US$ 48.5 million in 2017, having grown steadily, from US$ 15.4 million in 2008, while insurance claims by providers based in Maldives from their re-insurers abroad have also increased from US$ 6.1 million in 2011 to US$ 26.3 million in 2017.

In terms of foreign workers, the total number in the country is really anybody's guess. The numbers on the government's official database on expatriate employment have been downgraded at least twice since the early 1990s and the current data series itself indicates such an event from 79,777 in 2011 to 57,424 in 2013 in relation to a 'discontinuity in consistent records' 'due to a change in the border control system used to generate immigration data' (NBS, 2018)[11], while 'according to the Maldives Association for Construction Industry (MACI), there were 36,000 unregistered migrant workers in the construction sector of the Maldives in 2012, most of who were unskilled' (MMA, 2014).[12] Meanwhile, the United States Department of State has placed Maldives on Tier 2 of its Human Trafficking Watch List as 'an unknown number of the approximately 100,000 documented and 60,000 undocumented foreign workers in Maldives—primarily Bangladeshi and Indian men in the construction and service sectors are subjected to practices indicative of forced labor' and 'a further downgrade to tier three could entail non-humanitarian and non-trade sanctions'.[13] Official numbers of the National Bureau of Statistics indicate that besides construction and tourism, the 'other community, social and personal services' sector employed 7 percent of the expatriate workforce in 2017, while the 'hotels and restaurants', 'manufacturing', and 'transport, storage and communication', as well as 'wholesale & retail trade; repair of motor vehicles, motor cycles & personal household goods' sectors accounted for 6 percent each.

With regard to the direct financial impact of migrant labour, official records indicate that while the number of expatriate employees registered 16,744 twenty years ago at the end of December 1997, outward remittances by such workers were estimated at US$ 27.9 million then. Such outward capital transfers have been steadily increasing and have become so significant that estimated remittances during 2018 amounted to US$ 523.3 million, while usable international reserves of the nation totalled just US$ 280.9 million at the end of 2018. In other words, in just one year the expatriate labour force is remitting almost twice the amount of the total stock of usable reserves of the nation. Meanwhile, Census 2014 records indicate that the unemployed local population stood at 8,005 (according to the ILO definition of unemployment being that of people available for and seeking work) while total resident Maldivian population over 15 years stood at 244,956, (of which the 55+ age group accounted for 14 percent) and the employed Maldivian population was 145,757, with expatriate employees totalling 45,584 at the time. Construction companies interviewed by the Maldives Monetary Authority (construction being the sector which accounts for the largest proportion - 27 percent of total and 31 percent of male expatriate workforce as per Maldives Immigration statistics for 2017,

indicated that 'the main reason for the high number of expatriate workers include a) the preference for expatriates due to the attitude and work culture of locals – high level of absenteeism, turnover; b) the low cost of hiring expatriates (usually from South Asian countries where the cost of living is much lower than Maldives) – according to some contractors, wages paid to locals are 20% – 50% percent higher than their expatriate counterparts; c) unavailability of locals due to lack of interest; and d) shortages in skills and education required by the industry. In addition, some locals appear to be reluctant to work in certain jobs, due to a preference for white collar jobs over blue collar jobs.'[14] There is no data on what is likely to be a relatively small number of Maldivians who work overseas or on inward transfers made by them, while estimates for transfers made by residents from income generated in the Maldives for families living abroad reflects an increasing trend over the years, with MMA estimates for 2017 registering US$ 27.4 million.

In terms of investment, Maldivian residents have been given access to significant amounts of foreign capital in recent decades with direct investment totalling around an estimated US$ 452 million in 2018 while borrowings from non-residents against various debt instruments are estimated at around US$ 870 million, and total inward financial flows recorded at US$ 1.32 billion during the year. Of the debt flows, less than 2 percent has been taken on by deposit taking institutions, while general government accounts for 19 percent; the balance amounting to US$ 531 million is held by other sectors. It is likely that much of this foreign financing of the non-government sector (investment + debt) has gone towards tourism and housing development, with government reportedly providing sovereign guarantees for some public enterprise and private sector investments in the recent past.[15] Consequently, the external debt stock of the nation has also grown to unprecedented levels, with total external debt outstanding recorded at an estimated US$ 1.38 billion as at end 2018, with 95 percent being central government debt stock and the remainder being foreign borrowings of the commercial banks. In terms of GDP, this amounted to around 26 percent, while the debt service ratio, indicating the amount repayable in a year of the principal and interest in terms of the export income received from goods and non-factor services, stood at 2.7 percent in 2017.

The Current Scenario and its Implications for the future

The International Monetary Fund staff mission's press release at the end of the 2019 Article IV consultations suffices to sum up the macroeconomic situation that the country is confronted with at present. It noted that 'the current economic expansion also comes with challenges that need to be carefully managed. ….in the near term, the economy faces several downside risks. External risks stem from trade tensions and policy uncertainty, and slower growth in advanced economies and China which would negatively affect tourism and undermine the weak external position. Tighter global financial conditions could push up borrowing costs. In the long-term, the Maldives remains highly vulnerable to climate change. Maldives remains at a high risk of debt distress' and 'For external debt, amortizations from large infrastructure projects pick up starting next year…… tighter monetary conditions and smaller fiscal deficits in the near-term than projected under current policies would be more suited to current economic circumstances. These adjustments would reduce external pressures and foster a pace of expansion more consistent with the economy's current domestic productive and revenue-generating capacity……. Sustaining strong growth and lifting medium-term growth prospects will depend on actions to make the Maldives' economy more competitive and generate a more conducive environment for investment to boost private sector development.'

Socio-economically speaking, the scenario indicated appears to be one in which there are large underlying structural mismatches; growth predominantly financed by borrowing and supported by imported labour, while the population structure of the nation remains largely youthful, with population projections for 2019 indicating that 39 percent of the population is in the 20-35 age group, and expected to grow to about 42 percent by 2054, while the 15-35 age group consists over 45 percent of the population at present

and is expected to account for similar proportions until 2054. In all appearance, it seems as if much of this youthful cohort is not seeking employment and quite content to let expatriates do most of the nation's work, while they ride around on the congested streets of Male' checking their trendy mobile phones every little while for the most recent social media updates (146,458 mobile phones were imported into Maldives at a cost of MVR 448 million in 2018, with 280,876 mobile broadband subscribers in existence at year end), apparently unaware or unconcerned that in doing so, in addition to being unproductive, they are also adding to the import bill for petroleum and consumer products and contributing more and more to the wear and tear of road surfaces that would need to be repaired with their taxes. Despite the expansion in the educated youth population of the country, the increasing number of high school graduates who obtain good results, the increased availability of higher education loans and the number of graduates both locally and foreign educated having increased manifold in the past couple of decades, there does not seem to be much comprehension among the general public of the fact that this generation faces the prospect of having to pay in the not too distant future for their current lifestyles, in addition to repaying borrowings of both the public and private sectors. The focus of much of the Maldivian population still seems to be on intense competition among various domestic interests who ostensibly must somehow be financing this exuberance, while much needed export-oriented or import substituting productivity growth does not seem to be of very high priority.

At the same time, the foreign investment environment continues to remain opaque and subject to political whims – a highlight of this was the outcome of legal proceedings on a high-profile case in 2016 when the Maldives Airports Company Limited, a state-owned enterprise, was ordered by international arbitrators to make a hefty payment to a foreign company on cancellation of a contract entered into by a previous government just a few years earlier. In fact, many international business contracts include requirements for recourse to arbitration in foreign jurisdictions. This is a strong indication of the lack of preparedness of Maldives' legal sector for such business ventures, and reflects the amount of concerted effort that needs to be put in to create an environment conducive to attracting genuine large-scale foreign investment into non-tourism sectors. Such investment is imperative at this juncture to realise the nation's infrastructure enhancement needs and diversify the economic base.

Additionally, concerns that have of late been raised about sustainability and environment related aspects[16] of some of the investment and debt financed infrastructure projects recently embarked upon seems to infer governance failures of a substantial scale that can no longer be blamed on long-standing regimes or lack of institutions. Unless such concerns are addressed efficiently and effectively, they could lead to negative impacts on Maldives' standing in the international arena, particularly as climate change is a core pillar of Maldives' foreign policy framework and her championing of the concept of climate change as a human rights threat for low lying small island states. Such an outcome could have adverse consequences for future access to international financing, particularly of significant resources potentially available through climate change mitigation or environment protection related channels.

The current situation brings to mind Mr. Bell's analysis of the circumstances that existed in the country almost a hundred and thirty years ago, and his views on the potential for significant reforms in 'a discordant society saturated with intrigue and self-seeking'. It leaves many questions as to how far we have really progressed, and the competence and ability of today's generations to concentrate less on rhetoric and more on doing what they have to do to build a sustainable future for themselves in the stark realities of the intricately globalized world that they appear to have been cushioned from up to now, but will most certainly have to face in the not too distant future. Indeed, much sustained collaborative effort needs to be exerted by all factions of the community to ensure that current and future generations of Maldivians are able to take their place with pride, as able representatives of an interdependent yet independent Maldivian nation in the global community of today and tomorrow.

About the author

Ms Shafeenaz Abdul-Sattar holds a Bachelor of Business Management degree (with Psychology electives) from Charles Sturt University-Riverina, Australia, and a Master of Commerce (Honours) degree (majoring in Economics and Government) from the University of Sydney, Australia. In the 1990s/2000s she held posts at the UN Population Fund (UNFPA) and the Maldives Monetary Authority. Later she took up project work in the non-government sector following the Asian tsunami of 2004. Since then she has undertaken managerial, consulting and project-based work with various organisations. Her interests include research and analysis on economic and socio-political development of Maldives from historical perspectives.

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