

TRADE POLICY REVIEW

MALDIVES

Report by the Government

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Maldives is attached.

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I. INTRODUCTION

1. The Maldives is an archipelago located in the Indian Ocean about 300 miles south of India and 450 miles south west of Sri Lanka. There are 1192 coral islands naturally grouped in atolls formed on an ancient, submerged volcanic mountain range. Scattered across the equator extending over 510 miles from north to south and 80 miles from east to west, the islands are small.¹ The total land area of all the islands put together is 115 square miles. The islands are low-lying, none higher than 6 feet above the sea level.

2. The Maldives is an independent sovereign nation governed under a democratic executive-style system. The head of government and state, the president and law-makers are elected according to universally accepted democratic principles. The president is elected every five years. Election for the People's Majlis, the 50-member unicameral legislature, is also held every five years. Two members are elected from each of the twenty Atolls, two from the capital, Male' and the President appoints eight.

3. The President appoints the Cabinet, whose members may or may not be parliamentarians. Presently there are 19 cabinet portfolios. There are twenty administrative atolls each headed by an atoll chief appointed by the president. Male' is the administrative and commercial capital.

4. The national currency is the Rufiyaa (Rf) divided into 100 Laari. The Rufiyaa is convertible into all major foreign denominations. The country maintains a managed fixed exchange rate with the Rufiyaa fixed at 12.85 and 12.75 against the dollar for buying and selling respectively. Flow of foreign exchange into and out of the country is unrestricted.

5. The number of inhabited islands is 198 and the total population presently stands at 270,000. The population growth rate is slightly less than 2 per cent.

6. The Maldives is a net-food importing country. Being excessively import-dependent, with the trade deficit reaching over US\$ 242 million in 2001, the economy relies heavily on tourism and fishing for payment of the import bill which stood at close to US\$ 370 million in 2001. Imports averaged around 61 percent of GDP in the last 7 years, while the figure for exports ranged between 11-15 percent.

7. The economy's growth rate has hovered around 7% for the past ten years. In 2001, service industries, including tourism, accounted for more than three quarters of the GDP. Other main service industries are transport and communications, construction, and wholesale and retail trade. The GDP in 2001 was US\$ 582 million, and per capita GDP US\$ 2,100.

II. OVERVIEW OF THE ECONOMY

Production, prices and employment

8. The Maldivian economy is heavily dependent on fisheries and tourism, which are the major sources of foreign exchange earnings and government revenue, and which together account for about 40 percent of gross domestic product. The economy prospered in the 1990s with the rapid expansion of tourism and the modernization of the fisheries sector together with the extension of basic economic and social infrastructure to more inhabited islands. As a result annual GDP growth averaged around 8 percent during the decade, raising per capita income by more than 70 percent to above US\$ 2,000 in 2000. Due to the heavy reliance on imports for most economic activities and daily needs, coupled

¹ Only a few islands are bigger than 1 square mile in area.

with the dependence on tourism, Maldives is very vulnerable to external shocks. Nevertheless, in the past, external shocks have been successfully dealt with, mainly through fiscal retrenchment.

9. Inflation has remained low in recent years, in part, reflecting the appreciation of the nominal exchange rate against major trading partners since 1995. In 2000, deflation was recorded, with prices of imported food and beverages and clothing and footwear declining sharply, although, in 2001, a marginal increase (0.7 percent) was seen in the total index.

10. In terms of employment, the fisheries (including fish processing) and tourism sectors alone account for more than a third of total employment.² The total labour force of the country is estimated at around 50 percent of the working age population, which, coupled with the low level of educated labour, has led to a high proportion of expatriate workforce in the country. Categories in which expatriate labour has been employed mostly include teachers, medical personnel and other professional categories, as well as semiskilled and unskilled workers such as domestic helpers and construction workers.

Public Finance/Fiscal policy

11. The public sector of the country consists of the government and public enterprises. There are 20 public enterprises in the country. Some are natural monopolies; others operate under monopoly concessions granted by the regulatory and policy ministries. The Government has started to corporatise several enterprises, changing their legal status to limited liability companies incorporated under the Companies Act 10/96. The reasons behind this shift in policy are to increase efficiency, transparency and accountability of the enterprises. Along with the corporatisation effort, the Government has committed itself to privatisation of various enterprises beginning with the partial privatisation of Bank of Maldives Limited, Maldives Transport and Contracting Company, and most recently State Trading Organisation Plc. The Government has also formed joint ventures with several foreign partners in order to improve technical and managerial expertise.

12. Fiscal policy of the country aims at sustainable growth of the economy without undermining macroeconomic stability. Tax revenues account for around 45% of total revenue (excluding grants) and the balance largely of profit transfers from public enterprises and resort lease rent, with the revenue base reflecting the economy's structural characteristics. The bulk of the tax revenue comprises of import duties (63 percent) and tourism tax (28 percent), while there are no taxes on personal income, capital gains, business profits (other than a bank profit tax), wealth, or real estate. Non-tax revenues come from public enterprise profits (31%), lease rents on resort islands (35%), royalties and charges. Grants have been the other source of inflows into the public coffers, and have averaged around 10% percent of total revenue between 1995 and 2001. External donor assistance has also played an important role in the development process, mainly in the form of concessional financing for larger infrastructure and development projects. Although in recent years this has had a fluctuating trend, on average, external funding account for around 28% of developmental expenditure.

13. On the expenditure side, social services and public services make up the major areas of expenditure reflecting around 40% and 42% respectively of expenditure and net lending, whereas payments on economic services account for roughly 15% of expenditure and net lending. On the social sector, education and health take up the major portion of expenditures, accounting for around 46% and 26% respectively of the expenditure on social services. The government also invests heavily in the development of infrastructure of the country.

² 2000 Census.

14. The record of fiscal performance of the country has been one of mixed achievements. While fiscal performance was relatively well kept in the mid 1990s with considerable fiscal restraint and sizeable repayments of the debt taken from the central bank, the late 1990's experienced a somewhat expansionary trend in public expenditures with expenditure outstripping the growth in government revenue. During this period since 1998, sizeable recourse to monetization of the deficit through the central bank financing took place, adding to the government debt.

15. Bearing in mind the importance of fiscal sustainability and efficient expenditure management for the sustainable growth and development of the economy, the government is currently pursuing a number of efforts to address these issues. The Public Expenditure Review, a joint exercise by the World Bank, International Monetary Fund, Asian Development Bank, and the Government of Maldives which was initiated in 2001 will recommend ways to better prioritize and rationalize expenditure programs. The Public Accounting Systems Project, coming into effect in 2003, will overhaul the current single entry accounting system to introduce a centralized; double entry based computerized public accounting system. In addition to these efforts to rationalize and more efficiently manage the public expenditures and improve the transparency of the public sector, the government also recognizes the need to diversify and broaden the revenue base. In this context, the government plans to introduce a business profits tax to be levied on business activities and a property rental value tax to be levied on rental income of leased property. The government is also reviewing the revenue system to rationalize fees and other administrative charges.

Financial sector and monetary developments

16. The financial sector of Maldives is very narrow and dominated by the banking sector, which consists of one locally owned commercial bank, branches of three South Asian partly state-owned commercial banks and a branch of a widely known international bank, HSBC. Non-bank financial institutions in the country consist of a provident fund, a finance leasing company, two insurance companies registered in the country, and some agents for overseas insurance companies. While MMA is the primary source of domestic financing for the Government's fiscal operations, at present the commercial banks are the principal institutions for mobilizing savings and for providing foreign exchange to the private sector. Total deposits of the commercial banks stood at around 46 percent of GDP at the end of 2001, while the stock of credit extended by the banks reflected approximately 31 percent. Monetary aggregates of the past few years indicate that broad money growth has ranged between 3 percent and 9 percent between 1999 and 2001. Prior to July 2001, there were aggregate credit limits on the commercial banks, which served as a lid on growth of credit to the private sector. Following the removal of credit ceilings, private sector credit has accelerated quite significantly reflecting an annual growth of 38 percent at the end of June 2002, as opposed to 13 percent growth at the end of June 2001 and a decline of around 2 percent at the end of June 2000. Net credit to government has also seen a rising trend in the past few years, growing by 13 percent in the year to September 2002, resulting in an increase in domestic credit of 21 percent on an annual basis at the time. Meanwhile, net foreign assets of the banking system, after growing by 22 percent from Rf 1148.5 million to Rf 1405.4 million between 1997 and 1999, witnessed deterioration over the past few years, to reach Rf 1274.3 million at the end of September 2002.

17. All financial institutions currently operate under the supervision of the Maldives Monetary Authority, which has the mandate to function as a central banking authority. Monetary policy in Maldives has been targeted towards supporting growth and development with a stable macroeconomic environment. In the past, the MMA has mainly employed direct instruments of monetary policy to achieve this objective; however, there has been a movement towards an indirect monetary mechanism in the last few years. The main policy instruments currently in use are the Minimum Reserve Requirement (MRR), MMA Certificates of Deposit (CDs), a ceiling on rufiyaa interest rates, and a

Lombard facility for commercial banks operating in the country. In addition, the MMA monitors financial institutions' adherence to the laws and regulations issued by the Authority. Guidelines of international organisations are followed in areas such as bank supervision, and measures are in place to deter money-laundering activities.

18. As there is currently no organised capital market in Maldives, the Government, through the Capital Market Development Section (CMDS) of the MMA is working towards creating the institutional mechanism to facilitate a structured market for generating the capital required by the economy. The requisite legislative framework is currently being developed, and facilities for a trading arrangement have now been initiated through the activities of the CMDS. There is some secondary market trading of the limited number of shares in the Bank of Maldives (BML), and two other state owned public companies - the Maldives Transport and Contracting Company (MTCC) and the State Trading Organization (STO), which is the only publicly available equity stock at present.

Balance of payments and the external sector

19. As Maldives has a narrow export base but high dependence on imports, foreign merchandise trade normally records a large deficit; imports have averaged around 61 percent of GDP in the last 7 years, while domestic exports, consisting primarily of fish and fish products have ranged between 11-15 percent of GDP. Services and transfers have shown a net surplus that has averaged around 34 percent of GDP in recent years, with service receipts being dominated by tourism and related activities. Nevertheless, there is also a significant outflow of transfers from the economy owing to the large expatriate work force that is resident in the country.

20. Official medium and long-term debt flows and inflows of capital for direct investments dominate the capital account of the balance of payments as no portfolio investments flow into the Maldives yet, on account of the lack of a formal capital market. Information on the country's external debt is limited to that of the public sector and commercial banks. In terms of magnitude, external debt stock of the public sector and the banking system has averaged around 38 percent of GDP during 1995-2002, with a large portion of official debt being received on highly concessional terms.

21. There is no exchange control legislation in Maldives. Both residents and non-residents may freely import and export capital through the foreign exchange market, and residents do not require permission to maintain foreign currency accounts either at home or abroad. There is no distinction made between foreign national or non-residents accounts held with the banks operating in Maldives. Inward direct foreign investments require prior approval of the Government. However once permission has been granted, there are no restrictions on transferring of profits.

22. The Maldives has a pegged exchange rate system, whereby the rufiyaa is pegged to the US dollar at a market reflective rate. At present, the buying and selling rates of the rufiyaa in terms of the US dollar are Rf 12.75 and Rf 12.85 respectively.

III. TRADE POLICY AND PERFORMANCE

Trade Policy Objectives and Framework

23. The Government recognizes that the economy's precarious reliance on tourism and fishing is alarmingly risky, as progress sometimes falters, or threatens to be lost in economic crises. It is with this in mind that the Vision 2020 envisages that "[b]y the year 2020 the Maldives will have established the most conducive conditions for brisk commerce and economic activity, and will have

become the hub of regional free trade. The country will have a more diversified economy with export-oriented trade in services and industrial development."³

24. In the immediate future to medium term the Government's aims to reduce the current account deficit through increasing exports and improving terms of trade. To this effect, the Government has opened up to the private sector the export of fresh, chilled and frozen tuna. Two private companies have been licensed to buy, process and export tuna in the Northern zone. Both of these companies have already started their operations in last quarter of 2002. These measures are expected to generate new and additional employment to atoll folks, thereby contributing to alleviate poverty. More private sector participation the tuna export industry is planned for the near future.

25. The agency entrusted with trade policy is the Ministry of Trade and Industries, and the main responsibility of formulating trade policy lies with the Ministry. (See Box 3.1 for MTI's mandate).

26. During the second quarter of 2002, the President established the National WTO Committee (NWTOC) aimed at improving formulation and implementation of trade and trade-related policies. The Committee has the mandate to discuss all WTO-related legislations or regulatory measures. NWTOC will serve to improve the inter-sectoral coordination in policy formulation in WTO-related issues.

27. Since the Maldives does not have any representation in Geneva, due mainly to financial constraints, participation in the WTO activities is limited to those financed by WTO, e.g. Geneva Week, Ministerial Conferences, and technical assistance opportunities such as training workshops, seminars, etc.

Box 3.1: Functions of the Ministry of Trade and Industries

- 1- To regulate the purchase and sale of imports, produce grown and products manufactured in the Maldives.
- 2- To formulate and implement regulations governing import and export.
- 3- To regulate standards on metrology and measurement.
- 4- To formulate and implement regulations governing investment in areas other than tourism in the Maldives.
- 5- To regulate the conduct of business by foreigners individually or jointly with Maldivians.
- 6- To formulate and implement regulations governing commercial provision of services in areas other than those regulated by other government organizations.
- 7- To register commercial companies and formulate and implement regulations governing companies.
- 8- To register partnerships and formulate and implement regulations governing partnerships.
- 9- To formulate and implement policies to encourage the development of industries.
- 10- To formulate and implement policies to encourage the growth of handicraft and other useful industries.

Box 3.1(Cont'd)

³ Vision 2020 Address to the Nation by HE President M. A. Gayoom on the Occasion of the 34th Anniversary of Independence of the Republic of Maldives.

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| 11- | To investigate disputes concerning intellectual property rights and trade marks, such as logo, design, patent rights, and govern matters concerning resolution of such disputes, taking into consideration the interests of the concerned parties, in accordance with international regulations and principles. |
| 12- | To function as the focal point of international economic co-operation organizations of which Maldives is a member. |
| 13- | To register the following: <ul style="list-style-type: none">- video rentals- printing presses- diving schools- cinemas |
| 14- | To register photocopiers used for commercial photocopying. |
| 15- | To attend to and oversee legal matters concerning the functions of the Ministry of Trade & Industries. |

Trade Laws/Regulations

Law on Export and Import

28. The main law governing trade is the Export and Import Law of 1979 (Law No: 31/79), which entrusts with the Ministry of Trade and Industries the authority to regulate export and import.

29. The Law embodies the customs tariffs on the products imported into the country. Although the tariff represents the most important border measure, it is mainly used as a revenue instrument. However, certain tariff rates have been used on environmental and health grounds.

30. Except in the case of cigarettes, on which a specific duty of Rf. 0.30 per stick has been imposed since 2000, all other duties are ad valorem. No duty is levied on exports (except for ambergris on which a duty of 50% is imposed) and re-exports. No duty is levied on: (a) imports of staple foods of flour, rice and sugar; (b) imports of the Holy Quran and parts thereof; (c) a quantity/value that the President of the Republic determines for duty exemption on imports by in-bound travellers; (d) a quantity/value that the President of the Republic determines for duty exemption on imports by private persons for their own use; (e) and, imports which are intended for commercial re-export. Imports of the quantities indicated in (c) and (d) above are not subject to any licensing.

31. Where the Government has the discretion to exempt duty under another law, it may do so in accordance with stipulations therein. In cases where the Government is party to an international treaty, or to an agreement with the government of a foreign country, the Government may treat the duty on exports and imports in a manner stipulated under such treaty or agreement.

Customs Valuation

32. In cases of undeclared import values and undervaluation, the dutiable value is determined on the basis of the prices of the product previously imported. In cases of undeclared export values and undervaluation, the dutiable value is determined on the basis of the prices of the product previously exported. If there exists an issue concerning the value determined by the Government that the owner of the product does not accept, he has the right to appeal to the court of law after payment of duty on that value. If the court decides that the value proposed by the complainant is just, the Government is required to refund the difference to the owner of the good.

Law on Prohibited Imports

33. The Law on Prohibited Imports (Law No 4/75) prohibits the import of weapons of war, gun powder, and explosives into the country except for use of the State in which case they can only be imported by the Ministry of Defence and National Security. However, cases where: security weapons need to be brought in, in connection with a foreign dignitary's visit; a sword or dagger which forms part of military décor of visiting high-ranking military officers, or which forms part of a foreign country's national dress, needs to be brought in, are excepted.

34. Import of material blasphemous to Islam, idols of worship, pornographic material, and live pig is also prohibited. Exceptions are items which the Ministry of Justice authorizes writing for educational purposes.

35. Import of dogs, dangerous animals, non-explosive hazardous chemicals and acids and poisons thereof, fog signal, fireworks, explosives which the Ministry of Transport and Civil Aviation requires to be carried on board ships for search and rescue purposes, spear gun and fishing gun is subject to a special permit from, and under regulations of, the Ministry of Defence and National Security.

36. Import of liquor and pork and products thereof is subject to regulations of the Ministry of Trade and Industries.

Law on Duty Free Zones

37. Law on Duty Free Zones confers with the President of the Republic the discretion to declare duty free zones in the Maldives to sell goods to out-bound passengers. The law states that no duty shall be levied on imports into such zones.⁴ Procedures for import of goods into duty free areas, sale of duty free goods, and other operational aspects of duty free shops are stipulated in the *Regulation Governing Duty Free Business in the Maldives*.

Sanitary and phytosanitary measures

38. Importers of pharmaceutical drugs and traditional or herbal medicine are required to obtain a specific license from the Ministry of Health, in addition to the trade license and import license. All pharmaceutical drugs and traditional or herbal medicine and suppliers of these are required to be approved by the Ministry of Health prior to import. The Ministry maintains a list of approved pharmaceutical drugs and traditional and herbal medicines and suppliers of these.

39. The National Health Laboratory randomly inspects food and beverage products imported. The Ministry of Trade and Industries may suspend or prohibit import of a good based on public health, religious, environmental or other grounds, upon recommendation by the relevant agency.

Environmental measures

40. Environmental measures are normally initiated by the agency responsible for environment. On advice by the Ministry of Home Affairs, Housing and Environment, MTI has prohibited, effective 1 April 2002, the import of ozone depleting substances by parties not registered with the former, which has promulgated regulations on the import and use of such substances in the Maldives.⁵

⁴ Law No: 9/81 of 9 November 1981.

⁵ Public Announcement No: A-14/2002 of 20 March 2002, of the Ministry of Trade and Industries.

41. Effective 1 August 1995, import of sea turtles and tortoises and shells thereof and products of shells thereof is prohibited on environmental grounds.⁶

42. Effective 1 January 2000, import of vehicles such as cars, lorries, vans, cranes, excavators, forklifts, and dumpers is subject to specific licensing by the Ministry of Trade and Industries. Applications for import license for these vehicles should be accompanied by a document of approval issued by the Ministry of Transport and Civil Aviation.

Bilateral Trade Agreements

43. The only bilateral trade agreement the Maldives has is the “*Trade Agreement between the Government of the Republic of India and the Government of the Republic of Maldives*” which has been in force since 31 March 1981. Basically an MFN agreement, it provides for accordancy of treatment to the commerce of either country no less favourable than that accorded to third countries, but does not prevent either from the grant or continuance of:

- a) privilege which are or may be granted by either of the two Governments in order to facilitate frontier trade.
- b) advantages and privileges which are or may be granted by either of the two Governments to any of their respective neighbouring countries.
- c) advantages resulting from a customs union, a free trade area or similar arrangements which either of the two Governments has concluded or may conclude in the future.
- d) advantages or preferences accorded under any scheme for expansion of trade and economic co-operation among developing countries, which is open for participation by all developing countries and to which either of the two Governments is or may become a party.

Regional Trade Agreements

44. The Maldives is a party to the SAARC Preferential Trading Arrangement (SAPTA) signed on 11 April 1993.

45. SAPTA is based and applied on the principles of overall reciprocity and mutuality of advantages to benefit equitably all contracting states, taking into account their respective levels of economic development, the pattern of their external trade and trade policy regimes. It provides for step-by-step negotiations, improvements and extensions in successive stages with periodic reviews. It recognizes the special needs of the LDCs and provides for negotiations on concrete preferential measures and for requests for technical assistance in their favour (Box 3.3 gives a list of possible areas for such technical assistance and cooperation given in Annex 1 of the SAPTA Agreement).

⁶ Public Announcement No: A-24/95 of 15 June 1995, of the Ministry of Trade and Industries.

Box 3.2: Additional Measures in Favour of LDCs

- (a) identification, preparation and establishment of industrial and agricultural projects in the territories of LDCs which could provide the production base for expansion of exports of LDCs to other contracting states, possibly linked to cooperative financing and buy-back arrangements;
- (b) setting up of manufacturing and other facilities in LDCs to meet intra-regional demand under cooperative arrangements;
- (c) formulation of export promotion policies and establishment of training facilities in the field of trade to help LDCs expand exports and maximise benefits from SAPTA;
- (d) provision of support to export marketing of products of LDCs by enabling them to share existing facilities (e.g. with respect to export credit insurance, access to market information) and by institutional and other positive measures to facilitate imports from LDCs into markets of other contracting states;
- (e) bringing together of enterprises in other contracting states with sponsors in LDCs to promote joint ventures in projects designed to lead to expansion of trade; and
- (f) provision of special facilities and rates in respect to shipping

46. Areas identified in the SAPTA Agreement for special and more favourable treatment for LDCs include:

- (a) duty free access, exclusive tariff preferences or deeper tariff preferences for the export products;
- (b) removal of non-tariff barriers;
- (c) removal, where appropriate, of para-tariff barriers;
- (d) negotiations of long-term contracts to help LDCs achieve reasonable levels of sustainable exports of their products;
- (e) special consideration of exports from LDCs in the application of safeguard measures; and
- (f) greater flexibility in the imposition of quantitative or other restrictions provisionally and without discrimination in critical circumstances by LDCs on imports from other contracting states.

47. The scope of SAPTA extends to all products, manufactures and commodities in their raw, semi-processed and processed forms. It provides for arrangements concerning but not limited to tariffs, para-tariffs, non-tariff and direct trade measures agreed in negotiations conducted on a product-by-product, across the board and sectoral bases and on direct trade measures, as well as trade facilitation and other measures.

48. Bilateral commitments given and recorded in the National Schedules of Concessions are multilateralized on an MFN basis except for those given specifically in favour of LDCs. A Committee of Participants (COP) reviews the progress in implementation of SAPTA. SAPTA also provides for the COP to accord adequate opportunities for consultation on representations made by contracting states with respect to any matter affecting the implementation of the agreement, and for adopting appropriate measures for setting such representations. If a dispute could not be settled

amicably between the parties, it is referred to the COP, which has 120 days to make a recommendation on the case.

49. Products in respect of which concessions are granted under SAPTA are only eligible for concessional treatment if (a) they originate in the exporting contracting state, and (b) they are directly consigned from the exporting to the importing contracting state. A product is deemed to have originated in the exporting contracting state if it is wholly produced or obtained in that country. The following are considered wholly produced or obtained in the exporting contracting state:

- (a) raw or mineral products extracted from its soil, its water or its seabeds;
- (b) agricultural products harvested there;
- (c) animals born and raised there;
- (d) products obtained from animals in (c);
- (e) products obtained by hunting or fishing conducted there;
- (f) products of sea fishing and other marine products taken from high seas by its vessels;
- (g) products processed and/or made on boards its factory ships exclusively from products in (f)
- (h) used articles collected there, fit only for the recovery of raw materials;
- (i) waste and scrap resulting from manufacturing operations conducted there; and
- (j) goods produced there exclusively from products in (a) through (f).

50. Products which are not wholly produced or obtained are also eligible for concessional treatment (a) if the total value of the materials, parts or produce from third states or of undetermined origin used does not exceed 60 of the FOB value of the products produced or obtained and the final process of manufacture is performed within the territory of the exporting contracting state; and (b) if the products are covered under any sectoral agreements negotiated under SAPTA and special origin criteria are provided for under such agreements.

51. So far four rounds of trade negotiations have been conducted under SAPTA, although the fourth round has not yet been formally concluded.

External Trade Performance

52. The country's total exports in 2001 grew by Rf 40.5 million to Rf 937 million, a growth of 4.5 percent over the year 2000 (Table III.1). Average increase in exports for the past five years stood at Rf 48 million, representing an average growth rate of 6.8 percent. Marine products, with 57 percent in 2001 and apparels and clothing with 42 percent are the main exports. Figure III.1 presents a slight upward trend in exports from 1991 to 2001.

53. The biggest single shares in the marine products category were attributable to dried tuna (15 percent), canned fish (13 percent), fresh or chilled tuna (7 percent) and live reef fish (4 percent).

54. The largest chunk, 41 percent, comprising entirely of clothing manufactured by FDI companies, was exported to the United States. 19 percent (almost entirely marine products) and 9 percent (mainly canned fish) was exported to Sri Lanka and UK respectively. Overall, exports to Asia accounted for 41 percent and Europe 17 percent.

55. Imports grew at 7 – 9 percent per year for the last ten years. Only in 2000 and 2001 did falls (3.5% and 0.7% respectively) in imports register, when severe macroeconomic imbalances owing to lower fish prices in foreign markets coupled with higher oil prices and fewer tourist arrivals resulted in immense pressure on foreign exchange, and the growth of the economy slowed down from 7.4% in 1999 to 4.6% in 2000 and 2.1% in 2001.

Table III.1
Exports, Imports, Balance of Payments 1991-2001

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
EXPORTS											
Total (fob in Rf '000)	544,335	416,682	377,397	554,616	586,199	699,190	826,422	878,346	752,706	896,824	937,325
Total (fob in US\$ '000)	53,092	39,424	34,444	47,870	49,805	59,404	70,214	74,626	63,951	76,196	76,298
Marine products	379,577	332,158	316,493	424,828	436,877	575,822	653,740	667,434	458,427	481,665	538,337
Clothing products											
Other products	164,758	84,524	60,904	129,788	149,322	123,368	172,682	210,912	294,279	415,159	398,988
% Marine products	70	80	84	77	75	82	79	76	61	54	57
% Other products	30	20	16	23	25	18	21	24	39	46	43
IMPORTS											
Total (cif in Rf '000)	1,653,844	2,001,525	2,096,704	2,570,690	3,153,336	3,551,290	4,105,947	4,166,248	4,733,418	4,573,655	4,741,042
Total (cif in US\$ '000)	161,310	189,373	191,359	221,883	267,913	301,724	348,849	353,972	402,160	388,586	385,921
	1991	1992	1993	1994	1995	1996	1997	1998	1999*	2000*	2001**
BALANCE-OF-PAYMENTS (In million US\$)											
Trade balance	-65.6	-102.8	-125.0	-119.6	-150.8	-185.6	-214.0	-215.9	-262.4	-233.3	-242.0
Current account balance	-9.0	-19.6	-53.8	-11.1	-18.2	-7.4	-34.2	-23.3	-81.6	-53.0	-62.0
Overall balance	11.4	1.1	-15.9	8.1	15.3	43.7	27.4	29.1	-7.2	-7.9	-26.0
Services (net)	51.1	87.8	84.4	114.4	136.1	179.1	190.5	204.3	203.6	208.8	210.2
Unrequited transfers (net)	5.5	-4.6	-13.2	-5.9	-3.6	-1.1	-10.8	-11.7	-22.8	-28.5	-30.2
Non-monetary capital (net)	20.3	20.7	37.9	19.2	33.5	51.1	61.6	52.3	74.4	45.1	36.0

* Revised estimate.

** Estimate.

Source: Maldives Customs Service and Maldives Monetary Authority.

Figure III.1
Export trends, 1991-2001



Source : Maldives Customs Service.

IV. INDUSTRIAL POLICY AND DEVELOPMENT

56. The government agency responsible for industrial development is the Ministry of Trade and Industries. The government desires to develop technology-intensive, knowledge-based, environmentally sustainable light industries.

57. The National Industrial Exhibition, an annual event organized by MTI forms part of the overall industrial policy. The major objectives of this event are to encourage development of new industries and to revive traditional industries⁷.

58. All projects, whether local or foreign, are subject to environmental evaluations/assessments before investment is made, depending on the nature of the undertaking.⁸

59. An amendment in 1994 of the Export and Import Law provided for enhanced incentives in the form of import duty concessions for a maximum of ten years⁹ for local investors subject to specific eligibility criteria. The amendment also lowered the import duty of some chemicals, which are used as inputs in manufacturing industries.

60. Local investors are entitled to incentives¹⁰ under a three-tier import duty concessions mechanism. Depth of these concessions depends on (i) whether production is export-oriented or for

⁷ Regulation on National Handicraft Exhibition of Maldives, 1997.

⁸ Article 5 (a) and (b), and Article 6, Law on Environment (Law No. 4/93).

⁹ Article 7, Law on Export and Import.

¹⁰ MTI's incentives scheme for import duty concessions to local Investors, 1995.

the local market, (ii) the local/expatriate labour employment ratio,¹¹ and (iii) the size of the import shipment.¹² Eligibility for the entitlement of these incentives depends on the size of the investment.¹³ The maximum duration for maintenance of these incentives under the mechanism is eight years for raw materials, and two years for capital goods.

61. All projects, whether local or foreign, are subject to environmental evaluations/assessments before investment is made, depending on the nature of the undertaking.¹⁴

62. The government does not encourage establishment of large-scale industrial units in Male'. The positive impact of the Government's decision to lease land for industrial use on Thilafushi has been felt since many of the industries that were struggling due to lack of space in Male' have found a relative haven on land-reclaimed island, where lease cost is several times lower than in Male'. However, lack of physical infrastructure on Thilafushi compels entrepreneurs to make additional investment on providing self-contained infrastructure. This causes overall investment and costs to be higher than would have been the case otherwise.¹⁵

63. The relative success of Thilafushi is said to be attributable to availability of larger sites, cheaper cost of land, convenient access thanks to proximity to Male' where the largest share of the economic activities are concentrated, proximity to the country's main sea port and airport.

64. The previously declared industrial zones of Laamu Gan and Seenu Gan are also open for local investors for setting up manufacturing activities. Seenu Gan was selected because it has existing infrastructure, an airport, and is reasonably big, easily accessible, and a large population is in the proximity. Laamu Gan was selected for its scope to build good infrastructure, availability of land, accessibility, as well as for possibility to employ local labour. Another location, Thulusdhoo in Kaafu Atoll, did not really take off as an industrial zone, at least in terms of foreign investment.

65. Industrial activities in the Maldives include a mix of traditional, home-based manual activities and technology-based small- and large-scale industrial productions. Individuals who are not formally organized nor registered as commercial concerns mostly engage in traditional industries. Local or foreign private companies and public enterprises undertake larger operations, which require greater investments. Small private firms or individuals own smaller production units.

66. Modern industrial manufacturing is a relatively recent economic activity in the Maldives. Attempts made a few years ago to manufacture candles, PVC pipes, footwear and soap had not been successful. Reasons for these failures could be largely attributed to uncompetitive prices vis-à-vis imports. Table IV.3 provides an indicative list of existing modern manufacturing industries in the country.

67. Fish canning is the only major resource-based industry. A few by-products of the fish canning industry have also been developed. These include *rihaakuru* (fish paste), fish meal, and vacuum-packed fish and fish parts.

68. Most industries produce value added products. Raw materials or components are imported and processed or assembled locally.

¹¹ Concessions are also deeper if 75% or more of the workforce is local.

¹² No concessions are granted if values of shipments are below stipulated amounts.

¹³ If the investment is below a minimum value, the project does not qualify for these incentives.

¹⁴ Article 5 (a) and (b), and Article 6, Law on Environment (Law No. 4/93).

¹⁵ The private company, which runs the sawmill on Thilafushi, invested on a power system and sells its excess supply to other interested production plants and units on the island.

1.2.2. Employment

69. According to 1995 census figures, manufacturing ranks third in employment with 18.05% of the total labour force of 66,945. Table 2 shows that more women are employed in the sector than men.

70. Unfortunately, the majority of women working in the apparel industry are expatriates. The total number of expatriates working in the sector is 2,083.¹⁶

Table IV.1
Employment in Manufacturing

Sector total	% of Labour force	Male	Female	Male'	Atolls
12,082	18.05	4,452	7,630	2,219	9,863

Source: Ministry of Planning and National Development.

Productivity

71. The fact that the sector employs the third highest number of workers must be treated with caution, because although employment is comparable with the other sectors, output of the sector is lower. It could mean that productivity of the manufacturing sector is lower than that of the other main sectors.

Export performance

Table IV.2
Manufacturing Exports (Values in Rf '000 at 1985 Constant Prices)

	1997			1998			1999		
	Value	% of total exports	Growth rate (%)	Value	% of total exports	Growth rate (%)	Value	% of total exports	Growth rate (%)
Apparel	171,300.3	20.7	40.5	209,962.8	23.9	18.4	292,844.7	38.9	39.5
Canned fish	192,260.5	23.3	-1.7	196,807.8	22.4	2.4	101,501.8	13.5	-48.4
Fish-meal	16,944.0	2.1	10.8	15,606.0	1.8	-7.9	15,819.2	2.1	1.4
Total exports	826,422			878,346			752,706		
Growth rate of total exports (%)	18.2			6.3			-14.3		

Source: Ministry of Planning and National Development.

72. Unfortunately, growth of export of manufactured products is erratic. Garments remain the number one single export product, followed by canned fish. Uncompetitive prices may be responsible for much of the unpredictability in demand for these products.

Traditional industries

73. Home-based industries, such as basketry, mat weaving, rope making, weaving on hand-operated looms, have virtually lost demand in the domestic market due to availability of cheaper substitutes¹⁷.

¹⁶ 1999 Estimates by the Ministry of Human Resources, Employment and Labour.

¹⁷ Arguably, there was no 'market' as such for many of these industries because in many instances, production was on a *do it yourself when needed* or *favour* basis. However, there were instances of barter, when a producer exchanged his product for another product or service from another person.

74. A few activities, which still survive, include, thatch (fangi and thoshali) weaving, whose survival depends to a great extent on their use for thatching roofs in tourist resorts. Lacquer-worked products, largely made on the island of Thulhaadhoo in Baa Atoll in the North, have local as well as tourist demand. Government departments buy them to give away as souvenirs to foreign hosts or visitors. Tourists also buy them from local souvenir shops. Local mats (kunaa) have similar demand. Gadhdhoo Kunaa, for example, woven on the island of Gadhdhoo in Gaafu Dhaalu Atoll in the south, are renowned for their meticulous artisanship, beauty and quality.

75. Blacksmithing, including fabrication of non-electric irons, has virtually died, while goldsmiths survive. Other vocational activities such as carpentry and boat building have embraced modern methods and technology, thereby delivering better quality, but not necessarily less expensive, products than before.

Industrial manufacturing

76. Table IV.1 presents a list of industrial manufacturing activities. Most industrial activities are undertaken by the private sector, although there are no reliable estimates comparing the performance of the private sector and the government/public sector in manufacturing.

Table IV.3
Industrial Manufacturing Activities

Industry	No. of plants/units	For export markets	For domestic market	Gov/SOE operation	Gov/SOE/pyt operation	Pvt sec operation	Technology-intensive	Labour-intensive	Foreign investment	Local investment	Foreign/local JV	Franchise	Customs Tariff
Aluminium doors/windows	2	.	.	.	.	.	.	.	.	.	.	.	25%
Baked food products	S	.	.	.	.	.	.	.	.	.	.	.	15%
Bleaching liquid	1	.	.	.	.	.	.	.	.	.	.	.	25%
Canned fish	1	.	.	.	.	.	.	.	.	.	.	.	15%
Cement	1	.	.	.	.	.	.	.	.	.	.	.	10%
Cement bricks	S	.	.	.	.	.	.	.	.	.	.	.	25%
Chillers/coolers	1	.	.	.	.	.	.	.	.	.	.	.	20%
Clothing items	S	.	.	.	.	.	.	.	.	.	.	.	15%
													25%
Electric panel boards	2	.	.	.	.	.	.	.	.	.	.	.	25%
Fish-meal	1	.	.	.	.	.	.	.	.	.	.	.	25%
Furniture	S	.	.	.	.	.	.	.	.	.	.	.	20%
Glass fibre boats	2	.	.	.	.	.	.	.	.	.	.	.	25%
Machine parts (spares)	2	.	.	.	.	.	.	.	.	.	.	.	20%
RO plants	1	.	.	.	.	.	.	.	.	.	.	.	20%
Wooden boats	S	.	.	.	.	.	.	.	.	.	.	.	25%
Roofing material	1	.	.	.	.	.	.	.	.	.	.	.	15%
LPG bottling	2	.	.	.	.	.	.	.	.	.	.	.	10%
Photo processing	S	.	.	.	.	.	.	.	.	.	.	.	25%
Printing	S	.	.	.	.	.	.	.	.	.	.	.	10% 25%
Handicrafts (wooden)	S	.	.	.	.	.	.	.	.	.	.	.
Herbal medicine	S	.	.	.	.	.	.	.	.	.	.	.	5%

Table IV.3 (Cont'd)

Industry	No. of plants/units	For export markets	For domestic market	Gov/SOE operation	Gov/SOE/pvt operation	Pvt sec operation	Technology-intensive	Labour-intensive	Foreign investment	Local investment	Foreign/local JV	Franchise	Customs Tariff
Mineralised water	1		.			.	.			.		.	15%
Paper bags	1		.			.	.			.			10%
Soft drinks	2		.			.	.			.		· (1)	15%
Paint	1		.			.	.			.
Wooden planks	1		.			.	.			.			15%
Vacuum-packed fish/fish parts	1		.	.	.			.		.			15%

Source: Xebec Consulting and Research.

V. FOREIGN DIRECT INVESTMENT

77. The legal and regulatory environment for FDI in the Maldives is relatively simple, liberal and generous. *The main legal instrument on FDI is the Law on Foreign Investment*, which requires an agreement to be entered into between the investor and the government. Areas to negotiate include, the sector of operation, the royalty payable to the government, location and duration of investment and operation, jurisdiction, dispute settlement, investment guarantee, compensation, and incentives, including land rent (and lease period where applicable) and import duty concessions.

78. Depending on the nature of operation investors intend to undertake, foreign investments are registered either with the Ministry of Trade and Industries or with the Ministry of Tourism.

79. The Law broadly provides for 100 percent foreign ownership, in addition to foreign-local joint ventures, and investment guarantee. The investor is permitted to repatriate capital and profits. Employment of non-Maldivians is allowed in cases when competent locals for the post in question are not available. Incentives in the form of waivers on import duty on machinery, capital goods and construction materials are available.

80. Disputes which cannot be settled by mutual discussion are dealt with in accordance with the agreement entered into under Article 3 of the Law on Foreign Investment. For projects less than US\$ 1 million, disputes are settled by mutual discussion, failing that in the Courts of Law in the Maldives. For projects exceeding US\$ 1 million, international arbitration is suggested, if necessary.

The Government gives preference to projects:¹⁸

- requiring “*local employees and labour to be trained with the aim of employing them at technical, skilled and management levels*”;
- utilizing “*local materials which are either available naturally or which could be produced locally*”;
- whose “*products are locally marketable at competitive prices and result in the reduction of imports of such commodities*”;

¹⁸ The Foreign Investment Guidelines published by the Foreign Investment Services Bureau footnote that these “*terms are not very rigidly structured..*” and proposals “*will be duly considered.*”

- making “*provision to add on to the economic and social infrastructure of the country*”;
- which “*cannot be started by local investors because of (1) the size of the investment required, and/or (2) lack of technical expertise*”;
- which are “*to be located in the outer atolls rather than in the vicinity of Male.*”

81. Existing FDI operations in the service industries include tourism, basic, mobile and aircraft telecommunications, banking and financial services, internet, air transport, business services, medical services, spa, educational services, diving and water sports, catering, repair and maintenance of machines, property management; in the manufacturing industries: boatbuilding, distribution and treatment of water and sewerage, construction, cement packing, apparels/clothing, software; and seasonally in fishing beyond 75 miles in the waters of the exclusive economic zone (EEZ).

82. In services, the local telecoms company has a contractual exclusivity to provide telecommunications services throughout the country until October 2008. Two air transport providers presently operate over two dozen sea planes, which ply between Male’ International Airport and the tourist resorts. One of these two companies made a switch over from helicopters to seaplanes. A number of internationally reputed multinationals operate their tourist resorts in the Maldives.

83. The existing water and sewage utility in Male’ has contractual exclusive rights to operate a desalinated water distribution network and sewerage utility in Male’ until mid 2015. Another foreign-local joint venture operates a cement packing plant on the island of Thilafushi, but does not enjoy any exclusive rights.

84. A foreign-local joint venture has started up a cement bagging operation in March 1999 for sale in the domestic market. The facility, located on Thilafushi, has been effective in two respects from the view point of wider economic and social implications. First, it has alleviated to a great degree the multifaceted problems arising out of the necessity to store huge stock piles of cement on the overcrowded island of Male’. Second, it has contributed to stabilizing the price of cement in the domestic market due to the enhanced competition between the product and imports.

85. It is difficult to estimate FDI stocks reliably due to lack of human resource capacity. However, UNCTAD data are presented in Table V.1 which gives growth rates of FDI in the Maldives.¹⁹

86. Since foreign investors pioneered the export-oriented manufacture of apparels in the country in early eighties, thanks to the availability of GSP for Maldives as an LDC, this has on and off been one of the country’s important export industries. However, not all companies seemed to have been successful in their operations in the Maldives. A number of companies have closed down their factories after a few years of operation. Although there are no published analyses on reasons for such failures, “*uncompetitiveness*” might have been a factor.²⁰

¹⁹ However, it is unclear what sectoral investments the figures in Table 1 constitute of.

²⁰ Ch. 2, *Sixth National Development Plan 2nd Ed.*, Maldives, 2002.

Table V.1
FDI Overview
(Millions of US Dollars & Percentages)

	1985-1995 (Annual Average)	1997	1998	1999	2000	2001
FDI flows	5	11	12	12	13	12
% of Gross fixed capital formation	7.9	6.5	6.6	5.8	8.9	..

Source: UNCTAD World Investment Report 2002.
