<table>
<thead>
<tr>
<th>Title</th>
<th>Maldives: an economic brief</th>
</tr>
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<tbody>
<tr>
<td>Author(s)</td>
<td>Ahmed Zaky Nafiz</td>
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Maldives: An Economic Brief

By

Ahmed Zaky Nafiz
MALDIVES AN ECONOMIC BRIEF

BY
AHMED ZAKY NAFIZ

DEPARTMENT OF INFORMATION AND BROADCASTING
MALE
REPUBLIC OF MALDIVES
The Republic of Maldives is an archipelago of about 1,200 small coral islands, spread over geographic area of 90 sq km in the Indian Ocean towards the south of the Indian subcontinent. The islands, grouped in ring-shaped clusters, stretch approximately 750 km from north to south and 12 km from east to west.

The country's nearest neighbors are India and Sri Lanka about 600 and 670 kilometers to the north and north east of Maldives respectively. The geographical location of the country far from the Asian mainland has caused the country to remain relatively untouched by the political and social tides that have swept across the rest of southern Asia.

The Republic is divided into nineteen administrative divisions called "atolls". Male, also an insland, is the capital of Maldives and it has been the seat of the Government from the very beginning of the known history of the archipelago.

The Maldivian economy has always been an open economic system with a highly enterprising private sector engaged in the import-export trade, tourism, housing, boat building and service industries. The Maldivian national currency is the Rufiyaa (Rf) which is freely convertible to foreign currencies. The foreign currency exchange rates are not fixed, and therefore depend on the market forces. There are no currency restrictions on travelers bringing in or taking out domestic and foreign currencies. Both residents and non-residents can maintain foreign currency accounts in Maldives or abroad. All internal transactions however have to be conducted in the national currency.

Maldives attained in 1986 a Gross Domestic Product (GDP) of Rf 623.2 million, or a per capita product of US $ 377. The GDP had increased at an average annual growth rate of 12.2 percent during the five years 1978-1982. However, for the 1987-1990 period the GDP is expected to grow at an average rate of 9.3%.
The distribution of the GDP in 1982 was as follows:

<table>
<thead>
<tr>
<th>Percent</th>
<th>Rf</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary sectors:</td>
<td></td>
</tr>
<tr>
<td>of which, fishing</td>
<td>227.8</td>
</tr>
<tr>
<td>Secondary Sectors:</td>
<td></td>
</tr>
<tr>
<td>of which Transport</td>
<td>141.7</td>
</tr>
<tr>
<td>other Services</td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>75.7</td>
</tr>
<tr>
<td>Government</td>
<td>319.7</td>
</tr>
<tr>
<td>Total</td>
<td>319.7</td>
</tr>
<tr>
<td></td>
<td>37.2</td>
</tr>
<tr>
<td></td>
<td>128.6</td>
</tr>
<tr>
<td></td>
<td>110.6</td>
</tr>
<tr>
<td></td>
<td>43.3</td>
</tr>
<tr>
<td></td>
<td>623.2</td>
</tr>
<tr>
<td></td>
<td>36.6</td>
</tr>
<tr>
<td></td>
<td>22.7</td>
</tr>
<tr>
<td></td>
<td>12.1</td>
</tr>
<tr>
<td></td>
<td>51.2</td>
</tr>
<tr>
<td></td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>20.5</td>
</tr>
<tr>
<td></td>
<td>17.7</td>
</tr>
<tr>
<td></td>
<td>6.9</td>
</tr>
<tr>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

Main industries

Fishing the main traditional occupation, employs about 25% percent of the labour force. It suffered a serious reverse in 1972 when Sri Lanka, the then sole purchaser, severely limited its imports of smoked and dried tuna known as "Maldive Fish". The country since then has successfully switched over to exporting fresh fish, salted dry fish, and canned fish.

The fish catch, variable from year to year, averages about 35,000 metric tons. After exports, some 11,000 tons, or 70 kg per head of population, are available for domestic consumption. Fish constitutes the main source of protein generally available in the country.

Maldives has been even more successful in marketing its natural assets: beaches with white coral sands, the blue sea, warm sunshine and golded sunsets. Since the establishment of the first hotel in 1972, 56 tourist hotels have been developed by the end of 1986 with a capacity of about 5,559 beds. The number of tourists visiting Maldives increased from 1,500 in 1973 to nearly 140,000 in 1987.
To facilitate air travel to the country, the Government undertook an important project to develop the airport on Hulhule island - about two miles from Male. Male international Airport can now handle all wide bodied aircraft. At present scheduled flights from Colombo Trivandrum, Karachi, Kathmandu, Dubai and Singapore, operate to Male Airport. There are also several direct charter flights presently operating from destinations in Europe to Male.

The national shipping line, which is operated by the Maldives National Ship Management Ltd, handles 95% of the country's imports. Since the mid sixties, the industry's surpluses have been an important source of foreign exchange. However, this sector has been adversely affected since 1982, by a number of external factors including the stagnation in world trade, the Gulf war the adoption of the UNCTAD "40:40:20 Resolution which restricted the share of third country carriers. Therefore, to minimize losses the shipping line is being consolidated and its operations have been streamlined.

Labour Force

The domestic labour force of Maldives is currently estimated at 68,200 persons. It is hoped that this figure would reach 62,000 by 1990. The economic participation rate for women is high.

Over three-quarters of the labour force is engaged in the traditional occupations: fisheries (mostly men), agriculture and manufacturing (mostly women engaged in cadjan, coir rope making, etc.) The labor force in other occupations consists primarily of wage and salary earners in the Government and private sector.

Investment Opportunities

Provisions governing direct investment by foreign nationals mostly in hotel industry, manufacturing and banking although requiring Government approval, are extremely liberal and permit unrestricted transfers of profits and tax exemptions for periods of up to ten years.
Development Outlays

Maldives allocated over one-third of its Gross Domestic Product in 1986 for national development.

<table>
<thead>
<tr>
<th>Private Investment</th>
<th>RF</th>
<th>Percent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current development</td>
<td>155</td>
<td>24.9</td>
</tr>
<tr>
<td>Investment</td>
<td>167</td>
<td>26.8</td>
</tr>
<tr>
<td>Total</td>
<td>555</td>
<td>89.1</td>
</tr>
</tbody>
</table>

The Government's current development expenditure provides for health, education, transport and communications. A major portion of private investment goes into the construction or purchase of fishing boats, housing and building tourist hotels.

Prices

The rapid economic growth in recent years has led to a fairly high rate of inflation. This has been the combined result of "import inflation" through higher world prices of import goods, particularly petroleum products, and "export inflation" - the effects of tourism on the prices of domestic supply of fruits and vegetables, construction materials, transport services and labour. To keep the cost of living down, the Government pursues a price maintenance policy through fiscal intervention, and keeps the price of certain essential items under control.

THE PROSPECTS

Potentials for Growth

The country has considerable potentials for future development of fishing, tourism, shipping, manufacturing and agriculture.
Fishing

Prospects in the Fishing industry are quite favourable. The country expects a considerable increase in earnings of the sector as a result of the improvement in the knowledge of fishing grounds and fishing methods, establishment of fishing methods, establishment of fish collecting and freezing facilities and transportation of fish to consuming centres abroad in Maldivian reefer vessels and the on-going fishing-boat mechanization program. Furthermore, according to the current world forecasts, fish prices are likely to increase tremendously. Therefore production and export of marine products are expected to increase in the coming years. Future strategies also include the exploitation of fish species other than tuna, including high value reef fish. At the same time the government's fishery policy issues too are geared towards a more effective and rational fisheries management.

Tourism

The ultimate goal in the tourism development plan which was approved by the Government in 1982 is to reach a capacity of 10,000 beds for some 200,000 tourists annually by 1990, through a step-wise, flexible and controlled programme which will maximize the economic benefits of tourism and at the same time adopt sufficient safeguards to prevent disruption of the country's social and cultural values.

Shipping

The shipping industry in many parts of the world is experiencing a lean period due to the prevailing economic recession in the industrialised countries and increased tonnage over the past few years. The Maldivian shipping line is also faced with the same difficulties at present, but in view of the experience and good reputation gained by the industry for over twenty five years, it
is certain that when conditions improve the industry can further expand its operations thereby increasing its capability to contribute more effectively to the overall development process.

Manufacturing

The successful experience of the export oriented garment factories in Gan and Thulusdhoo islands have proved the country's industrial capability. The role of the government in this sector in the coming years will be largely confined in the provision of industrial infrastructure, that is conducive to the industrial development. The private sector is however expected to invest. As part of the policy to widen the industrial base and to spread the industrial development throughout the country, the Government has decided to establish industrial promotion zones in 3 selected areas. They are Gan in Laamu Atoll, Gan in Addu Atoll and Haa Dhaal Atoll.

Agriculture

Despite the handicaps of area limitation and the alkaline character of the soil, surveys show that it is possible to have a significant increase of agricultural production in Maldives particularly of coconuts, fruits and vegetables. These have a good market in the tourist resorts and increase in production will cut down agricultural imports. The present problems of damage to coconut trees, fruits and poultry inflicted by rats, black beetles and crows is being tackled by the Government's pest control program which is expected to increase coconut production by 40 percent and poultry by 400 percent.

Development of the Atolls

The concept of Atoll Development was evolved in 1978. The improvement of the living conditions of the people in the atolls is one of the most important national objectives vigorously pursued by the present administration. The first phase of the Atoll Development project launched by the Government in 1979 mainly involves creating
basic social and economic infrastructure and providing better educational opportunities to the people of the atolls. The project is aimed at construction of jetties, navigation aids, fuel storage facilities to upgrade the fishing villages. Deepening of the inner harbors of some islands were also completed to facilitate traveling between the islands. The establishment of atoll trading centers to facilitate the distribution of essential commodities, provision of atoll schools, health centers, water supply and sanitation are also to be provided under the project.

Constraints

Economic constraints that restrict the level of project implementation in Maldives are inadequate natural resources, the shortage of skilled labor on isolated islands covering a vast geographic area.

The sea which geographically unites the country and provides its main source of sustenance, also divides the population into small and scattered communities, and every island needs its own social and economic infrastructure for the community which lives on it to achieve development objectives. This is a severe burden that countries with larger and less fragmented communities do not have to bear. Moreover, all efforts to improve the conditions of the people in the atolls are often delayed because of the difficulty of transport.

To break this isolation of the people in atolls, the Government has begun the implementation of a project that will establish a scheduled transport and communication system to link the islands with Male and with each other. Once the project is completed in 1990, it will be easier to provide the necessary social services to raise the standard of health, education and productivity of the four-fifths of the population living outside of Male.
Development Objectives

The principal objectives for the economic and social development are:

- to increase the GDP and GNP of the country
- to achieve a reasonable balance in population density and the economic and social progress between Male and the atolls; and
- to attain self-reliance for future growth, that is, to build up the volume and strength of its indigenous human and material resources so as to considerably reduce, if not eliminate altogether, the need for foreign specialized manpower and financial resources.

Development Strategies

To achieve the above objectives, the country is vigorously pursuing measures:

- to evolve short and medium term plans and a long-term plan and a long-term perspective plan for its economic social.
- to develop Male like centers in different areas of the country.
- to give greater attention and allocate more resources to the still unresolved problems and constraints in the social sectors: health, sanitation, urban planning, education and training;
- to relieve Male of its congestion and to reduce the imbalance between Male and the outer atolls by channeling larger resources to them with greater access to health and training facilities, and by planning and providing a scheduled transport system to integrate the nation; and
- to give greater attention to the preservation of the country's natural habitat and the quality of life of the people.

The country wants to considerably increase its domestic product in the next five years in order to create the economic surpluses necessary to finance future economic growth and provision of social welfare.
The Maldives has always maintained liberal and pragmatic economic policies and encourage growth in sectors such as fisheries and tourism, offering comparative advantage to the country. Strategies are worked out to spread the benefits of such growth to the outer atolls by providing essential social infrastructure. The government's fiscal and monetary policy, while ensuring attractive investment opportunities for domestic and foreign investors, focuses on a phased program of domestic resource mobilisation.

Such flexible and realistic policies have contributed to the successful growth of the economy in the past and can be expected to continue to do so.

Table 1: ECONOMIC INDICATORS

PEOPLE

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (1985 census)</td>
<td>195,100</td>
</tr>
<tr>
<td>Males</td>
<td>101,134</td>
</tr>
<tr>
<td>Females</td>
<td>93,966</td>
</tr>
<tr>
<td>Urban</td>
<td>45,894</td>
</tr>
<tr>
<td>Growth rate</td>
<td>3.3%</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>61.29</td>
</tr>
<tr>
<td>Infant mortality</td>
<td>58</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>93%</td>
</tr>
</tbody>
</table>

EXCHANGE_RATE

The national currency, the Rufiyaa, is not pegged to a trade weighted basket of currencies. Thus foreign currency rate fluctuate to market demand.

GROSS_DOMESTIC_PRODUCT (at 1985 constant prices)

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (in millions of Rf. constant prices)</td>
<td>623.2</td>
</tr>
<tr>
<td>Growth rate (1986)</td>
<td>7%</td>
</tr>
<tr>
<td>GDP per capita (Rf)</td>
<td>3,290</td>
</tr>
</tbody>
</table>
GOVERNMENT FINANCE (in million Rf)

Revenue

Expenditure

EXPORTS 1986 (in 000, MRF)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>quantity (in 000 Rf)</th>
<th>value (in 300 Rf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frozen skipjack total</td>
<td></td>
<td>0.36</td>
<td>20494</td>
</tr>
<tr>
<td>Frozen reef fish</td>
<td></td>
<td>432.39</td>
<td>0.03</td>
</tr>
<tr>
<td>Canned fish</td>
<td></td>
<td>14.05</td>
<td>14.05</td>
</tr>
<tr>
<td>Bone Dust</td>
<td>Matric tons</td>
<td>54.00</td>
<td>54.00</td>
</tr>
<tr>
<td>Ambergris total</td>
<td>Matric tons</td>
<td>0.03</td>
<td>535</td>
</tr>
<tr>
<td>Cowrie shells</td>
<td></td>
<td>2.58</td>
<td>2.58</td>
</tr>
<tr>
<td>Red coral</td>
<td></td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Sea cucumber</td>
<td></td>
<td>18.13</td>
<td>18.13</td>
</tr>
<tr>
<td>Shark skin</td>
<td></td>
<td>86312.00</td>
<td>86312.00</td>
</tr>
<tr>
<td>Dried shark fins</td>
<td></td>
<td>631649.00</td>
<td>631649.00</td>
</tr>
<tr>
<td>Shark liver oil</td>
<td></td>
<td>805</td>
<td>805</td>
</tr>
<tr>
<td>Live tropical fish</td>
<td></td>
<td>805</td>
<td>805</td>
</tr>
<tr>
<td>Apparel and clothing accessories</td>
<td></td>
<td>805</td>
<td>805</td>
</tr>
<tr>
<td>Salted dried skipjack</td>
<td></td>
<td>805</td>
<td>805</td>
</tr>
<tr>
<td>Dried skipjack</td>
<td></td>
<td>805</td>
<td>805</td>
</tr>
</tbody>
</table>

Source: Customs, Male
### GROSS DOMESTIC PRODUCT at 1985 constant prices (in Million Rufiyaa)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Quantity 1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Domestic Products</td>
<td>623.3</td>
</tr>
<tr>
<td>Agriculture</td>
<td>78.9</td>
</tr>
<tr>
<td>Fisheries</td>
<td>141.7</td>
</tr>
<tr>
<td>Coral and sand mining</td>
<td>7.2</td>
</tr>
<tr>
<td>Construction</td>
<td>44.8</td>
</tr>
<tr>
<td>Manufacturing (including electricity)</td>
<td>30.9</td>
</tr>
<tr>
<td>Distribution</td>
<td>61.0</td>
</tr>
<tr>
<td>Transport</td>
<td>37.2</td>
</tr>
<tr>
<td>Tourism</td>
<td>110.0</td>
</tr>
<tr>
<td>Real Estate</td>
<td>30.0</td>
</tr>
<tr>
<td>Services (including Banking)</td>
<td>37.6</td>
</tr>
<tr>
<td>Government</td>
<td>43.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Planning and Development