EVOLUTION OF TOURISM INDUSTRY IN THE MALDIVES

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Introduction

In 1972, only 1000 tourists visited the Maldives when two tourist resorts with 280 beds became operational. As seen in Figure 1, by the year 2019, Maldives celebrated the arrival of more than 1.7 million tourists, three times the country's population. The underlying characteristics that give the Maldives a comparative advantage in tourism have always been the sun, sea, and sand. Without the entrepreneurship of the pioneering entrepreneurs, however, tourism would not get started in the country. Without considerable technology transfers, human resource development, and physical investment, the significant transformation of tourism in terms of quality and quantities would not occur. Using the tourist area life cycle (TALC) model developed by Butler (1980), this article examines the evolution of the tourism industry in the Maldives.

Tourist area life cycle (TALC) model

As illustrated in Figure 2, the TALC model goes through six key phases: exploration, involvement, development, consolidation, stagnation, and decline and/or rejuvenation. There are no facilities for tourists at the initial exploration phase. Afterwards, the locals provide tourists with low-quality essential services using domestic resources whereby the government provides basic transport infrastructure. Local involvement and control, however, decline in the development phase when foreign firms start investing in transport and accommodation infrastructure and marketing. At the consolidation stage, the destination reaches maturity with capital-intensive investment and new technologies primarily available through foreign direct investment (FDI), even though the rate of tourist flow starts to decrease at this phase. Finally, the stagnation stage represents a gradual decline.

Exploration phase, 1965 - 1972

During the 1970s, the economic situation in the Maldives was deteriorating. The United Kingdom was reducing its defence commitments in Asia and started negotiation to close RAF Gan. The relations between the Maldives and Sri Lanka became strained, and the market for Maldives' main export of dried fish collapsed. As such, the government actively pursued the diversification of its economy. But a government-commissioned study, with the assistance of UNDP,

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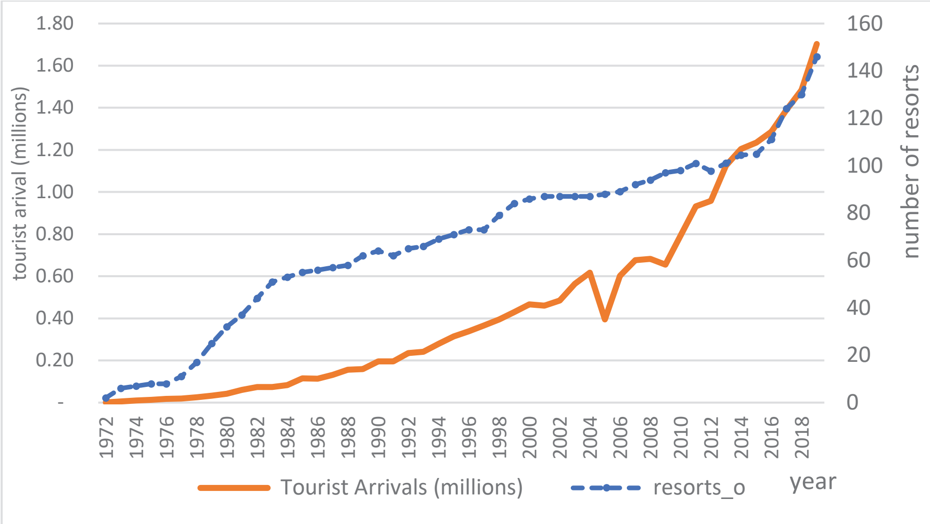
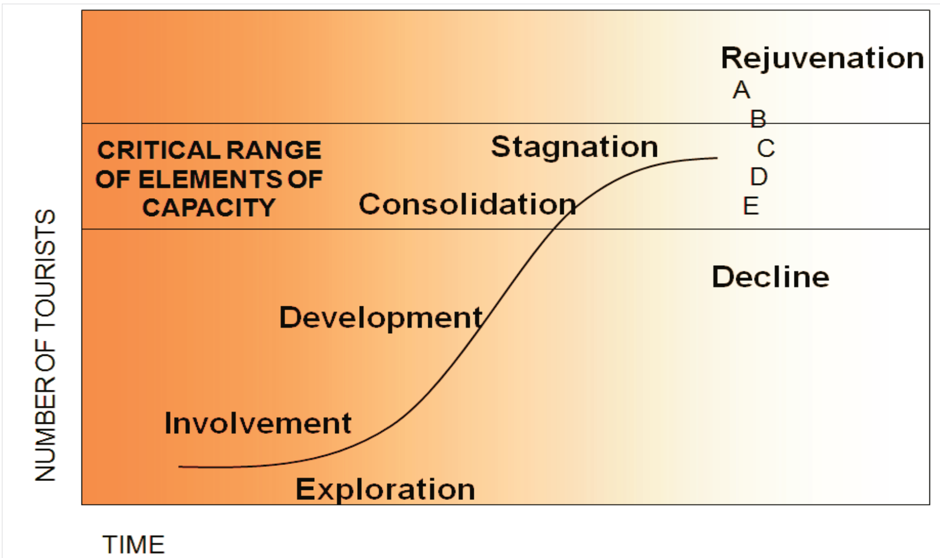
found that tourism was not feasible in the Maldives predominantly due to limited infrastructure. In 1971 Ahmed Naseem, then a junior diplomat with the Maldives Embassy in Colombo, convinced an Italian travel enthusiast, George Corbin, to visit the Maldives in a cargo ship. Frenchesco Benini, a travel photographer, also joined the trip. In the Maldives, Naseem met the young entrepreneur Mohamed Umar Mainku, a college graduate. They took the two visitors to nearby islands, including Kurumba Maldives. As a guide, Hussain Afeef joined them. Consequently, the three entrepreneurs convinced the Maldivian government to make arrangements to charter a flight of Air Ceylon. On 16 February 1972, twenty-two tourists, primarily writers and photographers, landed at the tiny airstrip on the Hulhule Island.

Figure 1: Tourist Arrivals and Number of Resorts in Operations, 1972-2018.



Source: Ministry of Tourism, Maldives.

Figure 2: Hypothetical Evolution of a Tourist Area



Involvement Phase, 1972 – 1983

Tourism statistics coupled with interviews with industry experts provide crucial facts about the evolution of the tourism sector in the Maldives. At the initial stage, the major constraints for the industry were poor transport and the difficulty in finding skilled workers. So, tourists were provided with basic

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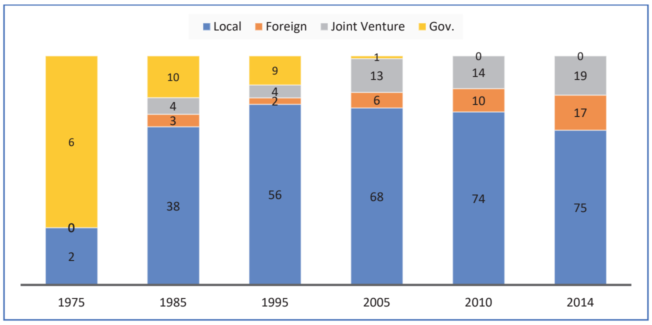
services by local people who had no formal training. The tourists were mainly European divers attracted to the underwater beauty and less concerned with the quality of food and other services. As a result, the industry remained underdeveloped until 1976 (see Figure 1 and Figure 3). Data reveals that by 1975 the number of resort investments undertaken by the government was six while the private sector invested in just two resorts. The government-led the nationwide effort to mechanize sea transport vessels using diesel engines imported from Japan.

Figure 3: Number of Resort Leaseholders, 1975-2014.



Source: NBS
Note: The height of the bars indicate the percentage of different leaseholders for a given year, while the numbers inside the bars show the absolute number of different categories of leaseholders

Between 1976 and 1985, however, more than 47 new resorts became operational with 38 private sector investments (see Figure 3). During the same period, annual tourist arrivals increased to 100,000. One of the turning points in 1976 was the British decision to end its military presence in Addu Atoll Gan where about 900 Maldivians from Southern Atolls were employed to support the RAF personnel (https://www.theguardian.com/world/2015/sep/15/gan-maldives-diego-garcia-island-1975). When the British left the country, these employees could supply cheap labour with various levels of training to service Europeans in tourist resorts.

Development Phase, 1983 - 2009

The development stage came in the second half of the 1980s when the quality of service was improved rapidly through establishing institutions, learning from abroad and investing in infrastructure. The Tourism Master Plan was developed in 1983, and the government institutionalized the one-resort one-island (OROI) concept. In the OROI, most tourism production and consumption (e.g. lodging, restaurant, recreation) take place only on selected uninhabited islands leased exclusively for tourism purposes. Thus, tourist accommodation in inhabited islands was banned.

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There are two significant consequences of OROI policy. First, the exclusivity of tourism production out of inhabited islands means the sunk cost is very high. To compensate for the high cost, the government placed restrictions on new market entry (see a flattening of slope in Figure 1). Restrictions allowed incumbents to gain market power. Second, the introduction of exclusive resorts enables the internalization of most of the costs associated with negative externalities. The emergence of OROI is also consistent with Butler's observation of well-defined brand to market tourism. This is because OROI creates more incentives to improve quality, and the reputation of providing quality services creates positive externalities.

> **"... in the late 1990s the government further liberalized FDI in the industry, improving foreigners' incentives to operate and manage resorts"**

The third significant change came in the late 1990s when the government further liberalized FDI in the industry, improving foreigners' incentives to operate and manage resorts (see Figure 3). This includes the low bed tax rate of just 6 USD per bed per night and increased resort lease period to 25-35 years. In addition, the new FDI injected additional capital necessary for the improvement of transport infrastructure (e.g. speed boat and air travel) and the production of innovative and high standard tourism products such as Water Villas. Moreover, new management techniques brought in by foreign participation played a crucial role in improving the standard of service in the industry and opening up additional markets for the Maldives.

In addition, since 2004, at least three events have had significant influences on tourist arrivals in the Maldives. The first event came with the Indian Ocean tsunami that struck the Maldives on 26 December 2004. Following the tsunami, visitors reduced significantly in 2005. Second, since 2004 political instability in the Maldives started, tremendous pressure and political unrest continued to affect the industry. During the same period, Maldives also experienced a wave of religious radicalization and an act of terrorism. On 29 September 2007, in the first attack on the Maldives's tourism industry, 12 tourists were injured in an explosion near the Sultan Park in the capital city. Following the explosion, the news spread fast, and tourist arrivals decreased significantly.

Consolidation Phase, 2010 –

According to Butler, one of the indicators of the consolidation phase is the presence of major international chains in the country. Figure 5 shows the ownership percentage of resort operators in the Maldives. Data shows that by 2005, 30% of resort operators were foreigners, and 18% were joint ventures between foreign and local parties. Indeed, by 2016 more than 35 major international brands had at least one property in the Maldives. Data also shows that although foreign operators increased to 37% in 2010, the percentage remained the same by 2014. The number of resorts in operation rose to 88, 98 and 111, respectively in 2005, 2010 and 2016.

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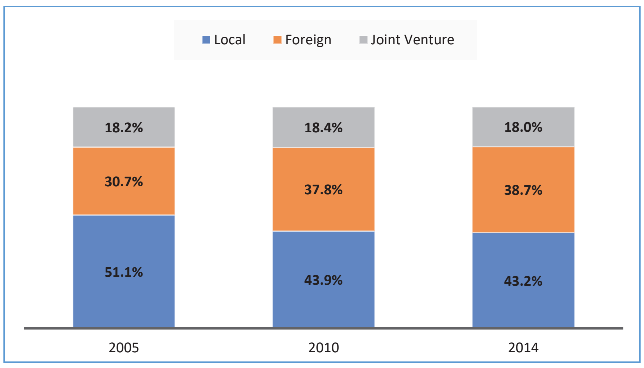
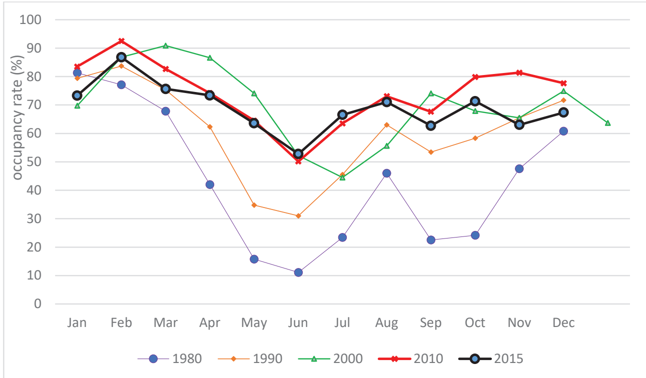
An alternative indicator of the consolidation phase is marketing efforts to extend the visitor season and market area. As seen in Figure 6, Tourist arrivals to the Maldives are seasonal, with a dip from May to July due to Monsoon. Meanwhile, arrival is high from December to March that coincides with winter in Europe. But trends over the years suggest rapid improvement in occupancy during off-seasons too. In 1980, for example, occupancy in June was at just 10%, which was improved to 30% in 1990, and by 2010 percentage was above 50%.

Figure 5: Ownership of Resort Operators in the Maldives, 2005-2014



Source: NBS

Figure 6: Monthly Occupancy Rate (%), 1980-2015



Source: NBS

Guesthouse segment

In 2010 when the government deregulated tourist establishment restrictions on inhabited islands, guesthouses emerged as a new market segment. Compared with the more exclusive resorts, the guesthouse sector is more inclusive as it provides more job opportunities through outsourcing of services. The guesthouse market is also more competitive. Accommodation in a guesthouse can be set up on inhabited islands in local residences. Family members can operate the business, and the marketing only requires registering on one of the online travel agencies (OTAs). In such cases, the associated financial outlays is significantly less. Thus, if the business is not profitable, it is easy to exit the market. Thus, there is a risk of ‘race to the bottom

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as new entrants with low price and low quality enter the market.

Compared to the resorts under OROI, the guesthouse segment has more free-riding due to unpriced public goods bundled into the tourism product. For example, tourists share the public space on inhabited islands, including the beach and marine resources (e.g. reef), with the island population. In other words, the marginal cost of tourists enjoying beach or reef is zero to individual guesthouse owners. Thus, there is a greater possibility of building more hotels to accommodate increasing demand. For example, by 2020, Maafushi Island had more than 50 registered guesthouses and 1445 beds, almost four times the bed capacity of most resorts in the country. However, such mass-tourism models may be unsustainable due to potential pollution (congestion) issues leading to depletion of natural resources.

Conclusion

This article described dynamic changes that have taken place in the Maldives tourism industry and contributed to theoretical insights provided by Butler's TALC framework. It demonstrated that the Maldives tourism industry has undergone considerable changes since the first tourists visited the Maldives almost 50 years ago. The momentum of the growth in total visitor arrivals, foreign investment and occupancy suggests that the Maldives as a tourist destination may be in the consolidation phase since 2010.

Following the consolidation phase, Butler predicts the potential for stagnation due to limits on carrying capacity. Recently, the government expressed interest to further liberlaise the tourism sector and introduce 'homestay' on inhabited islands. Naturally, the question arises on what the consequences of the new policy change are. There is an obvious need to examine the extent of congestion, incentives for preservation, the relationship between service quality and prices, etc.

ABOUT THE AUTHOR

Ibrahim Zuhuree works at the Ministry of Foreign Affairs of the Republic of the Maldives. Currently, he is the Deputy Permanent Representative of the Maldives to the United Nations. Born in Noonu. Holhudhoo in 1976, he graduated from the University of Western Australia in 2004, with B.Sc. in Mathematics and Physics. In 2007, he completed M.Sc. in Public Policy and Management from Carnegie Mellon University, Adelaide. In 2017 he received PhD in advanced policy studies focusing on tourism economics from National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan. (phd14403@grips.ac.jp)

HEIs – the quality of our higher education system – beginning to rise. In my mind I also see, therefore, the higher education sector as a potentially influential, lucrative one – one that would earn foreign currency and could contribute to relieving our over-reliance on tourism. But I do not see this happening automatically.