

Exploring the Maldives' Regional Economic Cooperation Potential

Final Report

Prepared by

Montague Lord, Staff Consultant
Asian Development Bank

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Acronyms and Abbreviations

6NDP	Sixth National Development Plan
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South Eastern Asian Nations
BIMP-EAGA	Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BOM	Bank of Maldives
CUs	Customs Unions
ECs	Economic Corridors
EIA	Environmental Impact Assessment.
ELASC	Economic and Legal Advisory Service Committee
ESCAP	Economic and Social Council for Asia and the Pacific.
EU	European Union
EWEC	East West Economic Corridor
FDI	Foreign direct investment
FET	Faculty of Engineering and Technology.
FHTS	Faculty of Hospitality and Tourism Studies.
FMC	Faculty of Management and Computing.
FTA	Free Trade Area
FTMP	First Tourism Master Plan.
GDP	Gross Domestic Product.
GIS	Geographic information system
GMS	Greater Mekong Subregion
GOM	Government of Maldives.
GPS	Global Positioning System.
GTs	Growth Triangles
IHCS	Institute of Hotel and Catering Services.
IMA	Institute of Management and Administration.
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
IPO	Initial Public Offering.
MICE	Meetings, Incentives, Conferences and Exhibitions.
MITE	Maldives Institute of Technical Education.
MOT	Ministry of Tourism.

MOU	Memorandum of Understanding
MPND	Ministry of Planning and National Development.
MRF	Maldivian Rufiya.
MTCC	Maldives Transport and Construction Company
MTPB	Maldives Tourist Promotion Board.
NSEC	North-South Economic Corridor
NTBs	Non-tariff barriers
PRSP	Poverty reduction strategy paper
PTA	Preferential trade arrangements
RCA	Revealed comparative advantage
ROE	Rules of Origin
SAARC	South Asian Association for Regional Co-operation
SAFTA	South Asian Free Trade Area
SAGQ	South Asian Growth Quadrangle
SAPTA	South Asian Preferential Trade Agreement
SASEC	South Asia Subregional Economic Cooperation
SEEIS	Social, Economic and Environmental Impact Study.
SEV	Surface Effective Vessels.
SHCS	School of Hotel and Catering Services.
SMEs	Small and medium size enterprises
SOEs	State-owned enterprises
STMP	Second Tourism Master Plan.
STO	State Trading Organization
TA	Technical assistance
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	UN International Children's Fund
WHO	World Health Organization
WTO	World Trade Organization

Executive Summary

Background

The present report evaluates the opportunities for regional economic cooperation for the Maldives, and it explores the development of an action-oriented plan for implementing priority projects, programs, policies, and institutional actions in the context of that potential. In the traditional regional cooperation model, economies exploit their differences in skilled and unskilled labor endowments, production technologies, and natural resource endowments. While this model has relevance for the Maldives relative to other countries in the South Asia region, it deviates from the norm applied to countries having fairly large and diversified natural and human resource bases. In this instance, the Maldives is a small island economy with a narrow resource base, while other South Asia countries are, by contrast, large and fairly diversified in their resource bases.

The present technical assistance (TA) aims to provide an analytical and empirical basis for identifying the regional economic cooperation potential of the Maldives with South Asia countries. Under the terms of reference for the TA, the topics to be covered include the following: (i) review the ADB's operational documents on the Maldives; (ii) review the Government's Sixth National Development Plan and Strategic Economic Plan; (iii) review subregional cooperation programs supported by the ADB; (iv) analyze the country's economic situation, with particular emphasis on trade, investment and private sector cooperation, tourism, transport, fisheries and human resources; (v) assess the Maldives' sectoral comparative advantages; (vi) analyze opportunities for the Maldives regarding economic cooperation; (vii) quantify the likely gains for the Maldives from economic cooperation; (viii) evaluate the Maldives' institutional capacity for undertaking economic cooperation initiatives; and (ix) review studies to be undertaken for regional and subregional economic issues in other countries in South Asia.

The study has been undertaken by Montague Lord, staff consultant for the ADB. Two field missions were carried out, the first during 30 March – 10 April, 2003, and the second in 30 November – 12 December, 2003. A conference following the completion of the draft final report is scheduled to take place in the near future.

Challenges to Regional Cooperation

The Maldives is a member of the South Asian Association for Regional Co-operation (SAARC). Within this framework, the South Asian Preferential Trade Agreement (SAPTA) provides for step-by-step liberalization of intra-regional trade through periodic rounds of trade negotiations for the exchange of trade concessions on tariff, para-tariff and non-tariff measures. Although SAPTA was envisaged as a first step towards transition to a South Asian Free Trade Area (SAFTA) and subsequently to a customs union, common market, and economic union, progress in liberalization has been very slow. The slow progress of SAARC has led to sub-regional initiatives within the South Asia region. In 1996 four of the seven SAARC member countries (Bangladesh, Bhutan,

India and Nepal) formed the South Asian Growth Quadrangle (SAGQ) under SAARC in an effort to accelerate sustainable economic development for its members. The ADB undertook a number of technical assistance projects for SAGQ under the South Asia Subregional Economic Cooperation (SASEC) program. The ADB is concurrently working with other South Asian countries to explore possible economic cooperation initiatives.

For the Maldives, there are a number of constraints to regional cooperation that are explicitly addressed by the Sixth National Development Program: (1) the country's narrow economic base, (2) its fragile environment, (3) the geographic dispersion of the country, (4) diseconomies of scale in its service provision; (5) the low labor force participation, (6) the lack of human resource development, and (7) a weak entrepreneurial base. Moreover, for the private sector, there are additional impediments to regional cooperation: (8) the government rules and regulations lack transparency, and regulatory agencies lack accountability; (9) the legal system is not sufficiently developed to ensure a stable regulatory framework; (10) the Government remains the main competitor of the private sector in a number of sectors, and there is not a level playing field; (11) government procurement continues to favor the state trading company; (12) credit facilities for small and medium size enterprises (SMEs) are lacking; and utility costs are excessively high.

Opportunities for Regional Cooperation

The Maldives and other South Asia countries generally have strong export performances in similar product categories but not in the same specific products, implying a relatively high level of complementarity opportunities for intra-regional trade within the region. In the *natural resource-intensive products*, the Maldives has a comparative advantage in live animals and animal products, that is, fisheries, and in prepared foodstuffs, which refers to frozen and processed fish. Most other countries in the region also have a comparative advantage in that product category. In *unskilled labor-intensive products*, the Maldives has a strong comparative advantage in clothing, as does Bangladesh, India, Nepal and Sri Lanka. The similarity of export performances in clothing for the Maldives and other South Asian countries suggests that, by developing cross-border production facilities and benefiting from economies of scale, exporters could improve their export performance in the world market. For this expansion to happen, however, problems of sufficient capital required to upgrade processing techniques will need to be overcome. The ability and willingness of businesses to enter into joint ventures will naturally depend on comparative production costs between countries, production costs, economic policies and the regulatory environment.

Comparative advantage analysis is, however, limited to static concepts. In reality, countries alter their situations by adopting new technologies either internally through research and development, or externally through foreign direct investment (FDI) and the development of cross-border production facilities. These new technologies allow countries to change their comparative advantage, exploit new markets and, in the case of developing countries, to converge to levels of income and economic structures similar to those of developed economies. The comparative advantage analysis therefore needs to be

modified to encompass the effects of changing technological situations and changing worker skills on production patterns of countries.

One alternative approach is to assume that there are few natural resource and technological differences between countries. Under these conditions, the degree of concentration or so-called agglomeration of industries helps to account for developmental differences between countries. The concentration of industrial activity in particular locations has allowed some countries to advance more quickly than those countries without industrial agglomeration. By changing the production base of countries, preferential trade arrangements (PTAs) at the regional level can help to alter and accelerate the development process of countries.

In the context of the Maldives' trade with different members of the South Asia regional groupings, the central indicator of the ability to alter its comparative advantage is the degree of trade compatibility between its export structure and that of its regional or bilateral trading partners. Estimates of the trade compatibility of the Maldives with its South Asian trading partners show that, despite the narrow export base of the Maldives, there is considerable potential for exploiting particular markets for products in specific South Asia countries.

Strategy for Regional Cooperation

The Sixth National Development Plan and Strategic Economic Plan suggests that a number of guiding principles should underlie the regional strategy for the Maldives: (a) adopt a pragmatic framework for regional cooperation, (b) focus on immediately implementable activities with high returns, (c) phase in the interventions, (d) support the public-private partnership, (e) develop poverty alleviation mechanisms through regional growth, (f) ensure a sustainable and operationally viable regional strategy, and (g) establishing a facilitative public policy framework for regional expansion.

Based on these principles, the proposed strategy for the Maldives' regional cooperation promotes a market-driven region-wide economic expansion process that, in the short to medium-term, facilitates the development of high value-added activities and, in the longer term, promotes the development of a limited but significant number of technology and skilled labor-intensive industries. The strategy builds on a spatial model of production and trade, and shifts the emphasis from a purely export-driven growth strategy to one targeting cross-border production and market networks, which extends the Strategic Economic Plan's cluster framework from a national to a regional level strategy. This strategy also targets a broad-based transmission of domestic learning and knowledge accumulation as a means of sustaining high economic growth rate in the country. The basic tenants of the strategy are as follows:

- ◆ Adopt a pragmatic approach to promoting cooperation.
- ◆ Exploit complementarities within the region.
- ◆ Focus the sector coverage.
- ◆ Phase project implementation.

- ◆ Redirect the Maldives to outward looking markets and production-sharing activities.
- ◆ Integrate the productive and supportive sectors.
- ◆ Promote public sector's role as catalyst for private sector development.
- ◆ Target initiatives with large poverty reduction impact.

Project Selection

The regional cooperation strategy proposed for the Maldives will be made operational through a set of immediately implementable projects that have measurable benefits to the country within a relatively short timeframe. A total of 16 projects have been identified, which are considered as being realistically implementable in the immediate future and having a high-impact, demonstrative effects in each sector that will thereby generate interest in other regional cooperation initiatives. Of these projects, six are directed at the targeted productive sectors of tourism and fisheries, and the remaining ten are directed at the supporting sectors of trade and investment, transport and communications, finance, health and education, and finance. The proposed projects are as follows:

Sector	Project Number	Description
Tourism	TR1	Tourism diversification through regional focus in eco-tourism, adventure tourism, cultural tourism, and safari cruising
	TR2	Tourism investment incentives for development of regional and sub-regional package tours
	TR3	Tourism regional master plan.
Fisheries	FA1	<i>Maldives Fish</i> commercialization enhancement in South Asia
	FA2	Database on reef habitat and resource monitoring collaboration with India for remote sensing devices, and developing standards and size limitations.
	FA3	Regional Collaboration for Capacity Building of Grouper Health Management
Trade and Investment	TI1	Regional trade and investment Internet-based information system.
	TI2	Regional quarantine standards and implementation rules, regulations and procedures.
	TI3	IPR implementation of WTO commitments to promote regional product development.
Transport and Communication	TC1	Regional transshipment hub for container shipping and free trade zone.
Finance	FN1	Regional development fund for SME financing of cross-border investments and trade financing.
Education	ED1	Distance education for basic education and technical training.
	ED2	Regional multigrade teaching training and dissemination facilities.
Medicine	MD1	Regional tele-medicine training and implementation
	MD2	Medical consumables and bulk regional purchasing
Information Technology (IT)	IT1	Capacity building for information technology (IT) regional program

1. Introduction

1.1 Background

This report evaluates the opportunities for regional economic cooperation for the Maldives, and it explores the development of an action-oriented plan for implementing priority projects, programs, policies, and institutional actions in the context of that potential. In the traditional regional cooperation model, economies exploit their differences in skilled and unskilled labor endowments, production technologies, and natural resource endowments. While this model has relevance for the Maldives relative to other countries in the South Asia region, it deviates from the norm applied to countries having fairly large and diversified natural and human resource bases. In this instance, the Maldives is a small island economy with a narrow resource base, while other South Asia countries are, by contrast, large and fairly diversified in their resource bases.

The success of the Maldives in exploiting its dynamic comparative advantages with other South Asia nations will provide it with a continued rapid economic and social expansion based on external sector linkages to trade in goods and services. That success, however, will depend on the ability of the country to redress several existing constraints: (a) the slowdown in its European sourced tourism market resulting from both the economic downturn in that region and international security and regional health concerns; (b) the growth of intra-regional trade in the Association of South Eastern Asian Nations (ASEAN), and resulting marginalization of the Maldives and others outside that free trade area (FTA); and (c) the review of preferential access to the markets in developed countries including the US for garments and the European Union for fish products from its least developed country status. Offsetting these constraints are (a) the country's growth potential from previously unexploited ties of the Maldives with its South Asia neighboring countries, (b) its unique natural resource base within the South Asia region, and (c) the potential development of a new economic development strategy aimed at establishing new and diversified economic linkages with its neighboring economics.

The Asian Development Bank (ADB) is mandated by its Charter to enhance economic cooperation among its members. As a result, the ADB has had a varied and rich experience in fostering regional cooperation arrangements such as the Greater Mekong Subregion (GMS) initiative, the Central Asia Regional Economic Cooperation program, the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and the South Asian Association for Regional Co-operation (SAARC) program. The design of those growth areas has adapted to the particular situations characterizing specific regions and countries, and the approach therefore lends itself to the type of regional cooperation that is suitable for the Maldives.

Realizing the potential benefits of regional cooperation, nevertheless, requires that a number of conditions be met. First, an overall framework for cooperation needs to be developed and adopted by the Maldives; second, the initiative must have the political will and support within the National Development Plan; third, a genuine public-private

partnership must be established to implement the strategy and plans; and lastly, a comprehensive financing strategy and concrete mechanisms for implementing proposed projects need to be developed.

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1.2 Structure of Report

Following this background introductory chapter, the remainder of this report is organized as follows:

- Chapter 2—profiles the Maldives within the South Asia region.
- Chapter 3 – examines some of the major constraints to regional cooperation in terms of economic, natural resource and physical challenges, as well as those related to policy, procedural and institutional issues.
- Chapter 4—reviews regional cooperation movements, identifies the comparative advantages of countries within the region, and quantifies the trade compatibility of the Maldives in South Asia.
- Chapter 5 – presents the key elements of the proposed strategy for regional cooperation of the Maldives, examines the role of that cooperation in the Sixth National Development Plan, identifies the priority areas for regional cooperation, and summarizes the regional development framework for the productive and support sectors of the economy.
- Chapter 6 presents the implementation plan, including the identification of prioritized projects, policy initiatives, and institutional development initiatives, as well as the sequencing of those proposed projects over the short and medium term horizon.

¹ The documents include the Country Strategy and Program, Poverty Analysis, Poverty Reduction Partnership Agreement, and Country Economic Review.

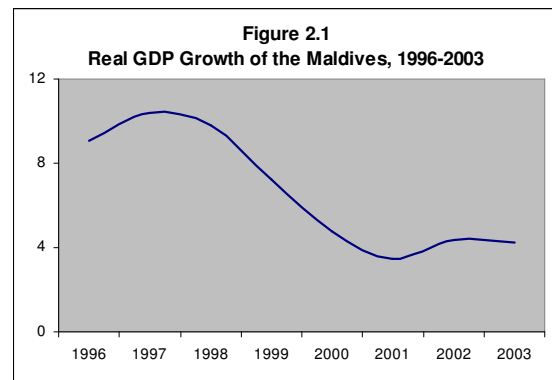
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2. Profile of the Maldives

2.1 Overall Economic Characteristics

The Republic of Maldives is an archipelago of low-lying coral islands in the central Indian Ocean. There are approximately 1,200 islands that on 26 atolls, which are grouped into 21 administrative areas. The total land area of the islands is less than 300 square kilometers, and the population of approximately 288,000 is scattered over some 200 of the inhabited islands. Although the gross domestic product (GDP) per capita is US\$2,200 is high, the economy remains vulnerable because of its small size and narrow resource and economic base.

Although economic growth in recent years has been high, growth has decelerated because of slower growth of tourism and related expenditures on construction and transportation (Figure 2.1). The slowdown reflects adverse external developments in tourism and fishery exports. Visitor arrivals declined after the September 2001 attacks in the United States and after the SARS outbreak in the first part of 2003. Resort prices have also fallen because of new resort openings, and tuna prices have dropped in the world market. These two activities, tourism and fisheries, account for more than 31 percent and over 7 percent respectively of GDP estimates for 2003. Agriculture, forestry, and mining activities are small by comparison. Although government support measures have assisted the development of light industries, manufacturing activities remain small (less than 3 percent of GDP). The country is also highly trade-dependent economy, although that dependency has declined somewhat: between 1995 and 2003 the ratio of trade, measured as exports plus imports of goods and non-factor services, to GDP declined from 170 to 152 percent.



Merchandise exports are heavily concentrated in the markets of the industrialized countries: nearly 60 percent of foreign exchange earnings derived from the EU and US markets (Table 2.1). In South Asia, Sri Lanka is by far the largest market, accounting for 19 percent of foreign exchange earnings. Elsewhere in Asia, Thailand, Japan, Hong Kong, and Singapore together account for 20 percent of export earnings. Asia is nonetheless an important source of imports. Singapore alone provides one-fourth of all imports. In South Asia, Sri Lanka and India supply nearly 24 percent of total imports. Elsewhere, the Southeast Asian countries of Indonesia, Malaysia and Thailand contribute almost 16 percent of imports.

In services trade, the Maldives is a net exporter as a result of the large tourism sector. In 2001 that sector earned contributed 70 percent of total export receipts from services, and

tourist arrivals surpassed 500,000 in 2002. Nearly 80 percent of those arrivals were from Europe, and in particular Italy, United Kingdom and Germany. In Asia the only large market is Japan.

2.2. Comparative Indicators

Although the Maldives is a small-size country relative to the land mass and population of other South Asia countries, it has a number of comparable features. Table 2.2 compares data for the Maldives with South Asian countries for a number of key indicators in agriculture and manufacturing; tourism; trade, investment and finance; health and education; transport and communications; and taxes. While recent data are often lacking for all countries, the information for the year 2000 provides insight into the Maldives' position relative to other countries in the region.

Much of the statistics confirm expectations: agriculture and manufacturing play a much smaller role in the economy of the Maldives than in other countries of the region. In fact, the share of value added in GDP is less than half of that of the average for the other countries in agriculture and less than one-third that of the other countries in manufacturing. Agriculture, which includes bananas, papayas, watermelons, cucumbers, chili, leafy cabbage, sweet peppers, is directed to both the tourism and local markets. In contrast, travel services are five times more important than the average for the other countries in services exports and tourism receipts contribute a much larger proportion to total export earnings than in the other countries. Moreover, fishery activities contribute two-thirds of primary sector activities in the Maldives, far more than in other countries of the region. Tuna fishery has been the traditional and most dominant fishery, and it has been the main source of employment in the outer atolls. The exploitation of fisheries resources has intensified in Maldives in recent years. Tuna still being the dominant fishery, some existing reef related fisheries have increased in scale and new ones have emerged. Reef fish fishery, which remained at a subsistence level for a long time, has developed to a commercial scale with the introduction of tourism and opening of new export markets. Grouper fishery is the most popular export oriented reef fish fishery, and sea cucumbers are also fished for export. Both of these small-scale fisheries have considerable socio-economic benefits since they provide employment to fishermen when tuna fishing is poor and provide fishermen a choice of engaging in tuna or reef related fisheries depending on the market situation of the target species.

Table 2.1
Maldives: Direction of Merchandise Trade, 2001

Exports		Imports	
Total	100.0	Total	100.0
Europe	17.1	Europe	13.0
United States	40.7	U.A.E	8.4
Asia, of which	40.9	Australia	2.2
Sri Lanka	19.3	U.S.A	2.1
Thailand	8.6	Canada	1.4
Japan	4.6	Asia	70.0
Hong Kong	4.1	Singapore	25.4
Singapore	2.7	Sri Lanka	13.1
India	0.4	India	10.6
Other	1.2	Malaysia	8.9
Rest of World	1.3	Indonesia	3.7
		Thailand	3.1
		Japan	2.3
		Hong Kong	1.1
		Rest of World	2.9

Table 2.2
Comparative Indicators of Maldives and Other South Asia Countries, 2000

	Maldives	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Population and Resources						
Population, total	276,000	131,050,000	1,015,923,008	23,043,000	138,080,000	19,359,000
Population density (people per sq km)	920.00	1,006.76	341.69	161.14	179.12	299.54
Agriculture and Manufacturing						
Agriculture, value added (% of GDP)	11.74	24.62	24.89	40.28	26.30	19.54
Manufacturing, value added (% of GDP)	4.61	14.69	15.81	9.97	15.14	16.94
Tourism						
Travel services (% of service exports, BoP)	92.02	6.19	17.28	31.19	5.87	26.40
International tourism, expenditures (% of total imports)	9.74	2.49	3.00	4.75	1.53	3.23
International tourism, receipts (% of total exports)	75.24	0.89	5.17	..	0.90	3.97
Trade, Investment and Finance						
Imports of goods and services (% of GDP)	85.57	19.23	16.56	32.01	19.08	50.50
Exports of goods and services (% of GDP)	103.79	13.98	13.95	23.75	15.53	39.71
Financing from abroad (% of GDP)	2.17	0.13	0.05	2.14	0.90	0.04
Foreign direct investment, net inflows (% of GDP)	2.34	0.59	0.51	0.08	0.50	1.06
Gross capital formation (% of GDP)	26.39	23.02	24.01	24.33	15.61	27.96
Gross domestic savings (% of GDP)	44.61	17.78	21.41	16.07	12.06	17.17
Health and Education						
Health expenditure per capita (current US\$)	150.00	12.00	..	11.00	18.00	26.00
Illiteracy rate, adult total (% of people ages 15 and above)	3.30	58.65	42.76	58.25	56.77	8.36
Transport and Communications						
Transport services (% of service imports, BoP)	48.86	62.51	40.41	32.39	67.36	60.44
International telecom, outgoing traffic (minutes per subscriber)	227.72	91.29	16.27	98.31	32.32	54.80
Telephone average cost of call to US (US\$ per three minutes)	11.72	4.14	4.20	..	3.60	3.05
Telephone average cost of local call (US\$ per three minutes)	0.06	0.03	0.01	0.01	0.01	0.04
Taxes						
Import duties (% of imports)	16.47	11.68	20.05	9.25	11.97	4.80
Import duties (% of tax revenue)	63.71	30.03	26.67	31.13	15.97	13.14
Tax revenue (% of GDP)	15.90	6.97	9.59	8.75	12.13	14.53
Taxes on international trade (% of current revenue)	29.21	22.56	19.71	26.83	11.61	11.35

Source: World Bank, *World Development Indicators 2003*.

The relatively abundant sea life and large area of unpolluted sea of the Maldives provides the country with a significant comparative advantage in farming and marketing of mariculture products. For this reason, mariculture is a central objective of the National Development Plan, and the Mariculture Development Plan targets activities designed to reflect the Maldives continued mariculture development. Under Phase I (1996-2004) of

the Plan, commercialization of traditional and new activities is being promoted along with the development of infrastructure, human resource development and financing. It also formulates and implements environmental and species-specific guidelines for mariculture, and aims to establish a mariculture production and socio-economic data collection system. Ultimately the objective is to establish a technically, environmentally and commercially feasible mariculture industry for half-round pearls, seaweed, sea cucumber, grouper, snapper, mullet, black-lip oyster, round pearl, giant clam and anemone fish. The strategy for the development of mariculture is based on the encouragement of private sector participation in research and development, encouragement of research and development in the sector, human resource development, and encouragement of funding for mariculture-related activities.

In tourism, planning is currently guided by the Second Tourism Master Plan (STMP).² There is no suggestion for regional or sub-regional cooperation in tourism in either the STMP or its mid-term review (Ministry of Tourism, 2002). A memorandum of understanding (MOU) nevertheless exists with Sri Lanka. The mid-term review of the STMP found there to be minimal developments and improvements to date in the area of attractions for tourists in the Maldives. Sailing operations have ceased, diving and water sports are limited, surfing has not substantially revived, and fishing has been reduced. As a result, product diversification in the tourism sector has been extremely limited. Moreover, despite perceptions that the sector caters mainly high-end tourists, a recent survey by the Ministry of Planning and Development quoted in the mid-term review indicates that the industry's main customers are not very affluent clients. Most tourist visiting Maldives are mainly traveling with partners, and many of them are on honeymoon. A large proportion of the tourists are within the US\$20–US\$30 thousand annual income bracket, the vast majority of the visitors are young (between 26 – 35 years of age), and the average expenditure of a tourist is US\$123 a day, based on data for 2000. From a geographic viewpoint, the composition has remained unaltered: recent data indicate that 77.5 percent of tourists are from Europe, 18.5 percent are from Asia and less than 2 percent are from Oceania.

Regional-based tourism dates back to the early years of travel to the Maldives. Foreign travel to the Maldives was through Sri-Lanka or India. For those travelers, the experience of the Maldives included the rich cultural heritage and diverse terrestrial environment of Sri Lanka and India. Although the Maldives was often a part of the tourism product of Sri Lanka, travelers soon recognized that the rich marine environment was itself a reason to travel to the country. Dive-based resorts therefore emerged in the 1970s and the combination of the unique dive experience and so-called Robinson Crusoe experience soon made Maldives into a major global travel destination.

The industry remains well-regulated and bed capacity is controlled for tourism accommodations that are limited to the resorts, guesthouses tourist vessels. There is nevertheless large pressure to maintain profitability in these establishments, which puts

² The STMP was funded by the European Union (EU) at a cost of half a million US dollars, and the project was implemented by NETHCONSULT / TRANSTEC in association with the BORD FAILTE. See Ministry of Tourism (2003).

increasing pressure on the industry to expand. According to the STMP, “capacity in existing resorts continues to expand as long as the regulations permit, and as the density control measures are sometimes difficult to enforce, many resorts have lost their traditional qualities of ‘Robinsons Crusoe’ island environments, because of relative congestion and replacement of temporary structures, which depicted ‘local color’, by more permanent structure with modern facilities. These developments branched into facility intensive, pleasurable beach resorts, and specialized, service oriented, relaxation resorts, offering varying levels of services. Although, there are some negative aspects, because of the diminished Maldivian identity, the positive contribution of these developments is that it re-launched the industry, before it reached maturity and decline stages.” Existing constraints on the industry are the reliance on expatriate labor force, the high cost of factor inputs, lack of adequate international communications facilities, the increasing homogeneity with the tourist facilities, the dependence on a European tourists as the single geographic market segment, and the deteriorating identity of the Maldivian tourism products and the diminishing visual quality of land and seascapes.

In trade and investment, the Maldives is a much more open economy than any other country in the region. Together imports and exports of goods and services are twice the country’s overall output, compared with only an average of only 50 percent in the other countries. Foreign direct investment (FDI) is also much higher, in fact over three times as much as in other countries relative to their GDP. Despite this high rate of FDI, the WTO Secretariat (2003) has suggested that foreign investment could be much higher were it not for the lack of transparency in the regime on investment outside of tourism. At present, most investment incentives apply equally to foreign and domestic investors, but investment incentives depend upon the level of foreign investment. Relative small FDI projects benefit from duty-free imports of machinery, capital goods and construction materials for the first one year. Larger investments receive these benefits for two years, and all imported raw materials enter duty free. There is nonetheless a need to strengthen the investment regime as a means of providing greater protection to foreign investors and to promote its entry into the country.

At present the Foreign Investment Services Bureau acts as a one-stop-shop for investments applications. The Bureau focuses on investment promotion, regulations, and after sales services. In practice, however, there is little, if any, investment promotion, and regulations are weak and lack transparency. UNCTAD is providing technical assistance to review governance issues, while FIAS is providing assistance to develop an investment promotion strategy. The Government is also committed to opening the economy further as a means of stimulating trade and economic growth, and ensuring the diversification of the economy from its narrow focus on fisheries and tourism. As part of this strategy, the Government is committed to greater regional integration through the Sixth National Development Plan and the Strategic Economic Plan.

In transport and communications, there is general recognition that the country lacks competitiveness relative to other regional countries, and efforts are underway to improve the situation. Communications charges are over three times higher than on average in the rest of the region. Opening the sector to competition by 2008 is being considered by the

Government and telecommunications legislation is being prepared to enhance the legal and regulatory framework of the sector. The current strategy aims to lower charges for telecommunication services related to international calls and the Internet.

In power, the Maldives is a signatory of the South Asian Regional Energy Cooperation (SAREC) arrangement under SAARC. The focus of the SAREC for village energy is not suitable to the Maldives, however, according to government officials. Apparently the renewable energy component under SAREC is below that required by villages in the Maldives, which tend to have higher energy consumption than in those of other South Asian countries.

3. Challenges to Regional Cooperation

3.1 Background on Regional Cooperation in Asia

The Maldives is a member of the South Asian Association for Regional Co-operation (SAARC). Other members of SAARC include Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka. Within this framework, the South Asian Preferential Trade Agreement (SAPTA) provides for step-by-step liberalization of intra-regional trade through periodic rounds of trade negotiations for the exchange of trade concessions on tariff, para-tariff and non-tariff measures.³ The SAPTA also contains provisions for Special and Favorable Treatment to the least developed members of SAARC, as well as Rules of Origin (ROO) provisions for members to be eligible for preferential treatment. Although SAPTA was envisaged as a first step towards transition to a South Asian Free Trade Area (SAFTA) by 2001 and subsequently to a customs union, common market, and economic union, the slow progress in liberalization has led to an extension of the deadline for a free trade area to 2008 for India, Pakistan and Sri Lanka and to 2010 for the Maldives, Bangladesh, Bhutan and Nepal. Full integration to achieve a SAARC Customs Union with a common external tariff is planned for 2015, and a SAARC Economic Union with harmonization of monetary and fiscal policies is envisioned for 2020.

The Maldives, as well as Bangladesh, Bhutan and Nepal are classified as LDCs under SAARC, and therefore qualify for special treatment. That treatment, in principal, includes tariff preferences, removal of non-tariff measures, and special consideration of LDC exports in applying safeguards. However, only limited special treatment has been granted to the Maldives to date. If the Maldives graduate from LDC status, it would lose its special treatment category. Tariff preferences are subject to rules of origin specified in the agreement: originating products are those wholly produced or obtained in a SAARC exporting State. The Maldives and other LDC members of SAARC are subject to a maximum value-added share for non-originating products of 70 percent when applying the cumulative rules of origin.

The slow progress of SAARC has led to sub-regional initiatives within the South Asia region. In 1996 four of the seven SAARC member countries (Bangladesh, Bhutan, India and Nepal) formed the South Asian Growth Quadrangle (SAGQ) under SAARC in an effort to accelerate sustainable economic development for its members. The ADB undertook a number of technical assistance projects for SAGQ under the South Asia Subregional Economic Cooperation (SASEC) program. The ADB is concurrently working with other South Asian countries to explore possible economic cooperation initiatives.

³ The full text of the SAPTA Agreement can be found at <http://www.south-asia.com/saarc/index.html>.

The ADB's short to medium term goal is to strengthen the institutional framework of regional cooperation initiatives and to support the implementation of subregional projects. It also aims to establish links between subregional arrangements such as SAGQ and existing subregional arrangements such as the Greater Mekong Subregion (GMS) initiatives, the Central Asian Regional Economic Cooperation initiative, and the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) subregional initiative. The major strategic trusts for the ADB are to (a) provide a catalytic role and strengthen the institutional framework of those subregions, (b) support research on regional cooperation, (c) support cross-regional cooperation, and (d) use a subregional or project-based approach that includes advancing cooperation in SASEC, initiate cooperation in western South Asia, and explore the possibility of economic cooperation in southern South Asia.

3.2 Economic, Natural Resources and Physical Challenges

The Sixth National Development Plan lists seven major challenges confronting the country:

- ◆ ***Existing Narrow Economic Base:*** Lack of underdeveloped human resources and the narrow economic base of the Maldives inhibit the country's ability to sustain a dynamic, knowledge-based economy. As a result, the economy is highly dependent on a few sectors and products that make it vulnerable to external shocks. Both industries on which the Maldivian economy is heavy dependence, fisheries and tourism, have stiff international competition. Price volatility in fisheries products and the vulnerability of tourism to natural and manmade threats could have a severe impact on the cost and the standard of living, development activities, provision of public services, the level of domestic economic activity and employment in the Maldives.
- ◆ ***Fragile Environment:*** The Maldives has an inherently fragile ecosystem, and there is little that the country can do to protect itself from global threats such as global warming and sea level rise. In the short run, global warming and associated sea level rise subject the country to frequent natural disasters and erode the country's special natural advantages.
- ◆ ***Geographic Dispersion:*** The country's population is distributed across nearly 200 small islands over a large area of 820 kilometers in length and 130 kilometers in breadth at the widest point. As a result, transport and communication concerns permeate all activities.
- ◆ ***Diseconomies of Scale in Service Provision:*** One-third of the nearly 200 inhabited islands have less than a thousand inhabitants. Infrastructural and human resource development costs therefore tend to be high.
- ◆ ***Low Labor Force Participation:*** Many of the educated youth are currently unemployed by preference. Lack of high-skilled employment opportunities combined with a lack of technically trained labor has given rise to an unbalanced labor market in the country.

- ◆ **Lack of Human Resource Development:** Training and skills development has been unable to keep pace with economic growth and development. Resource gaps are particularly noticeable in the areas of upper and middle management, medical and educational services, other professional services, intermediate skills and certain unskilled labor. That gap has been filled by an influx of South Asian expatriate labor, who in turn have tended to repatriate a large portion of their earnings and thereby drain the economy of its foreign exchange.
- ◆ **Weak Entrepreneurial Base:** Lack of private sector development has been largely offset by public sector involvement. Despite the rapid growth of the private-sector led tourism sector, the entrepreneurial base is remains weak and unable to adequately support the diversification of economic activity. According to the WTO Secretariat (2003), little formal consultation or interaction exists between the public and private sectors on trade policy formulation and implementation. The National Chamber of Commerce and Industries has recently suggested a public-private partnership, structured around Vision 2020 and the Sixth National Development Plan to provide a more structured dialogue with the Government.

3.3 Policy, Procedural, and Institutional Challenges

Discussions with members of the Maldives National Chamber of Commerce and Industry pointed to a number of constraints of private sector development in the country. Some of the main constraints underscored by the board members are as follows:

- ◆ the government rules and regulations lack transparency, and regulatory agencies lack accountability;
- ◆ the legal system is not sufficiently developed to ensure a stable regulatory framework;
- ◆ the Government remains the main competitor of the private sector in a number of sectors, and there is not a level playing field;
- ◆ government procurement continues to favor the state trading company;
- ◆ credit facilities for small and medium size enterprises (SMEs) are lacking; and
- ◆ utility costs are excessively high.

These constraints to doing business in the Maldives are examined in considerable detail in the WTO Secretariat's recent trade policy review for the Maldives (WTO, 2003). According to the report, widespread involvement by the State in the economy and the government procurement regime creates considerable trade distortion. State-owned enterprises (SOEs) engage actively in trading activities to ensure supplies, and import quotas, price control measures and privileges exist for SOEs. The Government's reliance on trade taxes encourages protectionist measures, and the WTO Secretariat recommends replacing those taxes with a value-added tax that would be non-discriminatory by equally taxing both imports and domestic goods. In this way, the protective effect of the tariff would be eliminated but the revenue base preserved.

4. Opportunities for Regional Cooperation

4.1 Regional Cooperation Movements in Asia

The Asian economies have led the way in innovative forms of regional economic cooperation through a variety of formal and informal approaches. Arrangements have been fairly evenly divided between formal approaches such as Free Trade Areas (FTAs) and informal mechanisms like Growth Triangles (GTs) and Economic Corridors (ECs). The following summarizes the various initiatives listed in Table 4.1:

- ◆ **APEC** – Asia-Pacific Economic Cooperation (APEC) is a forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. Its members are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Republic of the Philippines, Russian Federation, Singapore, Chinese Taipei, Thailand, the United States, and Viet Nam. APEC is an inter-governmental grouping in the world operating on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants. It has no treaty obligations required of its participants. Decisions made within APEC are reached by consensus and commitments are undertaken on a voluntary basis.
- ◆ **ASEAN/AFTA** –The Association of Southeast Asian Nations (ASEAN) comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, and Thailand and Vietnam. The aim twofold objectives are (i) to accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations, and (ii) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter. Under the ASEAN Free Trade Area (AFTA), ASEAN members have significantly reduced tariffs on all products. Tariffs on 99.6 percent of products have been reduced to the 0-5 percent tariff range. The average tariff is now down to 2.4 percent from 12.8 percent when the tariff-cutting exercise started in 1993. The newer members of ASEAN, however, still have to reach the 0-5 percent tariff for intra-ASEAN trade
- ◆ **BIMP-EAGA** –The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN (Association of Southeast Asian Nations) Growth Area or BIMP-EAGA initiative aims to accelerate the development of the economy of Brunei and subregions of the three other countries through regional cooperation. It is a major location in ASEAN of high value added agro-industry, natural resource-based manufacturing, and high-grade tourism as well as non-resource-based industries.

Table 4.1–Asian Mechanisms for Regional Economic Cooperation

	Common Market	Customs Union	Free Trade Area	Broad Regional Cooperation	Growth Triangle	Economic Corridor
Existing Asian Regional or Subregional Arrangements	None	None	AFTA SAFTA SAPTA	ASEAN SAARC	BIMP-EAGA IMT-GT CARECC SAGQ SASEC	EWEC NSEC
Characteristics						
Intra-Regional Trade Tariff Elimination	Yes	Yes	Yes	Indirectly	Indirectly	Indirectly
NTB Reduction	Yes	Yes	Yes	Indirectly	Indirectly	Indirectly
Common External Tariff	Yes	Yes	No	No	No	No
Free Labor Mobility	Yes	No	No	No	No	No
Free Trade in Services	Yes	Yes	Not usually	Indirectly	No	No
Free Capital Mobility	Yes	Not usually	Not usually	Indirectly	No	No
Internal Policy Harmonization	Yes	No	No	Indirectly	No	No
Extra-Regionally Oriented	No	No	No	Yes	Yes	Yes
Joint Planning and Promotion	Yes	No	No	Yes	Yes	Yes
Decentralization of Decision-making	No	No	No	Yes	Yes	Yes
Geographic Coverage	Countries	Countries	Countries	Countries	Sub-regions within countries	Defined geographic area

Acronyms:

AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIMP-EAGA	Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area
CAREC	Central Asian Regional Economic Cooperation
EWEC	East-West Economic Corridor
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
SAARC	South Asian Association for Regional Co-operation
SAFTA	South Asian Free Trade Area
SAGQ	South Asian Growth Quadrangle
SAPTA	South Asian Preferential Trade Agreement
SASEC	South Asia Subregional Economic Cooperation

- ◆ **CAREC** – The CAREC initiative seeks to promote economic growth and raise living standards in the region by encouraging economic cooperation. Its operational strategy is to finance infrastructure projects and improve the policy environment for promoting cross-border activities in the areas of trade, transport and energy. Members are Azerbaijan, People's Republic of China, focusing on Xinjiang Uygur Autonomous Region, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan. Turkmenistan is expected to become a member in the near future.

- ◆ **EWEC** – The East West Economic Corridor (EWEC) is both a transport system and a framework for cooperation which connects the peoples of four of the GMS countries (see GMS below). The Corridor will increase flows of trade and investment, the development of secondary cities, regional development of remote border areas, poverty alleviation and increased cooperation in agro-industry, from which most people in the subregion derive their employment. It is also expected to encourage the development of industrial estates in border areas.
- ◆ **GMS** – The Greater Mekong Subregion (GMS) comprises Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province in the People's Republic of China. In 1992 the six countries entered into a program of subregional economic cooperation to enhance economic relations among the countries. The program has contributed to the development of infrastructure to enable the development and sharing of the resource base, and promote the freer flow of goods and people in the subregion. It has also led to the international recognition of the subregion as a growth area.
- ◆ **IMT-GT** – The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) consists of the two Indonesian provinces of North Sumatra and Daerah Istimewa (DI) Aceh; the four northern Malaysian states of Kedah, Penang, Perak, and Perlis; and five provinces of southern Thailand--Narathiwat, Pattani, Satun, Songkhla, and Yala. The overall goal is to accelerate private sector-led economic growth and development in the IMT-GT. The initiatives identified seek to promote foreign direct investment and facilitate economic development of the subregions by exploiting underlying economic complementarities and investment opportunities, enhance international competitiveness for direct investment and export production, lower transport and transaction costs, and reduce production and distribution costs through economies of scale.
- ◆ **NSEC** – North-South Economic Corridor (NSEC) aims to develop a highly efficient transport system which allows goods and people to circulate or move around the subregion without significant impediment or excessive cost or delay. The objectives are: (i) to facilitate trade and development between and among Lao PDR, Myanmar, Thailand, Viet Nam, and Yunnan Province, PRC; (ii) to reduce transport costs in the project influence area, and move goods and passengers more efficiently; and (iii) to reduce poverty, support development of rural and border areas, increase earnings of low-income groups, provide employment opportunities for women, and promote tourism in its influence area. The initiative also involves managing policy and regulatory and infrastructure initiatives in support of selected business opportunities. Two different routes along the north-south axis are involved in the NSEC initiative: (i) the Kunming-Chiang Rai-Bangkok via Lao PDR and Myanmar route, and (ii) Kunming-Hanoi-Haiphong which connects to the existing Highway No. 1 running from the northern to the southern part of Viet Nam.
- ◆ **SAARC/SAPTA/SAFTA**– The South Asian Association for Regional Cooperation (SAARC) comprises Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka in an effort to advance cooperation in economic, social, cultural and other fields, and strengthen the competitive positions of member countries. The SAARC Preferential Trading Arrangement (SAPTA) aims to promote and sustain mutual trade

and economic cooperation within the SAARC region through exchange of concessions. SAPTA is considered the first step towards the transition to a South Asian Free Trade Area (SAFTA) leading subsequently, towards a Customs Union, Common Market and Economic Union.

- ◆ **SAGQ** – The South Asia Growth Quadrangle (SAGQ) is a subregional cooperation initiative of Bangladesh, Bhutan, India, and Nepal to promote subregional cooperation in South Asia through the South Asia Subregional Economic Cooperation (SASEC) Program. The program is designed to support their cooperation and develop the subregion as a leading growth center.
- ◆ **SASEC** – The South Asia Subregional Economic Cooperation (SASEC) Program is made up of the eastern subregion of the South Asia subcontinent, an area comprising Bangladesh, Bhutan, the eastern states of India, and Nepal. It aims to transform the subregion into a leading growth area.

Formal arrangements in Asia are limited to Free Trade Areas aimed at eliminating tariff and non-tariff barriers (NTB) internally, but maintain their individual tariff structures with the rest of the world. FTAs do not usually include free trade in services, free capital mobility, or include administrative interventions such as compensatory funds to ensure that distribution of benefits from the FTA are equalized among member countries. Customs Unions (CUs) such as that which the SAARC members eventually aim form eliminate internal tariffs and NTBs, and also apply a common external tariff on non-member country imports. Beyond that arrangement, a Common Market not only incorporates the free trade aspects of FTAs and embrace the common external tariff of CUs, but also allows for the free movement of services, capital and labor; it is therefore the most complete form of regional economic integration.

Informal mechanisms for regional cooperation that cover both growth areas and economic corridors have been developed in response to the slow pace of establishing formal trading blocs such as that of SAARC. The basic proposition underlying informal mechanisms is that regional economic cooperation can be accelerated by including only smaller areas of countries, and adopting a pragmatic, market-oriented approach to collaboration. Some of their key characteristics are (a) they encompass only parts of a country, usually geographically contiguous sub-regions, or a single defined area in the case of a corridor; (b) they are extra-regionally oriented insofar as investment can originate from outside the area and goods and services are often directed to external markets; (c) they facilitate liberalization of trade, investment, transport, immigration and other economic policies through simplification of cross-border procedures and policy coordination, without adopting common, harmonized policies; (d) they often benefit the border areas of participating countries, which are often economically marginalized; (e) they facilitate greater decentralization and devolution of government functions to the local levels, which can speed up decision-making process; and (f) they can serve as demonstration areas for implementation innovative project, programs and institutional reforms that can be translated into more formal national and regional initiatives. As such, growth areas are less of a mechanism to promote intra-regional trade, than a scheme to enhance the competitiveness of an area to promote cross-border investment and trade in export-oriented activities.

Table 4.2
Revealed Comparative Advantage of the Maldives and Other South Asia Countries

Category/Product Division	Maldives	Bangladesh	Bhutan	India	Nepal	Sri Lanka
<i>Natural Resource-Intensive:</i>	<u>2.68</u>	<u>0.41</u>	<u>4.01</u>	<u>1.07</u>	<u>0.65</u>	<u>1.12</u>
Live animals and animal products	21.19	2.78	-	2.00	3.46	1.09
Vegetable products	-	0.56	3.40	3.00	1.56	6.98
Prepared foodstuffs, beverages	4.86	0.05	1.59	0.83	0.65	0.53
Mineral products	-	0.03	6.57	0.77	0.03	0.07
Wood and cork manufactures	-	0.17	3.82	0.05	0.14	0.20
Fertilizers, manufactured	-	3.37	-	0.10	-	0.02
Non-metallic mineral manuf.	-	0.17	0.11	1.02	0.00	0.82
Paper manufactures	-	0.01	0.00	0.22	0.28	0.17
Inorganic chemicals	-	0.14	16.89	0.84	-	0.01
<i>Unskilled Labor-Intensive:</i>	<u>5.37</u>	<u>11.17</u>	<u>0.22</u>	<u>3.96</u>	<u>9.20</u>	<u>7.56</u>
Leather and leather manuf.	-	5.40	0.12	2.26	2.21	0.05
Footwear	-	1.18	-	2.24	0.00	1.08
Travel goods and handbags	-	0.05	-	7.12	1.02	7.75
Textile yarn and fabrics	-	4.25	0.12	5.68	13.81	1.94
Clothing	15.32	27.14	0.02	4.64	13.81	18.65
Furniture	-	0.00	0.99	0.09	0.02	0.13
<i>Human capital/Tech-Intensive:</i>	<u>0.00</u>	<u>0.04</u>	<u>0.17</u>	<u>0.65</u>	<u>0.19</u>	<u>0.23</u>
Iron and steel	0.04	0.02	3.25	1.45	0.01	0.08
Organic chemicals	-	-	-	1.59	0.14	0.00
Explosives, pyrotech products	-	-	-	1.19	-	-
Rubber manufactures	-	-	-	0.84	0.01	4.31
Manufactures of metal	0.02	0.06	-	0.66	0.05	0.05
Chemical materials and products	-	0.00	0.24	0.98	0.42	0.33
Essential oils	-	0.01	0.32	0.66	10.05	0.21
Plastic materials	-	0.13	0.09	0.53	0.01	0.26
Dyeing, tanning and coloring	-	-	-	1.95	0.84	0.07
Non-electrical machinery	-	0.03	0.00	0.19	0.02	0.10
Misc. manufactured goods	-	0.07	0.01	1.05	0.08	0.34
Medicinal and pharmaceuticals	-	0.00	-	1.31	0.59	0.02
Total Industrial Products	<u>0.46</u>	<u>1.00</u>	<u>0.94</u>	<u>0.93</u>	<u>0.94</u>	<u>0.85</u>
Total Agricultural Products	<u>7.64</u>	<u>0.97</u>	<u>1.78</u>	<u>1.89</u>	<u>1.73</u>	<u>2.90</u>

Notes:

1. All calculations are for 2-digit SITC product categories, derived from unweighted averages of product components at the 3-digit SITC level using 2001 data.
2. Factor-intensity category calculations are unweighted averages of individual product divisions.

Source: COMTRADE database.

4.2 Regional Comparative Advantage

The Maldives has a comparative advantage in a relatively few product exports compared with those of the other South Asian economies. Table 4.2 shows the comparative advantages of export product divisions of the Maldives and other selected countries of the region in three factor-intensity categories: natural-resource intensive products, unskilled labor-intensive products, and human capital and technology-intensive products.⁴ The indices measure the 'revealed' comparative advantage (RCA) of the countries in each factor-intensity category: when the value of the index is greater than one, it implies a measurable degree of comparative advantage in a product category; when it is less than one, it suggests a comparative disadvantage.⁵

The Maldives and other South Asia countries generally have strong export performances in similar product categories but not in the same specific products, implying a relatively high level of complementarity opportunities for intra-regional trade within the region. In the *natural resource-intensive products*, the Maldives has a comparative advantage in live animals and animal products, that is, fisheries, and in prepared foodstuffs, which refers to frozen and processed fish. Most other countries in the region also have a comparative advantage in that product category. In *unskilled labor-intensive products*, the Maldives has a strong comparative advantage in clothing, as does Bangladesh, India, Nepal and Sri Lanka. The similarity of export performances in clothing for the Maldives and other South Asian countries suggests that, by developing cross-border production facilities and benefiting from economies of scale, exporters could improve their export performance in the world market. For this expansion to happen, however, problems of sufficient capital required to upgrade processing techniques will need to be overcome. The ability and willingness of businesses to enter into joint ventures will naturally depend on comparative production costs between countries, production costs, economic policies and the regulatory environment.

4.3 Trade Compatibility

The comparative advantage analysis in the previous section is limited to static concepts. In reality, countries alter their situations by adopting new technologies either internally through research and development, or externally through foreign direct investment (FDI) and the development of cross-border production facilities. These new technologies allow

⁴ Trade data for Pakistan were unavailable for the analysis.

⁵The index of revealed comparative advantage (RCA) is given by the following formula:

$$RCA_{ij} = (X_{ij} / X_j) / (X_i / X)$$

where,

X_{ij} = exports of product i from country j .

X_i = exports of product i from the world.

X_j = exports of all goods from country j .

X = exports of all goods from the world.

Table 4.3
Indices of Trade Compatibility for Maldives Exports

	<i>Total</i>	<i>Bangladesh</i>	<i>Bhutan</i>	<i>India</i>	<i>Nepal</i>	<i>Sri Lanka</i>
All Products, of which	0.33	0.22	0.17	0.06	0.01	0.42
<i>within group compatibility:</i>						
Large-Size	0.50	0.42	0.28	0.30	0.43	0.48
Medium-Size	0.29	0.14	0.50	0.11	0.11	0.23
Small-Size	0.66	0.14	0.50	0.34	0.50	0.51
Emerging Exports	0.15	0.10	0.50	0.08	0.02	0.44

Note: See text for definition of trade compatibility index.

countries to change their comparative advantage, exploit new markets and, in the case of developing countries, to converge to levels of income and economic structures similar to those of developed economies. The comparative advantage analysis therefore needs to be modified to encompass the effects of changing technological situations and changing worker skills on production patterns of countries.

One alternative approach adopted from business economics by both the World Bank and the United Nations Economic Commission for Latin America is to assume that there are few natural resource and technological differences between countries. Under these conditions, the degree of concentration or so-called agglomeration of industries helps to accounts for developmental differences between countries. The concentration of industrial activity in particular locations has allowed some countries to advance more quickly than those countries without industrial agglomeration. By changing the production base of countries, preferential trade arrangements (PTAs) at the regional level can help to alter and accelerate the development process of countries. For the Maldives' regional trade arrangements under SAPTA, the central indicator of a country's ability to alter its comparative advantage is the degree of trade compatibility between its export structure and that of its trading partners.

In the context of the Maldives's trade with different members of the South Asia regional groupings, the central indicator of the ability to alter its comparative advantage is the degree of trade compatibility between its export structure and that of its regional or bilateral trading partners. Having established compatibility of traded products, one can then invoke performance indicators to reveal the extent to which firms can compete effectively in those markets. Success in export markets – measured by rapidly expanding exports and rising market shares – indicates the extent to which an economy such as the Maldives is willing and able to achieve global integration and alter its comparative advantage in the regional and global marketplace.

The trade compatibility index measures the degree of compatibility between the Maldives' exported products and those products imported by its South Asian trading partners.⁶ The index approaches zero when the Maldives exports none of what the partner

⁶ The index of compatibility ($C_{x/m}$) is computed using the following formula:

country imports, and it approaches unity when the exports share of a product of the Maldives is identical to the import share of that product by the partner country. The index of compatibility is usually between 0.50 and 0.60 for trade between industrialized countries, and it averages about 0.20 for trade between Latin America countries.

Overall, the trade compatibility index for the Maldives' exports and South Asia imports equals 0.33, which lies between the index of trade between Latin American countries and that of trade between the developed countries (Table 4.3). Within these four categories, the smallest degree of compatibility of the Maldives' exports is in its emerging exports with Bangladesh imports. There is also a small degree of compatibility in the country's medium-size exports with those imports of India and Nepal. In contrast, there is a high degree of compatibility between the Maldives' exports of small-size exports with the South Asia region as a whole, as well as the country's medium-size exports and imports of India and Sri Lanka.

The results for both the static analysis based on revealed comparative advantage and dynamic analysis based on trade compatibility calculations show that, despite the narrow export base of the Maldives, there is considerable potential for exploiting particular markets for products in specific South Asia countries.

$$C_{x/m} = 1 - (\sum |x_{jd} - m_{us}|)/2$$

where x_{jd} is the Maldives' share of good i exports relative to its total exports, and m_{us} is the share of partner country good i imports relative to its total imports.

5. Strategy for Regional Cooperation

5.1 National Priorities in the Regional Strategy

One of the principal motivations the Maldives to form part of a regional arrangement is the economic and social welfare expansion that can occur through the acceleration and enhancement of trade, investment and other economic activities. Regional cooperation will also serve as a mechanism for accelerating the reduction of barriers between the Maldives and other South Asian economies. Elimination of non-physical barriers is likely to prove effective in expanding regional trade and tourism, as well as the country's foreign exchange earnings capability and its ability to absorb new technology and skills-intensive activities. Elimination of physical barriers is likely to spur transport projects that will serve as an engine of growth for sustaining regional economic expansion. The previous chapter has shown that opportunities exist for the Maldives to expand trade and investment based on dynamic regional comparative advantages and existing regional or sub-regional complementarities that could allow the economy to exploit differences in factor endowments and production technologies. In this way, regional cooperation will provide a means by which the Maldives will be able to expand production of those goods in which it has lower relative marginal costs, and thereby derive economies of scale in the production of its goods and services within the South Asia region.

The proposed strategy for the Maldives is based on the new pattern of regionalism that was explored in the previous chapter and which is based on innovative forms of collaboration. First, the new regionalism will enhance the country's ability to exploit both similarities and complementarities in a wide range of activities such as infrastructural linkages and natural and human resource development. Second, it will provide a means of increasingly diversifying trade in goods and tourism, as trade patterns become less defined by historical and political ties than in the past. Finally, the new regionalism will accelerate the economic transformation of the country based on a focused regional and sub-regional approach aimed at exploiting existing opportunities with neighboring countries.

This regional strategy supports the Government's overall development strategy. Indeed, the Government is already committed to fostering regional ties by liberalizing trade and investment and strengthening the country's economic, legal, social, administrative, and physical infrastructure. Private sector development, including foreign direct investment, is seen as a central catalyst for growth, and economic development is to be based on sustainable management of key natural resources, such as fisheries and those related to tourism. In this way, the Sixth National Development Plan (6NDP) aims to achieve "conducive conditions for brisk commerce and economic activity" and for the country to become a "hub for regional free trade" as well as a "more diversified economy with export-oriented services trade". In making the 6NDP operational, the Strategic Economic Plan provides the underlying motivation for the sectoral development framework for regional cooperation in the Maldives. It aims to strengthen the links with existing trade

blocks and other sub-regions, including within the South Asian Association for Regional Cooperation (SAARC), and forming bilateral free-trade arrangements with regional partners, as well as collaborating with selected countries in ASEAN, Africa, and Europe. The 6NDP also seeks to promote greater private participation in economic and regional development through the diversification and expansion of the country's economic base away from fishing and tourism, the reform of legislative, regulatory, governance, and administrative activities, and the promotion of cost-effective transportation and telecommunication infrastructure.

Government's Vision 2020 declares that the Maldives should develop into an information and communication technology center, a regional service center with modern port and airport facilities, and an offshore banking and financial center serving the Indian Ocean. Among the medium-term policies to realize the objectives of Vision 2020 set out in the 6NDP are (i) enhancing and strengthening private sector participation in national development; (ii) diversifying and expanding the country's economic base away from fishing and tourism while ensuring sustainability of physical and natural resources; and (iii) achieving the needed conditions for the country to promote commerce and economic activity, and for the country to become a hub for regional free trade, as well as a more diversified economy with export-oriented services trade.

5.2 Guiding Principles

The 6NDP and Strategic Economic Plan suggests that a number of guiding principles should underlie the regional strategy for the Maldives:

- ***Adopt a Pragmatic Framework for Regional Cooperation.*** The strategy should focus on practical and implementable initiatives that address the most pressing constraints, and that can be implemented within a realistic timeframe.
- ***Focus on Immediately Implementable Activities with High Returns.*** The strategy should concentrate on immediately implementable projects that can provide a demonstration effect for future activities.
- ***Phase the Interventions.*** The strategy should adopt a phased approach to interventions that facilitates implementation and provides a means of ensuring that changes will be carried out rapidly, bringing other areas into the process when they are ready.
- ***Support Public-Private Partnership.*** The strategy should support the Government's effort to play a catalytic role in facilitating private sector development.
- ***Develop Poverty Alleviation Mechanisms through Regional Growth.*** The strategy should support the Government's poverty alleviation strategy particularly through the promotion of small and medium size enterprises (SMEs) and microenterprises.
- ***Ensure a Sustainable and Operationally Viable Regional Strategy.*** The strategy should ensure sustainability of initiatives through immediately implementable projects that will yield substantial short-term results and ensure the continued commitment of stakeholders.

- ***Establishing a Facilitative Public Policy Framework for Regional Expansion.*** The strategy should promote the development of public policies, incentive structures and infrastructure that will support the private sector's development activities.

5.3 Key Elements of the Strategy

The proposed strategy for the Maldives' regional cooperation promotes a market-driven region-wide economic expansion process that, in the short to medium-term, facilitates the development of high value-added activities and, in the longer term, promotes the development of a limited but significant number of technology and skilled labor-intensive industries. The strategy builds on a spatial model of production and trade, and shifts the emphasis from a purely export-driven growth strategy to one targeting cross-border production and market networks, which extends the Strategic Economic Plan's cluster framework from a national to a regional level strategy. This strategy also targets a broad-based transmission of domestic learning and knowledge accumulation as a means of sustaining high economic growth rate in the country.

The basic tenants of the strategy are as follows:

- (1) ***Adopt a Pragmatic Approach to Promoting Cooperation.*** While the overall strategy is directed towards regional cooperation, its successful implementation will likely require a pragmatic approach to forging cooperation at a subregion level where opportunities are greatest for the Maldives.
- (2) ***Exploit Complementarities within the Region.*** The strategy for the Maldives builds on the growth potential of intra-regional trade resulting from differences in factor endowments, and concurrently emphasizes the growing world-wide trend towards regionalization of production activities that reduces production costs by exploiting economies of scale and expanding extra-regional trade. The creation of these regional and subregional arrangements provides an opportunity for the Maldives and its neighboring countries to obtain economies of scale in the production of export-oriented industries directed towards Southeast Asia, China, and other emerging growth markets for the Maldives.
- (3) ***Focus the Sector Coverage.*** Based on the 6NDP the Government has focused the regional cooperation strategy on diversifying tourism and fisheries activities, and developing the trade and investment regulatory and policy framework, promoting the health and education sectors, encouraging science and technology development, and improving infrastructure related to transportation, communication and power.
- (4) ***Phase Project Implementation.*** Investment risk perceptions and limited financing mechanisms for the private sector remain as major constraints for exploiting regional cooperation opportunities. The domination of small and medium size enterprises (SMEs) in the country suggests the need to initially target more secure investment sectors and geographic subregions, and use the success of those endeavors as demonstration models for other cross-border investment and trade opportunities in the region.

- (5) ***Redirect the Maldives to Outward Looking Markets and Production-Sharing Activities.*** The new strategy refocuses initiatives in the Maldives from an inward investment-oriented strategy to an outward market-oriented one. In this context, the so-called Flying Geese pattern of trade and development for the Maldives is an appropriate model to develop the country's growth potential through trade and investment with major Asian markets and regional producer networks, since the approach will integrate the Maldives economy with its neighboring countries and promotes a cycle of development based on evolving comparative advantage.⁷
- (6) ***Integrate the Productive and Supportive Sectors.*** Under the present strategy, the productive sector initiatives have first been identified and support activities in trade and investment, infrastructure, health and education, and science and technology have been designed, where appropriate, for those productive sector initiatives.
- (7) ***Public Sector Role as Catalyst for Private Sector Development.*** The present developmental needs for region cooperation require a strong and catalytic role of Government, especially at the initial stages of the proposed initiatives.
- (8) ***Target Initiatives with Large Poverty Reduction Impact.*** Under the national developmental mandate, implementation of the regional cooperation strategy requires that specific attention be provided to SMEs and the poor, and that the implementing initiatives target those sectors.

⁷ Under the Flying Geese development process, the Maldives would specialize in the exports and production of goods and services in which it enjoys a comparative advantage commensurate with its general level of development, and at the same time it could upgrade its fisheries and tourism structure through joint investments with neighboring areas throughout Asia. In this way, projects with an outward orientation would likely stimulate the development of production networks under the cluster framework being developed by the Government's Strategic Economic Plan.

6. An Action Plan

6.1 Project Selection Overview

The regional cooperation strategy proposed for the Maldives will be made operational through a set of immediately implementable projects that have measurable benefits to the country within a relatively short timeframe. A total of 16 projects have been identified, which are considered as being realistically implementable in the immediate future and having a high-impact, demonstrative effects in each sector that will thereby generate interest in other regional cooperation initiatives. Of these projects, six are directed at the targeted productive sectors of tourism and fisheries, and the remaining ten are directed at the supporting sectors of trade and investment, transport and communications, finance, health and education, and finance.

The combined cost estimated for 15 of the 16 projects is little over US\$3 million, with a mean average cost of each project equal to just over US\$200,000. There is, however,

Table 6.1
Proposed Productive and Support Sector Project Initiatives

Sector	Project Number	Description
Tourism	TR1	Tourism diversification through regional focus in eco-tourism, adventure tourism, cultural tourism, and safari cruising
	TR2	Tourism investment incentives for development of regional and sub-regional package tours
	TR3	Tourism regional master plan.
Fisheries	FA1	<i>Maldives Fish</i> commercialization enhancement in South Asia
	FA2	Database on reef habitat and resource monitoring collaboration with India for remote sensing devices, and developing standards and size limitations.
	FA3	Regional Collaboration for Capacity Building of Grouper Health Management
Trade and Investment	TI1	Regional trade and investment Internet-based information system.
	TI2	Regional quarantine standards and implementation rules, regulations and procedures.
	TI3	IPR implementation of WTO commitments to promote regional product development.
Transport and Communication	TC1	Regional transshipment hub for container shipping and free trade zone.
Finance	FN1	Regional development fund for SME financing of cross-border investments and trade financing.
Education	ED1	Distance education for basic education and technical training.
	ED2	Regional multigrade teaching training and dissemination facilities.
Medicine	MD1	Regional tele-medicine training and implementation
	MD2	Medical consumables and bulk regional purchasing
Information Technology (IT)	IT1	Capacity building for information technology (IT) regional program

considerable variation among projects, which range from a low of \$50,000 for the development of a coral reef database development using remote sensing and geographic information system (GIS) tools to a high of US400,000 for a regional masterplan for tourism.

All projects support the national development program and its strategic development plan for implementation. While the immediate impact of these initiatives on the productive sectors of the economy is the development of tourism and fisheries activities, over the medium to long term they are likely to favorably impact perceptions about the investment environment by demonstrating how targeted regional initiatives can succeed in the Maldives. The support sectors aim to produce a conducive business environment for regional cooperation, especially in their focus on proposed initiatives of the two productive sectors. The exceptions are the health and education initiatives, which generally have a broader objective, but which nevertheless have the same overall strategic objective as the other proposals.

Each project initiative has been formulated in the context of other complementary activities in the affected sector. Table 6.2 describes the sector-specific initiatives of both the ADB and other international donors. The ADB's assistance program and that of its development partners are outlined in the *Country Strategy and Program (2002-2004)* for the Maldives. In regional activities, the ADB is assisting the SACEP in the Maldives and other South Asian countries in best practices for reef management technology. It is also fostering regional collaboration in tertiary education by helping to develop partnerships between institutions of higher education in the Maldives and its neighboring countries, and it is considering assistance in regional cooperation related to trade, commerce, tourism, information and communication technologies, capital markets, and civil aviation.

In transportation, The ADB's technical assistance for the development of a masterplan addresses air and sea transport issues for improved international access, as well as intra-country transport development for better accessibility to remote islands. It provides development goals and strategic directions for the sector and actual investment and policy reform programs over the coming years.

In information technology, the ADB's technical assistance Applying Information Technology Network for Poverty Reduction aims to develop a strategy and investment program aimed at (i) extending the reach of the Government's Internet network in the atolls; (ii) developing options for public-private partnership in managing and maintaining the network in the atolls; (iii) developing a program for suitable electronic education, health, and commerce services; and (iv) preparing a program for testing and implementing these measures on a wide scale.

In education, the ADB's assistance to education focuses on expanding access and improving the quality of postsecondary education. As such, it supports the consolidation and upgrading of various postsecondary institutions into one institution, and the expansion of access to postsecondary education.

Figure 3.1 shows how these project proposals support the regional cooperation strategy for the Maldives described in Chapter 5. The eight (8) key elements of the strategy are presented in the graph's boxes, while the proposed projects are shown to support specific elements of the strategy. Together they provide a means by which the Maldives can successfully implementing an action plan for regional cooperation.

Figure 6.1
Linkage between Proposed Projects and Strategy

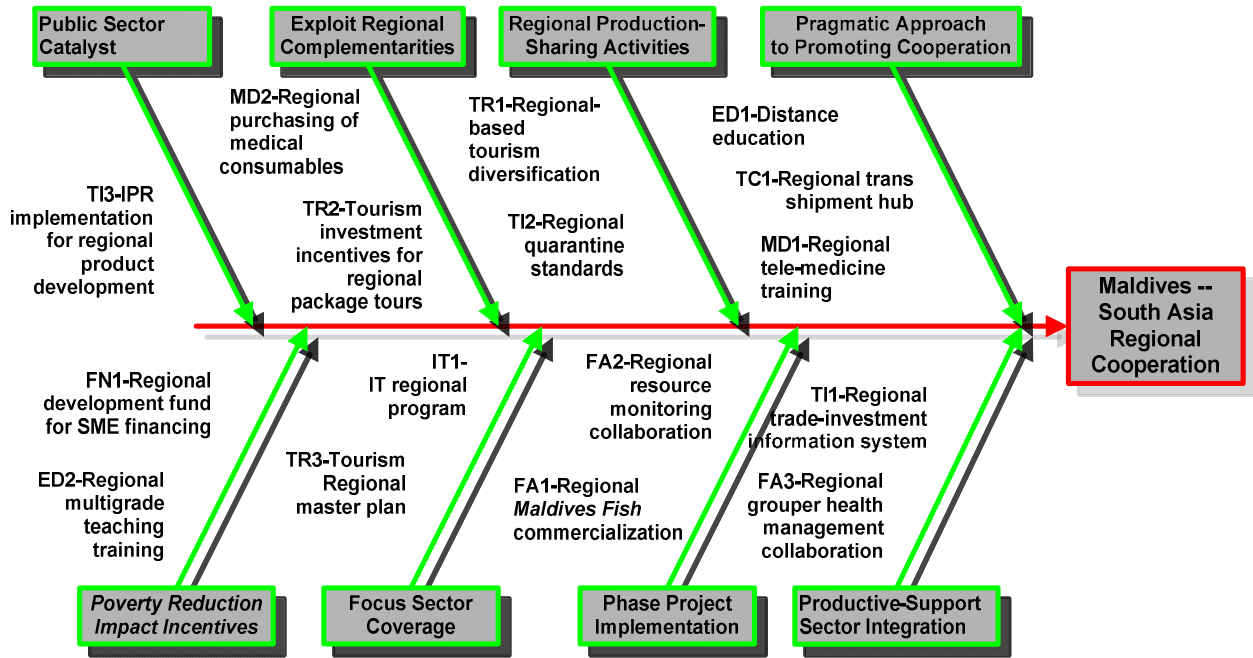


Table 6.2
Regional Project Relationships to Existing Donor Initiatives

Sector	Project Number	Description	ADB Related Activities	Other Related Activities
Tourism	TR1	Tourism diversification through regional focus in eco-tourism, adventure tourism, cultural tourism, and safari cruising.		IFC TA to support growth of tourism
	TR2	Tourism investment incentives for development of regional package tours		
	TR3	Tourism regional master plan.		
Fisheries and Agriculture	FA1	<i>Maldives Fish</i> commercialization enhancement in South Asia	Commercialization of agriculture and mariculture (\$150,000 in 2004)	World Bank formulation of fisheries sector masterplan.
	FA2	Coral reef database development using remote sensing and Geographic Information System (GIS) tools from South Asia Region		
	FA3	Regional collaboration for capacity building of grouper health management		
Trade and Investment	TI1	Regional trade and investment Internet-based information system.	TA for custom services; ADB regional workshop on intellectual property rights.	UNCTAD technical assistance to review governance issues. FIAS technical assistance to develop an investment promotion strategy. WIPO assistance to assist with laws and regulations governing intellectual property rights. Integrated Framework (IF) assistance to coordinate trade-related donor projects, mainstream trade policy in the national development plan, provide trade-related infrastructure development, and target poverty alleviation.
	TI3	Regional quarantine standards and implementation rules, regulations and procedures.		
	TI4	IPR implementation of WTO commitments to promote regional product development.		
Transport and Com.	TC1	Regional transshipment hub for container shipping and free trade zone (FTZ)	TA for transport masterplan; transport infrastructure development (2004: \$500,000).	Kuwait Fund airport upgrading and regional port development. Denmark/DANIDA development of ports and harbors.
Finance	FN1	Regional development fund for SME financing of cross-border investments and trade financing.	TA for small and medium enterprise (SME) development	UNDP small-scale pilot program for microcredit in select outer islands. Commonwealth Secretariat advise on financial sector development and reform. IMF policy dialogue on financial sector reforms. World Bank establishment of Financial Intelligence Unit. IDB microcredit project in atolls.
Education	ED1	Distance education for basic education and technical training.	Postsecondary education development and vocational training (\$5 million); education masterplan (\$350,000 in 2004)	International Development Association (IDA) distance learning. World Bank development of primary and secondary education and teacher training.
	ED2	Regional multigrade teaching training and dissemination facilities.		
Medicine	MD1	Regional tele-medicine training and implementation		WHO assistance to improve health service delivery, reduce maternal mortality rate, improve nutrition status, and promote health sector reforms. IDB construction and upgrading of regional hospitals, and health workers training program collaboration with Sri Lanka.
	MD2	Medical consumables and bulk regional purchasing		
Information Technology	IT1	Capacity Building for Regional Information Technology (IT) Development Program.	Information technology (IT) development for electronic-government capability (\$9.5 million); TA for science and technology masterplan; TA for	UNDP promotion of community-based information utilization and formulation of national information technology policy.

6.2 Project Descriptions

This section provides details of the 16 projects initiatives proposed for the Maldives.

Box 6.1

(TR1) Tourism Diversification through Regional Focus in Eco-Tourism, Adventure Tourism, Cultural Tourism, and Safari Cruising

Summary Description	Development of package tours to the Southern Asia region to attract a diversified geographic base for upscale tourism activities in eco-tourism, adventure and cultural tourism, and safari cruising as part of the Government's interest in diversifying the sector to ensure stability and sustainable growth, while protecting the environment and maintaining the level and quality of existing tourism facilities.
Rationale for Inclusion	This project addresses the concerns of the Sixth National Development Plan (NDP6) that "Despite the rapid progress, the tourism markets and the tourism products are not adequately diversified. Most tourists come from one region, i.e. Western Europe, and their main interests are relaxation on the white sandy beaches or the tropical island environment, and scuba diving or snorkeling. To cater to the changing needs of the market and to ensure growth of the industry, it needs to diversify its markets and products." The project aims to exploit the Maldives regional comparative advantage in the context of regional and sub-regional package activities to attract distance tourists from North America and Australia-New Zealand, while maintaining the country's goal of providing upscale tourism facilities. It will support the design and implementation of the next tourism masterplan.
Specific Activities to be Included in Project Scope	At the onset, the project will identify mechanisms by which to bring together regional member countries into the project. The major components of the project are as follows: (1) Establish consensus with GOM on the direction of diversification in eco-tourism, adventure and cultural tourism and safari cruising; (2) determine optimum level of regionalization for each of the components in terms of regional, subregion, corridor, or other cross-border arrangement; (3) determine existing constraints to establishment of diversified tourism activities within the Maldives and constraints to travel within the region or sub-region designated for the activity; (4) determine direct initiatives that need to be taken with other countries in tourism; and (5) determine support sector activities needed in transport, communications, trade and investment, human resource development and other sectors.
Support Sector Project Needs	Support sector activities needs will be determined as part of the project in the areas of transport, communications, trade and investment, human resource development and other activities.
Related Donor Project(s)	IFC TA to support growth of tourism.
Costs and Financing Implications	Approximate cost of the technical assistance is estimated at \$200,000. Donor financing will be needed for the study, including the dissemination of study results, while support from the GOM and relevant South Asian states is expected in prioritizing areas of collaboration.
Expected Benefits	Benefits will include the attraction of a new clientele, greater visibility of the region and enhanced awareness among both potential tourists and local people of its special ecological attributes.
Indicators of Measurable Impact	Number of increased number of multi-destination activities available within the region; agreement by relevant member states to collaborate in package tours; number of initiatives aimed at increasing tourism movement within the region; new arrivals from non-traditional destinations for package tours.

Box 6.2

(TR2) Tourism Investment Incentives for Regional and Sub-Regional Package Tours

Summary Description	The objective of the project is to introduce special investment incentives for the development of regional and sub-regional package tours for activities related to eco-tourism, adventure tourism, cultural tourism, and safari cruising, as well as support sector activities needed in transport, communications, trade and investment, human resource development and other sectors within the framework of the Sixth National Development Plan (NDP6).
Rationale for Inclusion	Successful development of regional and subregional tourism depends on private sector investment, which in turn depends on the regulatory framework affecting the business climate, as well as the extent to which foreign investors are encouraged to develop tourism packages and support sector activities. A necessary but not sufficient condition is improvement of the foreign investment law in terms of transparency and timeframe for application approvals. For subregional development, a sufficient condition requires the implementation of special investment incentives across borders.
Specific Activities to be Included in Project Scope	The project will identify key regulations and commitments of the Maldives needed to promote investment in regional tourism and related activities at both the national and regional levels. Specific activities of the project consist of examining tourism investment promotion policies affecting the business climate for (a) existing level of approved investments and registered projects, (b) foreign investment policy as they related to tourism and related services; (c) regulations governing foreign investment in tourism and tourism related activities; (d) government-to-government agreements relevant to tourism; and (e) laws and incentives covering tourism investments. Based on these investment incentive schemes, develop specific recommendations for the design and implementation of a tourism investment incentive scheme to be applied in the Maldives and, where appropriate, other regional member states.
Support Sector Project Needs	Support from proposed initiative T11: Regional Trade and Investment Internet-Based Information System
Related Donor Project(s)	IFC TA to support growth of tourism.
Costs and Financing Implications	Donor financing will be needed for the technical assistance in the amount of \$150,000.
Expected Benefits	Expected benefits include increased investment in tourism industry, increased investment in support sectors, and additional sources of income and livelihood for the people of the Maldives.
Indicators of Measurable Impact	Increase in number of investment incentive regulations and policies.

**Box 6.3
(TR3) Tourism Regional Master Plan**

Summary Description	The project aims to support the development of a regional tourism masterplan for the diversification of tourism activities aimed at ensuring a stable and sustainable tourism sector that is compatible with the Government's overall planning objectives.
Rationale for Inclusion	At present, tourism is currently guided by the Second Tourism Master Plan (STMP), and there is no suggestion for regional or sub-regional cooperation in tourism in either the STMP or its mid-term review. The mid-term review finds that product diversification in the tourism sector has been extremely limited. Moreover, despite perceptions that the sector caters mainly high-end tourists, a recent survey by the Ministry of Planning and Development quoted in the mid-term review indicates that the industry's main customers are not very affluent clients: a large proportion of the tourists are within the US\$20–US\$30 thousand annual income bracket, the vast majority of the visitors are young, and the average expenditure of a tourist is US\$123 a day. From a geographic viewpoint, the composition has remained unaltered and dominated by European tourists.
Specific Activities to be Included in Project Scope	Design and implement masterplan for tourism oriented at the rich cultural heritage and diverse terrestrial environment of the Maldives and its neighboring countries in South Asia. The masterplan will be heavily dependent on collaboration with other countries in the region to develop cross-border tourism, and would accelerated the SAARC working group on tourism's plan to develop regional and sub-regional tourism. The masterplan will examine and implement mechanisms for coordination and harmonization of tourism policies and programs; enhancement of cooperation in the areas of marketing, training, research and information dissemination; facilitation of intra-regional travel; regional promotion of tourism incentives to facilitate the development of tourism infrastructure and other related travel and tourism facilities; promotion of private sector participation and enhancing public-private sector collaboration; and strengthening cooperation and joint approaches in addressing international and regional tourism issues in areas of common interest.
Support Sector Project Needs	Masterplan will determine support sector needs.
Related Donor Project(s)	IFC TA to support growth of tourism.
Costs and Financing Implications	Donor financing will be needed for the technical assistance estimated at \$400,000.
Expected Benefits	Diversification of tourism for high-end, environmentally friendly activities that will provide stable and sustainable revenue growth for the country.
Indicators of Measurable Impact	Agreement by relevant member states to collaborate in package tours; number of initiatives aimed at increasing tourism movement within the region; completion of masterplan..

Box 6.4
(FA1) Maldives Fish Commercialization to South Asia

Summary Description	Commercialization of <i>Maldives fish</i> for export to Sri Lanka and other South Asian countries.
Rationale for Inclusion	Smoked Dried Skipjack (<i>Maldives fish</i>) is prized in Sri Lanka as a high quality additive to vegetable curries and in ground form to <i>sambal</i> . As a premium product with no close substitutes, there are significant opportunities to expand its market. The project would aim to development this market niche beyond Sri Lanka to other South Asian countries
Specific Activities to be Included in Project Scope	Preparation of concept and strategy papers to develop domestic production and commercialization of product, especially with respect to processing capacity development, identifying specific private sector opportunities, commercializing the product, and promoting market awareness throughout South Asia.
Support Sector Project Needs	None.
Related Donor Project(s)	ADB Commercialization of agriculture and mariculture; World Bank World Bank formulation of fisheries sector masterplan.
Costs and Financing Implications	Development of concept and strategy papers and promotion of domestic production and foreign markets sales estimated at \$200,000.
Expected Benefits	(1) Increased export revenue; (2) Diversification of fisheries products and markets; (3) Promotion of private sector activity.
Indicators of Measurable Impact	Preparation of concept and strategy papers; increased private sector activity in industry; increased sales volumes to Sri Lanka and other South Asian countries.

Box 6.5

(FA2) Coral Reef Database Development Using Remote Sensing and Geographic Information System (GIS) Tools from South Asia Region

Summary Description	The project aims to develop a coral reef database at the Marine Research Center (MRC) by using remote sensing and Geographic Information System (GIS) tools developed in collaboration with India.
Rationale for Inclusion	Management of the system of atoll type reefs scattered over an area of approx 180,000 sq km is complex. A national coral reef database is therefore essential to marine environmental monitoring and resource management. The proposed initiative supports sustainable development strategies of the National Development Plan. Technical assistance (TA) is sought from relevant institutions in India in the acquisition of Indian Remote Sensing (IRS) satellite imagery and their analysis. Assistance is also sought for training MRC staff on satellite image processing and GIS data basing in a suitable institution in India. A dedicated coral reef database would store and archive all reef data centrally in a spatial database and disseminate resource information readily to users and managers alike. The base maps for the database would be generated using the most recent satellite images of Maldives.
Specific Activities to be Included in Project Scope	The project consists of the following four tasks: (a) acquisition and analysis of satellite images to create base maps for a reef database; (b) creation of large scale habitat maps suitable for use in a GIS; (c) compilation and updating of existing reef resources data in a GIS; (d) training staff on image processing, GIS and database development.
Support Sector Project Needs	None.
Related Donor Project(s)	ADB Commercialization of agriculture and mariculture (\$150,000 in 2004); World Bank formulation of fisheries sector masterplan.
Costs and Financing Implications	The total cost of the project, including computer system for database development, satellite image acquisition, image processing software, GIS software, training staff on image processing and GIS analysis in India, and expert visits and consultations is \$50,000.
Expected Benefits	(a) Train staff on the creation and use of GIS databases; (b) compilation of existing coral reef resource data in a single database; (c) establishment of GIS reef database at MRC; (d) creation of national decision-making tool for reef use planning and management, and (e) prompt delivery of information to resources users and managers.
Indicators of Measurable Impact	(1) acquire satellite images to create base maps for reef database; (2) generate large scale habitat maps; (3) compile reef resources data in a GIS; (4) complete staff training on image processing, GIS and database development.

Box 6.6

(FA3) Regional Collaboration for Capacity Building of Grouper Health Management

Summary Description	The project aims to establish a fish health management program for grouper fishery and pre-export live grouper holding in collaboration with other countries of the region to expand earnings from the export of live and chilled grouper from Maldives
Rationale for Inclusion	Grouper fishery is the most widespread reef fishery in the country, but the outlook for this fishery and the livelihood for many fishermen are bleak. The stock is showing signs of overexploitation and frequent incidents of grouper mortality have been occurring in holding cages. The problem can be addressed by proper fisheries management to increase the export of live fish and aquaculture. At present, the main constraints to the development of a fish health management programme include the lack of adequate financial resources, trained human resources, and equipment and material. The project has important regional relevance: the strategies formulated for managing live grouper health in the Maldives can be applied to the situations of Andaman Island, where similar grouper fishery activities are being carried out, and the Andaman fishermen can also use the training materials proposed to be developed under the project that include live grouper handling and keeping manuals for the fishermen and exporters.
Specific Activities to be Included in Project Scope	This one-year project has the following components: (a) human resource development, (b) equipment support for histopathology laboratory, (c) preparation of a manual for grouper health management, and (d) establishment of links with experts and diagnostic laboratories abroad. The project will contract for five months a finfish disease expert to investigate the grouper fishery and fish stocking and holding operations. The expert will also conduct fish health management training for project staff, fishermen and exporters. Project staff will be trained abroad in aquaculture and animal health management at introductory and tertiary level, and the project will establish a histopathology laboratory at the Marine Resource Center (MRC). The capacity building in fish health management at this initial stage is geared towards attaining the ability: (a) to take precautionary measures to prevent diseases, (b) to collect reliable information and material in normal and abnormal fish health situation, (c) to collaborate with a specialized laboratory, and (d) to implement recommendations of the laboratory.
Support Sector Project Needs	None
Related Donor Project(s)	ADB Commercialization of agriculture and mariculture (\$150,000 in 2004); World Bank formulation of fisheries sector masterplan.
Costs and Financing Implications	The cost of the project is estimated at \$275,000.
Expected Benefits	The beneficiaries of the project are MRC staff, grouper fishermen and grouper exporters. The three target groups will develop their capacity to manage fish health. The project will lead to economic benefits to fishermen and exporters, as low fish mortality means more fish for sale. The following factors will contribute to the sustainability of project impacts: (a) the government policy of managing the grouper fishery; (b) the government policy of developing marine aquaculture; (c) growing private sector interest in marine aquaculture; and (d) the incorporation of training and equipment needed to initiate a fish health management programme in the project.
Indicators of Measurable Impact	(1) under task to provide MRC staff with training abroad in finfish diseases and health management at diploma level: two MRC staff trained abroad within the project duration; (2) under task to train MRC staff abroad: one staff at M.Sc. level initiated within the project duration; (3) under task to provide a local training course conducted for fishermen and live grouper exporters on best fish handling and keeping practices: 30 fishermen and 10 exporters trained; manual on best practices in finish handling and keeping available; (4) under task to establish a histopathology laboratory: Histology equipment made available, two staff trained in histopathology, and four staff trained in basic histology; and (5) under task to establish a cost-effective mechanism for collecting relevant data and working with a diagnostic laboratory abroad: a report on general health issues of captive grouper made available; a report on the mortality incidences of marble grouper made available; an information and data recording sheets made available; and an MOU established between MRC and a diagnostic laboratory.

Box 6.7

(TI1) Regional Trade and Investment Internet-Based Information System

Summary Description	The objective of the project is the development of a Web-based text and database analytical tool providing business intelligence related to cross-border issues directed towards SMEs, other business enterprises and policy makers at all levels.
Rationale for Inclusion	Lack of basic information on trade and investment flows and the regulatory environment are one the key constraints to the development of business opportunities and the formulation of appropriate national policies. The project seeks to overcome these limitations by developing two core components of an information system: (a) a unique database on trade and associated tariffs at border checkpoints between the Maldives and South Asian countries, as well as countries outside the region; and (b) a text-based information system covering non-tariff barriers (NTBs) to trade and unilateral, bilateral and multilateral arrangements governing trade between the Maldives and regional and extra-regional countries.
Specific Activities to be Included in Project Scope	The project will (i) develop a Trade and Investment Database specifically re-aggregated at the regional and extra-regional levels for the Maldives to allow articulating economic development strategies and monitoring change on the basis of the existing reliable raw data and economic indicators; (ii) harmonize key indicators and concepts and definitions for these indicators, with potential data users including government, civil society, and private sector; and (iii) set up a system for updating, reporting and disseminating information on key indicators.
Productive Sector Projects Supported	Information services on services and goods trade and investment will directly contribute to (TR1) Tourism Diversification into Eco-Tourism, Adventure Tourism, Cultural Tourism, and Safari Cruising; (TR2) Tourism Investment Incentives; (TR3) Tourism Regional Master Plan; and (FA1) Maldives Fish Commercialization to South Asia.
Related Donor Project(s)	FIAS technical assistance to develop an investment promotion strategy.
Costs and Financing Implications	Estimated cost of design and implementation of Web-based database is \$200,000.
Expected Benefits	The database would provide essential information currently unavailable to businesses in the Maldives, improve transparency to domestic and foreign investors, and improve the formulation of economic development strategies and monitoring the impact of the implementation of those strategies.
Indicators of Measurable Impact	(1) Numbers of visitors to the Web site; (2) number of distribution of hard copies of published information; and (3) actual investment funds committed to projects resulting from information availability.

Box 6.8

(T12) Regional Quarantine Standards and Implementation Rules, Regulations and Procedures

Summary Description	The project aims to establish appropriate Customs-Immigration-Quarantine and Security (CIQS) rules, regulations and procedures to promote trade in the South Asian region and global economy.
Rationale for Inclusion	The fragile environment of the Maldives makes the country particularly susceptible to the importation of insect pests and other diseases from neighboring countries. The Government has therefore requested technical assistance directed at strengthening phytosanitary and quarantine procedures, and specifically to address inadequate Customs-Immigration-Quarantine and Security (CIQS) rules, regulations and procedures.
Specific Activities to be Included in Project Scope	The technical assistance components would consist of (a) help in establishing the legal framework for plant quarantine and phytosanitary procedures; (b) assistance in developing a national phytosanitary certificate program; (c) help in establishing SPS measures for fish and fish products; and (d) support in implementing a plant quarantine facility at the Male port, with adequate inspection and control facilities, and staff training capabilities.
Productive Sector Projects Supported	The project will directly impact trade and investment in all sectors of the economy.
Related Donor Project(s)	None
Costs and Financing Implications	Donor financing will be needed for the technical assistance estimated at \$200,000.
Expected Benefits	(1) Improved transparency of CIQS rules, regulations and procedures; (2) increased familiarity with immigration regulations by business community; (3) distribution of primer consolidating all CIQS rules; (4) reduction of immigration rules and procedures.
Indicators of Measurable Impact	(1) Publication of primer on CIQS rules, regulations, procedures of all member-countries; (2) degree of standardization of the CIQS rules, regulations, procedures; (3) degree of harmonization of products and quarantine standards with other countries in the region.

Box 6.9

(T13) IPR Implementation of WTO Commitments to Promote Regional Product Development

Summary Description	The project supports implementation of intellectual property for the development of products directed at regional trading partners and major external markets
Rationale for Inclusion	Lack of protection of intellectual property rights (IPR) is a major disincentive to domestic and foreign investors in the Maldives, especially in software and other IT industry activities, and the entertainment industry. The Government plans to comply with the WTO's Trade-Related Aspects of Intellectual Property (TRIPS) Agreement by the end of 2005, and IPR legislation is currently being drafted. Once legislation is enacted, the country will need implement enforcement standards. The project supports the Government's intent to register 'Maldives Fish' as a geographic destination, and the development of biotechnology and other high-value products that could be directed to regional trading partners, as well as Asian, European and US markets.
Specific Activities to be Included in Project Scope	The specific activities to be undertaken under this project are as follows: (a) Examine issues about the appropriateness of IPR protection in 'Maldives Fish' and biotechnology and other activities; (b) determine methods needed to foster development of IPR system in the country as a means of encouraging innovation and competition in Maldives within the region; (c) identify how intellectual property system can best meet the needs of SMEs in the country; and (d) determine and implement specific activities about IPR enforcement issues and how the issues should be framed and targeted.
Productive Sector Projects Supported	Supports projects FA1 (live reef fish exports), FA2 (sea cucumber exports) and FA3 (cultured pearl production and marketing)
Related Donor Project(s)	WIPO assistance to assist with laws and regulations governing intellectual property rights.
Costs and Financing Implications	Donor financing will be needed for technical assistance activities estimated at US\$150,000.
Expected Benefits	Expected benefits include increased investment in high value-added products by domestic and foreign investors.
Indicators of Measurable Impact	Increased investment directly attributable to lower IPR concerns by investors.

Box 6.10

(TC1) Regional Transshipment Hub for Container Shipping and Free Trade Zone (FTZ)

Summary Description	Establish and develop a regional transshipment hub for container shipping and fret trade zone (FTZ) in either Kulhudhuffushi or Hithadhoo
Rationale for Inclusion	The Maldives has the traffic levels need to attract larger carriers and the potential to establish a regional hub with a fenced bonded warehouse area and duty-free shopping facility. Selection of the port to serve as a transshipment hub in either Kulhudhuffushi or Hithadhoo would be based on its ability to actively market it to the shipping lines and the region. Additionally, successful free trade zones are generally located near air and sea ports and other transportation hubs as their operations are highly dependent on the efficient movement of goods. Near access to India and Sri Lanka offer the port a clear comparative advantage over father distance ports like Singapore.
Specific Activities to be Included in Project Scope	(1) Selection of one of the two ports to be developed as hub port for the Maldives; (2) establish attractive transshipment charges for cargoes; (3) develop marketing agreements negotiated between the hub port and shipping lines; (4) establish FTZ in the hub port with associated regulations.
Productive Sector Projects Supported	None in tourism or fisheries.
Related Donor Project(s)	ADB transport masterplan and transport infrastructure development.
Costs and Financing Implications	Initial cost of design study for the hub and FTZ estimated at \$225,000.
Indicators of Measurable Impact	(1) Growth of regional transshipment trade at selected hub port, and (2) establishment and development of FTZ.

Box 6.11

(FN1) Regional Development Fund for SME Financing of Cross-Border Investments and Trade Financing

Summary Description	The project aims to channel venture capital funding to SMEs for product development and export financing directed at either South Asian regional markets or cross-border regional investments for export to markets outside the region.
Rationale for Inclusion	The success of regional cooperation in the Maldives depends on the extent to which the private sector is able to either export to other South Asian countries, or undertake new cross-border investments directed at extra-regional markets. Access to financial capital in the Maldives is the most often-mentioned challenge facing local businessmen's ability to exploit regional and extra-regional opportunities and develop the country's private sector. Three major constraints are: (1) limited financial resources to sustain trade and investment expansion in the region; (2) lack of institutional mechanisms capable of providing the needed capital to finance private sector projects, especially for small and medium size enterprises (SMEs); and (3) limited and uneven access to regional export financing programs. This project addresses each of these constraints by developing a mechanism that will provide the needed capital for private sector-led expansion by SMEs, and promoting private sector sourcing of capital to finance regional trade and cooperative investment projects.
Specific Activities to be Included in Project Scope	The project will design and implement a venture capital fund for SMEs in the Maldives aimed at promoting exports to the South Asian region or financing cross-border investments within the region for export to markets outside the region. The project will seek to exploit existing institutional mechanisms in the region to avoid duplication and creation of new institutions, possibly through the South Asia Enterprise Development Facility (SEDF), a multi-donor facility managed by the SME Department of the World Bank. The fund should become a self-sustaining operation requiring no further investment or capital beyond the initial capitalization, estimated at \$10 million for the Maldives. The project will examine proactive financial programs aimed at providing financial incentives for SMEs in the Maldives through the following mechanisms: (a) special fund allocations for export investment and financing; (b) preferential loan rates; (c) export credit insurance; (d) preferential rates for investment assistance; (e) pre- and post-shipment financing; and (f) assistance in credit application processes..
Productive Sector Projects Supported	The project will support tourism diversification programs under TR1-Tourism diversification into eco-tourism, adventure tourism, cultural tourism, and safari cruising; TR2-Tourism investment incentives; in fisheries it will support FA1- <i>Maldives fish</i> commercialization enhancement.
Related Donor Project(s)	ADB TA for small and medium enterprise (SME) development; UNDP small-scale pilot program for micro-credit in select outer islands. Commonwealth Secretariat advise on financial sector development and reform.
Costs and Financing Implications	Technical assistance will be needed to examine the financing mechanism and possible institutional venues. Initial capitalization of the fund is estimated at \$10 million.
Expected Benefits	The expanded financing of commercial and infrastructural projects in the Maldives will enhance private sector trade and investment activities and attract new financial resources into the country directed at expanding cross-border trade and investment in South Asia, particularly by SMEs for whom current access to such financing represents a major constraint to the expansion of their activities throughout the region.
Indicators of Measurable Impact	(1) Identification of institutional mechanism; (2) government commitment to facilitating program; (3) number of applications for funding support.

Box 6.12

(ED1) Distance Education for Basic Education and Technical Training

Summary Description	The project aims to develop a self-contained center for distance learning in the Maldives using the experience of other countries in the region.
Rationale for Inclusion	The Sixth National Development Plan recognizes the challenges of forming a unified national system of education with a common national curriculum and quality standards. A number of rural communities fall well short of providing quality primary and secondary education to their people, and education attainment levels in many atolls and islands lag behind those in central areas. Distance learning programs are one mechanism to ensure that students have access to similar standards throughout the country. India has acquired considerable experience in providing distance learning for students in rural communities, an example of which is the computer training centers in far-away villages of Uttar Pradesh, the country's largest state. The experience shows that it does not take much to achieve information technology (IT) empowerment in rural areas at basic education levels. Bangladesh has similar long-term experience in primary and secondary distance learning for rural education. These resources can be brought to bear on developing a self-contained center for distance learning in the Maldives.
Specific Activities to be Included in Project Scope	The major components of this program center on the establishment of a self-contained center for distance learning in the Maldives: (a) undertake a comprehensive assessment of primary and secondary educational requirements in the country for both central, regional, atoll and island levels, and prepare an inventory of available academic resources in each location; (b) design programs in collaboration with regional distance educational centers in India, Bangladesh and other regional countries with similar experiences.
Productive Sector Projects Supported	No direct effects on identified projects for tourism and fisheries. Indirect effects on all sectors.
Related Donor Project(s)	International Development Association (IDA) distance learning. World Bank development of primary and secondary education and teacher training.
Costs and Financing Implications	Technical assistance for the design and development of the project is estimated at \$250,000.
Expected Benefits	The project will improve education quality and efficiency, and increase country-wide equitable access to primary and secondary education.
Indicators of Measurable Impact	Completion of distance education assessment needs and design of center for distance learning in the Maldives.

**Box 6.13
(ED2) Regional Multigrade Teaching Training and Dissemination Facilities**

Summary Description	The project aims to develop a comprehensive package for multigrade teaching with the collaboration of regional countries that have implemented similar programs.
Rationale for Inclusion	Small populations in many rural atolls do not have the capacity to provide one teacher per grade. Acute shortages of domestic teachers in rural areas necessitate multigrade teaching (MGT) and affect the ability of schools to adhere to curricula on which national examinations are based. The average primary school teacher is ill-equipped to handle MGT situations. Moreover, curriculum and textbooks are almost prepared entirely in a single-grade context. The present project aims to develop MGT in small population atolls similar to the Joint Government of India-United Nations (GOI-UN) System Education Programme. The program for the Maldives could collaborate with the GOI-UN initiative to develop a similar program for rural atolls.
Specific Activities to be Included in Project Scope	The project would involve developing a series of workshops with technical support from United Nations Educational Scientific and Cultural Organization (UNESCO) and regional countries having experience in MGT. The workshop should aim to establish a comprehensive package for MGT aimed at providing assistance in improving teaching skills, preparing and organizing teaching learning materials for MGT, and designing clustering techniques for topics being covered in different class levels and competencies.
Productive Sector Projects Supported	No direct effects on identified projects for tourism and fisheries. Indirect effects on all sectors.
Related Donor Project(s)	World Bank development of primary and secondary education and teacher training.
Costs and Financing Implications	Costs of the project, estimated at 75000 total, are expected to be initially limited to providing a workshop series for designing and implementing the comprehensive package of MGT materials for the Maldives.
Expected Benefits	The gains from the project would be improved levels of literacy and educational attainment in the most teacher-deprived areas of the Maldives.
Indicators of Measurable Impact	Completion of comprehensive package for MGT in the Maldives.

**Box 6.14
(MD1) Regional Tele-Medicine Training and Implementation**

Summary Description	The project aims to establish telemedicine technology in the Maldives to allow patients and health workers to access specialist skills and facilitate training across vast distances of atolls and island.
Rationale for Inclusion	Lack of skills and training capacity limits the ability of the Maldives to provide both basic and advanced medical services. There are presently limited tele-medicine facilities at the national level through telephone communications, and the Government is currently advancing on a program to connect the islands and atolls through internet services. India has expressed an interest in collaborating with the Maldives to provide tele-medicine facilities.
Specific Activities to be Included in Project Scope	The project will examine the use of telemedicine as a method by which to examine, monitor and treat patients in remote areas through satellite video conferencing. It will also examine telemedicine as a tool for implementing telemedicine for training, teaching materials and local capacity professional development. Among the tasks to be performed are (a) evaluate the implementation of telemedicine in the Maldives as a means of improving clinical outcomes; (b) review regional telemedicine practices, protocols and standards in order to promote its use in the Maldives; (c) design research and training activities of various Telemedicine activities in the Maldives with regional countries; (d) carry out clinical trials to test telemedicine technologies and their cost-effectiveness in the delivery of primary healthcare in the Maldives; and (e) examine telemedicine capacity developments and training activities to promote equitable access to quality health care at affordable cost by the distant atolls and islands.
Productive Sector Projects Supported	No direct effects on identified projects for tourism and fisheries. Indirect effects on all sectors.
Related Donor Project(s)	WHO assistance to improve health service delivery, reduce maternal mortality rate, improve nutrition status, and promote health sector reforms. IDB construction and upgrading of regional hospitals, and health workers training program collaboration with Sri Lanka.
Costs and Financing Implications	Technical assistance in the order of \$300,000 will be needed to carry out the project activities.
Expected Benefits	Offers a means of reducing travel to specialists in medical centers, and provides a means of reaching the largest population for diagnosis and treatment of widespread medical problems. It also provides a mechanism for educating healthcare workers in remote areas in latest advancement in the field of medicine through such media as workshops, teaching programs.
Indicators of Measurable Impact	(1) evaluation of telemedicine for the Maldives as a means of improving clinical outcomes; (2) report reviewing regional telemedicine practices, protocols and standards in order to promote its use in the Maldives; (3) report on design research and training activities of various Telemedicine activities in the Maldives with regional countries; (4) clinical trials to test telemedicine technologies and their cost-effectiveness in the delivery of primary healthcare in the Maldives; (5) evaluation of telemedicine capacity developments and training activities to promote equitable access to quality health care at affordable cost by the distant atolls and islands throughout the Maldives.

**Box 6.15
(MD2) Medical Consumables and Bulk Regional Purchasing**

Summary Description	The project aims to develop regional bulk purchases of medical consumables for the Maldives.
Rationale for Inclusion	The Maldives makes relatively small purchases of medical consumables and bulk medicines. A regional cooperation scheme for bulk purchasing with India and Sri Lanka would provide large potential cost savings to the health care sector.
Specific Activities to be Included in Project Scope	Assess mechanisms for regional bulk purchasing of medical consumables and the likely savings to the health care sector of the Maldives; examine channels for purchases through local suppliers and distributors compared with a system of central government procurement.
Productive Sector Projects Supported	No direct effects on identified projects for tourism and fisheries. Indirect effects on all sectors.
Related Donor Project(s)	WHO assistance to improve health service delivery, reduce maternal mortality rate, improve nutrition status, and promote health sector reforms. IDB construction and upgrading of regional hospitals, and health workers training program collaboration with Sri Lanka.
Costs and Financing Implications	The technical assistance required to assess regional bulk purchases of medical consumables estimated at \$165,000.
Expected Benefits	Bulk purchases through region-wide coordination of suppliers and distributors could yield a large cost savings for the health care sector.
Indicators of Measurable Impact	Report assessing potential cost-savings from regional bulk purchases of medical consumables, including mechanisms of regional cooperation and alternative domestic mechanisms for purchasing and distributing supplies through local providers or central procurement authority.

Box 6.16

(IT1) Capacity Building for Regional Information Technology (IT) Development Program

Summary Description	The project aims to develop information technology (IT) through regional cooperation in training and technology transfer programs.
Rationale for Inclusion	The Sixth National Development Plan recognizes that information and communications technology (ITC) permeates all economic sectors, and that it improves efficiency and the international competitiveness of businesses in the Maldives. The present high cost and low speed of internet services in the country hinders its usage, and measures therefore need to be taken to improve its efficiency and lower its cost. This project examines strategies to liberalize the IT sector and develop a series of immediately implementable, high profile initiatives to use IT services as a means of improving the efficiency of businesses and government activities by emulating high-tech sectors and applications in other South Asian countries.
Specific Activities to be Included in Project Scope	Develop laws and regulations that will facilitate a conducive environment for a knowledge-based economy; undertake an e-readiness assessment evaluating the prerequisites (e.g. infrastructure) needed to effectively conduct e-commerce and e-government; analyze the following issues related to IT: The E-readiness assessment should address the following issues relating to information and communication technology (ICT): (1) access issues related to quality of IT infrastructure, availability and cost of Internet services, availability of hardware/software, IT-related service and support, and extent of wireless communication; (2) education and training related to school access to IT, computer usage in classrooms, and IT training opportunities; (3) IT in business and government activities related to existing B2C and B2B E-commerce, and E-government activities; (4) legal and regulatory framework related to telecommunications regulations. Based on the results of this analysis, identify priority areas for IT development in the Maldives in collaboration with other South Asian countries.
Productive Sector Projects Supported	IT capacity development will directly contribute to (TR1) Tourism Diversification into Eco-Tourism, Adventure Tourism, Cultural Tourism, and Safari Cruising; (TR2) Tourism Investment Incentives; (TR3) Tourism Regional Master Plan; and (FA1) Maldives Fish Commercialization to South Asia.
Related Donor Project(s)	ADB Information technology (IT) development for electronic-government capability (\$9.5 million); TA for science and technology masterplan; TA for applying IT network for poverty reduction. UNDP promotion of community-based information utilization and formulation of national information technology policy.
Costs and Financing Implications	Preliminary costs estimated at 235,000
Expected Benefits	Promotion of technology transfer and establishment of the foundation for development of high value, skilled labor industries, as well as support for the development of improved health and education facilities.
Indicators of Measurable Impact	(a) Law and regulations passed; (b) e-readiness assessment, (c) priority IT development activities identified in collaboration with neighboring countries.

ANNEX: LIST OF PERSONS CONTACTED

Association of Construction Industries	Ibrahim Waheed	Vice President
	Ibrahim Muththalib	Board Member
	Ahmed Shiyau	Assistant Administrator
Customs Service	Ibrahim Zuhair	Executive Director
Foreign Investment Services Bureau	Ahmed Thasmeen Ali	Director
	Shafeenaz Abdul Sattar	Deputy Manager
Madives Monetary Authorities	Ms. Azeema Adam	Deputy Manager
	Ibrahim Naeem	Assistant General Manager
	Mr. Majdhay	Director
Maldives Electricity Bureau	Mr. Majdhay	Director
Maldives National Chamber of Commerce and Industry	Abdullah Faiz	Secretary General
	Ahmed Mujutaba	Vice President
	Mohamed Ahmed Didi	Board Member
	Hassan Zahir	Board Member
	Ahmed Af'aal	Director
Minister of Health	Ahmed Af'aal	Director
Minister of Transport and Aviation	Ahamed Wajeel	Director General
Ministry of Communications, Science and Technology	Abdul Razzak Idris	Director General
	Ms. Khadecja Adam	Director, Department of Higher Education and Training
Ministry of Education	Dr. Abdul Muhusin	Director
Ministry of Finance and Treasury	Mohamed Jaleel	Minister
	Riluwan Shareef	Executive Director
	Mohamed Ahmed	Director General
	Adam Maniku	Deputy Manager

Ministry of Fisheries, Agriculture and Marine Resources	Abdullah Kamaludeen	Minister
	Jadullah Jameel	Executive Director
	Abdul Nassar	Project Manager
	Mohamed Shareef	Project Manager
	Adum Manik	Project Manager
	Michelle Ahmed	Senior Research Officer
Ministry of Foreign Affairs	Hassan Shakeel	Officer, Marine Research Centre
	Hussain Shihab	Deputy Minister
	Aminath Didi	Assistant Director General
Ministry of Health	Ahmed Afaal	Assistant Director, Planning and Research
Ministry of Planning and National Development	Hussain Niyaz	Assistant Director General
	Ahmed Mohamed	Assistant Director, Regional Development
Ministry of Tourism	Ahmed Salih	Deputy Director, Trade Standards
	Ismail Firag	Deputy Director, Planning and Development
Ministry of Trade and Industries	Ibrahim Naeem	Assistant General Manager
	Fazeel Najeeb	Director, International Trade Policy Division
	Abdulla Thawfeeq	Assistant Director
Monetary Authority	Mohamed Jaleel	Minister
	Shafeenaz Abdul-Sattar	Deputy Manager, Economic Research
National Centre for Information Technology	Faaig Umar	Assistant Director
UNDP	Minh H. Pham	Resident Representative
	Abdul Bari Abdulla	National Programme Officer

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