

The Maldives: Trade Brief*

Trade Policy

At 20.2 percent and 22.1 percent respectively, Maldives's 2006 MFN applied simple and import-weighted tariff averages are among the highest in South Asia and substantially higher than the lower-middle-income group means (11.5 percent and 11 percent respectively). It is worth noting, however, that the taxes on imports are relatively nondistortionary because of their low dispersion and the general absence of import-competing domestic activities. Differences in tariff rates across goods are maintained largely for the same reasons that excise taxes are commonly imposed on certain goods or activities in the rest of the world. Most items attract a duty of 15 percent, but tariffs are set at 50 percent on tobacco products, 100 percent on motor vehicles, and 200 percent on plastic bags, for example. In general, tariffs are maintained mainly in order to raise revenue, accounting for over 72 percent of tax revenue and almost 21 percent of total fiscal revenues and grants in 2006 (national sources). Taxes on imports are also a means of taxing tourism, as a large share of merchandise imports is directly related to the provision of tourism services. The Maldives' 2005 International Telecommunication Union (ITU) competition index in telecoms is 2.0 (on a scale from 0 to 2, best) with two providers, despite the small size of the market. However, the low overall GATS commitments index leaves ample room for greater multilateral commitments towards services liberalization.

Market Access

The 2006 rest-of-the-world applied tariffs (import weighted, including preferences) on its exports is 3.7 percent, lower than the regional mean (4.7 percent), but higher than the lower-middle-income group mean (2.5 percent). MFN duty-free exports accounted for only 4.9 percent of the Maldives' total exports in 2006, as compared to the regional and lower-middle-income group averages of 26.4 percent and 35.3 percent, respectively. The country is eligible for Generalized System of Preferences (GSP) preferential trade treatment with most industrialized countries with the exception of the United States. It is also eligible for duty-free access under the EU's "Everything But Arms" initiative for least-developed countries. Its utilization of EU preferences is a high 98.8 percent as is the value of such preferences at 18.7 percent of bilateral exports. It is a member of the South Asia Association for Regional Cooperation (SAARC) and the South Asian Preferential Trade Arrangement (SAPTA). The national currency—the rufiyaa—is fixed to the U.S. dollar, and the recent depreciation of the U.S. dollar against the currencies of the Maldives's major trading partners and tourist sending countries has helped the country maintain its competitiveness.

Behind the Border Constraints

In late 2004, the Maldives was struck by a tsunami causing damage estimated at 62 percent of GDP, and harbors on many islands were badly damaged. Reconstruction is underway, and the government's development plan emphasizes the need to strengthen the transportation network. Its financial intermediation is weak, and the capital market is still in its early stages of development. However, the country's Doing Business 2007 overall rank is 60th (out of 178), the best in the South Asian region, and its governance environment is more favorable than that of an average South Asian or lower-middle-income country; although performance on various aspects

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

(regulatory quality, rule of law, and control of corruption) point to some slippage in recent years. Its Doing Business—Trading Across Borders subcategory rank is 110th, a decline from its 2006 rank of 100th. With respect to telecom and information technology (IT) infrastructures, Maldives' per capita rate for telephones and mobile phones (98 percent in 2006) is very high by regional and lower-middle-income group standards and represents a dramatic improvement over its late 1990s per capita accessibility of just 7 percent. The secondary school enrollment rate (79.7 percent, in 2006) is above the regional mean (50.4 percent) and comparable to the lower-middle-income group mean (78.4 percent).

Trade Outcomes

The development of tourism over the past 25 years has been remarkably successful. The sector has already rebounded strongly from the late 2004 tsunami and tourism receipts remain by far the most important source of foreign exchange earnings, accounting for almost two thirds of export income in 2006. Trade as a percent of GDP (the integration ratio) of 187.4 percent is by far the highest in South Asia, although typical of small island states. Around 80 percent of merchandise exports are accounted for by fish products, a feature accentuated further since 2005 with the ending of the multifiber agreement (MFA) and the phasing out of textile production. Key imports included petroleum products, boats, food products, textiles, and intermediate and capital goods. The country's imports were primarily obtained from Singapore, the United Arab Emirates, India, and Malaysia, while its main destination markets were Japan, Thailand, Sri Lanka, and the United Kingdom.

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