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Maldives Trade Brief

Trade Policy

The Maldives is a small country composed of 200 inhabited islands that is very dependent on imports. The simple average of the MFN applied tariff rate has been virtually unchanged since 2000, and now stands at 20.4 percent. It remains significantly higher than the average for the South Asia region and lower-middle-income countries, at 13.5 and 11.4 percent, respectively. Based on the MFN applied tariff, it ranks as the 173rd of 181 countries, where 1st is least restrictive. There is little difference between the treatment of agricultural and non-agricultural goods, with the latter having a slightly higher average tariff. Taxes on imports of non-agricultural goods are a means of taxing tourism, as a large share of merchandise imports is directly related to the provision of tourism services. Since 2006 the Maldives has increased its maximum tariff on all goods (excluding alcohol and tobacco) from 112 to 142 percent. In 2006 this maximum tariff was applied to plastic packaging materials. The trade policy space, as measured by wedge between bound and applied tariffs (the overhang), has decreased slightly since 2000, now standing at a relatively low 16.8 percent, compared with 54.8 percent on average for its regional neighbors and 29.5 percent for lower-middle-income countries. Regarding the extent of its trade liberalization in services, the Maldives ranked 142nd out of 148 countries according to the GATS Commitment Index. The government plays a large role in the economy although privatization in on the agenda of the new government.

In November 2008, the government announced that it would introduce a bill, now called the Import Export Bill, to reduce import tariffs on diesel fuel, medical supplies, and certain food items in an attempt to lower the cost of living.[1] However, the bill is still being deliberated in parliament where members are discussing whether to extend the bill to also cover tariffs on more items such as agricultural goods and cooking oil and also whether to address new additional concerns like burdensome customs procedures. As of June, the bill had been sent to the economic affairs committee.[2]

External Environment

The simple average of the rest of the world tariff faced by the Maldives' exports is 9.7 percent. When taking into account the volume of exports it is 3.9 percent, with only a small difference between agricultural and non-agricultural goods. The exchange rate of the Maldivian rufiyaa is pegged to the U.S. dollar and as a result, it depreciated in value by 3.5 percent against the Thai baht, the currency of its largest export market, making exports relatively less expensive.[3] However, the weakening of the euro against the dollar since the latter part of the 2008 has also made Maldivian vacations more expensive for Europeans, the primary tourist market.

Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, the Maldives is ranked 87th out of 183 countries in the Ease of Doing Business index for 2009. Globally, it ranks the best in the Paying Taxes sub-index, and ranks the worst in Registering Property. In the South Asian region, it ranked second highest after Pakistan. In the Trading Across Borders sub-index, which is a proxy for trade facilitation that measures the number of documents, time, and container cost to import and export, the Maldives ranked 126th.

Trade Outcomes

Total trade grew by 25.7 percent during 2008 in nominal U.S. dollar terms.[4] Total exports (which were less than one tenth the value of imports in 2008) increased by 16.8 percent in 2008, although there was no growth in the last quarter. The Maldives' export sector has a low degree of diversity. The largest export industry is tourism, which accounts for almost two-

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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thirds of exports and 28 percent of GDP. The majority of tourists are Europeans, leading to expectations that the global economic slowdown will cause a contraction in 2009. Exports in the first quarter of 2009 fell by 53.2 percent over the same quarter 2008 in nominal U.S. dollar terms. Fishing is the next largest industry, making up 5 percent of GDP in 2007.[5] The garment sector, which used to contribute to a substantial portion of exports, all but disappeared in 2005.[6] A majority of the Maldives' exports are sent to Asian countries, with Thailand and Sri Lanka being the destination for almost 60 percent of all exports.

The economy of the Maldives is very import-dependent, relying on imports to provide a significant portion of food and fuel. In 2008 goods imports were equal to 110 percent of GDP. Total imports grew by 26.6 percent in 2008, largely driven by the increases in commodities prices. As commodity prices fell in 2008, imports fell, decreasing by 8.1 percent in the fourth quarter. In the first quarter of 2009, imports fell 41.7 percent year-on-year. The drop in imports is also affected by a shortage of foreign exchange. However, this has been somewhat ameliorated by a credit line extended by the Export-Import Bank of India in the amount of US$50 million, which is now being used by the major traders.[7] Singapore, the United Arab Emirates, and India are the top three sources of imports. Foreign direct investment inflows accounted for 1.4 percent of GDP in 2007.

Notes

1. India Environment Portal, 2009; *Maldives Chronicle*, 2008
2. *Miadhu News*, June 11, 2009; June 18, 2009.
3. IMF, 2009.
4. All data in this section is from IMF (2009) unless otherwise noted.
5. U.S. Department of State, 2009.
6. Maldives Monetary Authority, 2009, pp. 40.
7. Sadr-Kiani. July 1, 2009.

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