

Discussion on Maldives`s Tourism Oriented Economy: Issues and Prospects

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Introduction

The Republic of Maldives is an archipelago of about 1,200 small coral islands, which is spread over geographic area of 90sq kms in the side of the Indian Ocean towards the south of Indian sub-continent. This island is grouped in ring shaped clusters, and stretches approximately 750 kms from North to South and 12 km from East to West. The country`s nearest neighbors are India and Sri Lanka, who are about 600 and 670 kilometers to the North and North East of Maldives respectively. The geographical location of the country far from the Asian mainland has caused it to remain relatively untouched by the political and social tides that have influence across the least of Southern Asia (Nafiz, 1988).

A large proportion of Maldives population is economically active with the labor force participation rate which in particularly is higher amongst the women. Much of the land is not arable owing to the high salinity of the soil, this is the reason only why few tropical fruit bearing crops are cultivated in Maldives. The Maldives almost nearly relies on imports; its staple food rice is entirely imported. The main economy`s sectors of the country are tourism and fishing followed by shipping which combinedly accounts for most of the country`s export of goods and services.

State of Maldives`s Tourism Based Economy

Strong growth in tourism sector, with support from fisheries and tourism-related activities, has enabled Maldives to transition from least developed to middle income states by 2011(Asian Development Bank, 2015). Maldives enjoys one of the highest gross national incomes (GNI) per capita in the South Asian region, as expressed in purchasing power parity (PPP). The economic growth has built up during past four decades, especially during the last 15 years (May, 2016). Tourism from other Asian countries has been engine of growth during last four and half decades, propelling the Maldives to graduate as middle income states. Since 1972, the Maldivian government has been able to run the dispersion of its islands into an opportunity to develop its tourism industry by converting some of the island into luxury hotels and resorts.

Thus, despite the daunting challenges of geography and widely dispersed population, the Maldives has recorded significantly positive incline in their GDP in the last decades; real GDP growth averaged about 7.4 percent per year during 1986-2014 (Asian Development Bank, 2015). Annual real GDP growth averaged 5.7 percent from 2000 to 2019 and real per capita income rose from US\$ 5,539 in 1995 to US\$ 10,208 in 2019. For Maldives tourism which accounted nearly a third of GDP, almost half of the budget revenues, and greater than 80 percent of total expenses before the COVID – 19 pandemics which had hit globally (The World Bank, 2022).

The Maldivian economy is primarily based on tourism and tourism related sectors. The percentage share of tourism sector to GDP in 2019/20 was approximately 26 percentages. The second largest industry is tourism-related: transport and communication, which accounted for 13 percent of GDP. Public administration is the third largest contributor to GDP with 8 percent, followed by wholesale and retail sector with a 7 percent share. Real estate and construction industry each contributed to 6 percent of its GDP (UNDP, 2020).

The unique concept of “One Island, One Resort”, meaning only one resort occupying one island, has helped Maldives develop a reputation for luxury tourism and also attracted large number of foreign investments. As a result, the successful development of high-end tourism has been the key driving factor to the economic growth of Maldives. Maldives has hosted US\$ 333 million FDI in 2014 which was increased up to US\$ 565 million in 2019; most of such FDI from abroad to Maldives have been concentrated particularly on travel, tourism, and hospitality related projects (Najeeb, 2020).

The tourism sector has been expanding steadily over the past years in Maldives. At the end of March 2020, there were 955 tourist’s establishments in operation, including 155 resorts, 13 hotels, 624 guest houses, and 158 safari hotels (MMA Statistics Database, 2020). A total of 15 resorts were newly operational in 2019 and an additional 3 resorts were operational by January of 2020. It is learnt that the tourism industry in Maldives engages more than one fifth of the employed population. The government of Maldives estimated an 8 percentage growth in the tourism industry in the year 2020. Arrival of tourists had increased in January 2020 compared to December 2019, but since then there has been a fall recorded by 13.2 percent in February and by 60 percent in March 2020.

Due to the travel restriction measures undertaken by the government in response to COVID – 19 and the eventual border closure that took place at the end of the March 2020, the occupancy rate for March 2020 stood at 35.6 percent. Subsequently, the pandemic led a record high level of layoffs, but its impact turned out to be limited due to the stimulus package introduced by Maldivian government at that time. While an ample amount of job terminations and salary reductions were done by the hotels and resorts during that time which had caused some adverse effect in the tourism sector and prolonged closure of workplaces, ceased business activities which did magnify the negative impact in the field of employment (Ministry of Economic Development, 2021).

A revival in the tourism and an impressive vaccination rollout for the COVID – 19 that saw 88 percent of the eligible population fully vaccinated by the end of the year 2021, enabled Maldives Gross Domestic Product (GDP) growth to rebound by estimated 31.61 percent in 2021. This was a notable turn around after the pandemic shut down the tourism industry in 2020, which caused the contraction by 33.5 percent, which later turned out to be the country's deepest recession on record (Asian Development Bank, 2022). As tourism became established in Maldives, it played a major role in the country's economic and infrastructural development, especially the establishment of transportation lines between the atolls and islands and the development of the regional airports.

Tourism has contributed both direct and indirect benefits. Among the direct benefits are increase in the employment opportunities and tourism related construction. There are also a number of indirect benefits, though to a lesser degree, through increased activity in other economic sectors such as telecommunications and transportation and the revival of the handicraft industry. Tourism in the Maldives has a direct impact on fiscal policy, which determines development expenditure too. More than one-fifth of government revenue arises from tourist's related levies. The most important tourism-related revenues are the tourism taxes, the resort lease rents, resort land rents and royalties, etc.

Issues on Maldivian Tourism

Due to the scarcity of the resources, all major goods for developing and maintaining tourism services and facilities are imported, including building materials and equipment for the construction of tourist hotels and resorts. Hence, tourism does not generate a high overall multiplier effect instead, the high rate of imports, the large number of expatriates employed in tourism industry, and the prominent role that the foreign investors play in ownership, management and operation for loan companies. These are all such factors which cause leakage of a major portion of tourism revenue earned by the Maldives.

Over concentration tourism development close to the capital Male has furthermore contributed to creating income disparity between Male and other atolls. While there is a high degree of economic dependence on the natural environment through tourism, as once the study had warned, "Environmental problems faced by Maldives are threatening to the sustainability of the industry", (Hall, 2000). The Maldives islands are usually low and flat, with elevations less than two meters above the sea level. Besides this, the other problems noticed in Maldives is gradual decline in quality and quantity of the fresh waters, beach erosion, loss of natural vegetation due to the influx of tourists annually.

Some of the previous studies hint that "The development of the tourism sector in Maldives has promoted centralization rather than its reduction. Thus, the development of tourism sector in the Maldives has only had a small impact on local property and disguise unemployment especially in the outer atolls", (Sathiendrakumar & Tisdell, 1989). Inadequacies in maritime transport and limited availability of domestic skilled labor hold back private sector investment outside high-

end tourism in Maldives. There appeared to be multiple indications that, the tourism sectors of small island states such as Maldives are in particular vulnerable to this ongoing climate change.

Already, about 45 percent of tourist's resorts have reported varying degree of beach erosion, affecting the "Sun, Sea, and Sand" tourism products. In the long term the dual combination of rising sea level and coastal erosion will reduce the quality and quantity of already available beach space, and without significant measures this process could therefore reduce the attractiveness of the country as what it already is "A tourist destination", (Bank & Bank, 2021).

Way Forward

Threats from global warming and un-sustainable tourist activities is making it imperative for Maldives to ensure that its marine life, clear blue waters, and white sandy beaches will remain well protected for a sustainable future of their tourism and country itself. Efforts should be made to ensure long term tourism sustainability initiatives keeping in account about all the economic, environmental, social aspects, etc., (CHEE & Chan, 2016). The latter half of the year 2021 the Maldivian government accounted a sudden increase in the arrivals of tourists in Maldives again. And as a result, of that sudden rise in the number of tourists, the GDP of Maldives estimated to have bounced back by 31 percent during that time.

Maldives is highly vulnerable to external and macroeconomic shocks due to its over dependence on tourism and limited sector diversification. To promote the faster growth of tourism and other sub-sectors of the economy; Maldives government has to scale up their infrastructure investment which could help to boost construction activities and productivity. The tourist's experience of Maldives has been marketed on the basis of "Getting away from the crowds", and the availability of natural resources unspoiled by various human activities. As tourism to the area increases, these qualities will be at risk, and future tourists who will be planning to visit Maldives need to make a serious account of these issues.

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