SECTOR ASSESSMENT (SUMMARY): INDUSTRY AND TRADE

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Overview. Maldives’ gross domestic product (GDP) growth averaged 5.1% per year during 2012–2016, lower than the average rate of 6.6% in other South Asia Subregional Economic Cooperation (SASEC) countries during the same period. It is a small open economy largely driven by the tourism sector, and it maintains an outward-oriented and liberal trade regime. The high degree of openness of the Maldivian economy to international trade, and its integration into the world economy, continue to be reflected by its high trade-to-GDP ratio, which increased from 147.6% in 2015 to 150.4% in 2017.¹ Fish processing, boat building, handicrafts, furniture, food and beverage products, brick making, and cement production are the main manufacturing industries in Maldives. Fish processing, which is the main industry, is geared toward exports and is dominated by small and medium-sized enterprises. As a result of sustained robust growth, Maldives graduated from least developed country status in January 2011, and consequently Maldives fish exports lost preferential market access to the European Union in 2015. However, total fish export volumes have been maintained, as Maldives has entered new markets and positioned its fish products as a niche premium product.² Despite its declining share of GDP (1.4% in 2015), the fisheries industry continues to be key to the Maldivian economy as it accounts for nearly all (97.4% in 2014) merchandise exports.³

2. Maldives performance in trade facilitation. Maldives lags on trade facilitation performance indicators and has fallen behind in several rankings. Maldives ranking in the “trading across borders” component of the World Bank’s Doing Business Report fell to 152 in 2018 from 137 in 2016.⁴ The cost of documentary compliance per export transaction is $300, among the highest in South Asia, where the average is $180. The cost of documentary compliance per import transaction is $180. This is lower than the SASEC average of $342, but much higher in comparison with Singapore ($40), one of the Asia and Pacific region’s benchmarks in terms of trade facilitation. The Organisation for Economic Co-operation and Development (OECD) 2017 estimates of average trade facilitation performance for SASEC members were as follows: India (1.25), Sri Lanka (0.99), Bangladesh (0.78), Maldives (0.70), Nepal (0.69), and Bhutan (0.59).⁵ Maldives overall Logistics Performance Index score improved to 2.67 in 2018 from 2.51 in 2016.⁶ Improvements in timeliness and infrastructure made up for poor scores in logistics competence, which had shown a continuing decline since 2014. Maldives Logistics Performance Index score lags behind the average for upper middle-income countries of 2.76 but is higher than the South Asia regional average of 2.51.

3. Major causes of low trade facilitation performance. Trade processes in Maldives are hampered by several legal, procedural, and organizational constraints, which substantially impact the efficient flow of trade transactions. This results in additional costs and losses, especially for traders. The current issues associated with trade processes include (i) excessive and slow

¹ World Bank national accounts data, and OECD national accounts data file
⁵ OECD online database of the 2017 Trade Facilitation Indicators covers the full spectrum of border procedures for 163 countries. A score of 2.00 is the best performance that can be achieved by a country.
documentation and procedures that arise from outdated legislation and paper-based processes, (ii) the high rate of cargo inspection because of the absence of risk management practices, and (iii) the slow pace of cargo release from Malé port because of space constraints and inadequate infrastructure. The Ministry of Economic Development is addressing changes to the legal framework that will eliminate the need for a redundant license for every import and export transaction. In addition, the Ministry of Economic Development is leading the initiative to introduce legislation for electronic transactions to cater to electronic permits. This will enable cross-border regulatory agencies (CBRAs) to eliminate the existing inefficient paper-based and manual processes by adopting information technology-based solutions for trade documentation processing. The Maldives Customs Service (MCS) has successfully introduced risk management for inspection of passenger cargo at the airport, but has not extended the same approach to general cargo since this will require enhancement of its automated system. Other CBRAs have not yet adopted risk management and carry out 100% physical cargo inspection.

4. **Opportunities for Maldives.** Trade facilitation increases trade flows and sustainable and inclusive growth with appropriate policies. It lowers direct costs by raising efficiency among interacting businesses and border control agencies. Prices fall, as they indirectly benefit from simpler and transparent border procedures. Even modest reductions in cost of trade can boost trade, as there is a positive link between trade facilitation and increased trade.\(^7\) Trade facilitation is especially critical for Maldives’ exports, as fish and seafood products are perishable and highly sensitive to delays. Beyond the obvious effects on trade and production, trade facilitation is critical for inclusiveness. Lowering trade costs is disproportionately more significant for small firms, increasing opportunities for start-ups generally. For female entrepreneurs, lowering trade costs will help move them from the informal to the formal economy, and grow their businesses. Increased implementation of cross-border paperless trade is high on the trade facilitation agenda in the Asia and Pacific region. Simulation estimates from the United Nations Economic and Social Commission for Asia and the Pacific indicate that Maldives can benefit from cross-border paperless trade in terms of export gains of 16% and cost savings of up to $12 million.\(^8\)

5. **National single window.** National single window (NSW) platforms have gained momentum as a promising avenue for streamlining the flow of trade information and expediting the movement of goods in a reliable and secure way. The implementation of an NSW system is one of the measures (Article 10.4) in the World Trade Organization (WTO) Trade Facilitation Agreement (TFA). An effective NSW entails implementation of several measures of the TFA: coordinated border management, risk management, electronic payment, publication of government agencies’ border control performance, and standardization of procedures. These measures address many of the underlying causes of the current bottlenecks in Maldives’ international trade procedures. The NSW will provide a transparent environment for streamlined procedures between private sector stakeholders, border control agencies, and port and airport operators. The NSW will facilitate international trade procedures and reduce the overall costs of transactions to cut retail prices of staple goods such as imported food and fuel, thereby benefiting consumers, especially low-income people. By using information and communication technology, the NSW will allow traders and other service providers to transact business electronically, thereby eliminating the need for manual processing of documents. The NSW will therefore enable (i) faster, more efficient, transparent, and standardized international trade procedures; (ii) coordination of border management among CBRAs for enhanced effectiveness of

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control; and (iii) more readily available data on trade flows. The establishment of the NSW is in line with the operational priorities for trade facilitation under the SASEC program, which Maldives joined in 2014.

2. Government’s Sector Strategy

6. Trade strategy. Maldives has been an active member of the South Asian Association for Regional Cooperation and its trade liberalization initiative, the South Asian Free Trade Agreement, since its inception in 1985. Maldives signed a free trade agreement (FTA) with the People’s Republic of China in December 2017, which covers trade in goods, trade in services, investment, and economic and technical cooperation. The FTA initially caters for duty-free imports for 70% of tariff lines, and at year end 2025, 95% of items will be duty-free. Under the FTA, export of fish and fish products from Maldives to the People’s Republic of China are duty-free. The Government of Maldives recognizes the role of exports as a key economic driver, and the need to reduce reliance on the tourism sector. The government’s export promotion strategy for the fisheries industry seeks to ensure the high-quality and sustainable nature of Maldives’ fish exports, obtain premium value for fish products, and alleviate supply and market bottlenecks faced in the export of such products. To improve export prospects for fisheries products and to increase the value of Maldivian fish exports, the pole-and-line skipjack and yellowfin tuna caught in Maldives obtained Marine Stewardship Certification in 2012, and a halal labeling scheme was introduced in 2013 to facilitate exports to markets in the Middle East (footnote 2). The Maldives Food and Drug Authority ensures that fishery exports from Maldives meet international quality standards, including regulations of the European Union, and conducts regular audits of fish processing facilities to ensure compliance with health and hygiene standards.

7. Maldives customs service strategic plan. The MCS, per its Strategic Plan, 2014–2018, has shifted its focus from tax revenue collection toward trade facilitation, following the government’s policy to lower the duty rate in 2012.\(^9\) In line with its strategic objectives, the MCS has put in place multiple initiatives: an express channel for air-bound and seabound cargo, automation of various stages of customs declaration processing, and introduction of risk management practices at the airport. In addition, the government has adopted new customs legislation to implement the WTO Valuation Agreement. The MCS has introduced other modernization and trade facilitation measures, including a pre-payment account system, simplified customs declaration for individuals, and upgrading of goods clearance with a view toward a paperless trading environment. The government is pursuing domestic approvals to ratify the WTO TFA in order to inform the WTO that Maldives is ready to implement the TFA.

8. National single window road map. The Government of Maldives has identified the implementation of an NSW for trade facilitation as a priority (footnote 2). An NSW aims to act as a catalyst toward comprehensive streamlining, standardization, and automation of procedures by CBRAs, thereby addressing many trade bottlenecks. A road map for the NSW sets out a structured approach and identifies the key steps and requirements for successful and effective implementation of the NSW: governance structure, business process redesign of procedures and data harmonization among the border control agencies and cargo handlers, technical architecture, enhanced service-level agreements, and legal framework requirements. The road map also identifies business model options for the NSW operator and requirements for self-sustainability of the NSW operations.

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3. **Asian Development Bank Sector Experience and Assistance Program**

9. **Asian Development Bank assistance.** Trade facilitation is one of the three priority sectors of SASEC.\(^9\) Since 2001, the Asian Development Bank (ADB)-supported SASEC program has provided a platform for member countries to collectively address key subregional trade facilitation sector issues. The SASEC Trade Facilitation Strategic Framework adopted by the member countries in 2014 (and updated and enhanced as part of the SASEC Operational Plan, 2016–2025) focuses on five priority areas: (i) customs reform and modernization (the SASEC Customs Subgroup was launched in 2013), (ii) standards and conformity, (iii) border facilities, (iv) transport facilitation, and (v) institutional capacity building.\(^11\)

10. The customs component of the SASEC Trade Facilitation Strategic Framework focuses on (i) simplifying and expediting border formalities, (ii) increasing application of information and communication technology, and (iii) developing NSWs. The framework provides support for implementing policy-based reforms, streamlining processes and procedures, and planning institutional arrangements to establish NSWs. ADB provided technical assistance to prepare the road map and business process redesign for the NSW in Maldives.\(^12\) The SASEC Customs Subgroup was established in 2013 to promote subregional trade facilitation initiatives in the SASEC subregion through concerted customs reforms and modernization, strengthened interagency cooperation, and enhanced partnerships with the private sector. A memorandum of intent on customs capacity building was signed by the SASEC customs administrations and ADB in June 2017 to support capacity enhancement customs reforms and modernization. Overall, the areas for improvement identified in the sector assessment are consistent with the SASEC Operational Plan. ADB is well equipped to mobilize the SASEC platform to continue supporting Maldives’ trade facilitation initiatives.

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\(^9\) The other two priority sectors are energy and transport.


Core Problem

Lengthy and redundant control and inspection procedures

Causes

Excessive and slow documentation and procedures
- Movement of hard copy documents and manual processing
- Weak capacity in border agencies to implement international standards, agreements, and modern tools
- Electronic filing not allowed under current legislation
- No common information technology platform for all relevant stakeholders involved in document processing and inspection
- Trade license required for each import or export transaction
- Outdated legal requirement
- Fees payments require visits to different agency locations
- No electronic payment of government services

High rate of cargo inspection
- Limited application of automated risk management tools across border agencies
- Results of previous inspections are not incorporated into risk rules
- Absence of integrated risk management between border agencies
- Limited application of other modern customs tools
- Customs system does not adequately support integrated risk management
- Uncoordinated and overlapping inspection conducted by multiple border agencies

Slow pace for removal of cargo from the port
- Multiple transactions involving several players in the port that are not automated
- Slow process for payment of user fees and charges (e.g., wharfage, storage, handling charges) on multiple platforms
- Inadequate infrastructure to store and handle less-than-container-load cargo
- On-the-ground issues (e.g., manual gate checks, multiple gate pass requirements)

Effects

Heavy congestion at Malé Port

Problem Tree for Industry and Trade: Trade and Services Subsector (Trade Facilitation)

Loss of competitiveness

Core Problem

Lengthy cargo release and high trade cost

Cumbersome, Non-Transparent, And Weak Trade Facilitation Environment

Fees payments require visits to different agency locations

Within project scope