



## Vulnerability profile of Maldives

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## **Executive summary**

1. Maldives has a gross national income per capita (estimated at \$1,983 on a three-year average basis, in accordance with the CDP's methodology) more than twice greater than the

## **Vulnerability profile of Maldives**

### **I. Introduction**

4. Maldives was admitted in the category of Least Developed Countries (LDCs) in 1971, when the LDC denomination was instituted. In 1997, for the first time, the country met all the criteria for graduation from LDC status (at that time, a low-income criterion, a “quality of life” criterion, and an economic diversification criterion). This rise above the graduation lines relevant to all criteria at the time of a particular review of the list of LDCs was unique in the

General Assembly have, since 1991, stated that graduation from LDC status should not harm a graduating country in its continued development efforts.

7. Section II of the profile recalls the “history” of the (non-)graduation of Maldives, and the institutional and methodological aspects that are relevant to the principle of graduation. Sections III, IV and V summarize the situation of the country with regard to the low-income, human capital and economic vulnerability criteria, respectively. Section VI then underlines the anticipated implications of a hypothetical immediate graduation of Maldives. Finally, section VII offers concluding remarks on the import



principle of graduation becomes more complex. It points to a diversity of situations among relevant countries: some LDCs can be expected to

- at least two of the three graduation criteria must be met for the relevant country to be found eligible for graduation, whereas a symmetrical application of the inclusion and graduation rule would have implied that only one criterion ceased to be met, since all three criteria (plus the 75-million population ceiling) should be met for a country to be added to the list;
- while pre-eligibility for graduation can be observed on the occasion of any review of the list (subject to the threshold margin and asymmetrical rule referred to above), full



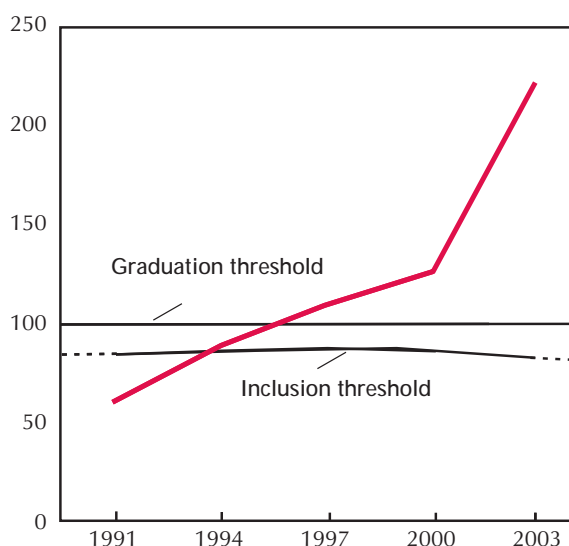
its consideration of the graduation of Vanuatu”, requested the Committee for Development Planning to assess the usefulness of such an index, and to consider “the work of all relevant international agencies on the vulnerability of small States”<sup>9</sup>.

26. In the light of the CDP's recommendation and of



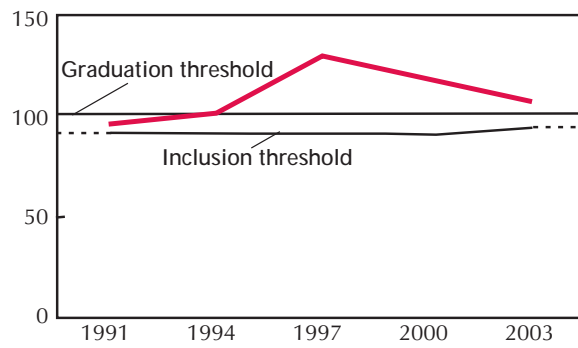
Each graph, at the same time, shows a line representing the inclusion threshold. The distance between the two lines is the margin between the inclusion threshold and the graduation threshold.

**Low-income criterion**  
(GDP per capita until 2000, GNI per capita in 2003)



35. Among all LDCs, Maldives has demonstrated the steadiest and fastest progress across the graduation line relevant to the low-income criterion. The graduation threshold was met at the time of the 1997 review of the list, after a historically high growth performance had been recorded. A score of 127% of the threshold was observed in the 2000 review, when the *per capita* GDP performance was estimated at \$1,311. In the last years of the 1990s decade, a sustained tourism performance kept Maldives on a high growth path, compared with most developing countries. In 2003, the performance of Maldives (relevant to the 1999-2001 average period) is estimated to culminate at 220% of the graduation threshold, although the real growth of GDP decreased during the three-year period (from 7.2% in 1999 to 3.5% in 2001), and the real growth of per capita GDP, as a result of high demographic pressure, diminished even more rapidly (from 5.1% in 1999 to 1.7% in 2001). It should be noted that the sharp increase above the graduation threshold relevant to the low-income criterion was not caused by the substitution of GNI per capita for GDP per capita as the relevant income aggregate, since the nominal value of the graduation threshold changed at the same time as the income aggregate did.

**Human capital weakness criterion**  
(APQLI until 2000, HAI in 2003)



in 2003 is mainly explained by the serious structural handicaps faced by the islands and measured through the smallness of the population, while the steady growth in tourism and fisheries earnings has made Maldives, among all developing economies, one of those with the least unstable exports of goods and services. It is important to note that the narrowness of the economic base (a dimension that is captured by the EVI) exacerbates the economic vulnerability of the country, as any adverse development in only one of the two dominant sectors can destabilize the overall performance of the economy.

*Technical eligibility for graduation*

38. The simultaneous performance, in 1997, above the graduation lines relevant to all three criteria was unique in the history of the LDCs. In the 2003 review of the list, the technical eligibility for graduation is observed by virtue of the graduation rule, because of the maintained performance above the lines relevant to

of the relevant country to overcome its structural impediments, because poverty places obstacles on the road to structural progress. While cognizant of the range of impediments a low income can imply, the Committee has been less sensitive to the fallacy a higher-than-average income may sometimes entail. There have been hopes that more efforts will be made to recognize as a fact of life the paradox of simultaneity between a rising per capita income and a continuously high economic vulnerability, a phenomenon that is specially common to small island developing States.

42. In substituting per capita GNP for per capita GDP, the Committee noted that “GNP is regarded as reflecting the productive capacity of a country as adequately as GDP”<sup>33</sup>. This





Like beach erosion and the related threat of sea-level rise, but in the shorter run, coral bleaching is one of the factors dampening the durability of productive capacities that ought to be fully taken into consideration in the national accounts.

48. The issue of income distribution is also of significant importance to Maldives and cannot be disregarded in any interpretation of the national income. A household income survey conducted in 1997-1998 throughout the country revealed that the average income of households was 75% higher in Malé than in the atolls, and that the average household income of the four atolls with the highest average income was 116% higher than the average household income of the four atolls with the lowest average income<sup>36</sup>. These facts, reinforced by parallel contrasts in various social indicators (including those entering the HAI), show that income distribution is highly unequal in Maldives<sup>37</sup>. This inequality is a reflection of the limited domestic income multiplier effect of tourism growth in the country, even though tourism development has been the dominant factor of rapid real growth in GDP or GNP in the last decade. Considering the magnitude of leakages in foreign factor income (profit repatriation, expatriate labour's income remittances), and accordingly, the limited multiplier impact of manufacturing and modern services on a large proportion of the national population, GDP growth can be regarded as a poor indicator of progress in the overall standards of living of Maldivians. GNI brings an improvement in providing a benchmark for the low-income criterion, but yet remains much insufficient to substantiate the case for graduation, considering the high structural costs affecting a large part of the population (including transport costs and a high cost of living in the context of heavy reliance on imports), and the absence of quantitative consideration for environmental degradation and inequality in income distribution.

#### *Relevant data from national and international sources*

49. In the last years of the 1990s decade, a sustained tourism performance kept Maldives on a high growth path, compared with other LDCs. The real growth of the tourism sector was relatively high (between 5% and 11%) during the 1996-2000 period. However, real growth was estimated to be less high in the early years of the new decade, with annual rates of 4.8% in 2000 and 3.5% in 2001, compared with 10.2% in 1997, 9.8% in 1998, and 7.2% in 1999<sup>38</sup>.

50. The main factors explaining the recent economic slowdown were a recession in the fisheries sector in 2000 (followed by a stagnation of the sector in real terms in 2001 and 2002), a sharp decline in the construction sector in the same year, and a zero-growth reaction of the tourism sector to international instability in 2001. As a result of the recent decrease in the real growth trend, per capita GNP at current market prices was lower in 2002 (\$2,090) than in 2000 (\$2,130) and 2001 (\$2,120).

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<sup>36</sup> Republic of Maldives, *Vulnerability and Poverty Assessment 1998*, p. 19-20.

<sup>37</sup> The WTO Secretariat, in its report to the Trade Policy Review Body for the first Trade Policy Review of Maldives, stated that “*although the Maldives has made considerable progress in reducing poverty, some 43% of the population still live below the poverty line of Rf15 [US \$1.2] per day, most residing in regional atolls*”: cf. WTO, *Trade Policy Review, Maldives, Report by the Secretariat, WT/TPR/S/110*, 13 December 2002, p. 28. Some 183 islands of the country (92% of all inhabited islands) have a population under 2,000. More specifically, 141 islands have a population under 1,000 inhabitants, 75 islands a population under 500, and 16 islands a population under 250.

<sup>38</sup> Source: Maldives Monetary Authority, *Economic Statistics*, January 2003, Vol. 3, No. 1.

*Summary of the performance observed under the low-income criterion*

51. Maldives has been above the graduation threshold under the low-income criterion

disadvantaged LDCs: six LDCs had lower average child mortality rates than Maldives during the 1995-2000 period, but eight LDCs scored better than Maldives in 1999 with regard to the calorie intake in percentage of the relevant requirement.

*Calorie intake*

54. **Variable used:** calorie intake ratio (average daily calorie intake as a percentage of the relevant requirement)

**CDP estimate of the calorie intake ratio in the 2000 review of the list:** 118%

**National estimation in 2003:** the latest survey of food supply for household consumption (1997) revealed an average value of 2,150 calories per day. An earlier estimate (in 1993) had given a calorie intake of 2,063 calories<sup>43</sup>.

**CDP estimate of the calorie intake ratio in the 2003 review of the list<sup>44</sup>:**113.8% (1998).

The government has pointed out the limitations inherent in the FAO's estimation of the food supply and calorie intake in Maldives, which is based on combined domestic production and importation data. It takes the view that the estimated food supply,

Substitution of the secondary school enrolment ratio for the combined primary and secondary school enrolment ratio allows a more realistic representation of the national performance in this area, and more meaningful international comparisons.

**National estimation in 2003:** gross secondary school enrolment ratio (based on 2001 data): 59%

**CDP estimate of the secondary school enrolment ratio in the 2003 review of the list<sup>47</sup>:** 42.7% (1999-2000).

#### *Adult literacy*

57. **Variable used:** adult literacy rate (number of literate adults as a percentage of the total adult population)

**CDP estimate of the adult literacy rate in the 2000 review of the list:** 95.3% (1996). This figure is correct if the notion of literacy is understood as being in the national language (dhivehi). However, it has been criticized by Maldivian authorities, who take the view that a more meaningful definition of literacy would imply literacy as conducive to socio-economic progress in the context of globalization, i.e., literacy in an international language. This, in the case of Maldives, means literacy in English, which has been estimated at 35% (1998).

**CDP estimate of the adult literacy rate in the 2003 review of the list<sup>48</sup>:** 96.9% (2000).

#### V. The situation of Maldives with regard to the economic vulnerability criterion

58. Maldives was above the graduation threshold only once: in 1997. The relevant score, in percentage of the graduation threshold, has been 72% in 1991, 37.9% in 1994, 105.2% in 1997, 96.3% in 2000, and 99% in 2003.

#### *Index of instability of agricultural production*

59. This indicator is regarded as reflecting the physical impact of natural disasters. The score of Maldives u66(t)0.873046(u)-0.958046(u)-0.9580.76.78566(d)-0.95892(i)0.8709. 3.45575(h)972(h)

among the least unstable among 128 developing count



member State of the WTO facing the eventuality of graduation, provided the following response to a question by the United States (“Does the [smooth transition] proposal envision a transition that includes benchmarks for phased adoption of normal WTO obligations?”):

*Benchmarks for a phased adoption of normal WTO obligations could be envisaged as part of smooth transition modalities for members graduating from LDC status. Such benchmarks should be commensurate with the competitive and institutional constraints faced by the graduating member. As all potential graduation cases are cases of small and vulnerable economies, determining smooth transition modalities ought to be done in the light of the peculiar circumstances surrounding the graduation of such States, wherein the economy, though recording an improved performance, remains structurally handicapped and highly dependent on preferential market access. This applies to Maldives (presently the only member State near graduation), where the viability of the fisheries sector acutely depends on the LDC treatment received on the EU market.*

70. The notion of smooth transition for graduating countries has therefore been placed on the agenda of the Work Programme on Small Economies of the World Trade Organization, where Maldives, as a member State, hopes to see progress toward acceptance of some concrete smooth transition proposals. While *ad hoc* smooth transition measures are likely to be considered favourably with regard to systemic obligations under various Agreements, the chances of success of the idea of retaining preferential market access after graduation are uncertain. Regarding preferential access to the EU market for tuna (the most vital trade concession to the country), Maldives, in the event of graduation, could request a 10-year extension of the GSP privilege, thereby asking the European Union to adopt, for the first time in the history of LDCs, a specific measure of continued LDC treatment for an ex-LDC.

71. In answering a question to India, on 17 January 2003, in the first Trade Policy Review of Maldives at the World Trade Organization, the Maldives delegation stated (*verbatim*):

*The consequences of graduation is not a matter that Maldives can deal with alone. We need the understanding and support of the WTO membership, the Secretariat, other international development organizations, and bilateral donors. If the country is to be graduated without a trajectory for phasing-out or –in to the appropriate levels the preferential treatment in terms of WTO obligations and treatment, unilateral trade preferences, development grants and concessional finance as well as technical assistance from all sources, we may find Maldives sliding back into the LDC category.*

72. In the final meeting of the Trade Policy Review Body gathered on the same day, the representative from the European Commission promised to convey the “tuna concern” to the Commission, and assured the Maldivian delegation of the Commission’s willingness to examine the question in the light of relevant ongoing progress in the World Trade Organization.

#### *Implications in the area of development financing*

73. Although development partners generally recognize the structural disadvantages Maldives faces in its development efforts, most partners are likely to interpret the eventuality of Maldives graduation from LDC status as the signal of an enhanced capacity of the country to pursue these efforts in a less externally dependent manner. Such interpretation could result

in decreased concessionary treatment in bilateral allocations, with a lesser grant element and a decline in overall allocations at the time of renewal of aid cycles. This could result in an increased debt burden, which even a sustained growth pattern, considering the small economic base, would not be able to overcome. The Asian Development Bank might



