

Economic overview of the maldives economics essay



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There are many factors in the macro analysis environment that will effect the decision of the managers of any organization. The macro change includes such as tax change, new laws, trade barriers, demographic changes and government policy changes. To identify and analyze distinguish between these factors executives be able to categorize the factors that impact such as:

Political factors- which refer to government policy such as degree of intervention in the economy and what goods and service does a government wants to provide.

Economic factors- which includes interest rates, taxation changes economic growth, inflation and exchange rate. Economic change can have major impact to the country.

For example:

A strong currency may make importing goods more difficult as it may raise the price in terms of foreign currency

Inflation may incite higher wage demands from employees and raise cost

Social factors- change in social trends can impact on the demand for a firm's products and ease of use and motivation of individuals to work.

Technological factors- new technologies create new products and new process.

Example: when organization advances in technological, the staffs skills and knowledge have to improve quality and guide to innovation. These developments can benefit government as well as the organization.

Environmental factors- include the weather and climate change. Change in temperatures can impact on many industries including tourism, fishing and import and export of goods to and from country.

Legal factors- these are related to the legal environment in which organization function. Introduction of new system and procedures such as “ staff development policy” that affect organization action and change will have some costs to the government and the organization.

This chapter is based on government economic policies, fiscal policy and moreover it talks about the Maldives Customs Service (MCS) role and relation to government policies and mission, goals and objectives of the MCS and the SWOT analysis of the organization. Furthermore this chapter mentions the key issues which related to the policy implementation.

Government economic policies

The Maldives has exclusive economic rights over some 859, 000 km² of surrounding the islands, which contains vast fishery resources. The islands are an attractive tourist destination due to their sandy white beaches and clear lagoons. Land mass is limited to 300 km² and dispersed over an 850 km² North-South fairly narrow stretch. This peculiarity of land mass and its distribution is a server constraint to the development of local markets, increasing transport costs with implication for the competitiveness of the economy.

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Direct Foreign Investment

The government has adopted a reasonable foreign climate the result, the result has been not enough in the sense of that most foreign direct investment (FDI) is tied to the tourism sector. In regard of this only very little FDI is seen in other sectors. For example the domestic market opportunities, given the restrictions of a population of 300, 000 approximately. Therefore FDI has been drive in the direction of sectors reaching international market. Tourism is one of the best examples in the country. The investment establishment consent to free currency exchange rate and repatriation of profits and capital assets. The financial sector 30% profit tax is collected and there is no corporate tax.

At present the government there is improper practice of integration of investment promotion and regulation as both roles are hand over to the Foreign Investment Services Bureau (FISB) of the Ministry of Economic and Development and Trade (MEDT). Therefore the existing legal frame work of Direct Foreign Investment (DFI) is inadequate to provide self motivated investment environment to the investors. Other than tourism investments all other sectors all the responsibility takes FISB and tourism investments Ministry of Tourism and Culture (MTC). Hence it is vital to revise and modernize current DFI guide line policy to more conducive to large scale investment.

The financial sector of Maldives is still in its immaturity. There are five international bank operators in the capital city Male' but all this banks are branch offices of their parent organization and take on only financing of commerce. At the present time there is no investment bank in Maldives, but <https://assignbuster.com/economic-overview-of-the-maldives-economics-essay/>

a private firm, the Maldives Finance Leasing Company (MFLC) that provides capital financing for only small and medium scale operators. At present the Bank of the Maldives has located more than 12 branches in different islands in the country.

Export promotion

In the existing regime Maldivian exporters invite in accessing world markets comparative to competitors in other countries. The rules of origin governing preference, when defined as a value-added obligation for the most part difficult to satisfy country like Maldives facing extremely far above the ground priced imported inputs and with limited relative advantages on labour cost.

As mainly Maldives depend on imports for consumption, the lack of import substituting industries and industrial capability for export outcomes in existing account deficit of the country. The deficit for 2008 made known at US\$651.3 million and 2005 it was US\$273.0 million, which means compare to deficit in 2005 it has increased 139 percent. The present account deficit averaged in the order of 40 percent of GDP between 2004 and 2008. In 2008 more than 98 percent of Maldives commodity export well thought-out of fish and its related products amounting US\$125.9 million, when compare to 2005 it has increased 29 percent

The total export of Maldives rise in 2008 by MRF 384 million to MRF 617 million a growth of 16.8% over the year 2007. The past years average growth rate is 18.8% and marine products are the main exports with 98 percent. On the other hand due to tsunami disaster there was a minor

downturn in the exports in year 2005. But starting from in the year 2006 there is rise and fall trend until 2008, with an approximate of 16. 8% increased.

In the existing situation of Maldives it is vital to have regional integration initiatives that value to the country through the help of key issues that affect trade, including the cost of transport and customs clearance issues. Regional institutions provide a vital support in the development of a system of standardization in Maldives, with the cooperation along with official recognition bodies on Technical Barriers to Trade (TBT) and agreement on the application of sanitary and phyto sanitary measures (SPS) agreement issues.

Social protection

At present Maldivian social protection is very much favoritism in the direction of government employees who constitute around a quarter of the working population of the country. The government has priorities to achieve universal primary education and develop a national health care system. The health expenditure has accounted for 10-12 percent of GDP over the last ten years. The government is aware of the social protection issues and is keen to develop an effective social protection system consistent with the level of income and implementation capacity.

The government intention for restructuring civil service is not only to grow macroeconomic stability but also is vital to sustaining the countries impressive progress in human development. Poverty rates, as measured by the headcount ratio, have fallen steeply, from 40 percent in 1997 to 16

percent in 2005. To maintain this trend in poverty reduction, improvements in existing social protection programmes and development of new programmes will go together with the fiscal hardship measures

Cultural heritage

The Maldives is prosperous in heritage sites, although in the earlier period of few decades the significance of safeguard Maldivian cultural heritage has been completely understood by Maldivians. On the other hand research and documentation of Maldivian cultural heritage and history is still developing in the country. At present the country also lacks the legal framework to regulate problems coupled with heritage management in the country. The heritage Act is vital for a better protection of the Maldivian cultural heritage. A book providing a tentative list of heritage sites in the Maldives has been recently published.

There is an ever-increasing propensity to promote heritage values surrounded by Maldivians as a value of a heritage site forms the central core of its management. Thinking globally, Maldives is gearing to step into the world heritage arena and almost immediately will have a tentative list submitted to the world heritage committee.

Trade Facilitation

In the Maldives today, there has been a change from the Profitable protection function of customs to an extended protection of community. That is, trade facilitation effects more than just customs facilitation; it includes all the contributing factors of the international supply chain. As a result, stakeholders usually comprise those government and business entities that

are entailing in the administration or guide of international trade. In other words, in the style of early 20th centuries role of customs as the 'gatekeepers' has now been becoming different by the new and more demanding role that is based on three decisive concepts: trade facilitation, border protection, and revenue collection.

The MCS is keeping up a conscious of international issues and their ability of strong effects on the nation, and it must be well-informed about national constrain power of a law to trade and transport treating and conventions. In many ways, customs organizations are connected with their counterparts in other countries that they do with agencies in their own government. They often look to customs administrations internationally and in neighboring countries for assistance and for ideas on how to improve operations trade facilitation, border protection, and revenue collection.

Revenue Collection

The Maldives experience move backward and forward in economic activity that are wider than those of the region overall. When economic times are good, economy outperforms the average of the region and when economic times are bad, economy legs behind. Although countries revenue collection are not only the means of comparing economic activity, that provide snapshot of the health of economy in a particular atoll or island. Generally stronger economies with greater economic activity produce increase in the rate of the growth of revenue collection at the country level.

An examination of the subsequent time series of revenue change make known that, in terms of revenue collection of the country go one better than

the region overall in times of economic growth and retained strength revenue collection of the country began to experience downturns between 2007 and 2009. Hence the government aims to reduce the reliance on import revenue as an income source for the government expenditure and in recent times projected to a great extent and large tax reform proposal. In this regard, in June 2009 government proposed modifications to the export-import law to eradicate import duties on food items and lower it for other commodities. This plan is an element of much wider amendments government resolve brings to the export-import law in the next two to three years.

This proposal is part of a much wider amendments government will bring to the export-import law in the next two-three years, where government intends to bring down all applied rates to a level which have a positive impact on the economic development needs of the country and in accordance with international obligations including World Trade Organization (WTO).

Border Protection

Tariffs are the major instrument of border protection in the Maldives. With the exception of in the case of cigarette, on which has precise duty of MRF. 0. 30 per stick and all the other duties are ad valorem tariff levied on CIF (cost, insurance and freight) import value. In the current structure of applied ad valorem tariff have ten bands such as duty free, 5 percent, 10, 15, 20, 25, 35, 50, 100, and 200 percent. The three main staple foods such as flour, rice and sugar and all other imports intended for commercial re-export come in the country free of duty.

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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 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 discussion on the upcoming direction of tariff restructuring is much in line with expected view. It simply call attention to the need for enlargement the internal tax base to diminish the government weighty dependence on border taxes which would facilitate further tariff reduction, without examining revenue effects of tariff reduction. Enlarging the internal tax base to diminish the governments weighty dependence on border taxes would, obviously facilitate further tariff reduction.

Fiscal policy

The Maldives has neither a corporate tax not either a broad based sales tax arrangement in the country. The bank profits are subject to profit tax of 25 percent. In the highest degree recent year largely tax revenue as a percentage of GDP was 20.5 percent. Revenues are collected from customs duties. Conversely, the worsening fiscal signs are worrying as huge budgeted deficit stems not only from renovation, however more over from long standing structural issues such as growth of the civil service, large pay rises and subsidized social services. Therefore, if not the government attend to <https://assignbuster.com/economic-overview-of-the-maldives-economics-essay/>

these subjects earlier than its debt get to unsustainable levels, far above the ground economic growth cannot be sustain.

Broadening the tax base

The government is planning to increase revenue by broadening the tax base. Government revenue is expected to increase 33 percent of GDP in 2010, 37 percent of GDP in 2011 and 36 percent of GDP in 2012. Currently the government revenue generation bases are mainly import duties, tourism tax, dividends from state-owned enterprise and resort lease rentals. The government has argument of implementation of the business profit tax and goods and service tax is look forward to bring in early 2011. The government expects to increase the revenue with reference to the impact of new taxes; it would be 15 percent of GDP.

Rationalization of import duties

In the Maldives government revenue connotations are a main alarm over and over again voiced as an argument further rationalized of import duties. It is argued that import duties are a vital source of government revenue and the speed with which customs duties are reduced needs to be resolved in harmony with the speed and effective of domestic tax reforms at thoroughly examined the condition of the revenue structure to compensate lost revenue. If not the look forward to economic gains from reform could well be erased by adverse budgetary arising from revenue shortfall.

Over view of the Maldives Customs Service (MCS)

The MCS plays vital role in protecting and enhancing Maldives economic prosperity, security and unique way of life. The border management has an

effect on economic performance and the well-being of community and MCS is committed to ensuring that Maldives entry points actively supports government priorities.

In order to achieve MCS vision of “ achieving excellence” in contributing to the social and economic well-being of the nation by providing professional, quality assured customs service. MCS has to be ready for the future and to be able to respond quickly and effectively to unexpected situations and conditions, and have to ensure the effective ongoing stipulation of service.

In order to support the social and economic well-being of Maldives, MCS continue to work in coordination with other agencies, and maintain relationship with customs administration, international organization and industry stake holder. It is important to continue deepen understanding of MCS partners priorities and to ensure that how MCS objectives and those of partners in the public and private sector can best aligned.

Mission and Vision

TO ENSURE that persons, goods and conveyances enter and exit the Republic of Maldives in accordance with national laws, and that such function is carried out while protecting the state revenue and the rights of the members of the society and in a manner that safeguards the integrity, esteem, dignity and honour of our Maldivian Nation.

“ ACHIEVING EXCELLENCE” in contributing to the social and economic well-being of the nation by providing professional, quality assured Customs service towards the protection of the society and revenue collection, through optimal Information Technology mobilization
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Goals and objectives

To achieve the national goals MCS has to provide staff with relevant academic competency and skills training so as to create conducive work environment for generating inspiration and motivation amongst them; by inculcating and promoting required ethical standards in order for them to become professional Customs officers.

To facilitate and provide trade-related customs services in a customer-friendly environment, in accordance with the laws and regulation of Maldives

To protect State revenue through extensive participation in implementation of export/ import policies, strengthening customs control mechanism, and post clearance audit procedures.

To be a world-class customs service that complies with all pertinent international conventions, articles thorough cooperation and coordination between Customs of other countries, customs- related international organizations and other international NGOs

Objective

Protect and collect revenue on dutiable goods.

Detect and deter narcotics.

Detect and deter smuggling of goods, pornography, and banned articles.

Protect and facilitate legitimate trade and industry to uphold Republic of Maldives trading integrity.

SWOT Analysis

Strengths

Weakness

Opportunities

Threat

Maldives customs service (MCS) is longest serving organization in the Maldives. Therefore customs has good reputation of among all other organization and the customs has brought a valid changes

Government gives full support to the MCS to maintain its service. Example if customs submit a project for increase revenue the government approves easily

Provide professional training for the officers for their daily work environment which has huge advantages to perform best of their knowledge and experience

Lack of Act the most weakness of the organization as there are many improvements which need to bring with the help of act

Action and words are not align which causes a huge weakness of the organization as the supervisory level action which makes different ways in same situation

MCS gets many opportunities from the government to improve trade facilitation and control illegal activities which enter the country

MCS is the WCO member and many other international authorities such RILO and WTO and other countries provide international training and equipments

Political Influences is one of the difficult things MSC faced today, as the political influence is taking part in some decision making and many political posts in top level

Traders do not keep their business records, so it hides the way for their negotiations, transactions and other records that need for their business background

Key issues related policy implementation

Corruption and low integrity

Corrupted environment

Unethical behaviour

Revenue leakage

Compliance not measure

Ineffective decentralization

Decentralized areas - staff not empowered

Partially decentralized without uniformity

Lack of border control

Incompetent staffs and stakeholders

Policies for rotation

Competency level of staffs

Lack of technical skills

Poor communication with the stake holders

Absence of Carrier path

No succession plan

Human resource plan

De-motivation

Knowledgeable staff turnover

Performance appraisal not based on objectives

Inappropriate recruitment and selection

Chapter summery

The Maldives still face a range of development limitations distinctive to small island nation. These take in a small export market, narrow resource base, and shortage of skilled work force, difficult transportation, high unit cost of social, health and economic infrastructure condition and high propensity to external and natural disasters.

To enhance the efficiency and effectiveness of the revenue collection and trade facilitation it is vital to implement modern techniques to minimize the illegal offences which are carried out through in the Customs control area and prevent the importation and exportation of restricted and prohibited

goods and conveyances into and from the country, while providing an excellent service.

In addition there are special require developing the quality of the limited human resources. It is apparent that legislation, systems and procedures need to be enforced and implemented by experienced, professional and dedicated people. The commitment, loyalty and integrity of staff are particularly important to an organization in tackling challenges, making changes and introducing reforms.

Human resources require to be developed on a continuous and long-term basis with an analysis to promoting and enhancing staff's qualification, professional ability, management techniques, morale and integrity. In this respect, well planned programmes with an eye on the future for staff training, career development and integrity promotion are essential to the well being of any administration and to serve and protect countries economy