GLOBALIZATION, GOVERNANCE AND DEVELOPMENT: THE CASE OF THE MALDIVES

by

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ABSTRACT

The dissertation seeks to present, examine and evaluate the policies, processes and conditions that have facilitated the Maldives to confront and adapt to the opportunities created by and challenges posed by economic globalization. It examines how the vagaries of economic globalization are shaping the domestic governance of the country, on the one hand, and how the evolving governance regime in the country is changing the way it approaches the globalization process, on the other. At the theoretical level, the thesis evaluates the utility of governance, as it is conceptualized by international donor agencies, to small island states like the Maldives in addressing the development challenges posed by globalization.

This thesis, which has adopted a case study method and has primarily concentrated on the tourism, fishery and public sectors of the Maldives, found that prominent ways through which economic globalization is affecting the country include: proliferation of broad-based standards in production and service delivery, expanding role of multi-national companies, changing global rules and norms on the management of fish and other marine living resources, and evolving opportunities and challenges in gaining access to global markets.

The relatively successful adaptation of the Maldives to these pressures of globalization was found to be not primarily due to the adoption of strategies of good governance advocated by international donors and development agencies. The study presents evidence of the critical roles played by the political culture, geography of the country, history of the evolution of the political and administrative systems in the country, and informal societal networks in the adaptation of the country to the exigencies of globalization. By focusing on the workings of the informal societal networks, the thesis specifically illustrates how the process of agenda formation helps to keep policy-makers constantly in touch with both societal demands and those external pressures affecting the domestic governance of the country. The study argues that notwithstanding the centralized political and administrative system in place in the county, informal societal networks have been instrumental in providing flexibility to the country's policy-making process to take speedy and effective action in the country's overall response to globalization.

The thesis claims that, although the workings of informal societal networks may have the hallmarks of weak governance when examined through the lens of conventional good governance models, given the critical role they play in the domestic governance of the Maldives, it will be useful to strengthen these networks by democratizing their functioning rather than seeking to replace them with formal institutions designed to strengthen governance. The findings of the study suggest that efforts to replace these networks by formalizing the policy-making process may, in fact, reduce the already limited capacity of the Maldives to adapt to the challenges posed by globalization.

LIST OF ABBREVIATIONS

ACOPSR	Advisory Committee on Public Sector Reform
ADB	Asian Development Bank
ADCs	Atoll Development Committees
CCRF	Code of Conduct for Responsible Fisheries
CDI	Centre for Development of Industry
CDP	Committee for Development Policy
CGOM	Coast Guard of the Maldives
CPE	Comparative Political Economy
CS	Competition State
CTA	Crescent Tourist Agency
DSMs	Developmental State Models
EAC	Employment Affairs Committee
EC	European Community
ED	Executive Director
EEZ	Exclusive Economic Zone
EPF	Employment Provident Fund
EU	European Union
FADs	Fish Aggregating Devices
FAO	Food and Agriculture Organization
FJTFCA	Federation of Japan Tuna Fisheries Co-operative Associations
FTMP	First Tourism Master Plan
GATT	General Agreement on Tariffs and Trade
GDP	Gross National Product
GNI	Gross National Income
GOM	Government of the Maldives
GSP	Generalized System of Preference
HACCP	Hazard Analysis Critical Control Point
HOE	Head of the Executive
HOG	Head of Government
HOS	Head of State
IDCs	Island Development Committees
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IOTC	Indian Ocean Tuna Commission
IPE	International Political Economy
IR	International Relations
IS	International Socialization
ISNs	Informal Societal Networks
ISO	International Organization for Standardization
ISP	Internet Service Provider

LDCs	Least Developed Countries
MAA	Ministry of Atolls Administration
MATI	Maldives Association for Tourism Industries
MD	Managing Director
MFLC	Maldives Finance Leasing Company Ltd.
MIAAC	Ministry of Information, Arts and Culture
MIFCO	Maldives Industrial Fisheries Company Ltd.
MMA	Maldives Monetary Authority
MNC	Maldives Nippon Corporation
MNCCI	Maldives National Chamber of Commerce and Industry
MNCs	Multi-national Companies
MOFAMR	Ministry of Fisheries, Agriculture and Marine Resources
MOFAT	Ministry of Finance and Treasury
MOH	Ministry of Health
MOT	Ministry of Tourism
MPD	Ministry of Planning and Development
MPE	Ministry of Planning and Environment
MPHRE	Ministry of Planning, Human Resources and Environment
MPND	Ministry of Planning and National Development
MPs	Members of Parliament
MRC	Marine Research Centre
MRS	Marine Research Section
MTPB	Maldives Tourism Promotion Board
NAFTA	North American Free Trade Agreement
NGOs	Non-governmental Organizations
NIDL	New International Division of Labour
NIEAC	Newly Industrialized East Asian Countries
NOPAR	National Office for Personnel Management and Administrative Reform
NOSGO	Network of Senior Government Officials
NPM	New Public Management
OECD	Organization for Economic Co-operation and Development
PO	The President's Office
PSD	Public Service Division
PSIP	Public Sector Investment Program
SISs	Small Island States
SOEs	State Owned Enterprises
STELCO	State Electric Company Ltd.
STO	State Trading Organization
TAC	Total Allowable Catch
UN	United Nations
UNCLOS III	United Nations Convention on the Law of the Sea

UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNITAR	United Nations Institute for Training and Research
US	United States
VPAR	Vulnerability and Poverty Assessment Report
VTC	Vocational Training Centre
WB	World Bank
WDCs	Ward Development Committees
WTO	World Trade Organization
WTO*	World Tourism Organization

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PART ONE

CHAPTER ONE: INTRODUCTION AND CONCEPTUAL FRAMEWORK

1.0 RESEARCH PROBLEM

Over the past three decades debates in the fields of international politics, public administration, economics, and sociology have stressed the linkages between economic development and international political economy. The arguments and counter arguments in the murky waters of globalization and governance talk about the cardinal changes that globalization has brought to the Nation-State. While there is an exponential growth in the literature on how such forces are challenging the State, the literature is less clear on how Nation-States are addressing the dual challenge of balancing their distinct identities and the necessary accommodation with the global economic forces in order to improve the material well being of their citizens.

Literatures in the fields of International Political Economy (IPE) and Comparative Political Economy (CPE) have stressed that it is necessary for the Nation-State to change its orientation towards the market to cater to the demands of economic globalization. At the same time literature on the paths to socio-economic development, especially that originating from large donors, stresses the need for countries to adopt "good governance" as the pathway to economic prosperity.

Those studies that have dealt with this nexus between globalization, governance and economic development have, thus far, been analyzed in the context of large developing and developed countries. There is very limited literature on ways in which small island states (SISs) interpret and react to the challenges posed by economic globalization. This thesis attempts to contribute towards remedying this vacuum in the literature by examining the governance responses of the Maldives in the face of increased integration of its economy with the globalizing world. This chapter has two major objectives. It will first examine the research problem of the thesis by situating the major research interests

of this project within the literature. Secondly, the chapter will locate SISs and the Maldives in the theoretical and empirical context laid out in the thesis.

The reconfiguration of global forces is claimed to be making the task of State adaptation in the face of expanding globalization increasingly challenging. It is often claimed that the integrated global economy, transnational companies, international organizations, global norms and global civil society (the so-called forces from above) and non-state domestic actors, including civil society organizations, new forms of collaboration between the State and the private sector and new alliances between sub-national level entities and global players (the so-called forces from below) are undermining the traditional roles of the State in multiple ways. It is argued, especially by globalists, that these forces from above and below have led to an erosion of the role of the State with regards to taxation, public spending for income redistribution and macro-economic policy, in general (Wolf, 2001:185).

The expanding process of economic globalization is claimed to have increased the mobility of capital, leading to an increase in the bargaining power of firms vis-à-vis immobile States, citizens, and factors of production, especially labour (Walters, 1998:288). The increased structural power of capital (Strange, 1996:25-27), the argument goes, has led to the evaporation of the State's regulatory constraints on capital. Given the perceived importance of quality of public goods such as property rights and an honest, lean and efficient public service to take advantage of opportunities offered by this evolving international economic integration, it has been argued that the domestic policy environment will be skewed away from the needs of the host State towards the interests and preferences of mobile firms (Walters, 1998:288). This movement towards market-enhancement at the level of the domestic policy environment is also claimed to be deconstructing the welfare state in Western countries. According to some, these broader trends are leading to the so-called "race to the regulatory bottom" in which States compete to reduce levels of social protection and regulation in order to attract investment (Barkin, 2001:46).

In the face of the foregoing challenges to the Nation-State arising from the interconnected global economy, civil society is seen by many as providing a substitute for the organized public institutions of the State. Civil society has been portrayed as a solution to the social and political well being of the public (Evans, 1997:79). Dominant perspectives on civil society, based on the Tocquevillean view of the concept, treat civil society as completely separate from the "State" in domestic politics. Fierlbeck (1998:156) observes that in recent times civil society has been used to refer "not only to that which is not the State, but also to that which is not part of the economy- the so-called 'third realm' ", which is differentiated from the economy and the State. Much of the recent literature on civil society treats civil society in term of zero-sum relations between the non-robustness of State institutions and the vibrancy of civil society. From the perspective of the State, Non-Governmental Organizations (NGOs) and other types of non-state actors are seen as not only reducing the independence of policy management by the State, but also decreasing the policy instruments that enable the State to control activities within and beyond its borders (Held, 1991:146). The expanding influence from supra national actors and sub-national actors and forces has led Cox (1993:260) to claim that contemporary States have become mere "transmission belts from the global to the national economic spheres".

While the debates on the role of the State in an increasingly interconnected world have been raging since the late 1970's, discussions on the role of the State in economic development have gained a renewed interest since the late 1980s. Post war faith in the modernization theories of development receded in the early 1970's, largely due to their failure to explain the slow economic growth in Latin America, the Middle East and most of all, in Africa. The theories were also unable to explain the unequal and distorted forms of growth that did occur in those few countries that managed to pull out of poverty. Between the 1970s and late 1980s the dependency theories[1] won supporters, especially amongst developing countries. But the attraction of these theories faded because of their inability to account for the phenomenal economic success of the East Asian Tigers.[2]

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[1] Here dependency theories are used in generic terms. There is no unified body of thought that can be called dependency theories. There is as much heated debate amongst the various models of the dependency school as with that of its rivals, the modernization theorists.

[2] This usually refers to South Korea, Singapore, Taiwan and Hong Kong.

These States were able to prosper in spite of the presence of many of the structural impediments that dependency theories professed to be working against their economic growth.

Developmental State Models (DSMs) attempted to explain the economic success of the East Asian countries. The neo-liberal variant of DSMs claimed that "letting markets do their job" (limited government intervention in the allocation of economic resources) was the primary reason for the success of the East Asian countries (WB, 1993:10). Although the degree of this meddling in the markets continues to be debated, it is widely accepted that the East Asian miracle was partly a "state managed" success. Even after the major criticisms levelled against the DSMs in the wake of their economic crisis that began in 1997, studies on East Asian countries continue to reveal innovative ways through which the governments in these countries manage their economies (Woo-Cumings, 1999).

In the post-Cold War era, a new development orthodoxy (Moore, 1993:1) based on "governance" has emerged. With its claim of universality, governance has been embraced by the majority of players and stakeholders in the development and donor community as a new paradigm for socio-economic development. Western powers, with newly gained confidence from "winning" the Cold War, along with Bretton Woods institutions of the World Bank (WB) and International Monetary Fund (IMF) began to define what they considered to be the pre-requisites for socio-economic development. Initially incubated in the WB, this body of literature on economic development suggests that there is a strong correlation between governance, or more specifically a particular conceptualization of "good governance", and socio-economic development.

Compared to the structuralist orientation of earlier development theories such as the dependency school, those advocating good governance give the impression that socio-economic development can be achieved through institutional and procedural changes to the political and administrative systems of countries via technical policies which are largely divorced from the underlying political realities on the ground (Leftwich, 1994:371-373). In contrast to both dependency theories, which direct attention to the

critical role played by international factors in determining development prospects of countries, and the DSM's emphasis on state-society linkages and external factors such as access to major markets in the developed countries, the advocates of good governance downplay the global-domestic nexus. According to the latter, factors such as a country's position in the international political economy and access to export markets are peripheral for economic development compared to the existence of a well functioning market system with supportive domestic institutions, albeit based on liberal economic and political thought.

In the face of this dual challenge of addressing the pressures from economic globalization and devising an effective model for socio-economic development, Higgot (1999:31) does not share the Coxian deterministic path, mentioned above, and proposes that in the face of the former challenge the nation-state is in a "process of adaptation" rather than decline.

In this process of State adaptation, Weiss (1999:65) claims that domestic policy choices are to a large extent shaped by the domestic regime characteristics, rather than being imposed on them. Cerny (1999:156) concludes that economic globalization has initiated a movement towards the creation of the "competition state" (CS). According to him the CS is characterized by marketization and commodification of economic and social activities to create greater national competitiveness.

Another strategy frequently adopted by States to cope with the pressures arising from globalization focuses on their efforts to build or strengthen power alliances. At the supra national level this includes building inter-state coalitions with regional and international players. At the sub-national level these alliances include State-business and State-civil society coalitions (Weiss, 1997:24). Expanding Area studies, especially those on the East Asian economic success, have maintained that effective participation in global market is best achieved through extensive, yet selective State involvement in the planning and management of their national economies (Evans, 1997:446). Those few studies that have contributed to this debate on the relationship between globalization, governance and socio-economic development in SISs, have identified the development of offshore capital

markets[3] as one strategy adopted by countries such as Barbados and Mauritius in adapting to economic globalization. Other SISs, such as the Bahamas, Cyprus and Malta, have resorted to the development of the tourism industry as a strategy to take advantage of expanding globalization and as a pivotal part of their development policy.

It is with this background that this thesis sets out to examine the theoretical and practical implications of utilizing "governance" as a crucial development paradigm in the context of SISs, specifically in the Maldives. The thesis asks: Are their any political, societal, cultural or historical factors that allow countries to be more flexible and adaptable to the changing global circumstances? On a more theoretical level the thesis asks, how far is it possible to bring together concepts and components of the modes of governance in SISs, such as the Maldives, to formulate a more inclusive model of governance? This is an ambitious agenda, but it is hoped that the rich experience of the Maldives will do justice to many of these issues.

1.0.1 Research questions

The thesis attempts to explore, examine and evaluate the following broad research questions in the context of SISs:

1) How useful is the current conceptualization of governance as an effective policy response in addressing the development challenges posed by economic globalization?

2) How compatible are the following propositions: that good governance is a pre-requisite for socio-economic development; and that good governance is an effective policy tool in adapting to the demands of economic globalization?

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[3] In these arrangements countries brings in offshore legislation in which the State offers trans-border investors special tax reductions, regulation waivers, subsidies and rebates, secrecy guarantees and other inducements to locate their capitalist activity within its jurisdictions (Scholte, 1997:446).

3) What is the significance of the roles played by informal societal relationships and networks in governance as part of the overall State's response to economic globalization?

Largely drawing on the problems associated with the assumed linkage between governance and formal and neutral institutions, especially in the context of SISs, it is maintained in this thesis that the current conceptualization of governance in the dominant development theories is an inadequate tool to explain the complexities generated between global forces and socio-economic development. Effectiveness of formal institutions, separation of powers, and independent checks and balances can be better guaranteed if they are not incongruent with the value systems of the society. The interpersonal relationships and tight social networks found in SISs may not always be harmonious with the meticulously drawn charts for lines of accountability and responsibility. Moreover, these informal societal relationships and informal networks in certain circumstances may, in fact, serve to speed up decision-making, and the State's adaptation to the pressures of globalization, especially in elite dominated societies, where the continued relevance and legitimacy of the elites is closely linked to the expanding economic prosperity of the majority of the people.

This thesis maintains that there is a strong relationship between modes of governance and the historical circumstances surrounding the process of state building and nation building. Though factors such as the passage of time, level of education, and increase in general awareness in society will influence the durability of these historical "determinants" of governance, these forces have the effect of filtering both challenges posed by forces of globalization on the State and the preferred responses of the State. It is argued in the thesis that adoption of many of the policies proposed by International Financial Institutions (IFIs) and multilateral development agencies to improve governance would, in fact, reduce the capacity of the Maldives to effectively and rapidly respond to the demands placed on the country by the forces of globalization.

1.1 CONCEPTUAL FRAMEWORK

This study draws primarily on CPE approaches to examine the nexus between globalization, governance and economic development within the context of the Maldives. Like all political economy approaches, CPE rests on "the conviction that economic and political development cannot be fruitfully examined in isolation from each other" (Pontusson, 1995:120). But the various approaches of CPE go further than the political economy approach and seek to account for variations in national developmental paths by focusing broadly on the interplay of three phenomena: classes, states, and the global political economy (Smith, 1993:351). Fanning out of these three phenomena, later models of CPE have focused on the role of institutions, such as central banks, (Jayasuriya, 1994) in the definition and articulation of interests, the dissemination of ideas, the construction of market behaviour, and the determination of policy (Hall, 1986:57). The key question that CPE approaches ask is: how do States respond to international economic pressures and demands, and what factors explain their responses (Gourevitch, 1986)?

The use of this approach to analyse the research agenda laid out for this thesis is particularly important in the current era where nation-states are faced with novel challenges from the global arena. In an era in which traditional responses, including striving for comparative advantage, is proving to be futile, CPE presents a useful approach to analyze the relationships between multiple national and global actors, stakeholders and institutions. The adoption of CPE approach by the thesis is expected to provide avenues for examining the influences of multi-faceted and multi-layered actors, institutions and forces (both formal and informal) impacting on the socio-economic development of SISs.

Other approaches drawn from International Relations (IR) and IPE, in contrast to CPE, are not particularly keen on cross-sectional linkages that often seem to determine how strongly, and in what way, the effects of political structure actually manifest themselves. IPE has paid more attention to the link between political and economic structure, but its

variant approaches are accused of "sectional narrowness" due to their commitment to keeping separate the political and economic spheres (Buzan & Little, 2001:31).

To analyze and discuss the research questions posed above, this thesis uses an in depth single case study of the Maldives. The case study method was chosen for this thesis because it has the strength of incorporating multiple sets of information, including current and historical documents and subjective and interpretive data such as interviews. The unique political and development history of Maldives is also expected to generate rich and interesting perspectives on the issues that will be dealt in the thesis.

1.2 SISs: DEFINITION AND CHARACTERISTICS

As a group to which Maldives belongs, SISs is a contested research subject. For the purposes of this thesis a SIS is defined as an independent country that has a population equal to or less than one and a half million people and is surrounded by sea. Table 1.1 provides a list of countries that reflect this criterion. Like many studies of small and islands the one-dimensional categorization of the countries is adopted purely for the purpose of simplicity, given that the table is utilized in the thesis only for illustrative purposes. The cut off population of one and a half million people is adopted because inclusion of island states that have larger populations than that is likely to distort the comparison drawn between the Maldives and other SISs.

SISs as a group share several common features and characteristics. On the economic front they have a narrow resource base. For instance, as seen from Table 1.1, more than one fourth of the countries listed in the table have a population of less than a quarter of a million people. As a result these countries have very small working populations. According to Table 1.2, [4] with the exception of Cyprus, most countries trade with only a handful of countries, including Australia, France, Japan, New Zealand, the United

[4] The criterion used for selecting countries for inclusion in this Table was to pick the first two countries in each of the four regions included in the list in Table 1.1. If data was not available for any country chosen using this criteria the next country on the list was chosen.

Kingdom, and the United States. In other words, SISs have very limited markets. Their economic activities are highly specialized and mostly include agriculture, mining, tourism and offshore banking. Because of the small domestic market for the home products and services and increasing levels of imports demanded by the rising expectations of their citizenry, economies of SISs tend to have disproportionate levels of openness to the world market. As seen from Table 1.3 the import of goods and services as a percentage of Gross Domestic Product (GDP), which is conventionally used to measure the degree of openness of countries to global forces, has remained above fifty per cent in the late 1990s. This openness is defined by quantitative and qualitative imbalance between exports and imports. Many of these countries rely on a narrow range of primary products including minerals and petroleum (e.g. Nauru and Trinidad and Tobago) for their export earnings. They are importing a wide range of consumer and capital goods. Due to this high level of import of goods and services they are extremely vulnerable to external shocks and cyclical fluctuations in the world economy.

SISs also suffer from diseconomies of scale in production and investment. Many SISs' economies rely heavily on development assistance. As seen from Table 1.4, more than half of the Gross National Income (GNI) of the Federated States of Micronesia, in 2001, came from development assistance. Nearly a quarter of Solomon Island's GNI is covered by foreign aid. Between 12% and 17% of GNI of countries like Comoros, Kiribati, Tonga and Vanuatu is also derived from foreign aid. It should also be pointed out that dependency on development assistance has been progressively decreasing in countries such as Cape Verde and Fiji.

On the administrative front, there are complications in attempting to implement tasks in the SISs through a Weberian style hierarchical administration system with a clear separation of powers and neutral officials carrying out predefined tasks (Dommen & Hein, 1985:194). Unlike larger systems where the administrative and the professional roles tend to be separate and duties distributed to various officials, in smaller states senior officials tend to act in multifunctional roles. Furthermore, with smaller populations SISs tend to develop closely integrated societies containing a convoluted network of personal

relationships that may be useful for communication purposes, but create problems when anonymity is required in policy making and implementation. Furthermore, in SISs where virtually everybody knows everyone else of importance, people's attachment to political figures leads to situations where friendship, family loyalty and community pressure intrude into decision and implementation processes (Farrugia, 1993:222-223).

A system of doing business through informal networks is prevalent in SISs, where citizens prefer to go through informal personal connections to access services from the bureaucracy and to address grievances they have with the government. The enduring features of SISs, including face-to-face interaction, kinship and friendship, along with the growth of State welfare activities, has only deepened the utility of network systems (Pirotta, 1997:203).

SISs also have certain advantages. Long periods of evolution, in the case of some countries extending over hundreds of years, have given the governing institutions of some SISs a reservoir of experience in statecraft. On the diplomatic front they have nearly perfected the art of subtle diplomacy in terms of taking and modifying decisions. Warrington (1998:105) has even suggested that a microstate's "governing wits" may well compensate for the economic, demographic, cultural and political disadvantages that are associated with small scale.

Maldives is faced with many of these economic, political and administrative challenges. It suffers from the consequences of a narrow economic base and the cost of providing services to a geographically dispersed population. The economy is based mainly on two very fragile sectors. The tourism industry, which is the largest contributor to the GDP, is highly volatile. The industry is heavily dependent on the economic growth in the market generating countries and is sensitive to world political events such as wars. The expansion of the tourism industry is strongly linked to the inclusion of the Maldives in the brochures of major tour operators of the world. Similarly, the fisheries sector is highly seasonal and the market for its primary export--tuna--is extremely volatile. Moreover, due to the

Table 1.1

Small Island States with populations below one and a half million people

Region		Country	Population	Year
North America	1	Antigua & Barbuda	62,922	1991
	2	Bahamas	255,095	1990
	3	Barbados	257,082	1990
Africa	4	Cape Verde	341,481	1990
	5	Comoros	446,817	1991
	6	Sao Tome & Principe	116,998	1991
Asia	7	Cyprus	602,025	1992
	8	Dominica	71,794	1991
	9	Fed. States of Micronesia	105,506	1994
Oceania	10	Fiji	775,077	1996
	11	Grenada	85,123	1991
	12	Kiribati	77,658 *	1995
	13	Maldives	244,814	1995
	14	Malta	345,418	1985
	15	Marshall Islands	43,380	1988
	16	Mauritius	1,056,660	1990
	17	Nauru	9,919	1992
	18	New Calodonia	164,173	1989
	19	Palau	17,225	1995
	20	Saint Lucia	133,308	1991
	21	Seychelles	75,876	1997
	22	Saint Kitts and Nevis	40,618	1991
	23	Solomon Islands	285,176	1986
	24	Samoa	161,298	1991
	25	St. Vincent and Grenadines	106,499	1991
	26	Tonga	97,784	1996
	27	Trinidad and Tobago	1,169,572	1990
	28	Tuvalu	9,043	1991
	29	Vanuatu	142,944	1989

* provisional

Source: United Nations, (1999). Statistical Yearbook, Forty Sixth Issue.

Table 1.2
Trading partners of selected group of SISs (1997-2000)
(percentage calculated from the value of imports and exports
expressed in millions of US $)

Region	Country	Imports		Exports	
		Country	%	Country	%
North America	Bahamas	United States	91.00	United States	77.12
		Areas Not specified	2.83	France	20.90
		Canada	0.67	United Kingdom	2.09
		France	0.73	Canada	2.15
	Barbados	United States	41.55	Bunkers, ship stores	16.34
		Trinidad & Tobago	16.53	United States	15.79
		United Kingdom	15.80	United Kingdom	13.15
		Japan	5.19	Trinidad & Tobago	13.23
Africa	Cape Verde	Portugal	48.06	Portugal	78.89
		Netherlands	5.98	United States	11.92
		Japan	5.30	Spain	3.66
		France	4.67	Germany	1.83
	Comoros	South Africa	54.24	France	43.47
		France	19.47	United States	15.94
		Pakistan	6.81	Singapore	15.94
		Kenya	5.42	United Kingdom	8.69
Asia	Cyprus	United Kingdom	10.58	United Kingdom	16.67
		United States	10.37	Areas Not specified	11.54
		Italy	8.82	Greece	8.14
		Greece	8.58	Russian Federation	7.98
	Dominica	United States	37.47	United Kingdom	24.76
		Trinidad & Tobago	16.29	Jamaica	23.65
		United Kingdom	7.73	France	8.50
		Japan	6.31	Antigua & Barbuda	7.39
Oceania	Fiji	Australia	34.91	Australia	31.74
		New Zealand	17.16	United States	22.36
		Areas Not specified	10.10	United Kingdom	17.01
		United States	4.81	New Zealand	4.92
	Grenada	United States	41.79	Netherlands	19.83
		Trinidad & Tobago	21.36	United States	18.73
		United Kingdom	8.01	Germany	11.01
		Japan	5.44	St. Lucia	6.88

Note: The figures for Bahamas are for 1997, for Grenada, 1999, and for Barbados, Cape Verde, Comoros, Dominica and Fiji, 2000.
Source: United Nations, (2003). International Trade Statistics Yearbook.

Table 1.3

Import of goods and services as a percent of GDP

	Country	1992	1995	1998	2001
1	Barbados	46.24	56.25	56.07	52.49
2	Cape Verde	48.80	59.14	55.28	57.09
3	Comoros	39.67	44.57	34.58	29.00
4	Cyprus	60.64	49.91	51.10	n.a
5	Dominica	65.30	64.41	65.72	63.82
6	Fiji	54.53	59.01	64.72	n.a
7	Grenada	55.11	55.27	73.60	70.10
8	Maldives	n.a	76.91	75.85	75.77
9	Malta	98.99	107.48	93.20	92.29
10	Mauritius	64.66	63.56	66.74	62.83
11	Fed. States of Micronesia	93.19	79.15	54.98	n.a
12	New Caledonia	31.68	26.39	29.38	n.a
13	Seychelles	59.62	60.24	81.89	113.49
14	St. Kitts and Nevis	68.98	74.56	69.96	72.93
15	St. Lucia	76.55	69.31	68.51	61.21
16	St. Vincent and the Grenadines	68.35	66.12	78.48	62.31
17	Trinidad and Tobago	34.35	39.22	53.29	42.96
18	Vanuatu	56.96	53.58	n.a	n.a
	Average	56.85	61.40	57.74	47.57

Source: WB, (2003). World Development Indicators.

Table 1.4

Foreign development assistance as a percentage of GNI

	Country	1992	1995	1998	2001
1	Bahamas	0.10	0.14	0.57	n.a
2	Barbados	0.03	-0.04	0.68	-0.04
3	Cape Verde	30.17	24.16	24.35	13.08
4	Comoros	16.91	21.94	16.29	12.41
5	Cyprus	0.38	0.24	0.38	0.55
6	Dominica	6.99	11.90	7.90	8.47
7	Fiji	4.04	2.34	2.35	1.52
8	Grenada	5.35	4.13	1.90	3.10
9	Kiribati	43.14	21.21	19.35	17.55
10	Maldives	14.65	16.36	5.19	4.55
11	Malta	0.17	0.28	0.64	0.05
12	Mauritius	1.53	0.62	1.01	0.48
13	Fed. States of Micronesia	7.10	32.36	34.82	51.59
14	New Caledonia	12.26	12.44	9.98	n.a
15	Seychelles	4.53	2.64	4.17	2.42
16	Solomon Islands	17.69	14.89	14.39	22.24
17	St. Kitts and Nevis	4.74	1.79	2.58	3.43
18	St. Lucia	6.08	9.26	1.05	2.60
19	St. Vincent and the Grenadines	8.05	18.89	6.77	2.62
20	Tonga	16.61	24.96	15.09	14.41
21	Trinidad and Tobago	0.16	0.52	0.24	-0.02
22	Vanuatu	22.91	22.51	18.30	15.21

Source: WB, (2003). World Development Indicators.

absence of extractable natural resources, except for fish, Maldives imports virtually all food, consumer goods, machinery and fuels. While the Maldives shares with other SISs many of the same economic, administrative and political challenges, there are significant differences that make the case of the Maldives unique as well. Unlike many SISs, the political and administrative system in the Maldives is not the product of a colonial heritage. Instead its governance systems have evolved over many centuries, taking in aspects of other systems as the country has seen fit. Maldives is also endowed with socio-political stability characterized by a common bond of history, culture, language and religion. Similar to several SISs Maldives has a pristine natural environment along with a tropical climate that can be economically exploited in a sustainable manner (MPND, 2002:2-3).

While SISs as a research subject has not been completely neglected, regional and global conferences, meetings and studies undertaken on SISs have been skewed towards discussing their economic viability as nation states.[5] Islands included in many of the past studies on SISs have primarily been drawn from the Caribbean and South Pacific. This may be related to accessibility of data and information. Whatever the actual reason may be, continued academic linkages between some SISs and their metropolitan colonizers either through universities, academic foundations, or the residing of subjects of former colonial powers in these islands make the situation even more unbalanced. These linkages have provided a direct window of opportunity for selected SISs to put their developmental needs on development research agendas. This practice has disadvantaged SISs that are not located in the Caribbean and South Pacific regions and those that do not have the kind of academic links described above. Maldives is one country that does not fulfill either of these conditions. Given that Maldives is situated in the Indian Ocean and was never subjected to prolonged periods of colonialism it does not enjoy the privileged

[5] One of the earliest discussions on the economic development problems of SISs included issues that were raised in the 1940s when the South Pacific Commission was formed. The Lisbon Conference on "Economic Consequences of the Size of Nations" held in 1957, the two year seminar series held by the Institute of Commonwealth Studies, and the comprehensive study undertaken by UNITAR in 1971 under the title of "Small States and Territories" were major contributions of the early era. More recently, Chapter 17G of the Agenda 21 of the Rio Earth Summit of 1992 and the 1994 "United Nations Conference on the Sustainable Development of Island Developing States" have concentrated on various challenges facing small states and SISs.

position in academic circles enjoyed by the Caribbean or South Pacific SISs.[6] In light of the dependency relationship that continues to exist between most of the SISs and their former metropolitan powers this distance between major metropolitan powers and the Maldives can also be viewed as a blessing. Given the dearth of research on the governance of the Maldives and how it is adapting to the changing pressures of economic globalization, accumulation of country level empirical research on the Maldives that is well grounded in theory is expected to contribute importantly to the quest of developing a more encompassing theory of governance.

1.3 INTERNATIONAL POLITICAL ECONOMY AND SISs

The experience of the Maldives regarding globalization, governance and socio-economic development should be located within the broad contextual changes that have altered the pecking order of SISs in the global arena. With the end of the Cold War the strategic importance of SISs, like many developing countries in Asia, Africa and elsewhere, for the geo-political balance of power has diminished. This has led not only to dwindling development assistance to SISs, but to an increase in the conditions attached to how the limited aid money is to be allocated. Nearly 70% of the countries listed in Table 1.3 had their aid per capita reduced over the period 1992-2001. The prioritization of target areas by the recipient SISs may not coincide with the areas decided by the donors. This has restricted the options for developmental policies that SISs can pursue.

Another developmental implication arising from IPE is related to regionalisms. As part of their response to globalization countries around the world are entering into regional arrangements. With this increased regionalism amongst the larger metropolitan states there is a "peripheralization" of small states by former colonial countries. These arrangements include the North American Free Trade Agreement (NAFTA) and the European Union (EU) and many smaller clubs. Most microstates in these regions are

[6] Although recently interest in the Maldives has been growing with reference to Indian Ocean Security and the environmental debates on rising sea level and global warming.

situated on the periphery of these emerging trading areas and are so far not incorporated into them (Warrington, 1998:102).

Like many of their counterparts in the developing world, the majority of SISs often rely on markets awarded to them on preferential terms by large countries, and more often by their former colonial powers, for the exports of manufactured and agricultural goods. In the Caribbean, colonial conscience, which hitherto maintained the flow of development assistance and market access to the European Community (EU) for countries of that region, is fast disappearing, partially due to the expansion of the membership of the EC. At a broader level, the World Trade Organization (WTO), as part of its efforts to expand free trade, is less willing to accept colonial and historical justifications for the continued intervention by metropolitan states in free trade with their former colonies (Sanders, 1997:363). More importantly, the idea of privileged access to metropolitan markets and development assistance is losing favour within the domestic publics of the former colonial powers as well. The gradual elevation of neo-liberally oriented institutions such as the WTO and the WB to the position of virtually defining straightjacket policies on global economic development has been accompanied by a weakening of key international institutions such as the United Nations (UN) and the role they play in global affairs, particularly as guardians of the interests of small states. As a consequence small states are marginalized in international forums along with the issues that most concern them (Ross, 1997).

In spite of these economic, political, administrative and geopolitical odds stacked against SISs, globalization has also opened new opportunities for these States. Some of them have been able to tap into the New International Division of Labour (NIDL). Under the NIDL transnational companies seek to minimize costs and maximize returns by seeking optimal locations globally for each of the different processes involved in their manufacturing of goods and services. Countries that offer cheap labour, for example, may be well positioned as locations for those aspects of the process that require heavy labour inputs (Royle, 2001:181). Due to the limited prospects for large-scale manufacturing, many SISs, such as Mauritius, Seychelles, Marshall Islands, Micronesia and Vanuatu

(Palan, 2002), have opted for high valued added services such as offshore banking (including insurance services) and the creation of tax havens for offshore business. Like other SISs, Maldives has been experimenting with different policies to confront the challenges arising from globalization and to create a niche in the global economy. But before the restructuring of the major economic sectors to cater to globalization is discussed, it is important to review the contextual factors that affect the governance framework in the Maldives.

1.4 OVERVIEW OF THE CONTEXTUAL DIMENSIONS AFFECTING GOVERNANCE AND DEVELOPMENT IN THE MALDIVES

Since its independence in 1965 governance in the Maldives has undergone changes which have, at times, taken a more domestic twist and, in other times, have been shaped more by global forces. Domestically, geography, long periods of isolation from the rest of the world, political history, culture and religion, and limited natural resources are some of the prominent factors that have carved deep grooves in the country's governance. Globally, international production standards, the role of global finance, and access to global markets have affected domestic governance in the Maldives in multiple ways. These are not independent forces. Nor are their contingent impacts always congruent with each other.

1.4.1 Geography and population

Geographically, the Maldives forms part of the 1,600 kilometre long chain of islands of the Laccadives-Chagos submarine ridge extending into the central Indian Ocean. Maldives archipelago comprises 1190 coral islands. Maldives lies in a north-south chain, 820 kilometres long and 130 kilometres wide. These islands form twenty-six natural atolls. The islands are small, averaging sixteen hectares. Only thirty-three (2.7%) islands have a land area in excess of one square kilometre. Three islands have a land area greater than three square kilometres. While all islands are low lying, none have an elevation

above sea level in excess of three metres. For administrative purposes the islands are grouped into twenty administrative units called Atolls. According to the year 2000 census the population of the Maldives was 270,101 of which 137,200 are males (representing 51%) and 132,901 are females (representing 49%). Of the total population, 74,069 people live in Malé, the capital, and the remaining 196,032 people are spread around the 199 inhabited islands. The 2000 census also revealed that more than half of the population of Maldives is younger than twenty years (MPND, 2002). See Figure 1.1 for a map of the Maldives.

1.4.2 Political history and governance framework

The earliest history of the Maldives is lost in complete obscurity. Excavations of various historical sites of the Maldives point to the existence of a thriving group of people living under a strong form of governance as early as 1200 BC (Heyerdahl, 1986). History records that Maldives was well within the trade route that passed through the Indian Ocean as early as the 5th century BC.[7] Due to its geographical location, Chinese, Arab, Portuguese and Dutch, not to mention British, traders passed through Maldives on route to the Indian subcontinent. This has shaped not only the religious beliefs of its inhabitants[8] but also their attitudes towards politics and administration. In spite of these external influences Maldives has remained an independent country throughout its recorded history. Between 1558 and 1573 the Portuguese briefly occupied the northern islands and Malé. Before and since the Portuguese, no alien political power has held complete sway over the Maldives archipelago (Phadnis & Luithui, 1985:17). Despite these western colonial influences from the 16th century onwards, the Maldivian political system underwent only incremental change. But with the rapid increase of competition between European powers to gain a foothold in the Indian Ocean during the 19th century, the Maldivians became wary of the motives of foreign powers.

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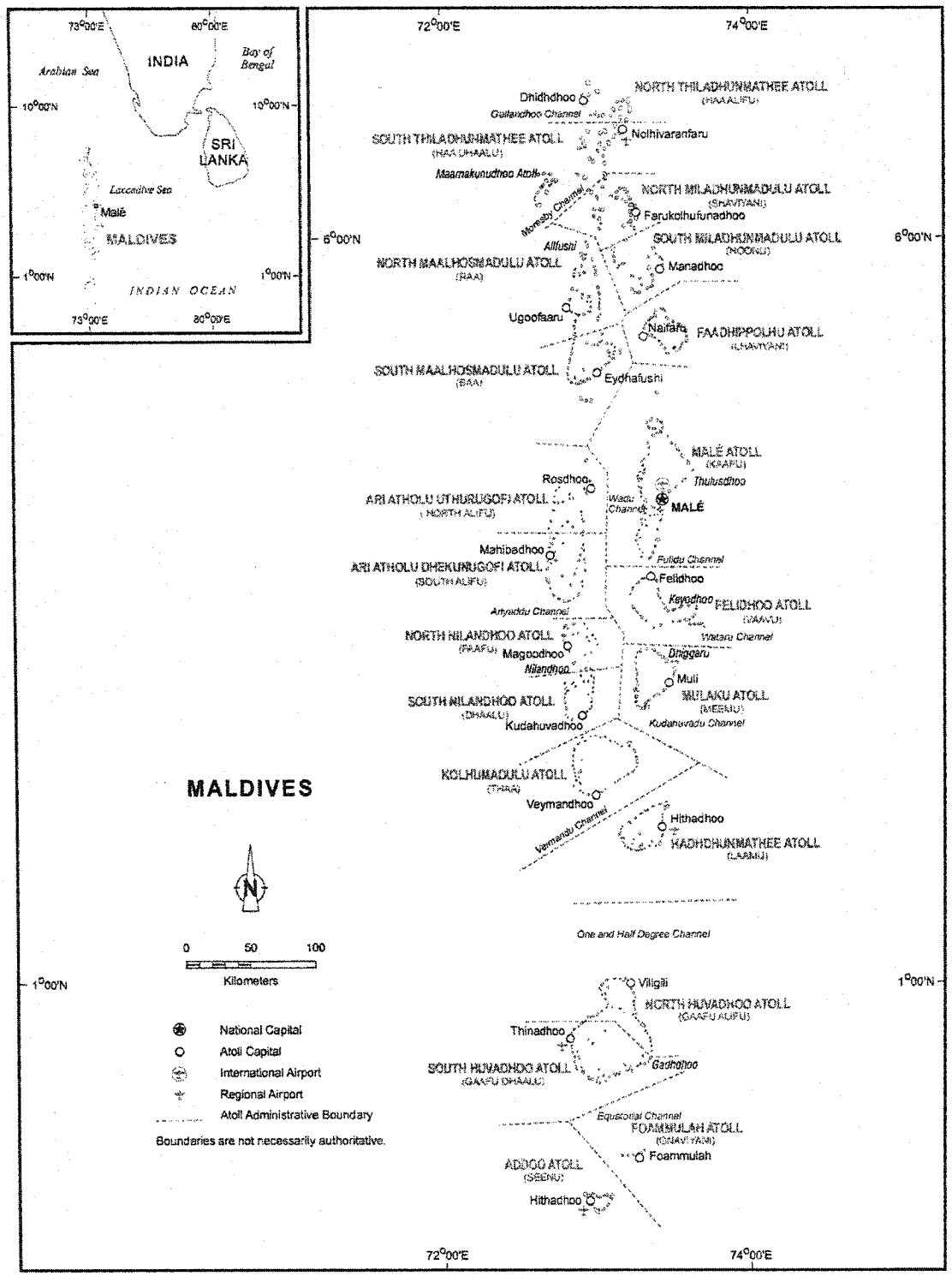
[7] See accounts of Marcellinus, F'ah Hian, Cosmas and Suleiman on the Maldives in Gray (1887:427-8).
[8] It was an Arab saint named Abu al-Barakat Yusuf al-Barabari who converted Maldives to Islam. For a critical analysis of the dominant version of the conversion of Maldives to Islam, See Rizwan (2000).

Figure 1.1



Source: ADB, (2002). Country Economic Review: Maldives

In 1887 Maldives signed a protectorate agreement with Britain.[9] This was the beginning of a period of what one commentator called "hibernation from the rest of the world."[10] The protectorate status lasted until 1965 when the country became fully independent. Even during this period, however, there were no British representatives in the Maldives, prompting many historians and commentators to claim that there was no interference by the British in the self-government of the country.[11] Although Maldives did not fight a war of independence against the British, the latter were hesitant to give up their influence, especially in the midst of the Cold War. Memories of the experience of the hard negotiations with the British to sever the protectorate status and gain full independence have had a lasting impression on modes of development and governance. At least, in the early years since independence, the government has pursued a self-financing policy regarding its national development.

The snail-paced evolution of the political system in the Maldives has left behind useful footprints that can help to unravel the complexity of its political governance. Upon conversion to Islam in 1153 the then monarchy of the Maldives became a Sultanate. This hereditary monarchy became a constitutional monarchy in 1932 with the adoption of a written Constitution[12] that paved way for a Majlis (Parliament) and Cabinet of ministers (Maloney, 1976). The first constitution of the Maldives, however, did not bring drastic changes to the day-to-day workings of the Sultanate mode of governance.

Similar gradualness can be observed with regard to the country's adoption of a republican system of government. Upon a majority of "Yes" votes in a referendum, the first Republic

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[9] According to one historical interpretation, the roots of this agreement lay in the aftermath of Portuguese naval incursions into the Maldives. As part of the agreement to end the hostilities the Sultan of Maldives agreed to pay annual tribute to the Portuguese crown. When the Dutch replaced the Portuguese as the hegemon in the Indian Ocean tributes were paid to the Dutch. Eventually when the British took possession of Ceylon in 1795-96 the British extended their protection to the Maldives as well. This agreement formalized a hitherto non-written understanding that was in place for centuries (Anonymous, 2001:744). Also see Blaze (1937:607-610).

[10] Anonymous interview with a senior politician from the Maldives, 30 June 2002.

[11] The level of involvement of the Britain in the secessionist movement in the southern atolls during the early 1950's to late 1960's is still being contested.

[12] The written constitution was conceived in the wake of a very unstable political situation in the Maldives. The aged and weak Sultan found it difficult to control his energetic prime minister (Phadnis & Luithui, 1985:20).

was promulgated on 1st of January 1953. The Republic was not the outcome of the initiative of the people. Rather it was the brainchild of a charismatic Prime Minister who refused to take the helm of power as a Sultanate (Luthfee, 1998:16-17). One year after becoming a Republic, and with much political upheaval, Maldives reverted back to a Monarchy. The current Republic was proclaimed in 1968. A President, who is elected every five years by the people by a plebiscite, heads the government in the Maldives. The Citizens Majlis (the Parliament) consists of two members from each of the twenty atolls, two members from the capital, Malé, and eight members appointed by the President. The Parliament is also elected every five years. There are no political parties[13] and candidates stand for Parliament as independents. The limited role in the Maldives' political system for open discussions and for political participation, accompanied by the plebiscite to elect the Head of the Government (HOG), breeds a culture which emphasizes personal charisma and family background.

Constitutional reform has been a preferred instrument to address governance issues in the Maldives. There have been three major revisions to the constitution since its first adoption in 1968. The most recent changes were completed in 1998. These amendments were related to the realization amongst the newly educated elite of the country of the vulnerabilities associated with a highly centralized system of administration in the face of rapid economic development. The stresses on the political system were interpreted by these elites as requiring the strengthening of the Parliament to bring long-term national stability. Constitutional reforms were seen as vital to clearly define the powers of the government and the relations between the State and the citizens (Anonymous, 1983:201-202). The revised constitution expanded the rights of people with the introduction of formal, multi-candidate contests for the legislature's nomination for the Presidency, introduction of parliamentary immunity, and provisions for Members of Parliament (MPs) to question ministers and government officials. Neutral bodies such as the Commissioner of Elections and the Office of the Auditor General were constitutionalized. To increase government and bureaucratic accountability ministers were afforded greater

[13] An application to register a political party in the Maldives was rejected by the Citizen's Majlis in 2001 (Zahir, 2001).

powers, public officers were made more accountable, and judges and magistrates were obliged to take special oaths of loyalty. The revised constitution was, however, silent on the crucial issue of clear separation of powers between the arms of the State. While it called for separation of powers between the Executive, Legislature, and Judiciary it has few safe guards to prevent the continued dominance of the Executive over other arms of the State.[14] The entrenched traditional power blocs in the Maldivian society seem to have acted strongly against those who wanted to create a more open society based on the separation of powers. The influence of these traditional power blocs and their underlying tradition-based institutions was acknowledged by the President, when he declared that Maldivian institutions for democracy and stability should be built on the concepts of Islam and the underlying ideas of the various age-old Maldivian institutions (Anonymous, 1982:1981).

The preceding paragraphs clearly show that the evolution of the political system has influenced the broader parameters of governance in the Maldives. There exists a parallel system of governance that thrives on tradition and informal mechanisms that act as the "reserve mode". In sum then, in spite of constitutional amendments and selective creation of governing institutions, the strongly hierarchical nature of the political and administrative system that existed during the Sultanate era has endured, albeit with moderation and without the uniforms and customs of the era.

1.4.3 Society, culture and political economy

Whitehead (1997:51-52) describes the uniformity of Maldivian culture as residue of "undisturbed fermentation for several centuries". Maldives shares a common culture, language, history and religion. According to one observer of Maldivian politics, the homogeneity of the forgoing have, over time, produced a rigidly structured society. Some

[14] For instance even after the constitutional amendments, institutions for administering Justice are regarded as not dissimilar from any other government office. The Chief Justice is also the administrative head of the Office of Supreme Council for Islamic Affairs, making it hard to distinguish between the two roles he plays.

of the major strategies employed in the past to maintain the clear demarcation of structure in the society were the enforcement of the rigid social systems[15] and limitations placed on opportunities for higher education. Until the late 1950's secondary education and above were principally the prerogatives of the oligarchs who sent their children to Ceylon for schooling (Reynolds, 1975:41). This was a process of grooming nobles for leadership. With very limited access to education the populace had little awareness of their rights and how to demand those rights. Consequently, the governance of the country was very simple.

The privileged access to education for the elites and oligarchs was accompanied by a perpetual income from their access to uninhabited islands at cheap rents. The Sultan and later, under the Republican system, the government rented uninhabited islands of the archipelago to prominent politicians, politically influential persons and senior public servants (Maloney, 1976:662). Leasing of the uninhabited islands is an important part of the political economy in the Maldives.

This rigid social structure and the accompanying political economy have undergone major changes over the past four decades. First, several of the oligarchs who returned after education in the 1950s and 1960s inspired a generation of youth who valued a sense of fair play and justice in the way the country was run. This "renaissance" of the traditional elite, along with rapid economic development in the later decades of the last century, not only led to the gradual fading away of the rigidities of the social class structure but also to the emergence of new forms of wealth creation. A new, flexible and non-hereditary elite began to take root. The introduction of English medium education in the country in 1961, accompanied by the access to higher education through merit-based

[15] Historically the social order in the Maldives was roughly divided into four major layers based on social importance. The Sultan was at the apex of the pyramid. He was followed by his direct descendents who were called "Mannippulhu". The second layer was "Kilegefaanu" and the "Thakurufaanu" or Great Lords. These are people who had acquired these titles either by virtue of services to the country, wealth or court-favour. This layer included the Officers of the Sultan and those persons on whom, in return for paying a sum to the State treasury, the Sultan had conferred the titles. The third layer consists of aristocracy. When for instance a "Maniku" man received a title of honour, he was called "Manikfaanu". At the bottom were the common people called Kalo to be followed by slaves (Phadnis & Luithui, 1985:12).

selection for scholarships, gave children from non-elite families the opportunities to get higher education from abroad.

Secondly, the gradual expansion of direct government involvement in the socio-economic development activities of the country and the subsequent increase in the public sector positions in the 1960s meant that higher positions of the public service could not be filled from within traditional elites. More people from non-elite backgrounds with specialized training and education gradually climbed the bureaucratic ladder to join the traditional elites. Thirdly, tourism, fishing, and shipping and inter island transport overtook the traditional dependence on leased islands as a form of wealth creation. The evacuation of the British Royal Air Force from their Base in Gan Island in 1975 led to an influx to Malé of entrepreneurs from the southern atolls that had been exposed to values of a capitalist, open market system under the British and took advantage of the economic inactiveness of the traditional elites in Malé. The influx of southern entrepreneurs initially benefited the land owning elites in the capital because it increased the latter's income from rent of housing plots to the newly arrived southerners. The monopolization of retail-trade in Malé by the southerners, however, over time reduced the relative influence of the land owning elites in Malé.

While the status of traditional elites in Malé was based on blood and family entitlements that flowed from the Sultanate era, social status in the atolls was mainly based on wealth. Given the limited economic activities in the islands, with fishing being the most important occupation, ownership of fishing vessels (*masdhoni*) was the basis of wealth creation. Mechanization of *masdhonis* and the leasing of such vessels by the government on a long-term payment basis gave more people the opportunity to own these vessels. This has disrupted the social standing and political clout of traditional owners of *masdhonis.*

These developments in Malé and in the atolls indicate that the social system in the Maldives is evolving from a highly feudal arrangement to one with a modern middle class that is more technocratic and entrepreneurial in orientation. The new elite draws its members from a wide cross section of the society and gives less allegiance to their blood

base. There is evidence of the emergence of a state-elite embeddedness that is highly integrative. As shown in more detail in the case studies of tourism, fisheries and the public sector discussed in Chapter Three, Four and Five respectively, this state-elite embeddedness proved useful in formulating and implementing polices with the required rapidity, in the face of global demands.

1.4.4 Knocking on the doors of the global economy

Before independence, the Maldives had a fishery-based, single product economy that was dependent on a single market for exports.[16] In 1972 due to a shortage of foreign exchange the then socialist government of Sri Lanka began to phase out the purchase of Maldive Fish. The embargo forced the Maldives to diversify its economy and to undertake painful structural transformation of the fisheries sector, including a switch from the production of Maldive Fish to "wet fish". In response to the Maldivian government's opening of the fisheries to foreign parties to purchase and export fish foreign firms began variously purchasing, canning and exporting principally skipjack-tuna. The switch from Maldive Fish to wet fish proved to be an expensive change, especially after the departure of the foreign companies operating in the fisheries sector. The concentration on wet fish required heavy investment in upgrading the only tuna canning plant in the country, purchasing collector and freezing vessels, and building fish freezing facilities. Unlike the Maldive Fish, which was processed in a home-based cottage industry for a single market, which had at best a relaxed stand on quality, the wet fish processing involves maintaining high levels of quality and following international protocols and standards. The switch from dry fish to wet fish also quickly led to the mechanization of the local fishing fleet, introduction of more efficient harvesting methods, including the use of Fish Aggregating Devices (FAD). These developments gradually hastened the speed with which the Maldivian fisheries sector established links with the global fishery markets.

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[16] In 1964 fish and fish products comprised more than 98.8 % of the total value of export of the Maldives. Almost all the fish during these years were processed as Maldive Fish and were exported to Sri Lanka. (UNDP, 1965:23).

As a further measure to reduce the drain on the Maldivian economy brought by dwindling foreign exchange following the reduction of exports of Maldive Fish, the government encouraged local private sector entrepreneurs to develop tourism in the country. The domestic banking system, then consisting of three foreign banks, could not support the investment funds required for the rapidly expanding tourism sector.[17] Also, the Maldives tourism industry has had to endure a one sided partnership with the dominant European tour operators, with the latter playing major roles in financing private sector tourist resort infrastructures, organizing tourist travel arrangements to and from the Maldives, and promoting Maldivian tourist resorts. The restructuring of the fisheries sector and the introduction of tourism in the Maldives has provided multiple links that connect the Maldives to the globalizing economy.

1.5 SOURCES OF EVIDENCE

The bulk of the primary data for this dissertation has been derived from books, reports and journal articles published both locally in the Maldives and abroad, project documents, unpublished papers, monographs, presidential circulars and legal documents. Other sources of data include published analysis of Maldives, as well as transcripts of newspapers and magazine articles, and the Internet. Economic data is derived from the Asian Development Bank (ADB), WB, IMF, United Nations Development Programme (UNDP) and documents published by the Commonwealth Secretariat. National Development Plans and sectoral master plans along with published and unpublished documents by the Maldives government were also extensively consulted. Many of these sources are found at the Dalhousie Libraries and Patrick Power Library of St Mary's University. Other sources were found in the British Library, Library of the London School of Economics and Political Science, Institute of Commonwealth Studies of the University of London, and various government ministries and department of the Maldives. In the Maldives, the author was able to undertake semi-structured interviews

[17] The uncertainty over the future of the loans extended to those resorts that were owned by the former President and his associates and the subsequent freezing of domestic bank loans, in the early 1980s, only added to the pressure on the limited domestic finance for the tourism industry.

with some members of Parliament, key government officials, and politicians as well as members of the civil society, historians, academics, representatives of NGOs, and prominent entrepreneurs-- both retired and active-- in the areas of tourism, fishery and in the public service. In addition to these formal interviews, the author held informal discussions with former senior politicians, Island Chiefs, historians, MPs, and entrepreneurs in the Tourism sector. Finally, the author's personal experience[18] and impressions of the workings of the political and administrative system of the Maldives was also used in the thesis.

1.6 LIMITATIONS OF THE STUDY

Although the relationship between globalization, governance and economic development has been analysed extensively within the context of both developed and developing countries, such studies undertaken in the context of SISs are few and far between. It is hoped that an original contribution can be made not only to the widening of our understanding of how SISs as a group, and Maldives in particular, interpret, react and prepare for the challenges posed by economic globalization, but also to the enrichment of the theoretical concept of governance. This study is an especially important undertaking at a time when governance is viewed by many large international developmental agencies and donor agencies as a paradigm for socio-economic development. While I am optimistic of the potential contribution this thesis will make toward formulating a more inclusive conceptualization of governance, the study by design and by approach is not without limitations.

Firstly, given that SISs as a group exhibit notorious divergence in their economic, political and historical spheres, dominant trends and patterns observed from the single case of the Maldives, based on a country which enjoys a relatively unique homogeneity of

[18] The author was fortunate to be extensively involved in the formulation of public sector reform initiatives in the Maldives for more than eight years. This gave him the opportunity to gain valuable insights into the actual workings of selective aspects of the public policy making process at the highest level of the political and administrative strata in the Maldives.

religion, culture, tradition and language, will be difficult to generalize to other SISs. Nevertheless, the experience of the Maldives brought forth by this thesis is expected to be relevant to other SISs especially regarding how the country is tackling issues related to global capital and access to global markets.

Secondly, at the country level, governance in SISs is more complex than can be generalized from the manner in which only three sectors of the economy operate. Similar studies on other sectors of the economy will be needed to substantiate the observations and conclusions of this thesis. However, this shortcoming will be offset both by the fact that the theoretical contributions of this thesis will be well grounded in empirical investigation and the sectors chosen for investigation are representative of the dominant economic activity in the Maldives.

Another possible weakness of this dissertation is that it covers only the period since independence of the Maldives. Forty years may be too short a period for the linkages between the different dimensions of governance highlighted in the thesis to become apparent. In spite of the fact that the Maldives was a very "closed" society prior to its independence, the application of a broader lens that spans well beyond independence could enrich and strengthen the conclusions of this thesis, especially those regarding how governance systems evolve over time.

In addition to these design limitations of this study, there are some methodological complications as well. Belonging to the very system under investigation the author got unfettered access to people and insights that would be difficult for researchers from outside the system. However, this privileged access was constrained by conventions, norms and customs of the society and the public service and the country's private sector norms, especially regarding what is acceptable as discussable, even to researchers. Also, given the smallness of the society extra efforts had to be made to protect the anonymity of interviewees. A major method that was adopted in this thesis to reduce the potential for subjective bias was to rely on multiple methodologies, including history and statistics.

1.7 STRUCTURE OF THE THESIS

The dissertation is divided into two parts. The first part is primarily concerned with theoretical aspects of the issues dealt with in the thesis. The second part consists of three case studies, their analysis and implications of the findings to the ontological approach adopted in the study, future research directions and public policy implications arising from this analysis. Part one consists of two chapters and part two contains five chapters. This introduction chapter is comprised of six sections. The first part defines the research problem and outlines the specific research questions posed for the dissertation. It also provides justification for the focus of this study on the Maldives. The second section provides the conceptual framework developed for the dissertation. The next two sections locate the debates of the dissertation in the context of SISs and the socio-political context of the Maldives respectively. This fifth section deals with the methodology, which includes a discussion on the sources of evidence and limitations of the study. The final section lays out the chapter outline of the thesis. Chapter Two examines some of the theoretical approaches used in the dissertation. These include prevalent debates on globalization, literature on how States seem to have responded to the challenges arising from globalization and those dealing with the impact of globalization on the nation states. Before concluding the chapter moves on to examine the literature that suggests that State can respond to globalization in an effective manner and also improve their governance.

As mentioned earlier, part two of the thesis will be focused on the case studies, their evaluations and implications for ontology and public policy. Chapter Three looks at the interplay between globalization and the tourism sector, specifically how the sector has responded to these challenges. This case study details the changing relationship between State and players and stakeholders in the tourism industry and the consequent implications for the overall governance of the sector. Chapter Four studies how a traditional sector with high leverage over the political actors responded to the challenges posed by globalization. The chapter attempts to show, amongst others, the implications of two levels of governance in the sector: one based on customs and societal norms and the other based on formal State sanctioned institutions. Chapter Five covers the final case

study of the thesis, and it examines the multiple ways in which globalization is impacting on the public sector and how the State is attempting to square up to these challenges. To address and reflect back on the research questions posed at the beginning of the thesis, Chapter Six summarises the diverse debates of the thesis. This chapter initially brings together the major themes of the case studies. Drawing on these thematic generalizations, the chapter attempts to draw broader conclusions regarding the major research questions posed in the thesis. With a special emphasis on a theme highlighted in the introduction-- the importance of developing a more inclusive conceptualization of governance that is both useful and applicable to the context of SISs like the Maldives-- the final chapter of the thesis will reflect on the ontological contributions made by the thesis. Based on its findings this final chapter also lays down some policy implications.

CHAPTER TWO: GLOBALIZATION, GOVERNANCE AND SOCIO-ECONOMIC DEVELOPMENT: A REVIEW OF THE RELEVANT LITERATURE

2.0 INTRODUCTION

The shift in emphasis in contemporary development literature towards the adoption of globally oriented governance as a vehicle for economic growth and prosperity is synonymous with market enhancement. The agenda of good governance that became influential in the development literature, since the late 1980s, has seldom taken into account the contextual complexities of socio-economic development, including the role of politics and informal and inter-personal relationships that are prevalent in SISs. The end of the Cold War and consequential change in the geo-political landscape have overshadowed the claims made by SISs that their social, political and economic characteristics are qualitatively different from that of larger developing countries, and therefore require different developmental approaches to address their developmental challenges.

There are a number of theoretical and conceptual frameworks that are expected to contribute positively towards understanding the general problematic of the research questions posed in this dissertation (see Chapter One for research questions). These include debates on and nuances of economic globalization; theoretical positions on the impact of economic globalization on the nation-state; the mode by which States have responded to the challenges posed by economic globalization; and major theoretical perspectives on governance, including donor-based models and institutionalist perspectives and those on Developmental States. Globalization and governance are highly slippery terms with many nuances, confusions and misconceptions. To date, there are no comprehensive models or theoretical schemes that depict, to any satisfactory level, the linkages between various components of economic globalization and governance approaches that are conducive to socio-economic development. However, there are

important clues to this end, and this chapter will provide a synthesis of these perspectives from the literature.

2.1 ECONOMIC GLOBALIZATION AND THE ROLE OF THE STATE

2.1.1 Globalization: definitional variances and theoretical lineage

The concept of globalization has been described as a discourse, in which debate about the process is increasingly shaping the terms of the debate about the process (Cerny, 1996:620). Notwithstanding this "fuzziness" of the concept it is possible to outline some common elements in the globalization debate. Globalization involves the interplay of at least four fundamental processes that are taking place simultaneously. Firstly, there is an increased level of interpenetration and interconnectedness between multiple dimensions. Such interpenetrations include the expansion of economic, political, social and cultural activities across political frontiers, regions and continents, as well as an intensification of interdependence of people and countries. There is increasing global interconnectedness across communications, organizations, trade, finance, ecology, consciousness and crime that allows borderless contact with each other, irrespective of the territorial distance (Held, McGrew, Goldblatt & Perraton, 1999a: 484).[1] These changes have led some enthusiasts of the globalization process to claim that the increasing internationalization of economic and cultural aspects makes it hard to sustain the conventional image of a world society based on nation states (Ohmae, 1995). These enthusiastic views of globalization sketch an image of a world in which all people are incorporated into a single global society (Smart, 1994:152).

Internationalization is the second dimension of globalization. Features of internationalization include organizational innovations that have led to the proliferation and expansion of business enterprises, civil associations, and regulatory agencies that operate across borders. There is an increased level of trans-world marketing for goods and

[1] For a good discussion on the global finance aspects, see Pauly (In Stubbs & Underhill, 2000). For a concise overview of the globalization of the environmental issues see Wapner, (1995). An informative coverage of the globalized nature of the narcotics trade is provided in Griffith (2000).

services. Internationalization of finance makes it possible for money and financial instruments to be electronically circulated anywhere across the globe instantly (Scholte, 1997: 431-432).

Thirdly, globalization is claimed to be accelerating the movement towards homogenisation of the world. For instance, Strange (1990:262) envisages the dawning of a worldwide "business civilization" in which the social and political elites, regardless of their national base, wholeheartedly embrace global values (e.g. economic values of efficiency, speed, responsiveness to demand in the production of goods and services), norms and customs of a global civilization.

Globalization not only involves a movement towards accelerated interpenetration, interconnectedness, internationalization and homogenization. It also constitutes a dialectic of continuities and discontinuities. Similar to Polyani's (1957) double movement, the relatively unchecked neo-liberally oriented forms of economic liberalization have created a polarized world between those who benefit from globalization and those who lose out due to the process. Those who are adversely affected by the globalization process are rallying to create an alternative to the current neo-liberal globalization, or at the least, to democratize the process to create greater opportunity for those who are currently left out to participate effectively in the globalization process and share the benefits arising from it.

At the intellectual level, broadly speaking there are three schools or projects that can be classified as composing the anti-globalization movement. The liberal-internationalist school, along the agenda advocated by the Commission of Global Governance, seeks to construct an ideal "democracy beyond borders" based on liberal democratic thinking. This school banks on the conviction that, given the inevitably pervasive social, economic and political dislocation arising from the current neo-liberal globalization, a collaborative ethos based on consultation, transparency and accountability inevitably will arise. Compared to this reform oriented view, the radical school of the anti-globalization movement calls for the creation of an alternative mechanism of global, social, economic

and political organization, based on the principle of Republic type self-government. According to this school, it is only by the politics of resistance and empowerment, albeit through social movements which challenge the authority of States, international agencies as well as orthodox definitions of the "political", that globalization can be democratized for the benefit of the masses. The Cosmopolitan Project attempts to specify the principles and institutional arrangements that are necessary to hold sites and forms of power, which have up to now escaped democratic control, accountable for their actions. At the core, this project seeks to formulate legitimate political authority away from the customary anchors of fixed borders and to entrench basic democratic arrangements in diverse self-regulating associations (Held, McGrew, Goldblatt & Perraton, 1999b:447-450). Of the three, Gill & Law (1988:377-380) seem to favour the first project, when they called for the expansion of research on the political economy of the global linkages, specifically on the linkages between trade and debt and resource use and sustainability. They call for an extension of the current focus in research and theorizing on the cooperation amongst governments and international elites to include cooperation between government and intermediate and grass roots levels.

Danaher (2001:11-12),[2] on the other hand, consistent with the radical school of anti-globalization movement, has proposed a three-point strategy of democratizing globalization. Firstly, it involves forcing institutions such as the WB and the IMF to change their rules away from a focus on maximizing profits for private corporations towards meeting social needs and saving the environment. Secondly, the strategy involves forcing changes in the behaviour of multinational corporations through, amongst others, trade union action, the anti-sweatshop movement, the environmental movement, progressive legislations, and the socially responsible investing movement, to bring about greater corporate accountability. Thirdly, the strategy calls for closer co-operation between grass root developmental initiatives (e.g. micro-enterprise lending, local currency organizations, community development schemes, worker-controlled enterprises) to mitigate the harmful influence of the corporations. In this vein, one of the prominent activists in the anti-globalization movement, in North America, writes that one of the

[2] Also see Dierckxsens, (2000).

effective ways to fight big corporation is to link anti-globalization campaigns to famous brands (Klein, 2002:238). Another strategy that she advocates is to influence global economic policy by linking campaigns undertaken by local movements fighting privatization and deregulation at the national level, to large global movements fighting for the same cause (Klein: 2002:244-245). As such, the final aspect of globalization involves the arguments put forward by this counter movement against globalization.

Of these simultaneous globalizations taking place, for the purposes of this thesis, I will primarily concentrate on economic globalization. The literature points to four major defining trends. They are: (1) a phenomenal increase in the integrated global markets for goods and services, and especially finance;[3](2) an increase in the role and weight of multinational corporations in the world economy with the planning, organizing, production and distribution of their products and services globally[4]; (3) world-wide proliferation of a certain type of macro-economic policies, including a combination of export-oriented growth, less governmental social policies, reduction in the size and scope of the public sector, deregulation, flexibilization, privatization and priority to price stability; and (4) an increasing trend towards more regional and global economic co-operation among countries. These include an increase in the role and weight of supranational organizations such as the IMF, WTO, and Organization for Economic Co-operation and Development (OECD). At the regional level such examples include the EU and NAFTA (Wendt, 2002:99-100). The combined internationalization of trade, finance and production is said to be affecting the role of the State in the socio-economic development in multiple ways.

2.2 IMPACT OF GLOBALIZATION ON THE NATION-STATE

Held, McGrew, Goldblatt & Perraton (1999b: 2-10) have provided a useful general typology to analyse the rich and diverse perspectives on globalization that summarises

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[3] International trade in goods and services has on average increased twice as fast each year as world output UNCTAD cited in Wendt (2002:99).

[4] According to UNCTAD (2000:xv) there were 63,000 companies with at least 690,000 foreign affiliates. UNCTAD also estimates that sales of foreign affiliates worldwide was US$ 14 trillion in 1999 compared to US$ 3 trillion in 1980 (Cited in Wendt, 2002:100).

various debates on globalization by classifying them into "globalists", "sceptics" and "transformationalists". The impact of economic globalization on the nation-state is a theme entertained with great passion by all of the three perspectives on globalization. According to Held, McGrew, Goldblatt & Perraton, (1999b: 3) globalists (such as Picciotto, 1999) argue that economic globalization is bringing about a "denationalization" of economies through the establishment of transnational networks of production, trade and finance. Overwhelming requirements felt by States across the world to accommodate transnational markets and footloose corporations in their national territories, globalists claim, have led to the adoption of similar fiscal, economic and social policy regimes across the globe (Drezner, 2001). The globalists see a worldwide restructuring of the Welfare State in varying forms and degrees. According to them, embedded liberalism (Ruggie, 1995) or the implicit postwar social bargain made in the advanced industrial countries, where provisions of social insurance and safety nets (e.g. unemployment compensation) were made in exchange for the adoption of free trade policies, have eroded due to structural forces of globalization. For instance, Andrews (1994) and Garret (1995) claim that increased mobility of capital has forced governments around the world to shift the cost of the welfare state from capital to labour and recipients of services. This shift took place in the form of deregulation of the labour market and loosening of societal corporatism that prevailed in many developed countries (Rodrik, 1997:23-25). Sassen (1996) has gone even further and claimed that it is no longer the population of citizens, defined by territorial borders, that are demanding protection from the State against forces outside their national borders. It is increasingly the global economy and its dominant actors and institutions themselves that are demanding and receiving such protection.

Tranformationalists such as Giddens (1996) accept that globalization is a powerful force that is responsible for a massive "shake-out" of societies, economies, institutions of governance and world order. But he and other transformationalists, such as Linklater & MacMillan (1995) and Ruggie (1993), are sceptical about the assertion that the world has reached a "new global logic of capitalism". While they acknowledge that economic conditions set by the global environment constrain all governments, they reject the notion that there is a convergence of macro-economic policies across the globe (Weiss, 1997).

As one observer commented, the tendency to expect institutional convergence (all countries adopting similar policies) is based on a "policy-instrument theory" of State capacity in which "the relevant instruments are somehow predetermined and fixed in character. Any decrease in the importance of a particular policy tool is interpreted as clear proof of loss of state power" (Rodrik, 1997:18).

The State erosion arguments put forward by globalists have been particularly criticized by transformationalists for totalizing and over-generalizing the negative impacts of economic globalization on the nation states. Rudra (cited in Yang, 2000:239) has pointed out that the demise of embedded liberalism and the subsequent claims of the demise of the welfare state are conditions peculiar to the dominant western nation-states, which have established such contracts. In a similar tone, Held (1991:128) claims that the decline of welfare protections and limitations on the policy options in major developed countries should not be interpreted as the decline of the nation-state across the board. In fact, Yang (2000) has argued that on several dimensions the welfare state in South Korea has expanded, not decreased, even in the midst of the economic crisis that affected the country between 1997 and 1999. The claims of the demise of embedded liberalism are more problematic when applied to the context of SISs where, even compared to large developing countries, the responsibility for social protection is located primarily within the family and society, rather than with the State.

The claims of erosion of State power and influence have also been criticized by transformationalists because of their lack of distinction between qualitative and quantitative dimensions of State involvement and power. According to Scholte (1997:441) claims of State decline have overwhelmingly relied on the size of the State (measured primarily by the size of its budgets or the size of its bureaucracy) to gauge the strength and reach of the State. This is problematic because compared to the past, there may, in fact, be a real decline in the multiplicity of ways and channels through which the State intervenes in the economy, but the quality of interventions of those few remaining modes may be more penetrative.

Sceptics of globalization maintain that contemporary levels of economic integration do not rival those of the past. Hirst and Thompson (1996), with their highly entrenched statistics-cum-history based, economic conceptualization of globalization, have consistently maintained that instead of being integrated, the world economy continues to be predominantly defined by national economies. More to the point, sceptics such as Ruigrok & Tudler (1995) and Boyer and Drache (1996), maintain that economic activity is undergoing a major phase of "regionalization" rather than globalization as more and more world economic activity is concentrated in the triad of Europe, Asia-Pacific, and North America. Others such as Thompson and Allen (1997) insist that, in spite of the rapid increase in the number of "global corporations", foreign investment flow continues to be concentrated among the developed capitalist States and many of the large multinationals continue to be concentrated in their home States or regions. Unlike the claims of powerless States, sceptic such as Hirst (1997) point to efforts by national governments (such as the G-7 and World Economic Forum) to regulate international economic activity. Krasner (1993) rejects the argument that the power of national government is undermined by economic internationalization or by global governance.

What seems to be lost in these conceptualizations of globalization is the fact that the impact of globalization on the State is likely to vary under different international and domestic conditions. The location of a particular State in the international division of labour, its place in particular power blocs, its position with respect to the international legal system, and its relation to major international organizations are factors that can influence such a State's capacity to adapt to globalizing forces (Held, 1991:149). At the same time, individual States face globalization with different levels and kinds of resources, different histories and cultures (Scholte, 1997:440). The level of pressure felt by a State from the globalization process and its ability to react and adapt to these forces will also be different at different time periods of both the globalization process and the level of development of the individual State. Those countries that were exposed to economic globalization in the early phase of the current round of globalization may have a head start in their developmental process. Likewise, different epochs of domestic socio-economic development will present different challenges to States. Those States which

have mature institutions, processes and procedures to scan the global environment are likely to be able to devise appropriate policy responses more rapidly than those which are in their infant phases in the development of such infrastructure.

2.3 MODES OF STATE ADAPTATIONS

According to Cerny (1996) globalization has led to a change from a predominantly "welfare state" orientation to what he calls a "competition state" in the developed countries. In its pursuit of international competitiveness the CS gives general preference to market modes in providing public services and places market values on activities and services, hitherto regarded as belonging to the public realm. The CS adopts several dimensions of New Public Management (NPM) to de-bureaucratize the management of the public sector in an attempt to bring greater flexibility to the sector. CS, through deregulation of economic activities, and especially financial markets, seeks to address the dual objectives of expanding the space for the private sector to operate in the economy (Cerny, 1999:156) and reducing government spending to minimize the "crowding out" of private investment by State consumption (Cerny, 1996:634). For Cerny then, States make a conscious effort to reform themselves to become competitive in the face of globalization.

Weiss (1997:24) maintains that with expanding economic globalization there is a movement from what he calls an "integral state" to a "catalyst state". The integral state is characterized by monopolistic territorial control over its means of legitimacy, security and production by the State. The catalyst state, on the other hand, is less concerned with power and control in the traditional form found in the integral state. The catalyst state, Weiss argues, seek to increase control over their external environment by, on the one hand, building or consolidating power alliances "upwards" via inter-state coalitions at the regional and international level, and "downwards" by building State-business alliances in the domestic market. The defining feature of the catalyst state, according to Lind (1992:3), is its ability to take timely action necessary to the success of a particular strategic coalition of domestic and international actors while retaining a high degree of

independence from the rest of the parties and elements of the coalitions. The strength of the catalyst state in both coping with and addressing the challenges posed by economic globalization is said to be dependent on the State's ability to supplement its "conventional power resources" with its "collaborative power". Compared to the conventional powers, which are linked to the institutions of the nation State, the collaborative power of the State is built on the degree of success the State has in engaging other States, corporations, and business associations to form cooperative agreements and "consortia" for action. With its special ability in forming sub-alliances within a larger cooperative arrangement, argues Weiss (1997:24), the catalyst state exhibits features of a Strong State (Myrdal, 1970) that can withstand the pulls of special interests within the coalition.

Both the competition state and the catalyst state perspectives emphasize how States as individual entities orient to improve their capacity to confront globalization. Armstrong's (1998) "social state thesis", in contrast, proposed that the State adjusts to the challenges posed from globalization through international socialization (IS). IS is said to take two levels. At the first level of identity formation, the State confirms and reinforces, through interaction with other States, what it means to be a State in the changing global environment. At the second level, IS facilitates the spread of changing ideas about the meaning and content of statehood. According to Armstrong (1998:477), as new ideas (e.g. Cerny's competition state) are channelled and communicated through the processes of IS within international society these ideas become "stateified" (i.e. absorbed by the State). He was adamant that such socialization should not be interpreted as global "indoctrination". For him socialization of the State takes place in a calculated manner, taking into account the peculiarities of the respective unique societies. The general argument of the social state thesis, then, is that States do not respond individually and in isolation to the pressures of globalization. In their capacity as "social states" they exchange ideas, experiences and reach into subjective understanding of how to restructure themselves and how to strengthen the institution of international society to accommodate globalization.

Taken together, these three approaches of State adaptation tend to assume away the existence of "capacity" across States to take the necessary steps to adapt to globalization. Both catalyst state and competition State perspectives seem to treat States as uniform bodies whose parts (e.g. political system, the bureaucracy, and civil society) react in sync in the face of challenges posed by economic globalization. Could it not be the case that some States and some sectors of a State are subjected to the logics of globalization more deeply while other States or sectors of a State may be totally left behind? (Sjolander, 1996:604). It seems both of these perspectives have overlooked the fact that there are some areas within which national governments retain substantial discretion and there are other areas where States are pooling sovereignty to manage the globalization process (Cable, 1995:38).

Although Armstrong (1998:477) cautions against a deterministic structure-agency interaction in the socialization process, whereby the ideational structure of international society imposes its behaviour on the agent (State), his thesis does not include a satisfactory response to the claims of differential capacities of States to resist IS, especially when such socialization becomes hegemonic and is ideologically driven. Furthermore, accepting Armstrong's (1998) proposition that IS is a process whereby the State is consciously engaged and "has the freedom" to reflect on its experience prior to accepting newly emerging ideas in the global arena is one thing. It is quite another to overlook the fact that States have differential capacities to take practical steps to pick and choose which aspects of IS to embrace. The pecking order of IPE may not allow, for example, a SIS like the Maldives, which does not have the economic clout in the global economy in terms of level of trade or command of natural resources, to reject or disregard norms and "good practices" pursued in the IS process.

The preceding three approaches of State adaptation take for granted that not only power, influence, authority, and discretion are critical dimensions in a State's adaptation: it is implicit in these dimensions that they are located primarily in the formal institutions of the political and economic spheres. Manipulation of these political and administrative institutions and rearrangement of the linkages between them has been at the heart of these

approaches of State adaptation. What is not said, at any length, by any of these three perspectives is the possibility of the critical importance of relatively fluid and less centralized mechanisms of State adaptation. In other words, the literature on the impact of globalization on the State and the way States have generally reacted and adapted to these pressures has not yet given adequate recognition to the workings of informal institutions and informal societal networks. This lacuna in the literature on globalization and governance can be largely attributed to the fact that research and studies on the impact of economic globalization have been overwhelmingly based on the experiences of large and developed countries. The above three models of State adaptation are not necessarily formulated on a theoretical foundations of good governance. But, before we can examine the compatibility of modes of State adaptation, discussed above, and those measures taken to achieve good governance, a brief review of the major articulations of the concept of governance is warranted.

2.4 GOVERNANCE: CONCEPTUAL AND DEFINITIONAL ISSUES

It was in the late 1980s that governance entered development circles and the international public policy lexicon.[5] In 1989 when reporting on the Structural Adjustment Programme in Sub-Saharan Africa the WB claimed that economic sluggishness of these countries was due to the failure of their governance (WB, 1989). Governance, which until the late 1980s had taken a descriptive orientation, became prescriptive in the late 1980s in the form of "good governance." Good governance involves a normative stand about what is "right", "good", "relevant" and "appropriate" in governance (William & Young, 1994:92-96). Using a broad brush, the ensuing general debates on good governance can be said to have followed two diverse agendas (Moore, 1993:2). They are the "liberal democratic agenda" and the "process of government agenda".

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[5] However, as noted by Khosla (2000:188), governance has been in use at least since the 14th century. Then it was referred to as the manner of governing. During this period governance was used as a synonym for government- for being virtuous or wise in one's general behaviour. But after the peace of Westphalia it lost its moral connotation of wisdom and virtue.

2.4.1 The liberal democratic agenda

The so-called "liberal democratic agenda", which is associated with the leading western politicians and governments, emphasized a governance package which asserts that economic growth, multiparty democracy, the market economy, respect for human rights, reduced levels of military expenditures, and, in some cases, socio-economic equity, are interrelated and mutually self-sustaining. This agenda is entrenched in the formal policies of the main Western bilateral aid donors, who have imposed political conditionality by withholding development assistance from those countries that lack democracy and human rights (Moore, 1993:2).

The United Nations Development Programme (1997:2-3), by defining governance as "the exercise of economic, political and administrative authority to manage a country's affairs at all levels" adopts a more comprehensive agenda on "political good governance". This perspective on governance calls for a balance between the administrative and political aspects of governance. On the administrative side, it refrains from adopting an ideologically driven anti-state rhetoric. The UNDP's governance agenda calls for the strengthening of State institutions to equip the public sector for those tasks at which the market is less efficient. On the political side, UNDP's perspective on governance advocates the establishment and development of "mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences" (UNDP, 1997:2-3).

Other major donor agencies have adopted similar stands on governance. By defining governance as "the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development", the OECD's position on governance[6] is heavily political with a marked liberal democratic

[6] In spite of its general focus on strengthening institutions in the OECD's conceptualization of good governance, compared to the market oriented governance advocated by the WB and the IMF, the governance approach promoted by PUMA (OECD's governance program) is more nuanced. The PUMA's work on providing comparative analysis of innovative management practices, establishing benchmarks for evaluating quality and standards and ethics and devising mechanisms to engage citizens in policy-making is qualitatively different from those efforts pursued by the WB in this regard. But, given the WB's influence

flavour (OECD, 1995:14). Similarly, the British Overseas Development Agency (Glenworth, 1993) has emphasized promoting pluralist, multi-party democracy, an independent judicial system, and supporting measures towards developing an enabling environment for civil society. In varying degrees, other major development aid donors including Canada, France, Germany, Japan, Netherlands and Sweden have adopted this liberal democratic agenda of governance (Islam & Morrison, 1996:8-11).

2.4.2 Process of government agenda

Compared to the above, broad liberal democratic agenda, the "process of government agenda" of governance has been relatively narrow, at least in its early phase. It has a bureaucratic rather than political orientation and is largely attributed to the WB. Its major focus was on the process of government such as accountability, the nature of the policy making process, information and the rule of law (Moore, 1993:2). The WB (1992:3) defines governance as the "manner in which power is exercised in the management of a country's economic and social resources for development". There are three pillars in this model. They are the type of political regime, the process by which authority is exercised in the management of a country's economic and social resources for development, and the capacity of government to design, formulate and implement policies and discharge functions (WB, 1994:xiv).

Out of these three pillars, at the operational level, the WB has primarily concentrated on the last two, relatively non-political, dimensions (Stevens & Gnanaselvam, 1995). With regard to these two dimensions of its governance approach the Bank has called for the strengthening of public sector management (including civil service reform, financial management reform and restructuring of the State enterprises); accountability (installing and strengthening mechanisms to hold public officials accountable for their actions); improving the development of a legal framework for development (i.e. designing and implementing appropriate legal systems for resolving conflicts that might impede the

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on the Maldives, in its capacity as a major donor to the country, it is more appropriate for the purposes of this thesis to concentrate on the WB's conceptualization and practice of governance.

construction of market mechanisms); and finally, strengthening frameworks for increasing transparency and information accessibility. This involves developing structures and mechanisms to guarantee that private entrepreneurs will enjoy greater access to relevant information (WB, 1992). The latter two dimensions form the fundamentals of the WB's good governance agenda.

The liberal democratic agenda of governance is about building institutions to support the neo-liberal economic and democratic system. It is a model that is concerned with "institution building" as a way of improving governance. The process of government agenda, on the other hand, emphasizes building and installing "rules" and "patterns of behaviour". By focusing on aspects such as strengthening contract management, enforcement of property rights and the like, the process of government approach seeks to change the behaviour of the people rather than building specific organizations and institutions to strengthen governance (Moore, 1995:93). The reality, however, is that the "liberal democratic agenda" and the "process of government agenda" have undergone much cross-fertilization since the late 1980s. For instance, the WB's emphasis on information and open policy-making, in practice, is not dissimilar to that of the liberal democratic agenda's emphasis on multi-party democracy and civil society. Similarly, key dimensions of WB's good governance agenda, such as accountability, transparency and rule of law have entered the lexicon of the liberal democratic agenda (Moore, 1993:2).

In general then, the WB's good governance agenda can be interpreted as the presence of a number of variables in a State at a given time. These include: open pluralistic society, defined by political freedoms and democracy; protection of individual rights through constitutional and judicial means; rule of law, including fair access to legal and judicial system; an independent judiciary; transparent, accountable, efficient and effective public sector; anti-corruption campaigns; promotion of independent media and dissemination of information; low levels of military spending; access to education and health care, and maintenance of a stable currency (Stowe, 1992). The WB (1992:9) has also elaborated on what constitutes poor governance. These include: failure to make a clear separation between what is public and what is private; failure to establish a predictable framework of law and government behaviour conducive to development, including arbitrariness in the

application of rules and laws; excessive rules, regulations and licensing requirements which impede the functioning of the market and encourage rent seeking; political priorities inconsistent with development resulting in misallocation of resources; excessively narrowly based or non-transparent decision making.

Immediately after its conception, the process of government agenda of governance became increasingly difficult to untangle from a set of economic policy recommendations that later became known as the "Washington Consensus". These policy recommendations call for greater fiscal discipline, the reordering of public expenditure priorities, introduction of tax reform, liberalization of interest rates, maintenance of a competitive exchange rate, liberalization of trade and inward foreign direct investment, privatization of state entities and deregulation, especially with regard to entry to and exit from markets (Williamson, 2003:10). The WB, like other aid donor agencies, has also incorporated elements of NPM reform in its governance frameworks. The all-encompassing impression created by the incorporation of these economic dimensions and aspects of NPM by the prominent aid donors ought not to be interpreted as the existence of a universal model of good governance. Although the NPM model in general, involves a major realignment of state relations with the market, the so-called "Washington Model" of public management, adopted by the WB's governance framework promotes a particular model of state-society relations (Minogue, 2001:6). This model calls for a reduction in the size of the public sector, especially the reduction of overall government expenditure, with the aim of restoring macro economic stability and facilitating growth through reducing the "crowding-out" effect of government overspending on private investment. Other recommendations of the WB's Washington Model of public management aimed at reforming the public sector include privatization of public enterprises, or at least, a reduction in government subsidies to make them pay their own way. In relation to the provision of public services, the model advocates the use of contracting out and the introduction of user fees. The Washington Model of public management also calls for tax reform and for improvements in the composition of public expenditure (McCourt, 2001:231-232). It is important to point out at the onset, that the bulk of the criticism of "good governance" in this thesis is directed against the forgoing neo-liberally oriented good governance model adopted by the WB, which has sought to incorporate aspects of

the so-called Washington Consensus and a variant of public management, which McCourt (2001) has referred to as the Washington model of NPM, rather than the whole concept of good governance.

Beginning in the early 1990s, there was a gradual recognition of the need to bring "politics back in" to the governance literature. Macro aspects of culture, including the congruency between various political and economic institutions and the basic cultural norm (Kausikan, 1997); how specific institutions emerge and whether they become "sticky" (i.e. institutions continue to be operational even after they outlive their usefulness, relevance and even after their operation becomes counter productive) (Clark & Chan, 1994); how different political cultures encourage or discourage political participation (Martinussen, 1998) have entered the broadening agenda of governance.

There is also an increase in the frequency of calls for greater acknowledgement of the fact that even those State institutions and forms of behaviour promoted by the liberal democratic agenda and the process of government agenda have deep roots in society (Martinussen, 1998). For Leftwich (1994), good governance is more than building the institutional capacity of the State. Governance, he predicts, will always be ingrained in the mosaic of politics, structure and, purpose of the State.

2.5 GLOBALLY ORIENTED AND DEVELOPMENTALLY CONDUCIVE STATE RESPONSES

A core argument emerging from the literature on Newly Industrialized East Asian Countries (NIEAC) is that understanding the institutional structures and politics of the State is vital in examining conditions that influence and frame improved governance (Leftwich, 1994). Leftwich (1995:400) defines the developmental state as:

> states whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting the

> conditions and direction of economic growth, or by organizing it directly, or a varying combination of both.

There is broad consensus amongst theorists that the economic success of NIEAC can be attributed to State autonomy. The source of State autonomy is said to lie in the unusual degree of bureaucratic autonomy and public-private co-operation. The combination of these conditions is claimed to have facilitated, on the one hand, the State and the bureaucratic elites development of independent national goals, and the State's ability on the other hand, to carry them into successful policies. Bureaucratic autonomy is attributed to factors such as a meritocratic form of recruitment, rigorous standards of entry, and early retirement of the elite bureaucrats and their subsequent move to top positions in politics and business (Onis, 1991:114). All major approaches attempting to explain the economic success of the NIEAC acknowledge that although common educational background of the bureaucratic and business elites enhances public-private sector co-operation, the latter is largely engineered by the State elites.

It has been pointed out that the State in NIEACs was successful in confronting the forces of globalization by controlling or inducing compliance of the private sector through innovative use of policy instruments. These include the strategic use by the government of its resources in the areas of credit, tax, wage and industrial organization (Moon & Prasad, 1994). Strategic use of the financial system and the dependence of private sector conglomerates on the bank finance controlled by the State were other means by which the State succeeded in bringing the private sector to back the States' economic policies (Onis, 1991:116).

According to Migdal's (1988) strong/weak state thesis such freedom enjoyed by the State vis-à-vis the private sector and social groups is partly attributed to their structural conditions. States whose history has undergone significant social upheavals or who have been confronted by a strong external threat (e.g. Japan and South Korea) whereby the traditionally most powerful groups (such as the landlord class) have been eliminated tend to enjoy greater freedom. State autonomy, in other situations, can arise as a result of clashes between divided ruling cliques, as in Chile in the early 1970s. States may enjoy

short periods of relative autonomy due to increased pressure upon the State to crack down on revolts of subordinate classes, as in Brazil, or simply the ethnic division between political elites and capitalists, as in the case of Malaysia (Tsai, 1999:68). Thus, at least, the experience of NIEAC indicates that a strong and autonomous State provided directional thrust to the operation of the market mechanism (Pempel, 1992). This capacity of the State to direct the market was claimed to be instrumental to their socio-economic development.

There is growing criticism of the usefulness of the State autonomy thesis for strategic policy direction. State embeddedness theorists claim that it is premature to make a foreordained judgement with regard to the way a state utilizes its autonomy (Onis, 1991:125). Furthermore, state autonomy not only varies significantly between countries, but it also fluctuates between different historical epochs within a given jurisdiction (Onis, 1991:110). Based on his study of car manufacturing in Korea, Thailand, Malaysia, and the Philippines, Doner (1992) claimed that, where State and business interests collided head on, the business interest often prevailed. The intellectual debates that followed the State autonomy thesis have accepted that certain conditions are essential to route positive forces of State autonomy towards policies that are conducive for socio-economic development.

Evans (1995:50) claims that embedded autonomy combines the features of Weberian bureaucratic insulation with multiple and multi-layered connection between the State and the surrounding social structure. He acknowledges that the nature and effectiveness of autonomy and embeddedness depends on both the historically determined character of the State apparatus and the nature of the social structure. According to Evans (1995) it was the State autonomy, based on cohesive bureaucratic norms, that played a critical role in establishing the networks of links between States in NIEAC and social groups that were committed to the State's project of industrial transformation.

Orian (2000:158) has criticized Evan (1995) for concentrating too narrowly on the relationship between the bureaucratic elites and the State as a rationale for State

autonomy. In fact, the image of a hegemonic State, backed by an efficient bureaucracy, connected to the private sector in multidimensional ways seems to have been overtaken by a more progressive perspective on State embeddedness. According to this "reformed" embedded thesis, the State is not only connected to the dominant market players vertically. It is also connected to a plethora of societal groups and actors horizontally. Such linkages are established through internal ties and exchanges that provide enforceable norms, technical knowledge and market information. Tsai (1999:70) maintain that these intricate, formal, informal, institutionalized and non-institutionalized linkages reduce the transaction costs and direct efforts toward nationally determined economic goals in a coordinated manner. Some commentators (Moon & Prasad, 1994:365) have pointed out that the reformed State embeddedness thesis, like its predecessor, is still reductionist because it, more or less, equates the State with bureaucrats. They maintain that for the State to play the dominant role envisioned in the reformed State embedded thesis, the manifold contradictory pulls and pushes created by the executive leadership, executive-bureaucratic nexus, intra bureaucratic dynamics and bureaucratic constituents have to work together. They point out that the State structure is far less coherent in its internal working for this to occur.

Okimoto (1989) claims that the linkages among developmentally oriented coalitions can be more accurately described in terms of an industrial network. According to his "industrial network approach" it is a host of intermediate organizations, including advisory councils, top business associations, industry associations, various public enterprises, research associations, and public finance institutions, as well as informal associations, such as alumni societies and social clubs, that exist between government agencies and the private sector that provide the necessary direction, coordination and feedback on State policies. Weiss's governed interdependence perspective takes for granted public, private and intermediate organizations and examines how these linkages, over time, develop into a regime type arrangement. According to Weiss (1998:38), governed interdependence refers to:

> a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state. In this relationship, leadership is either exercised

> directly by the state or delegated to the private sector where a robust organizational infrastructure has been nurtured by state policies.

In other words, in "normal" circumstances the State and dominant economic and social groups are regarded as equally strong. But in times of economic crisis the State mobilizes and reinvigorates its core capacities that it has nurtured during "peace time" through its active role in drawing business into the relationship. Weiss (1995:591) claims that the larger system nurtured by the State, over time, results in dynamic responses from the private sector in times of crisis. One of the great strengths of this perspective is that it demonstrates the importance of the State using governed interdependence not only as a means to transform the economy smoothly in the current environment of economic globalization, but to simultaneously distribute the resources equitably between the public and private sector, so as to continue the bargain reached with the key players (Reich, 1999:308).

Lee (1992) takes the linkages between dominant players in the development coalition beyond Weiss's (1998, 1995) governed interdependence perspective. According to his "quasi-internal organization" perspective the State and the private sector are not simply linked either by discrete organizations or inter-organizational networks. Instead the private sector and the State are merged into an internal organization, where the private sector and the State are integrally linked. According to the "quasi-internal organization" perspective the iterative consultations between the State and private sector reduce the temptation for opportunism by private sector firms, therefore, achieving lower transaction costs during policy implementation compared to the network approach (Lee, 1992:193).

As the debates on the linkages between economic globalization, governance and economic development gathered momentum, the role of social capital gained prominence in the development discourse. This new focus is attributed to the recognition that, in addition to the natural, physical and human capital, "social organization including networks, norms and trust that facilitate coordination and cooperation for mutual benefit" (Putnam, 1993:13) is also important in explaining economic growth and development. Evans (1996a:1124) accepts the potential benefits arising from social capital. But he

points out that in most cases all societies are endowed with, at least, a minimal stock of social capital in the form of family and kinship ties or of cooperative arrangements among friends and neighbours. For him it is not the presence or absence of social capital that is important for economic development. Instead, what makes the difference in socio-economic development is how social capital is "scaled up", or not, through relationships between the State, private and voluntary organisations to generate "solidary ties and social action on a scale that is politically and economically efficacious". He is even more critical of the claims of instrumentality of social capital to improve socio-economic development as advocated by the WB.

The link between social capital and improved governance is built on the belief that synergy between State and society can be "created" by State action. According to Evans (1996b:1036) building such synergy may take two paths. The "endowment" view maintains that the extent to which positive State-society relationships exist depends on pre-existing features of society and polity. These pre-existing features such as the political regime in place and the character of bureaucratic institutions are regarded as relatively difficult to change in the short run. The "constructability" perspective, on the other hand, focuses on the possibility of building synergistic relations between the State and society in the relatively short run. It assumes that creative application of "soft technologies" of institution building and organizational change can produce such synergistic relations. For Coleman (1990:321) even if it was possible to create synergy between State and society, as proposed by the "constructability" perspective, the relationship will be counterproductive. He sees a zero-sum relation between state-sponsored activities and social capital formation in that purposive State involvement to create social capital leads to entropy of informal networks, thus diminishing not increasing social capital. As evident from the preceding perspectives, attempts to explain successful State adaptations to globalization still represent a formalistic view of governing coalitions not very dissimilar to State Corporatism (Chalmers, 1985).

2.6 CONCLUSION

The relevant literature reviewed for this thesis, thus far, has claimed that globally oriented and developmentally conducive governance regimes have flourished in States where the State is embedded not only in the bureaucracy and market, but also in the society in a dense web of relationships. In spite of the analytical insights gained from the progression from "strong states" to "autonomous state" and later to "embedded state autonomy" in the developmental state literature, these perspectives only partially contribute towards explaining the context in which SISs like the Maldives adapt to the pressures arising from globalization. Nevertheless, the theories and perspectives reviewed above make an important contribution to the research agenda outlined in this thesis by providing the general theoretical background on which such adaptation takes place elsewhere.

The WB's perspective(s) on governance, with their emphasis on reducing transaction costs, strongly encourages the adoption of wholesale programs of contracting out and privatization of government services. Similarly, the constructability perspective of social capital takes it for granted that vibrant civil societies could be created to build social capital. These views fail to acknowledge the possibilities that relevance and the vibrancy of civil society to governance may be a function of State tolerance. To their credit, neither the WB nor the proponents of social capital have claimed that all States are endowed equally with capacities to undertake reforms to improve political and administrative governance. But the WB's developmental policies largely pushed through using the stick of conditionality and selective withholding of development assistance, seldom makes a distinction between large and small States. The literature on SISs alerts us to the reality that many of these States lack vibrant private sectors to take over State activities. In countries like Tuvalu, where the public sector employs more than half of the population of the country (Europa, 2002:4010) such demands and expectations on the private sector will be overbearing.

When discussing the relationship between economic globalization, governance and socio-economic development, especially in the context of SISs, it is also important to take note

of Touraine's (1984) comments that in some jurisdictions the "supreme logic" behind governance may be shared between economic efficiency and an equally powerful national objective of keeping the society intact. The logic of his argument can be extended further. For instance, improving governance, in some jurisdictions, may take on a social character, in which the elites in the State, bureaucracy, private sector and other societal organizations work less in a "taskforce mentality" and more in a "survival mentality". It can be argued that a typical feature of a task force is the presence of an "implicit" or "explicit" sunset clause. In other words, there is an end to the useful purpose of the task force, although its members accept and admit this is a different matter. As seen from the discussions on the developmental experiences of NIEAC, private sector and other societal parties invited into the national development coalitions by the State owe their participation in the coalitions to specific roles they play in the society. Like that of the activation of the sunset clause, these parties have to give way to other groups in society, over time, as the configuration of demands placed on the State and society changes. Also, as the experience of Japan and South Korea has shown, societal developmental coalitions built between the State and the businesses crack by virtue of their very success, namely rapid economic development. One of the major leverages developmental states such as Japan and South Korea had over their private sector actors was the government's ability to allocate credit to the selective elite companies in the private sector. With increasing deregulation of the financial markets there was a decline in the dependence on the State for funds by these developmental partners. At the same time globalization of the State bureaucracy with the increasing practice of recruiting overseas management talent broke the coherent bureaucratic character of the State (Pang, 2000).

Unlike the experience of NIEAC, where the linkages between State, private sector and bureaucracy are consciously engineered, in SISs like the Maldives, such linkages and reciprocity are the norm. Severing linkages with one set of players and replacing them with another set of players, as dictated by demands placed on the State and society at the domestic and global economic level, is not an option available to SISs like the Maldives. These countries are stuck, for better or for worse, with a framework of governance with closely linked formal and informal relationships between societal groups in multiple

ways, levels and modes. Thus, SISs like the Maldives do not have the option of building their governance on a "turn key basis", as seems to be the case being proposed by major governance models reviewed in this Chapter. Given this embeddedness of State and society, by default, SISs such as the Maldives may be forced to opt for governance models that score high on "appropriateness" scale and accept a lower score on "effectiveness" on the economic scale.

The literature reviewed so far has only implicitly acknowledged the critical relationship between the broader social, economic and political goals of the State, the political regime, political culture and the history of the State. The intricacies of the relationship between these forces is expected to become clearer, at least in the case of the Maldives, when the three case studies of tourism, fisheries and the public sector are examined in Chapters Three, Four and Five, respectively. The Tourism sector, being the most integrated into the global economy and thus the most exposed to the vagaries of the economic globalization process, will be examined first.

CHAPTER THREE: TOURISM CASE STUDY

3.0 INTRODUCTION

This case study reports the analysis of the modes of responses adopted by the tourism sector of the Maldives to pressures from selective aspects of economic globalization between 1972 and 2002. With their limited natural resources, tourism has become a preferred policy for economic development in many SISs. Tourism is one of the few export sectors available for SISs like the Maldives, which does not face trade or quota restrictions, which confront many other exports of manufactured goods, raw materials and primary products (Bodlender, Jefferson, Jenkins & Lickorish,1991: 62; Wing, 1995:97). In spite of acting as the springboard for economic growth of the country, tourism in the Maldives is highly dependent on the business decisions made by companies in the global tourism and aviation industries. The heavy dependence on foreign companies for investment capital, promotion of the tourist resorts and on neighboring countries to supply the required labor for the industry impose restrictions on product and market diversification in the Maldives tourism industry.

The tourism sector was selected for analysis in the overall research framework of this thesis for the following reasons:

- It is the major sector which is most directly linked to the global economy, and hence, is likely to yield important insights to the research questions posed in the thesis.
- It is the sector of the Maldivian economy on which extensive written material is available, both in term of statistics and analysis. This is expected to provide an opportunity to corroborate trends and patterns observed from this thesis by comparing it to the published material.
- It is the sector that employs the largest number of expatriate laborers in the country. An in-depth examination of the sector is likely to produce insights into

the complex regional-domestic nexus in the overall globalization process impacting on the sector.

The chapter specifically poses the following two broad questions: What are the diverse ways through which economic globalization is affecting the tourism sector of the Maldives? What are the major factors and conditions that influence the State's response to the challenges posed and opportunities being created by economic globalization in the tourism sector of the Maldives?

The chapter is comprised of two main sections. The first section outlines the primary ways through which the tourism sector of the Maldives is affected by economic dimensions of globalization. The second section divides the experience of the Maldives in tourism development into three major phases and goes on to highlight and evaluate how the dimensions of economic globalization, outlined in the first section, have impacted on the tourism sector of the country and how the State has reacted to these challenges and pressures.

Major propositions of the chapter include: firstly, that State intervention in the development of tourism in the Maldives has undergone a qualitative change over the three phases. It is claimed that the State has progressively reduced its reliance on legal instruments as a policy tool in favour of more incentive-based policies. Secondly, the State has accepted the need to maintain a healthy rapport between local resort operators, foreign tour operators, hotel chains and management companies operating in the country if the industry is to survive in the highly competitive global tourism business. But the Maldivian experience in tourism development also supports the view that, in spite of the operation of large Multi-national companies (MNCs) in the country's tourism sector, the State continues to have the capacity to influence them. This is partly due to the State control over the land on which tourist resorts are built. Thirdly, the chapter claims that although the arrival of tourism to the country has led to some decline in the influence of Malé-based economic elites and past political structures of the country, those segments of the elites that have ventured into tourism continued to play a dominant role in the

formulation of tourism policy in the country. This often takes place through their capacity to advise the State on tourism policy using a barrage of informal, personalized connections to the decision makers in the government and through their representation on a plethora of committees and boards assisting the government in policy formulation on the tourism sector. Finally, the chapter goes on to illustrate how the geography of the Maldives, especially its archipelagic formation with hundreds of small islands, continues to have a defining influence on the management of the tourism sector in a "politically acceptable" manner with the adoption of a "one-island-one-resort" policy. The broad conclusion of the chapter is that the manner in which SISs like the Maldives respond to challenges arising from economic globalization, at least in the case of the tourism sector, is related to their history and political dynamics of the society.

3.1 SETTING THE SCENE

The initial development and management of tourism in the Maldives was different than the then norm in most developing countries. During the early 1970s, when Maldives entered the international tourism industry, policies on tourism development and management in developing countries were influenced by the dependency theories (Wall & Maccum,1977). In other cases the foundation of the tourism industry was laid by their former colonial powers. In Seychelles, for instance, it was the former colonial power that launched tourism, in 1976, as a means to economic development (Sathiendrakumar & Tisdell,1988:4). Similarly, Fiji's tourist industry evolved in the 1940s and 1950s from the colonial construction of ports, roads, government accommodation and airport facilities that enabled the colony to become a key refuelling stopover for international carriers (Britton, 1980a and Britton, 1980b). In Mauritius the State was heavily involved in the development and management of tourism through State enterprises or in partnership with multinational corporations (Dummas, 1974) and (Gabby, 1986). Unlike many of these States, it was the private sector that was in the forefront of tourism development in the

Maldives. In 1972 two Maldivian entrepreneurs and an Italian investor[1] arranged travel and accommodation for a small group of tourists from Italy. This was followed by several similar visits by small groups of tourists from other European countries. These independent and small-scale tourism activities gave way to international tourism, proper, in 1972 with the opening of two tourist resorts, Kurumba Village Tourist Resort and Bandos Island Resort (WTO, 1998:1). The increase in the number of resorts and expansion of bed capacity in existing resorts went ahead without much government intervention until the late 1970s. During the 1970s there was no government agency that dealt with tourism matters. Nor were their any rules and regulations governing either the actions of resort operators or the behaviour of tourists in the country.[2]

Maldives adopted a form of "enclave tourism" with its adherence to a one-island-one-resort policy. Enclave tourism is usually adopted as part of a conscious decision to segregate tourists from the general population. It seeks to reap the benefits of foreign exchange without placing too much demand on the indigenous cultures by foreign tourists (Bodlender, Jefferson, Jenkins & Lickorish, 1991:69). In the Maldives, enclave tourism occurred naturally, because of the dispersal of islands on which tourist resorts were built and population centres, but later it was institutionalized to protect the religious beliefs, culture and the fragile natural environment of the country.

It was from this, largely laissez-faire beginning, that tourism in the Maldives took roots. From its humble beginning in 1972 with only 1097 tourist arrivals, the tourism sector has grown to become the major pillar of the Maldivian economy. Three decades later (end of 2002), international arrivals have grown to nearly half a million visitors and bed capacity has reached 16,400 (See Table 3.1). As seen from Table 3.2 not only has the sector's contribution to GDP nearly doubled between 1982 and 2002, the sector has been contributing more than a quarter of the government's total revenue. Other indicators such

[1] He was an Italian tour operator by the name of Mr.George Corbin who travelled extensively in Asia in search of unspoiled destinations for him to organize packaged tours to.

[2] In fact, no passports were required to enter the Maldives during this period. The author was informed by an interviewee, with pride, that passports of tourists who insisted on having their passports stamped upon arrival were stamped by local tour guides, using their company stamps, for a nominal fee! (Interview 27 June 2002).

as average occupancy[3] in Resorts and Hotels (Table 3.3), as well as average duration of stay by tourists (Table 3.4) show similar increases. In spite of these improvements in arrival the tourism sector in the Maldives is highly dependent on European countries for its clients (See Table 3.5).

Table 3.1

Tourist arrivals and bed capacity (1972-2002)

Year	1972	1977	1982	1987	1992	1997	2002
Arrivals	1,097	18,668	74,411	131,399	235,852	365,563	484,680
Bed capacity	280	1,034	3,984	6,203	8,487	11,958	16,400

Source: Ministry of Tourism (MOT), (1999). Tourism statistics & MPND, (2003). Statistical yearbook.

Table 3.2

Tourism sector's contribution to GDP and government revenue (1982-2002)

Year	1982	1987	1992	1997	2002
GDP contribution	16.1	17.2	17.7	34.1	31.1
Tourism tax revenue as a (%) of government revenue	20.3	20.7	25.9	26.6	na

Source: MOT, (1999). Tourism Statistics & MPND, (2003). Statistical yearbook.

[3] This rate expresses the ratio of the capacity of accommodation available during a given period to the actual use of the facilities over the same period.

Table 3.3

Average occupancy in the tourist resorts and hotels (1980-2002)
(in percent)

Year	1980	1985	1990	1995	2000	2002
January	81.3	79.1	79.4	82.0	86.6	67.1
April	42.0	58.2	58.2	75.6	76.7	70.1
July	23.4	42.0	45.4	60.2	57.4	56.7
October	24.2	52.3	58.3	66.7	53.8	73.7

Source: MOT, (1999). Tourism Statistics & MPND, (2003). Statistical yearbook.

Table 3.4

Average duration of stay by tourists (1980-2002)
(in days)

Year	1980	1985	1990	1995	2000	2002
Average duration of stay	7.1	9.2	8.6	8.7	8.4	8.4

Source: MOT, (1999). Tourism Statistics & MPND, (2003). Statistical yearbook.

Table 3.5

Tourist arrivals by market (1981-2002)
(in percent)

Year	1981	1986	1991	1996	2001	2002
Europe	72.7	72.6	75.0	74.6	79.0	77.0
Asia	23.7	21.2	22.4	20.5	17.5	19.6
Africa	0.6	0.3	0.2	2.3	0.4	0.6
Americas	2.2	1.5	1.0	1.2	1.5	1.5
Oceania	0.8	4.3	1.5	1.4	1.6	1.2
Other	0.0	0.1	0.0	0.0	0.0	0.0

Source: MOT, (1999). Tourism Statistics & MPND, (2003). Statistical yearbook.

3.2 DIMENSIONS OF ECONOMIC GLOBALIZATION AFFECTING THE TOURISM SECTOR

3.2.1 Role of international tour operators

Tour operators have a strong influence on international flow of tourists from main generating markets to various destinations. Tour operators' perception of specific tourist destinations tends to shape travellers' behaviour towards those destinations. Consequently, the success of tourist destinations is highly dependent on whether large tour operators include them in their travel and promotion programs (Cavlek, 2002:479-83; Ioannides & Dallen, 2002:184). Major tour operators such as TUI[4] of Germany have large numbers of travel agencies, thousands of hotel rooms and a fleet of aircraft to organize tourist travel. Large European tour operators also have contract arrangements with leading scheduled airlines for concessionary rates and buy seats in bulk on those carriers. Many of these large tour operators, through their franchised travel agencies, also

[4] TUI has a fleet of 88 aircraft and 81 tour operator brands. It also has 3175 travel bureaus and 32 destination agencies. It holds 285 properties with 150,000 beds (Hills, 2002).

undertake marketing and promotion of specific tourist destinations. Large European tour operators also fund hotel and tourist resort projects. This triangular control of travel wholesalers, airline seats and accommodations networks makes international tour operators a formidable force in the global tourism industry (Milne, 1992:200).

Since the inception of tourism in the country, Maldives has been highly dependent on tour operators for investment funds to build and renovate tourist resorts,[5] promote tourist resorts, and for the provision of air travel between major tourist markets and the Maldives (Sathiendrakumar, 1995:12). The majority of tourists have always arrived in groups arranged by travel agents/tour operators. Although initially only the largest European tour operators were active in the Maldives, as the country became known in the global tourism industry, and as Maldives broadens its appeal, a wider range of tour operators from all around the globe have established their business linkages with Maldivian resort operators. See Table 3.6 for a list of prominent foreign tour operators working in the Maldives.

3.2.2 Foreign ownership, partnership and international hotel management companies

Engagement of MNCs in the domestic tourist industry may take several forms. It could take the form of equity participation in terms of whole, majority or minority ownership of the investment. Involvement of foreign companies can also take place in the form of management contracts, franchising agreements, leasing, and other technical service agreements, such as marketing consortia or a mixture of these forms (Kusluvan & Karamustafa, 2001:188). Since the beginning of tourism in the country foreign companies have leased tourist resorts from local resort owners. Foreign companies and individuals and wealthy foreign families have also acquired shares in resort properties in the

[5] Due to the embryonic status of the accounting and reporting system in the country and because of the extreme sensitivity attached to the issue, accurate figures on the level of tour operator lending to local resort operators is difficult to obtain. However, Maldives Association for Tourism Industries (MATI) estimates that in 1993 the foreign component of resort capital lay between 50-80% (Cited in Nethconsult/Transtec & Bord Failte, 1994:118). According to another source, anecdotal information suggests that on average, the capital investment of resorts consists of 10% of finance raised by divesting equity, 20% from tour operator advances, 40% from suppliers credit, and 30% from loan finance (MOT, 2002:56).

Maldives. In the latter part of the 1990s there was an increase in the number and role of MNCs in the Maldivian tourism industry through various forms of franchising arrangements.

At the beginning of 1982, only two of the forty-four resorts were owned by foreign parties. Foreign companies and individuals were managing ten resorts, with an additional three managed jointly by foreign and local operators. In total, foreign parties were managing nearly 30% of the total resorts in the country (MPD, 1983:91). By the end of the decade, in 1989, except for two resorts that were owned in partnership with local operators, foreign companies did not own any resorts in the Maldives. However, between 1982-1989 management of Maldivian resorts by foreign parties increased to over 40% (MPE, 1990:121). The increase in foreign ownership continued well into the new millennium. By the end of 2001 foreign companies owned more than 8% and were managing more than 48% of the tourist resorts in the Maldives (MPND, 2002). Table 3.7 shows the foreign ownership and management of tourist resorts in the Maldives at the end of 2002. The number of regional hotel chains and international hotel management companies that began operation in the Maldives has increased over the past ten years. These regional hotel chains have their origins in Sri Lanka (Aitken Spence), India (Taj group), and Singapore (Banyan Tree and its sister company Angsana Resorts and Spa).

3.2.3 Expatriate labour in the tourism sector

Unlike the MIRAB[6] economies of the Caribbean and South Pacific, where a large percentage of the local population works abroad, mostly as expatriate labour in large metropolitan centres, Maldives is an importer of skilled, semi-skilled and unskilled labour. With increased demand for construction workers for the booming resort development activities[7] in the 1980s resort owners/operators began to employ expatriate

[6] MIRAB stands for outward migration, high level of remittance and overseas aid and payments to cover trade deficits and a reliance on bureaucracy for job creation (Bertman & Watters,1985).

[7] During the 1980s there were only a few large construction companies in the Maldives that were capable of undertaking the construction of an entire tourist resort. The operators of the resorts usually hire small,

Table 3.6

Major tour operators working in the Maldives (end 2002)

Australia	Nouvele Frontier	JTB
Island Affairs Holidays	Pandani	SIA Holidays
ITS-Australia	Skorpion Travel	Universal Singapore
SIA Holidays	Turisanda	
Paradise Island Holidays	Vacanze	**Sri Lanka**
	Valtur	Aitken Spence
France	Sprintours	Jetwing TVL
Jet Tours	Ventaglio	Taj Travel Services
Kuoni France		United Holidays
Nouvelles Frontieres	**Japan**	World Link
Asia France	Cox & Kings	
Croisi Tours Voyages	Kuoni	**South Africa**
	Playguide Tours	Associated Tour Optrs.
Germany	Reve International	Club Island Centre
ACS Touristic	ST World	Holiday Tours
Fischer Reisen	Vita Travel	
ITS Reisen	Indus	**Switzerland**
LTU Germany	Inpac	Hotel Plan
LTU Touristik	Act International	Tropic Tours
Kumara Reisen	Merry Tours	Esco Reisen
Stop Over Reisen		Kuoni
Sub Aqua	**Netherlands**	Manta Reisen
TUI	Hotel Plan	Voegele Reisen
Tjaereborg	Holland International	
Neckerman	Sun Tours	**United Kingdom**
Air Tours International	Travel Trend	Air Tours International
Jahan Reisen		Hayes & Jarvis
Kreutzer	**Russia**	Maldive Travel
	Big Tours	First Choice
Italy	Aniko Tours	Premier Holidays
Atitur Detour Italia	Classic Tours	Tradewind
Francorosso		Kuoni
Gateway Italy	**Singapore**	Meires Weltrreisen UK
Hotel Plan Italy	Avi Singapore	Cox and Kings
Kuoni	Chan Brothers	

Source: Adapted from MOT, (1999). Tourism Statistics.

Table 3.7

Foreign ownership and management of tourist resorts in the Maldives (end 2002)

Resorts owned / managed by foreign companies

Name of the resort	Operator	Owner
1. Biyadhoo Island Resort	Dodla Enterprise Pvt. Ltd (India)	Dodla Enterprise Pvt. Ltd.
2. Villivaru Island Resort	Dodla Enterprise Pvt. Ltd. (India)	Dodla Enterprise Pvt. Ltd.
3. Vadhoo Island Resort	Sun Maldives International Co. Ltd (Japan)	Sun Maldives International Co. Ltd
4. Reethi Beach Resort	Magic Kingdom Resorts (Dubai)	A local Individual
5. Kudarah Island Resort	Holiday Club Maldives Pvt. Ltd. (Italy)	Holiday Club Maldives
6. Boduhithi Coral Island	Holiday Club Maldives Pvt. Ltd. (Italy)	Boduhithi Investments Pvt. Ltd.
7. Gangehi Island Resort	Holiday Club Maldives Pvt. Ltd. (Italy)	Gangehi Investments Pvt. Ltd
8. Gasfinolhu Island Resort	Valtur S.P.A (Italy)	A local individual
9. Kihaadhuffaru Resort	Valtur S.P.A (Italy)	A local individual
10. Kudahithi Tourist Resort	Holiday Club Maldives Pvt. Ltd. (Italy)	Kudahithi Investments Pvt. Ltd.
11. Machchafushi Island Resort	Siox Investment Ltd. (Italy)	Ministry of Tourism
12. Madoogali Resort	Hermosa Inc. Ltd. (Switzerland)	Ministry of Tourism
13. Ranveli Village	Golden Send SA. (Switzerland)	A local individual

Table 3.7 (continued).

Resorts owned / managed by hotel chains and hotel/resort management companies

Name of the resort	Operator	Owner
1. Four Seasons Resort Maldives at Kuda Huraa	HPL Resorts (Maldives) Private Ltd (Canada)	HPL Resorts (Maldives) Private Ltd
2. Kanuhura Sun Resort and Spa	Kanuhuraa Sun Resort and Spa Ltd. ♠	Kanuhuraa Sun Resort and Spa Ltd.
3. Soneva Fushi Resort (Kunfunadhu)	Bunny Holdings Pvt. Ltd. (India) ♣	Bunny Holdings Pvt. Ltd.
4. Soneva Gili Resort and Spa (Lankanfushi)	Promus Pvt Ltd. (India)♣	Transco Pvt. Ltd.
5. Hilton Maldives Resort and Spa (Rangali)	Hilton International Company (U.S)	Crown Company Pvt. Ltd.
6. Banyan Tree (Vabbinfaru)	Vabbinvest Pvt. Ltd (Singapore)	Vabbinfaru Island Paradise Pvt. Ltd.
7. Angsana Resort & Spa Maldives (Ihuru)	Maldives Angsana Pvt. Ltd. (Singapore)	Ihuru Investments Pvt. Ltd.
8. Club Med (Farukolhufushi)	Maldives Holiday Villagers Pvt. Ltd (France)	Ministry of Tourism
9. Kanifinolhu Tourist Resort	Club Mediterranee (France)	Cyprea Pvt. Ltd.
10. Taj Exotica Resort and Spa Maldives	Taj Maldives Pvt. Ltd. (India)	A local individual.
11. Taj Coral Reef Resort (Hembadhu)	Taj Maldives Pvt. Ltd. (India)	Taj Maldives Pvt. Ltd.
12. Medhupparu Island Resort	Cowrie Investment Pvt. Ltd.*	Cowrie Investment Pvt. Ltd.
13. Club Rannalhi	Jetan Travel Services Company Pvt. Ltd[1]	Jetan Travel Services Company Pvt. Ltd.
14. Bathala	B.I.R. Hotel Management Pvt. Ltd*	3 local individuals

♠ Formerly Kerzner International, now "OneandOnly" group of hotel management companies
♣ Affiliate of Six Senses Hotel Management companies

[1] Affiliate of Aitken Spence hotel chain of Sri Lanka

labour, mainly from Sri Lanka, India and Bangladesh, as unskilled labour and construction crews. Once the construction phase was over some of the labourers were given unskilled jobs in the newly built resorts.[8] Resort operators found expatriates to be a cheaper and disposable method of unskilled labour. The influx of expatriates accelerated with the commencement of construction of new tourist resorts in islands selected under the First Tourism Master Plan (FTMP).[9] Resort operators defend the practice of recruiting expatriate labour on the grounds that the local labour pool is too small and is not suitably trained. They also complain that, with a few exceptions, local labour is not well motivated to meet the rapidly expanding needs of the tourism sector (Interview 18 May 2002).[10] Local employees working in the resorts claim that they are discriminated against in favour of foreign labour. They complain that they receive lower salaries, lower standards of accommodation, and get a poorer quality of food compared to their foreign counterparts, even though they have the same qualifications (UNDP & WTO*, 1990:27).

Part of the shortage of labour force in the tourism sector is related to the education and training inadequacies in the country. Notwithstanding the efforts made over the three decades to expand vocational training, Maldives has been unable to produce sufficient numbers of personnel in many key skill areas required by the tourism sector. For instance, the Faculty of Hospitality and Tourism Studies,[11] since its foundation has been able to produce on average only 130-170 graduates per year (MOT, 2002:35-44). The negative image of tourism as a career is partly responsible for the low number of applicants seeking training in hospitality skills. Tourism continues to be viewed by parents as the least favoured occupation for their children. Girls in particular are not encouraged to work

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specialized groups to undertake different aspects of the resort project. These specialized groups were then assigned a small army of unskilled labourers who undertake miscellaneous tasks assigned to them during the construction phase.

[8] The labour regulation during that time did not require sponsors of expatriates to send them back after the completion of the construction of resorts.

[9] The high demand for resort beds and the government policy of making the first year of lease rent-free meant that the opportunity cost of delaying construction was very high. This then justified the hiring of expatriate labour in relatively large numbers.

[10] Other studies have found that managers prefer expatriate labour because locals do not respond to advertisements seeking local labour and those who do respond tend not to stay for any reasonable length of time (ITCL, 1997:8-9).

[11] Formerly known as Institute of Hotel and Catering Services. Faculty of Hospitality and Tourism Studies is part of the Maldives College of Higher Education.

in resorts. They are constantly being told that resorts are places where "immoral" activities take place (MPND & UNDP, 2000:21).[12]

Working in tourist resorts presented a novel challenge to the Maldivians. Before the introduction of tourism, the primary occupation of the majority of Maldivians was fishing. The traditional methods of harvesting and processing of fish was such that those resident in non-Malé islands were able to earn their income while residing in their islands. With the arrival of tourism local labour was forced to become flexible. Many who took employment in the resorts found that their new jobs were relatively more structured, required working long hours and commitment to the work for, at least, part of the year (UNDP & WTO, 1990:27). This change, whilst difficult to adjust to was acceptable, due to the fact until the middle of the 1980s tourism in the country was seasonal.[13] The seasonality of tourism gave flexibility for local staff to return to their own islands during the off-season for extended periods of time. But, with the expansion of the tourism season throughout the year, frequent leave taking by local employees became problematic. The impact of these aspects of economic globalization will be examined in more detail in the next part of the chapter, by examining the historical development of tourism in the Maldives.

3.3 PHASES OF TOURISM DEVELOPMENT

Taking a historical view, tourism development and management in the Maldives can be regarded as having gone through three major phases. These phases are: the pioneering era (1972-1978); the controlling, planning and regulating era (1979-1992); and the steering era (1993-2002). The pioneering era has been studied by other authors in the literature on the development of tourism in the Maldives. While Nethconsult/Transtec & Failte (1994) interpreted the entire decade of the 1970s as the pioneering stage, Domroes (2001) regarded the pioneering stage to be between 1972-1977. The major reason why this thesis

[12] National laws and regulation on education also discourage students visiting resorts unless they are accompanied to the resorts by their parents or guardians.
[13] Tourist season lasts from November to May, which coincides with the mild northeast monsoon.

has taken 1978 as the cut off point of the pioneering era is, in spite of the gradual State involvement in the industry, it was the pioneers, albeit those linked to the State that were steering the tourism industry in the country. The controlling, planning and regulating era warranted a separate period because, compared to the pre-1979 period, with the coming of a new government there was a major shift in State policies towards tourism, and the sector was subjected to a new era of regulation. Once the fundamental policy guidelines for the development and management of the tourism industry was laid out by the State in the late 1980s, there was another marked shift in the policy instruments used by the government to guide the tourism industry beginning in the early 1990s. Thus, steering was identified as a separate period in the development and management of tourism in the country.

3.3.1 Pioneering era (1972-1978)

During this phase, the national infrastructure to support tourism in the Maldives was very limited. The first groups of tourists were accommodated in private residences in Malé. With no operational international airport[14] in close proximity to the resorts, tourists who wanted to visit the Maldives had to travel to Sri Lanka to reach the country, from where they travelled on Sri Lankan Air Force planes. The airport infrastructure in the Maldives was basic and could not support large body aircrafts. Consequently, not only were tourist arrivals dependent on the availability of Sri Lankan Air Force planes, their scheduling was also dependent on the good will of the Sri Lankan authorities.[15]

During this phase, there were no standards or guidelines regarding resort construction or resort operation in the Maldives. The early entrepreneurs or "pioneers" of tourism developed their own concept of a tourist resort and built the islands in any way they

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[14] Gan Island in Addo atoll had an operational airport built and operated by the British Royal Air Force until 1972, which was capable of handling wide-bodied passenger jets. But foreign tour operators were not willing to pay, at that time, to fly wide-bodied jets to Gan and then to ferry the tourists in small jets to Hulhule airport, which was closer to the resorts (Colton, 1978:66).

[15] For instance Maldivian resort operators paid dearly due to mass cancellation of tourist bookings during the peak season of tourism because of delays in getting landing rights for the Maldives International Airlines in Sri Lanka (Colton, 1978:66).

considered to be most conducive for tourist accommodation in the country. Without government assistance or guidance, the pioneers developed tourist resorts on islands as self-sufficient units with their own electricity, water, sewerage, in-house communication, transport, garbage disposal system, storage facilities, and accommodation for resort staff.

In these formative years, it was principally European tour operators that promoted Maldives as a tourist destination. Upon returning to Italy from his famous visit to the Maldives in 1972, George Corbin and the photographers and writers who accompanied him published articles on the Maldives in the Italian press and magazines. This was the beginning of the promotion of tourism in the Maldives. Since then tour operators have continued to play a major role in promoting the Maldives. They promoted the country primarily as a diving destination. Lacking the finances to launch expensive promotion campaigns and with no trade or promotional representatives in major feeder markets, and with the existence of only a handful of small domestic travel agents, local resort operators were forced to rely on foreign tour operators to fill their resort beds (MOT, 1999).

As the demand for Maldives as a tourist destination increased amongst Europeans there was market pressure to expand the bed capacity in the tourist resorts. Until the late 1970s, the overall capital requirement of the tourism sector was relatively low due to the limited facilities and types of structures in the resorts.[16] Even so, the two Commercial banks -- State Bank of India and Bank of Ceylon-- were not able to meet the surge in demand for bank loans from resort owners/operators. When these banks lend they lend only on short-term basis (usually for 3-5 years) with interest rates as high as 15% on US dollar borrowing. Because additional demand for finances was not met by the supply of credit from domestic banks, local resort operators began to negotiate with international tour operators to raise finance to build resorts. Large international tour operators provided upfront finance to individual resort operators to build resorts. In return, local resort operators provided guarantees for these tour operators that resort beds at heavily discounted rates will be made available to them on a long-term basis. Since these tourist

[16] It was estimated that in the 1970s it cost less than US$ 3,000 to construct a resort bed including the support infrastructure. By the late 1990s, this figure has reached more than US$ 40,000 per bed (MOT, 2002:54).

resorts were constructed and managed by private entrepreneurs there was no government involvement in the financing arrangements made between resort owners/operators and tour operators.

Since the late 1970s, the State acknowledged the importance of tour operators in developing the tourism sector of the country and endorsed their activities. The government even made arrangements with large European tour operators such as Neckermann, Sub Aqua, Air Tour Suisse and Vacanze to bring in tourists on packaged tours. The government gradually developed the overall infrastructure to support the package tour based tourism in the country (Colten, 1977:40). A clear example of such an investment was the upgrading of the airport in Hulhule Island. The extension of runways and upgrading of communication facilities at this airport cleared the way for the arrival of large numbers of tourists to the Maldives on wide bodied aircrafts for the first time.

During this pioneering era, the government made no effort to control the activities of foreigners in the local tourism industry and continued to maintain a hands-off approach regarding the offers made by foreign companies to local private individuals and companies wishing to participate in the development and expansion of the tourism infrastructure of the Maldives. Club Mediterranée began operating a resort in the country just one year after the launch of tourism in the country. Since then, several foreign companies, mainly from Europe and Australia, formed partnerships with local resort operators. The government's policy of non-intervention in the private sector's increasing number of partnerships can be traced back to the benefits these arrangements were providing to the country, in terms of access to investment funds and expertise that was urgently needed to develop the sector. Also, given the fact that there were very few foreign companies operating in the country and none of them was controlling more than one resort, they were not seen as a threat to the local resort operators.

Expatriate labour working in the tourism sector was a major component that shaped its destiny. The earliest government initiatives aimed towards replacing expatriate labour working in the industry were directed at producing the human resources required for the

industry. This included training provided for staff of several resorts under UNDP hotel traineeship program for hospitality training (MOT, 2002:42). The other major initiative that contributed towards developing human resources for the tourism sector was the establishment of the Vocational Training Centre (VTC)[17] in 1975. Over the subsequent thirty-year period the centre produced semi-skilled labour mainly in the fields of refrigeration, engineering and electrical for the tourism industry. Most of the trainees of the VTC were employed in the resorts. During the 1970s, the issue of expatriate labour did not reach the policy agenda because not only was the number of expatriate labourers working in the tourism sector small, they were employed in resorts dispersed over many islands.

3.3.2 Controlling, planning and regulating era (1979-1992)

The new government that came to power in 1978 largely abandoned the policy of laissez-faire and adopted a more interventionist approach towards tourism development in the country. In the first year of office, the new government took over resorts built by the former President and the Crescent Tourist Agency (CTA)[18] and leased out most of them to private operators.[19] The government adopted an open policy on domestic and foreign investment in tourism aimed at achieving the dual objectives of encouraging investment and increasing government revenue from the industry (MPE, 1989:34).

This liberal policy on tourism was accompanied with a two-track strategy to develop the sector in a sustainable manner. The first part of the strategy was the formulation of clear policies and strategies for the development and regulation of the tourism sector. In 1979 the government introduced the first Tourism Law, which laid down the regulations for the industry. The law gave legal backing to the ongoing practice of developing tourist resorts

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[17] This is now the Faculty of Engineering Technology of the Maldives College of Higher Education.
[18] The Parliament passed a special law in early 1979 allowing the government to take over these resorts alleging that they were built from money embezzled from the State. The government paid compensation for those resorts that were built by CTA. It did not pay compensation for those resorts that were allegedly built using State money but managed by private individuals.
[19] This excludes two resorts and the two tourist Hotels in Malé.

on uninhabited islands by declaring that tourist resorts could only be built and operated on uninhabited islands. The law further required resort operators to conform to a strict set of quality standards regarding the natural environment, aspects of resort construction and service delivery.[20]

The introduction of strategic and long term planning for the tourism sector was another important aspect of this phase. The FTMP,[21] launched in 1982, laid out the overall framework for the development of tourism in the country for the next ten years. It included, amongst others, the planning criteria, selection processes for new tourism developmental zones, and key suggestions for future development of the industry (MPE, 1989:36). The Plan gave particular attention to the means and ways to reduce the potential negative impacts of tourism on the socio-economic structure of the country and its environment.

With the adoption of the Master Plan the uncontrolled development of islands as tourist resorts came to an end with a moratorium on resort construction by the government in 1982. Specific measures were also taken by the government during this phase to minimise the external influences arising from tourism on the cultural values, lifestyles and religious beliefs of the Maldivians (Interview 20 June 2002). These included: implementing regulations guiding tourists' behaviour and dress code; and making it difficult for locals to visit resorts, backed by set of penalties to deter them from engaging in "deviant" activities (Nethconsult/Trastec & Failte, 1994:62).

The second part of the two-track strategy was aimed at strengthening the institutional framework for administering and monitoring the industry. The then existing Department of Trade and Foreign Investment was changed to Department of Tourism in 1982 and became a full-fledge ministry in 1988. In 1984 a Tourism Advisory Board was

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[20] Some of these standards include: restricting infrastructure development to no more than 20% of the resort islands' total surface land area; requiring all bungalows to face the sea and not permitting the construction of buildings that exceed two stories in height; and making it mandatory for all resorts to be self-managing in terms of water and waste (MPE, 1989:36).

[21] The plan was then called Maldives Tourism Development Plan.

established to advice the government on matters related to tourism. This high level board consisted of multi-ministerial and private sector membership.

The airport at Hulhule was upgraded to international standards during this phase. This upgrade gave the opportunity for large tour operators to expand their packaged tours and fly tourists directly from Europe in chartered flights. Following this expansion of the airport's capacity, large foreign tour operators, through their franchised travel agencies abroad, also expanded their bulk booking of various standard package tours to the Maldives. According to Boey (1988) (cited in Jaleel, 1990:3), during the early 1980s more than 88% of the tourists who visited Maldives came through organized tour operators. These developments led to an increase in the dependency of local resort owners and operators on overseas travel agencies' "booking monopoly" (Sathiendrakumar & Tisdell, 1988:3). The upgrading of the airport at Hulhule strengthened the hands of tour operators by expanding their scope for vertical integration of the tourist product offered in the Maldives in terms of greater control over the bookings, travel and accommodation.

Tour operators' role in funding expansion of the resort infrastructure deepened during the 1980s. In 1979, at the height of the resort construction boom, lending by domestic banks virtually dried up pending clarification of the status of outstanding loans to resorts that had been put under direct government control after the departure of the former President. Tour operators filled the financing gap for some resort owners, by block-booking resort beds and paying advances to local resort operators to build new resorts or upgrade existing ones (WB, 1980:46). As tour operators began to take control of a greater number of resort beds they were in a position to determine the types of clientele visiting the Maldives.

The competition created by the entry of new tour operators (both European and non-European) to the Maldivian tourism industry during the 1990s did not materialize into long-term benefits to the local resort operators. As the number of tourist resorts expanded, during the 1980s and early 1990s, there was competition amongst resort operators to obtain financing from a relatively small number of tour operators who were willing to

lend in the absence of strong legal infrastructure to safeguard their investments. The increased demand by local resort operators for financing strengthened the bargaining power of tour operators who began demanding greater concessions in the form of drastically reduced rates from resort operators. The excess capacity of resort beds that was created during the early 1980s, following the opening of new tourist resorts under the FTMP, meant that local resort operators were, more than ever, dependent on foreign tour operators to sell their resort beds.

The primary response of the government towards this increasing squeeze on domestic resort operators by international tour operators was threefold. Firstly, the government took selective measures to give greater access to financing for the local resort operators. This included providing them with small financial incentives and tax concessions. The government granted small loans to assist resort operators to purchase bottle crushing machines and incinerators. The resort operators were also granted 100% duty exemption from materials imported to build new tourist resorts and 50% duty exemption on material imported to renovate existing resorts (Jaleel, 1990:9). In the middle of the 1980s the government expanded the lease period of resorts from ten years to up to twenty-one years. This was aimed at increasing the capacity of resort owners and operators to borrow money from overseas financing agencies on favourable terms. Even with tight monetary policy to reduce the budget deficit, the government relaxed its hold on the banking sector. The Banks responded positively to these relaxations. During the period 1981-1992 the banks provided on average Rf. 85 million (equivalent to approximately US$ 6.6 million) per year of loans to the tourism sector, which accounted for half of total bank lending during this period (Jaleel, 1990:10 & MPD, 1991:101).

Secondly, as tour operators began to increasingly rely on their own or affiliated charter airlines to fly tourists in and out of the country more efforts were made by the government to encourage scheduled airlines from major feeder markets to operate to the country under the "open sky" policy on aviation in place. Partly as a result of these efforts, between 1979 and 1992 four additional scheduled airlines began operating to the Maldives. (See Table 3.8). However, as seen from Table 3.9, in spite of this increase in

the number of scheduled airlines operating to the country, the ratio of passengers that arrived in the country, between 1987 and 1991, by scheduled airlines as compared to chartered airlines did not increase much, except in the latter years of the controlling and regulating era.

Thirdly, the government began to seek advice from the pioneers of the country's tourism industry. These pioneers became advisors to the government on policy formulation with regard to the industry. Pioneers were represented in all major committees relating to tourism. In spite of having been represented in all major advisory and technical bodies for policy-making, individual resort operators, especially some of these early pioneers, saw the need to have a formal mechanism to continuously lobby the government on issues they saw as requiring government action. The role of lobbying was assigned to the MATI.[22] Through commissioning of studies, MATI presents to the policy-makers and to the general public, major resort operators' interpretation of the general health of the tourism industry in the country. Through these reports and discussions regarding various aspects of tourism in the country, MATI is highly effective in influencing the tourism policy agenda.

Taking advantage of the liberal foreign investment regime of the country, a number of foreign hotel chains became part of the landscape of Maldivian tourism. It was during this phase that, for the first time, regional hotel chains began to establish their operations in a hitherto, European dominated resort industry in the Maldives. The most prominent of these regional hotel chains include the Taj group of India and Aitken Spence group of Sri Lanka.

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[22] MATI was an organization that was originally formed in 1984 to develop as a trading house, which would facilitate the provision of supplies to the resorts. Another objective was to develop a centre to co-ordinate bookings and reservations for people intending to come to the Maldives on holiday. MATI's membership includes: local resort operators; local tour operators; airlines that operate to the Maldives; diving schools; hotel, hospitality and catering companies; wholesale suppliers to the tourist resorts; domestic sea plane operators and safari boat operators. However, a few individuals and companies, who jointly control the majority of tourist resort beds in the country, have dominated the upper echelon of MATI in recent years.

Table 3.8

Airlines operating scheduled flights to the Maldives (1979-1992)

Name of the airline	Date commenced
Sri Lankan Airlines	10 September 1979
Singapore Airlines	28 March 1984
Emirates Airlines	27 May 1987
LTU	1 May 1991

Source: Ministry of Transport and Civil Aviation, (2002). Malé.

Table 3.9

Passenger arrivals by type of carrier (1987-1991)
(in percentages)

Carrier	1987	1988	1989	1990	1991
Scheduled	62	61	60	62	72
Charter	38	39	40	38	28

Source: MOT, (1999). Tourism Statistics.

3.3.3 Steering era (1993-2002)

Since the mid-1990s, while continuing to finance some new resort development projects, international tour operators working in the country were less willing to lend money for the construction of resorts that cater to high-end tourists. In general, they were more forthcoming in investing in resorts that cater to middle-income tourists. Overall, it seems

that international tour operators have switched their emphasis away from financing tourist resorts towards promoting those resort beds that they control.

The control over resort beds by European tour operators and their unwillingness to allocate them to visitors from other regions was a major issue since the middle of the 1990s. Some managers interviewed for this study expressed frustration over the limitations placed upon them by European tour operators in making available those resort beds that they control to tourists from other parts of the world, especially from Asia (Interview 18 May 2002). Up until the 1980s, limited air travel was the major obstacle in attracting new markets. In this steering phase, limited access to European-controlled beds is one of the major factors limiting market diversification in the tourism industry in the Maldives.

Accelerated regionalism in Europe has led to European tour operators placing new demands on Maldivian resort operators. New standards imposed on Maldivian resort operators are common in the areas of health and safety, hygiene, customer rights, environmental protection and human rights. According to the EC Directives on Package Travel, Package Holidays and Package Tours, tour operators are considered liable not only for the non-performance or improper performance of the services involved, but also for the physical injury of their clients if this could be in any way linked to negligence due to them, or even to their service providers. This means that tour operators are liable for all aspects of the contracts they make with their client (Cavlek, 2002:480). As a consequence, tour operators feeding tourists to the resorts in the Maldives insist on continued improvement of facilities in the resorts to which they send their clients. The government has been using its control over the renewal of leases of resorts and inspection process, that follows upon construction of new resorts and renovation of existing resorts, to incorporate these higher standards demanded by tour operators into the tourism industry of the Maldives.

The reorganization of the world travel industry in the 1990s also shifted the relative power and influence of international tour operators in their dealings with resort owners

and operators in the Maldives. During the 1970s and 1980s, Maldivian resort operators, in spite of their limited negotiating skills, were able to work out favourable rates for resort beds with representatives of large European tour operators assigned for different destinations (Interview 3 July 2002). Competition amongst regional agents of a few large tour operators, who were searching for resort beds in the Maldives, facilitated these favourable business deals. With the reorganization of the international travel and hotel sectors in the 1990s towards vertical and horizontal integration, a few mega companies in tour operating, travel and hotel industry came to dominate global tourism.[23] Under these vertical and horizontal integrations several small regional tour operators, with which Maldivian resort operators did business, were taken over by big European tour operators. These changes curtailed the ability of resort operators to bargain for higher room rates. Furthermore, as part of their efforts to become competitive, large tour operators began to centralize the purchasing departments and largely did away with the practice of having representatives assigned to different destinations.

A number of steps were taken by the government to minimise the adverse impacts arising from the changing global business environment. These included, first, the adoption of the new Tourism Law (Law number 2/99) in 1999. The law gave the private sector tourist resort operating companies the option to sell not less than 50% of the shares of their tourist resorts to the general public and to become eligible for an extension of the lease of the resort for up to a maximum of fifty years. Opportunities for extended lease were aimed at providing favourable conditions for resort operators to borrow investment finance from overseas lending agencies as well as to spread the benefits of tourism to a large section of the population. Secondly, in view of the excess demand for investment finance for resort development in the country, the government in the late 1990s began encouraging international banks to establish business in the Maldives. Partly as a result of these efforts, in early 2002, Hong Kong and Shanghai Banking Corporation established a branch in the Maldives.

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[23] In the aviation sector there are four major global alliances. They are SkyTeam, Star Alliance, Qualiflyer and OneWorld. As of December 2002, four airlines belonging to these alliances operate to the Maldives. They are Austrian Airlines, Lauda Air and Singapore Airlines (Star Alliance) and Air Europe (Qualiflyer). Preussag, C&N Touristic and Airtours UK dominate the global tour operator sector in Europe.

During this phase the government policies towards the tourism industry underwent a qualitative change. The government began to focus its attention towards long term sustainability of the industry by concentrating more on policies aimed at improving the management capacity of the industry. According to one interviewee, there was a failure of local resort operators to bring an important and timely switch to their management in line with changing from managing small resorts with a few beds to large-scale resorts with hundreds of beds. The interviewee further observes that many of the older generation of resort operators in the country do not separate personal wealth from their resort activities and attach sentimental value to their resorts. One consequence of this, according to this informant, is that they are less inclined to take timely action that is required for future profitability and market share, based on facts and less on emotions (Interview 7 July 2002). In spite of the increased competition from other SISs and neighbouring countries, according to this informant, there seems to be a general illusion held by resort operators that tourist arrivals would not be affected by their traditional modes of management (Interview 20 June 2002).

The introduction of competitive bidding in 1997 by the government to award islands designated for resort development was instrumental in bringing some degree of professionalism to the industry. In these bids issued for awarding fourteen new tourist resorts the government allocated 60% of the total points for rent. This virtually guaranteed the islands for those who proposed the highest rent. By doing so, the government opened the opportunity for new parties, who had not been associated with the pioneering era of tourism development in the country, to participate in the industry. Unlike the conservatism associated with many of the pioneers, the latecomers were more forthcoming in trying out new ideas and were keen to bring professionalism to the industry. Moreover, these latecomers were less inclined to attach emotional value to the resorts they managed or to regard resorts as their status symbol (Interview 7 July 2002). To a certain extent, then, the government was willing to "take on" the established pioneers of the industry by allowing the new and less experienced entrepreneurs to join the industry.

As part of an effort to increase the State's commitment to the promotion of the industry, the promotional activities of the MOT were elevated in 1997, with the establishment of Maldives Tourism Promotion Board (MTPB). This relatively autonomous Board consists of representatives from the private and public sectors. Expert advice was sought from overseas consultants to improve the marketing strategy. In 2000 a national strategy for marketing and promotion of the tourism industry was formulated. The annual calendar of activities on tourism promotion, formulated in accordance with the broad objectives laid out in the said national strategy, is overseen by the Tourism Promotional Advisory Council, which consists of representatives from various concerned government agencies, tourist resorts and MATI (Interview 15 May 2002).

The government continued its efforts to increase schedule flights from major feeder markets to the Maldives during this phase as well. By the end of 2002, there were sixteen scheduled carriers (including one cargo flight) and ten charter flights that operated to the Maldives. Scheduled and chartered airlines that began operation during this phase are shown in Table 3.10. In spite of government's efforts to increase the tourist arrivals by scheduled airlines, as seen from Table 3.11, there was no major increase in the ratio of tourists who travelled by scheduled flights as compared to chartered flights, except for the period between 1998 and 1999.

The release of fourteen additional islands for resort development in 1997 accelerated the growth of ownership and management of resorts by foreign hotel chains, international management companies and foreign individuals. Since the early 1990s, the government has adopted a more favourable stand on the issue of international hotel management companies establishing their operations in the Maldives. This seems to be a repeat of the policies of the pioneering era, in the sense that, this policy was aimed at raising the profile of the industry. Partially due to this policy of the government of encouraging reputable hotel chains and international hotel management companies to operate resorts in the country, as well as the high level of investment required to build the infrastructure of resorts to cater to upscale tourism, there was an increase in the resorts owned and managed by foreign interests from 7% to 10% between 1997 and 2000. In 1997 foreign

companies managed nearly a third (32%) of the tourist resorts in the country. This figure increased to 44% when resorts co-managed by foreign interests with Maldivian parties are added (MOT, 1999:9). Three years later, in 2000, while the resorts managed by foreign parties remained unchanged at 33%, resorts co-managed by foreign interests with Maldivian parties increased to just under half (47%) of the total resorts in the country (MOT, 2001:3). In 2001 the resorts solely managed by foreign parties declined slightly to 32%, but those co-managed by foreign interests with Maldivian parties increased to 48% of the total resorts in the Maldives (MPND, 2002). Compared to the pre-1990s period, during the 1990s hotel chains based in South East Asia entered the Maldivian tourism market. The high demand for resort beds by tourists from the East Asia region and the difficulty in securing resort beds controlled by European tour operators is one of the major reasons why large hotels chains based in South East Asia began obtaining shares in Maldivian resorts and making franchise arrangements with local resort operators since the late 1990s.

The arrival of up-market hotel chains and international hotel management companies in the 1990s to the tourism industry of the Maldives has contributed to the government's effort to re-orient the tourist product of the Maldives. Like the switch from adventurous, diving-based tourism in the early 1970s to the sun, sand and sea based product in the late 1980s, international hotel chains began to introduce new tourist services such as "Spa" based tourism to the Maldives. These specialized services offered in harmonious settings with the natural environment were aimed towards catering to the specific needs of the high paying clients.

Human resource development has been an important part of the State's agenda on improving the professionalism of the industry. International hotel chains and management companies have been instrumental in raising awareness of the need to improve human resources in the industry. These companies have been influential in implanting a culture of human resource development that is unparalleled in the Maldives tourism sector. For instance, Four Seasons Resort runs apprenticeship programs that strategically pick trainees to participate in their training programs (Anonymous, 2002a).

Table 3.10

Airlines operating scheduled and chartered flights to the Maldives (1993-2002)

SCHEDULED		CHARTERED	
Name of the airline	Date of commencement	Name of the airline	Date of commencement
CONDOR	4 November 1993	Air 2000	8 November 1999
AEROFLOT	4 August 1994	Corse Air International	23 December 1999
Malaysian Airlines	1 June 1997	Air Europe	24 October 1998
EXPO Aviation (Cargo)	10 August 1997	EDELWEISS AIR	4 November 2000
Austrian Airlines	2 November 1997	BELAIR	22 December 2001
EURO FLY	21 December 1998	MY TRAVEL AIRWAYS	1 November 2002
Air Europe	8 May 2001	TRANSAERO AIRLINES	2 November 2002
LAUDA	8 May 2001	AERIS	18 December 2002
Air Seychelles	9 December 2001	Blue Panaroma Airlines	22 December 2002
Qatar Airways	18 December 2001		
Kuwait Airways	29 December 2002		

Source: Ministry of Transport and Civil Aviation, (2002). Malé

Table 3.11

Passenger arrivals by type of carrier (1993-2000)
(% of share)

Carrier	1993	1994	1995	1996	1997	1998	1999	2000
Scheduled	68.5	67.4	66.4	62.3	61.8	70.5	73.7	67.8
Charter	31.5	32.6	33.6	37.3	38.2	29.5	26.3	32.2

Source: MOT, (2001). Tourism Statistics 2001.

The expansion of tourist resorts during the 1990s was accompanied with a rapid growth of expatriate labour in the country. By the end of 2002 there were a total of 30,600 expatriates working in the country. Of these 28.8% were working directly in various jobs in the tourism sector (MPND, 2003). As in the past, the majority of the expatriates came from India, Sri Lanka and Bangladesh. These three countries in South Asia provided more than 83% of the total foreign labour employed in the tourism sector in 2001 (MPND, 2002). The rapidly expanding number of expatriate labourers became a highly politicized issue during this phase.[24] Allegations of reverse discrimination against local labour working in the resorts became vocal in the media.

In response to these criticisms regarding the increase in the number of expatriates working in the country, the government accelerated its efforts to control and reduce the expatriate labour. As early as 1986, the government had formulated labour regulations governing the employment of expatriate labour.[25] Regulations on the Recruitment of Expatriates 2001 lays out broad guidelines and conditions that need to be fulfilled when recruiting personnel from overseas. These labour regulations, amongst others, require that all resort staff have contracts. In spite of efforts by the government to enforce the regulations across all sectors, there are accusations of selective implementation of labour

[24] See Hussain, (2000:17).
[25] Maldives has no Employment Act or Labour Law guiding employment of expatriate labour.

regulations by the resort operators. For instance, it has been pointed out that, while all foreign staff has employment contracts only some bands of Maldivian employees working in the resorts have the protection of such contracts. As far as specific jobs are concerned, waiters and room boys, who form the bulk of the local workforce in the resorts, do not have employment contracts, while office staff and foreign workers do have such contracts (UNDP & WTO, 2000:58).

According to this study the limited protection of local labour is not entirely due to resort management's neglect of the welfare of the local employees. They found that local employees have a very limited understanding of the terms of employment contract, let alone the importance of having one. The study found that local employees in the resorts, in general, have the impression that by entering into such contracts they are "trapped" in an inflexible situation. The study found that local employees working in the resorts, in general, prefer the freedom to move around whenever they feel like it. According to this study local labour working in the tourist resorts prefer flexibility, trust, friendship, family and group connection as a form of job security over management contracts (UNDP & WTO, 2000:58). It seems that legal and management instruments designed to protect local employees working in the resorts from being exploited by their employers are only partially effective due to long held social allegiances.

As part of the effort to make the import of foreign labour more expensive, those employers who recruit expatriates were required, in 1996, to maintain a specified amount of funds as security deposit at the Ministry of Human Resource and Labour to cover expenses if the need arises to send them back to their countries before the end of their contract period. The government has been constantly adding new categories of jobs to which expatriates cannot be recruited for the tourism industry.[26] In 1997 as a further measure aimed at restricting the import of expatriates by tourist resorts, a quota was imposed on resorts by which a given resort can employ expatriates at any particular time, to a level of not more than half of its total labour force (Anonymous, 2002a).

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[26] Some of the jobs in these categories include: administrative officer, billing clerk, cleaner, computer operator, security guard, foreman, typist and shop labourer.

The recruitment of expatriate labour is linked to the quality of available human resources in the country. Until recently, local resort operators have regarded training of personnel in the tourism sector as the responsibility of the government. In general, only a few resorts have budgets set aside for training of their staff. The majority of the resorts rely primarily on training provided by the Faculty of Hospitality and Tourism Studies or else they have no training budget. The most frequently used mode of training in the resorts is on the job training by experienced staff (UNDP & WTO, 2000:60). The general education system of the Maldives has also played a part in the present mismatch between demand and supply of skills in the country. The upper secondary school system of the country, in general, is geared towards producing students for tertiary study (Bray & Adam, 2001:238). It has been argued that, in spite of the demand for vocational training in the country, there has only been limited tangible efforts made to expand post-secondary institutions (Ghosh & Siddique, 1998:5). The push towards the eventual creation of a University in the country has resulted in streamlining the existing post-secondary institutions that would eventually become faculties of the university. Part of this restructuring process involves raising the entry-level qualifications of courses offered in these institutions. As a result, resort operators are faced with difficulties in gaining entrance to institutions such as the Faculty of Hospitality and Tourism Studies by their staff, especially those recruited from the atolls, where the available standard of schooling is generally lower than in Malé. It seems then that overcoming bottlenecks in the post-secondary education institutions is essential in reducing the demand for expatriate labour (Ghosh & Siddique, 1998:5), especially the bulk of semi-skilled expatriate labour employed in the tourism sector.

3.4 AN EVALUATION OF STATE RESPONSES: A SUMMARY

3.4.1 Autonomy of the State

During the three eras of tourism development in the Maldives discussed above, the State was able to maintain relative autonomy from other major players in the sector. Political conditions facing the new government in 1978 were highly conducive for a "hands-on" approach in tourism. First, the unchecked expansion of tourist resorts and guesthouses

both in Malé and in inhabited islands of the country had upset the deeply religious and tradition-based Maldivian society. There was increasing social opposition to the activities of hippies and backpackers, who formed the bulk of early tourists, to which the country was introduced. These activities include widespread import and abuse of narcotics drugs and nudity in public places (Colton, 1977:33). Secondly, in the initial decade of tourism in the Maldives only a few families and elites in Malé received the profits and benefits from the industry. The spill over of benefits from the industry to other atolls was also limited due to the concentration of tourist resorts around Malé atoll. As a result, there was public pressure to open up the tourism industry to allow greater participation in the industry by a larger cross section of the population. Thirdly, by the late 1970s, the operations of tourist resorts had expanded and new services and standards were incorporated into the travel and accommodation package offered in the tourism sector, making government involvement in the industry, in terms of formulation and enforcement of rules and regulations, essential for the further development of the industry.

The recovery of the ever-increasing levels of investment that was needed, at the later stages of tourism development in the country, was contingent on sustained tourist arrivals over a long period. This required large-scale "support infrastructure" for the tourism industry, such as the expansion of the international airport and the development of a reliable telecommunication system. These undertakings were beyond the reach of individual resort operators. Also, as the country became more established as a tourist destination the need for peace and security, long-term planning and effective regulation of the industry increased. In other words, by its very nature the development of tourism in the Maldives depends on public goods such as peace and security, formulation and enforcement of regulations on, amongst others, the standard of service, protection of the environment --(on which the industry was wholly build)-- all of which the State alone can provide.

The government was highly successful in playing the major players and stakeholders in the tourism industry against each other. "Sameness" of the tourism product has been identified as one of the major challenges to future development of the tourism of the

Maldives (Nethconsult/Trastec & Failte, 1994:24). Since the inception of tourism, Maldives has been promoted as a destination for sun, sand, and sea. Although activities based on sun, sand, and sea have expanded dramatically in the packaging of the Maldivian tourism product, the product itself has only marginally changed since the 1970s. As one commentator summarises, *"it [tourism product] would be adaptation of the same product we have"* (Interview 12 June 2002a). In spite of the increasing realization that product diversification was essential to move into new markets, large foreign tour operators working in the industry were unwilling to change their *modus operandi* of profit-maximization through high-volume, high turnover and the low-cost product (Wing, 1995:100). The State was able to overcome this "impasse" by encouraging international hotel chains and international hotel management companies to enter the Maldives tourism industry.

The autonomy of the State is also linked to the one-island-one-resort policy. A major consequence of this policy, at least during the initial phases of tourism development in the country, was the fragmentation of resort operators. Having little to gain by co-operating there was rampant individualism amongst local resort operators. The nature-based tourism of the Maldives inevitably meant that each resort offered a relatively unique product. Consequently, in spite of their financial clout, the lack of collective voice in the industry, until MATI was reactivated in the early 1990s as a lobbying organization, meant that the government was able to impose its will on individual local and foreign resort owners and operators. An interviewee summed up this situation eloquently by saying that *"the government can at any point of time, afford to upset a few powerful resort owners and continue its policies on the industry"* (Interview 20 June 2002).

The one-island-one-resort policy created the opportunity to have several types and standards of tourist products with diverse types of ownership, giving the State leeway to form strategic alliances with selective resort operators, as the global economic situation and domestic political situation changes. The policy of one-island-one-resort has also has the unintended consequence of limiting public pressure on the resort managers to become professional. The relative isolation of the tourism industry from the general population is

proving to be a major factor contributing towards the negative image of the industry by prospective job seekers in the labour market. This in turn makes it harder to attract the necessary local labour force required to expand the sector.

3.4.2 Ownership of land and policy flexibility

Unlike many SISs that have developed tourism as a major pillar of their economies, Maldives escaped colonial rule. Colonial rules of many SISs brought major changes to the patterns of traditional land ownership. In the case of the Maldives there was no major land reform for thousands of years. Consequently, from time immemorial all land belongs to the State. The State, in its capacity as the proprietor of the island, on which resorts were built, was able to exercise control over the management and direction of the tourism industry. In spite of the fact that tourism in the country was developed largely using foreign capital, the State, through a complex set of regulatory frameworks, was able to direct the capital invested by foreign parties in the resort development in the country. In other words, the State was relatively successful in defining the "space" in which MNCs could operate in the tourism sector of the Maldives.

When the country entered the global tourism business the State was confronted with contradictory demands on the management of the land on which tourist resorts were built. On the one hand, as the lessee of public islands, the State has an obligation to obtain the maximum rent out of the leasing arrangements of islands for tourism. This meant that the State could devise the competitive bidding system, for the lease of islands to develop tourist resorts, in such a way as to favour the bidder who proposed the highest rent. The position of the government seems to be that people who cannot operate resorts by paying high lease rents to the government should not be managing resorts (Interview 7 July 2002).

On the other hand, the State, in its capacity as the planner of the industry, also has an obligation to develop the industry in a sustainable manner. This requires it to give leeway

to the resort owners to operate reasonably independently once the islands are allocated for tourism (Interview 7 July 2002). For reasons of sustainability, then, the State was forced to adopt a softer approach in implementing government regulations, especially with regard to the import of expatriate labour. This contradictory situation also gives the State flexibility to adjust implementation of State policies in accordance with the changing domestic economic and political conditions and global economic dynamics. During times of budgetary shortfall, the government can claim that it is in the public's interest to increase the lease rents of resorts, when it comes to renewing their leases. In time of global economic down turns in feeder markets or in times of geo-political instability (such as wars) that affect the industry, the government can grant leeway to resort operators (e.g. delaying payment of lease rents for six months, as was done following the downturn in tourism due to the attacks on the US on 11th September 2001). Such action is justified by the government on the grounds that this sort of leeway in tourism policy is essential for the growth of the industry and that it is in the best "national interest" to do so. Land ownership is thus a major factor in the flexibility of policies regarding the management of the tourism industry in the Maldives.

The State has been relatively successful in using the lease renewal process and inspection process to improve quality of service delivery in resorts. Lease rents are negotiated every ten years using as guidance conditions such as "market situation", bed occupancy rates in similar resorts, average rents in neighbouring resorts, and the present lease rent. The latter set of "factors" are not linked to an explicit and transparent formula (WB, 1999:10). Given lease rents form a sizable portion of the cost of resort operations the subjectiveness built into the process of resort rent adjustment provides the State leeway to dictate terms discreetly on powerful resort owners and operators, regardless whether they are foreign or local, in origin. Similarly, given that the State established quality standards are, in many cases, lower than what is adhered to by many resort operators in the country, the State is able to use its discretion in determining the acceptable level of quality when it inspects resorts (Interview 9 May 2002). This, again, gives the government a high level of control regarding the quality of services provided for both the tourist and the staff, as well as with

regard to the standards of buildings and general infrastructure on the tourism industry of the country.

The geography of the country also affects the capacity of the State to intervene in the tourism sector. Adoption of the one-island-one-resort policy was only possible due to the availability of a large number of uninhabited islands that could be developed as resorts (Sathiendrakumar & Tisdel, 1988:13). The policy has helped to spread the expatriate labour across many islands making their social effects minimal. Furthermore, this policy has allowed the government to distance itself from building infrastructure in the tourist resorts. If resorts were built on one landmass, construction and maintenance of much of the infrastructure would be viewed as municipal responsibilities and the government would be under pressure to provide them.

3.4.3 Providing direction to the industry

As argued above, when major foreign tour operators took no heed of the government's efforts to shift the focus of the industry to attract high paying customers the government began to take gradual steps to relocate the industry. First, by capitalizing on the desires of consumers for a more exclusive and more ecologically harmonious type of accommodation, which was a product that Maldives could offer as its speciality (Anonymous, 2002a), the government began to encourage international hotel chains to establish their operation in the Maldives. This was largely done through encouraging local resort operators to form franchise arrangements with world-class hotel chains and management companies. The arrival of these hotel chains, to some extent, weakened the monopoly of tour operators in routing clients to the Maldivian resorts. Hotel chains like Banyan Tree and Four Seasons and hotel management companies such as Hilton, have worldwide networks for the promotion of their products, including its hotel in the Maldives. They also have their own booking system and do not depend on large European tour operators to attract customers.

Secondly, the State took steps to reorganize the domestic ownership and management of tourist resorts towards catering to upscale tourism. The packaging of competitive bids for the new resorts, in 1997, allowed new local and foreign resort and hotel operators to enter the industry. The government also progressively increased the lease rents of resorts under the program of harmonizing resort rents that began in the mid 1980s.[27] The general increase in lease rents forced many small local resort operators and several successful winners of bids for new resorts in 1997 to sell the management of their resorts to larger local tourist resort operating companies or to established partnerships with large local and / or foreign resort operators. As a result, there was an increase in the concentration of ownership amongst few local and foreign companies.

3.4.4 Mediating social responsibilities

The relative success in developing and regulating the tourism industry during the 1980s, and steering the industry in the 1990s, was achieved at the expense of the welfare of the local labour working in the tourist resorts. Only half-hearted policies have been adopted by the State to control the import of expatriate labour. Resort owners/operators have silently challenged government initiatives aimed at regulating the general labour standards in the country. Attempts by the government to formulate a comprehensive labour law, that would govern both the public and private sector employment, have been in the pipeline for more than a decade. The delay in finalizing this law is largely due to opposition from resort operators. A widely used strategy by resort operators to slow down the efforts to reduce the number of expatriates working in these sectors has been to sensationalize the issue. They claim that if restrictions are placed on the recruitment of expatriate labour the tourism industry in the country will collapse (Interview 7 July 2002).

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[27] Under the Law relating to the Lease of Uninhabited Islands for the Development of Tourist Resorts of April 1994 the government initiated a process of harmonizing the terms under which all resort operators are taxed. Under this process the lease of islands was revoked from the elites. Those who had leased islands on which tourist resorts were built were given the option of negotiating shareholding arrangements with resort operators.

Resort operators, like managers of many other private sector organizations in the Maldives, portray the import of expatriate labour as the result of "no other choice", given the problems associated with recruiting local labour (Bhatty, 1997:5). Resort operators argue that expatriate labour should be accepted as a cost that needs to be borne by the country in order to expand the tourism industry. Resort owners and operators have successfully deflected attention away from claims that the expansion of expatriate labour in the tourism industry is due to the industry's failure to plan and train the required human resources over the past three decades. They have constantly reminded policy-makers that, while efforts should be made to reduce the leakage of foreign exchange from the country as payment of salaries to expatriates, government revenue would not have grown as fast as it has in the past two decades had there been restrictive policies on the import and employment of expatriate labour in the tourism sector.

Notwithstanding these claims, that employment of expatriate labour in the tourism sector is not solely due to the shortage of local labour, inadequate numbers, or due to their limited skill levels, as claimed by resort operators. The unwillingness of the resort operators to cater to the specific needs of local labour, especially the absence of reliable and frequent transport between resort islands and those islands from which local employees come, also contributes to the high turnover of local labour. One of the major reasons why resort operators are unwilling to provide such transport services is the availability of a cheap labour force in the region. Maldives is located in a region where there is a large pool of relatively cheap and docile labour, making its importation relatively cheap and easy.

3.5 CONCLUSION

Economic globalization primarily manifests in the tourism sector of the Maldives through the actions of international tour operators, international hotel chains and international management companies. The chapter claimed that international tour operators, through their investment in local tourist resorts, promotion of the industry and their monopoly on

bulk booking and the operation of charter airlines to the Maldives, have been instrumental in shaping the Maldivian tourism industry.

State attempts aimed at relieving the adverse effects of tour operators have included facilitating access to financing for local resort operators, expanding and reinvigorating national efforts towards promotion of the Maldives as a single destination, and negotiating scheduled airlines to operate to the Maldives from the feeder markets.

The slow incorporation of quality of service delivery by many of the entrenched veteran resort operators in the tourism industry created a void in the management of resorts in the Maldives. It is this gap in professional management of resorts that is being filled by international resorts and hotel management companies. The arrival of international hotel chains and professional hotel management companies changed the landscape of management of the tourism sector in the Maldives. Unlike tour operators, whose interest is high turnover at cheap rates, management companies generally prefer fewer, yet high paying tourists. By encouraging the management companies to launch their operation in the country, the government was able, to some extent, to counterbalance the influence of tour operators.

The experience of the Maldives in the development and management of tourism indicates that the State was not only able to draw up long term strategies to develop the sector, it was also able to implement these plans, with the broad-based blessing of the industry, including local resort operators, major tour operators and foreign hotel chains. Furthermore, the State has been successful in situating its tourism policies strategically in such a way that it took advantages of the differences in interest between the major players in the tourism industry in the country. During the early phases of tourism development, when the country had no prior experience in the tourism, the government welcomed international tour operators' dominant role in the sector. As the local resort operators gained experience in managing the tourism sector, the State turned to international management companies to provide the inspiration, know-how and professionalism to the industry and to attract high paying visitors. This turn towards creating a high-end tourism

product is packaged in an environmentally friendly manner, making it compatible with the government policies on environment as well, thus increasing the legitimacy of these policies.

The experience of the Maldives tourism development reviewed in this chapter clearly shows that because of the track record of relatively successful management of the industry, the government has been able to withstand particularistic pressures from large MNCs. MNCs are forced to accept the existing political culture of the Maldives and play by the corporate rules of the country. At the same time, international resorts and hotel management companies are also bringing new aspects to the corporate culture of tourism in the Maldives.

In spite of the fact that tourism is a relatively recently developed sector of the Maldivian economy, the preceding examination of the ways by which economic globalization impacted the sector and how the State responded to these challenges has provided important insights into the modalities of domestic governance in the Maldives. To establish a more complete set of traits or footprints of domestic governance in the Maldives, however, will require the examination of how traditional and long established sectors have reacted to these pressures emitted from economic globalization. Fisheries is the oldest sector in the Maldivian economy. The next chapter will examine how that sector has been adapting to the pressures of economic globalization.

CHAPTER FOUR: THE FISHERIES CASE STUDY

4.0 INTRODUCTION

Unlike the tourism sector in the Maldives, which is only three decades old, fishing is an activity that is known to have been going on in the country for over six hundred years, and possibly thousands of years (Mills, 1970, Gray, 1882). Both sectors are export-oriented and have to adjust to demands placed on them by the global economy in order to compete with the big players in their respective spheres. The national governance regimes of tourism and fisheries have responded differently to these global challenges. While the tourism sector has been relatively more proactive and engaging with foreign players, the fisheries sector has opted for caution.

The fisheries sector was included for examination as a case study to examine the research questions posed in this thesis for the following reasons:

- The fisheries sector, though cautiously, is increasingly being integrated to the global fishery market. This has created some degree of friction between the established tuna fishery and new types of fisheries. The examination of the sector, through the research lens adopted in this study, is expected to provide important clues on how a traditional economic sector reacts and adjust to the pressures of economic globalization.

- An examination of the sector within the framework of the research questions posed in this thesis is expected to reveal the changing relationships between one of the politically strong sections of the Maldivian society -- the fisherman and *masdhoni* owners/operators-- and the State.

- Fishing being the major economic activity in many islands and the only economic activity in some of the island communities of the country, an examination of the sector is expected to contribute positively in revealing who has gained and who

has lost, both economically and politically, in the process of adjusting to the forces of economic globalization that is impacting on the sector.

The chapter poses two broad questions for examination. These questions are: what are the primary ways by which economic globalization is impacting on the fisheries sector of the Maldives? And what are the major factors and conditions that shape the sector's reaction to these challenges posed by globalization?

Examination of the development and management of fisheries in the Maldives over the past four decades suggests that the country has only taken partial advantage of the opportunities presented by globalization. Protectionist policies adopted by the State towards the tuna segment of the fishery have limited the required flexibility, in terms of diversifying the fishery products, to reorient the sector in line with the new realities presented by globalization. The overwhelmingly cautious approach adopted by the State towards the fisheries sector has, to a large degree, prevented the diversification of the sector into high-valued marine products. These protectionist policies have proved too comfortable for the State fisheries company-- Maldives Industrial Fisheries Company Ltd. (MIFCO) -- to aggressively seek value addition even to its tuna processing operations.

The study of the sector further indicates that the government is willing to forego substantial economic benefits to the economy to maintain the fishing industry firmly in Maldivian hands. Social objectives such as providing food security and employment to the island communities, through open access to fisheries, and the distribution of wealth from Malé to the island communities, have been the cornerstones of the government's fisheries policy in the past four decades. The authority granted and responsibilities assigned to coastal States by the evolving global instruments for international fisheries management have not been fully integrated into the fisheries policies of the Maldives. Economic opportunities created by the establishment of an Exclusive Economic Zone (EEZ) have not been realized to the highest possible degree, due to the overwhelming preference to keep the fisheries in Maldivian hands. Nor has the country fully accepted or

embraced the proposed long-term benefits of surrendering some of its policy making powers to regional fisheries management bodies, as proposed by the emerging instruments for the management of international fisheries.

The chapter is divided into four major sections. The first section provides a historical account of the development of the fisheries sector in the country. The second section outlines the primary processes through which globalization is affecting the fisheries sector in the Maldives. The third section evaluates the responses of the State in adapting to these globalizing challenges, over a four-phase period, devised by the author. The final section of the chapter summarizes the major observations of the chapter and provides some concluding remarks.

4.1 SETTING THE SCENE

Maldives has always depended on the sea for food and as a source of employment, especially for non-Malé communities. There is open access to fisheries in the country and all Maldivians have the freedom to fish anywhere in the archipelago during any time of the year, except from those areas designated as protected.[1] After domestic consumption,[2] nearly all fish landed prior to 1972 was processed in a traditional manner. These include boiled; salted, smoked and dried skipjack (Maldive Fish); salted and dried reef fish and reef associated fish. Nearly all of the Maldives Fish was exported to neighbouring Sri Lanka.

Although as recently as the 1950's Maldivian merchants who travelled to Sri Lanka and other trading cities on the coast-line of the Indian subcontinent handled some of the export of Maldive Fish, it was the Borah merchants[3] who controlled the bulk of exports of Maldive Fish to Sri Lanka and other places in the Indian continent, who bought the bulk

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[1] As of 2002 there are twenty five such protected sites in nine Atolls of the Maldives (UNEP, 2002)
[2] Maldives has one of the highest per capita consumption of fish in the world. Each Maldivian consumes about 90 kilogram of fish per annum. (WB, 1999:31).
[3] These were Muslim merchants from India and Sri Lanka who maintained shops of the beach of Malé and traded with the Maldivians.

of Maldive Fish from *masdhoni* owners, individual fisherman, inter-island transport vessel owners and local merchants. With a monopoly over the export of this item, the Borah merchants colluded and paid extremely low prices for the Maldives Fish during the early years of the Second World War.[4] This exploitation of the fisherman by the Borah merchants led to the first substantial government intervention in the, hitherto private sector dominated, fisheries sector of the country. In 1942 the government established a trading house called Maldives Government Bodu Store and began purchasing Maldive Fish at a higher price than was paid by the Borah merchants (Personal communication 10 June 2002). Ever since, the government has been unable to completely relinquish the social responsibilities it took over more than half a century ago on behalf of the Maldivian fisherman.

This situation continued unchanged for most of the 1950s and 1960s with the government's role in the fisheries limited largely to the collection and export of skipjack tuna. It was during the early 1970s that the government took selective, albeit ad-hoc steps to develop the sector. Institutionalization of the sector began in the late 1970s with the passing of a number of by-laws and administrative regulations regarding the fisheries.[5] It should, however, be noted that most of these by-laws and regulations were restrictive measures designed to curb conflict between different uses of the resources of the sea and did not amount to a plan for the development and management of the sector (Primex, GOPA & TPC, 1992:3).

When Sri Lanka, the only export market for Maldives Fish, drastically reduced its purchase of the product (beginning in 1972 and completely stopped purchasing it in 1978), the government of the Maldives invited foreign companies to purchase and export

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[4] With their business linkages to the trading cities in India and Sri Lanka Borah merchants were successful in achieving monopoly power over the import and export of virtually all the basic commodities including food, household items, clothing and spices to the Maldives until the late 1960s, when the government began imposing restrictions on their import and export trade.

[5] Some of the earliest laws and regulation on fishing include: Law relating to the EEZ of the Republic of Maldives (30/76); Law relating to catching fish in the sea and lagoons within the Economic Zone of the Republic of Maldives by using underwater guns, dynamite, spear, and other similar methods (23/78); Law relating to catching tortoises, and lobsters within the EEZ of the Republic of Maldives; Regulations for issuing the license to fish in the EEZ of the Republic of Maldives, and rules relating to fishing in the lagoons of Maldives (Primex, GOPA & TPC, (1992: 3-4).

fresh fish. Since 1972 three foreign companies began operation, variously operating a small canning plant and exporting frozen tuna. But, in less than a decade, mainly due to the falling price of tuna, all three companies ceased their activities and withdrew from the country. The experience of foreign involvement in the Maldivian fishery, initially with the Borah merchants, later the Sri Lankan embargo on Maldive Fish, and then, the untimely withdrawal of Japanese and Thai fishing companies in the early 1980s, left a long lasting impression on the fisheries policies of the country. Since the early 1980s, government fishery policy is guided by a determination to keep virtually all aspects of Maldivian fisheries in the hands of Maldivians (People's Majlis, 1984:13 and Anonymous, 2002b). This policy also aims to diversify export markets for Maldive fishery products, so as not to allow the sector, and the entire economy, to be hijacked by the whims of a single market (Interview 6 May 2002).

With the change in the structure of Maldivian fisheries from the production of Maldive Fish to the export of frozen and canned tuna and chilled tuna loins, global standards and global rules and regulation regarding hygiene and health entered the local fishery industry for the first time in any serious manner. Unlike the Maldive Fish, whose production formulae is widely accepted by the primary importer as Maldivian in origin[6], when Maldives' fisheries expanded into wet fish, the country was forced to adhere to the demands and standards set by a new set of importing countries, largely based in Europe and North America. Moreover, being a small player and a price taker in the global fishery market, Maldives had to constantly upgrade quality standards of its exports of fisheries products to retain its market share.

The performance of the fisheries sector shows that, in spite of the increase in catch and export of fisheries products (see Table 4.1), the sector's contribution to the GDP and the number of people employed in the sector has been declining since the 1980s. (See Table 4.2 and Table 4.3 respectively).

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[6] It is conceivable that Maldive Fish and Japanese Katsuo-bushi was the same product. The Japanese may have continued the traditional way of drying their skipjack while Maldives may have modified the procedures and in the process lowered their emphasis on quality (Interview 26 May 2002).

The structure of the fisheries sector in the Maldives is very different from that of many other SISs such as the Federated States of Micronesia, the Solomon Island, Kiribati, Vanuatu and Tuvalu. Because these countries have very large EEZs, their fishery is primarily concentrated in exploiting the EEZ, rather than coastal fishing. For instance, more than half of Tuvalu's government revenue is generated from licence fees charged to foreign fleets operating super seiners in its EEZ (Hunt, 2003:79). Similarly, the domestic tuna industry is the largest employer in the Solomon Islands, and fish is the country's largest export until 1999 (Kile, 2002). Unlike the Maldives, both in the Solomon Islands

Table 4.1

Fish catch and export (1996-2001)
(in thousands of metric tons)

Particulars	1996	1997	1998	1999	2000	2001
Fish Catch						
Skipjack	66.5	69.0	78.4	92.9	79.7	88.0
Yellow fin tuna	12.4	13.0	14.2	14.3	12.2	14.6
Other tuna	10.9	5.1	8.3	5.5	6.3	6.8
Reef & other deep swimming fish	15.6	14.7	14.2	10.6	17.2	15.6
EEZ	0.9	5.6	3.0	0.8	3.5	2.2
Fish Exports						
Dry Skipjack (Maldive Fish)	20.3	19.3	28.4	26.4	28.5	30.3
Dry salted skipjack	4.8	4.5	3.6	3.4	0.4	0.3
Dry salted Reef fish	3.5	3.8	3.2	2.6	2.1	2.2
Canned fish	21.5	20.5	20.2	13.7	23.0	21.6
Other	0.4	2.5	0.0	0.3	0.3	0.0

Source: MMA, (2000) and (2001). Annual Reports.

Table 4.2

Fishery sector's contribution to GDP (1990-2002)
(in percentages)

Year	1990	1996	1997	1998	1999	2000	2001	2002
GDP	10.7	7.3	6.7	6.7	6.5	6.0	6.0	7.0

Source: MPND, (2001) and (2002). Statistical yearbook.

Table 4.3

Direct employment in the fisheries sector (1977-2000)
(as a percentage of total workforce)

Year	1977	1985	1990	1995	2000
Direct employment in the fisheries sector	45	25	20	19	10

Source: MPD, (1984). Statistical yearbook; MPND, (2000) and (1985). Census.

and in Vanuatu employment in the fisheries sector largely consists of paid jobs in foreign controlled fishing fleets and canneries. In Vanuatu artisanal fisheries operate on a part-time basis usually going fishing when the need for cash arises (William, 2002). It was only in the 1990s, that both Tuvalu and the Federated States of Micronesia launched programs of "domestication" of the fisheries. Even then, they were attempting to imitate industrial fishing of large fishing nations, rather than develop small-scale fisheries (Pertersen, 2002:318).

In terms of management of fisheries resources at their disposal, Caribbean countries have sought to cooperate amongst themselves in allocating the resources by forming regional

organizations, such as Caribbean Regional Fisheries Mechanism, to provide a regional forum for coordinating the further development of statistics and management of living marine resources within the Caribbean area (Renton, Mahon & MacConney, 2003:45). Due to these major differences in the way the Maldivian fisheries has evolved, and later been structured through State intervention, the reaction of the Maldives to the multiple challenges posed by the forces of globalization has been qualitatively different than that of many of these SISs.

4.2 DIMENSIONS OF GLOBALIZATION IMPACTING THE FISHERIES SECTOR

The expanding space created by the globalization process has meant that fisheries enterprises no longer operate on a national (or regional) platform; instead, they operate on a global scale. There is a shift from home-based production and operation in a global market to operating in a global market from a variety of countries. These major changes brought by economic globalization have necessitated the formulation of international rules and regulations for the global fisheries sector. At the same time, these same international regulatory frameworks now form the backbone of global and national fisheries management (Ruckes, 2000:57).

In the Maldivian context, forces of globalization on fisheries are manifested largely, but not exclusively, in terms of three major factors. These include: first, instruments of global governance on fisheries resource management, including responsibilities and rights associated with the expanding array of international agreements, treaties and conventions relating to, amongst others, the management of global fishery stock and responsible fisheries. Second, the impact of actions of large MNCs in the global fishery industry. Like many manufactured goods and services, virtually all aspects of the global fisheries production ranging through harvesting, processing and marketing are controlled by a few large, global companies. In order to tap into these global production and distribution chains on fishery products, exporting countries, especially those that produce and export small quantities of fish and fisheries products like the Maldives, have to abide by wide-

ranging requirements of quality, quantity, packaging and delivery times set by these chains. Finally, with expanding regionalism in both the developed countries and, increasingly, in developing countries, there is renewed pressure to improve the quality of fishery exports. The European Community has been consistently tightening its stringent quality standards on the import of fisheries products to its member countries. The forgoing challenges, arising from globalization, present opportunities and challenges to countries that exploit oceans both as a source of income and for food.

4.2.1 Evolving global instruments for managing international fisheries

Since the late 1970s there has been a movement away from the traditional system based on the supposed "freedom of the seas" towards a fisheries governance regime that is characterized by more purposeful and detailed management of the fisheries resources, its habitat and methods of exploitation (Juda, 2002:128). The Law of the Sea Convention of 1982 (UNCLOS III), and other legally binding instruments such as the United Nations Conference on Straddling Fish Stocks and Highly Migratory Fish Stocks (UN Fish Stock Conference) of 1995, and voluntary instruments such as the Code of Conduct for Responsible Fisheries of 1995 and Compliance Agreement of 1993 have greatly expanded the range of actors involved in the management of international fisheries.

The UNCLOS III formally recognized that coastal States have the right to create Exclusive Economic Zones (EEZ) in which they have sovereign rights over the living resources in an area to a maximum distance of two hundred nautical miles from the baselines used to measure the territorial sea. The convention empowered these States to determine Total Allowable Catch (TAC) in their EEZ to avoid overexploitation of fish and other marine resources and to regulate fishing access to marine living resources in their EEZs (Willmann, 2001:13). By doing so, the UNCLOS III transferred, at least on paper, the most important part of the commons of high seas to the jurisdiction of the coastal States.

In order to achieve the objectives of sustainable use of straddling and highly migratory fish stocks, the UN Fish Stocks Agreement [7] employed an eco-system-based approach to management of global fisheries. This approach makes reference to principles including: unity of fish stocks and the need for management of stocks over their entire migratory range; the necessity for compatibility of EEZ and high seas fisheries regimes; concern with the catch of non-targeted species and the interdependence of stocks; the need to adopt a precautionary approach to fisheries management; and transparency in the decision-making and activities conducted by regional fisheries management organizations and arrangements (Juda, 2002:122).

The UN Fish Stocks Agreement emphasized that parties to the agreement should join regional organizations formed or arrangements made for the conservation and management where such arrangements exist, if ships bearing flags of such parties are to fish in high seas, as a price of access to the fishery resources that are governed by such regional organizations or arrangements (Juda, 2002:122). The fish stock agreement strengthens and facilitates the implementation of the management and conservation provisions of the UNCLOS III applicable to straddling and highly migratory fish stocks.

In the Code of Conduct for Responsible Fisheries (CCRF), responsible fishery is understood to include the maintenance of quality, diversity and availability of fishery resources in sufficient quantities for present and future generations in the context of food security, poverty alleviation and sustainable development. It also includes the protection from destruction, degradation, pollution and other significant human impacts of all critical fisheries habitats in marine and fresh water ecosystems such as wetlands, reefs, lagoons and spawning areas (Willmann, 2001:20).

The CCRF calls on all those who are engaged in the fisheries, including States, regional fisheries bodies and non-governmental organizations to protect fisheries directly by improving management of human utilization of fisheries in order to avoid over

[7] See Barston, R. (1995) for an excellent summary of the road to UN Conference on Straddling Fish Stocks and Highly Migratory Fish Stocks.

exploitation with resultant damage to stocks. The CCRF calls for the use of selective and environmentally safe fishing gear to prevent or eliminate excess fishing capacity so that fishing effort would be maintained in line with sustainable use of available resources (Juda, 2002:117). The CCRF is a generic instrument and has been supplemented by a number of other instruments, including the Agreement to Promote Compliance with International Conservation and Management measures by Fishing Vessels on the High Seas (The Compliance Agreement).

The Compliance Agreement, amongst others, requires flag State authorization for the use of their flags and obligates the flag State to ensure that fishing by vessels under its flag does not undermine international conservation and management efforts. The agreement calls for disallowing the use of a State's flag unless it can effectively exercise its responsibilities under the Compliance Agreement (Juda, 2002:121). The agreement aims to deter the re-flagging of vessels by their nationals as a means of avoiding compliance with applicable conservation and management rules for fishing activities on the high seas (Willmann, 2001:22).

These international instruments designed for the management of global fisheries have assigned greater responsibilities to coastal States in particular, and to all fishing nations, in general, with regard to the management of all living fisheries resources in a sustainable manner. By elevating the status of regional bodies established for the management of fisheries, these instruments have called on individual States to transfer some of their policy-making powers to regional fisheries bodies.

4.2.2 Global restructuring of harvesting, processing and marketing of fish and other living marine resources

The global supply of fish and other living marine resources experienced a major shake-up due to the adoption of the new ocean law regime of the 1970s and the establishment of 200 mile EEZ. The new ocean regime radically altered the distribution of the right to marine resources. Countries that were traditionally considered as major fishing nations

with high levels of fish consumption such as Spain, Portugal and Japan lost access to rich coastal waters where they had previously fished. The consequent shortage of supplies of fish from their domestic fishing fleets created a huge surplus capacity in the processing industries of these countries. This has created the need for these former major fishing nations to import raw materials from other countries (Arbo & Hersoug, 1997:123).

At the same time, ever more efficient technologies for catching and processing fish, along with the revolution in aquaculture, improved equipment and methods of packing and storing seafood and cheaper and more reliable transportation, have provided access to a greater variety and volume of both raw and processed fish from distant sources. New information and telecommunication technology has created global links with new conditions for organizing and managing international operations. These developments have created a global market for raw fish. What a country actually processes is no longer necessarily related to its domestic supply of resources. Producers can now buy their raw fish wherever it is cheapest (Arbo & Hersoung, 1997: 122-123).

On the supply of skipjack-tuna, which is, as see from Table 4.1, the bulk of the produce of the Maldive fisheries, the global tuna market is controlled by a handful of large companies. For instance, the annual average tuna harvest from the South Pacific in 1999 was about one million metric tons, with a landed value of about US$ 1.7 billion (Tarte, 1999:273). More than 90% of the value of catches in the South Pacific is taken by distant fishing nations including Japan, Taiwan, South Korea and the United States (SPC, 2000).

Similarly, three major companies, namely StarKist/Heinz, Bumble Bee and Chicken of the Sea, control the global supply of canned tuna. United States and Thailand together produce close to 40% of the global canned tuna (Anonymous, 2002c). StarKist operates its own fishing vessels, owns can-making facilities and has canneries in countries such as Thailand, Ghana and Seychelles. As well, it controls marketing through its StarKist tuna brand with its icon "Charlie the Tuna" (Brus, 2002:1). To maintain supplies, these large canneries not only have agreements with fisheries fleets all over the world, canneries

located in the US and Europe imports frozen "loins" from all parts of the world (CDI, 1998:87).

Large multinational companies in the international fisheries are themselves reorienting within the value chain to take advantage of the dual pressures of changing markets and the changing access to fish stocks due to evolving regimes of global governance of fisheries and Oceans. Large canning companies are outsourcing their activities to local governments or other partners. For instance, StarKist/ Heinz has sold its fishing and can making facilities to other parties. Its tuna canning plants in Ecuador, Seychelles and Ghana are now leased (Brus, 2002:2). By outsourcing their canning activities companies such as StarKist/Heinz, with strong international brands in the US and Europe, have begun to move out of processing and are concentrating more on toll-packing by others, often smaller processors. StarKist/Heinz and other such large companies are now selling and delivering their products directly to customers, and transforming themselves more towards marketing and distribution oriented organizations. At the same time the vacuum left in the processing segment is being filled by large fishing companies who are moving into processing by setting up their own canneries (Brus, 2001:2).

4.2.3 Heightened global demands for quality of fish and other animal species

Access to the global, and increasingly to regional, fish markets has become conditional on the adoption of what Flynn, Marden & Smith (2003:38) call "an emergent privately organized quality system led by the corporate retailers and implemented through their national and international food supply chains." Quality standards on tuna canning have become more stringent at every stage of its production from harvesting of fresh tuna, to processing and packaging. It is now becoming standard practice for importers of frozen, chilled and canned tuna to insist the exporters adopt standard regimes such as International Organization for Standardization (ISO) and Hazard Analysis Critical

Control Point System (HACCP)[8] when processing fish products. Parties wishing to export fish and fishery products to Europe or North America are now required to implement HACCP. It has also become an essential requirement for those countries exporting to the EU to have an EU recognized "competent authority" responsible for ensuring producers / processors meet and comply with health and hygiene standards developed by the EU. Importers of fish and fishery products in the East Asia region are also gradually beginning to demand similar quality requirements from their clients (Shakoor, 2002:6).

The preceding interrelated manifestations of economic globalization, though opening new opportunities, also placed severe strains on the development and management of fisheries in the Maldives. The territorial jurisdiction over the EEZ assigned to Maldives, under the UNCLOS, enabled the country to earn foreign currency through charging royalties from those wishing to fish in the country's EEZ. The closure of the coastal seas and increasing regulation of the high seas fishing has provided the opportunity for countries like the Maldives to export fresh, frozen and chilled tuna loins as raw material to tuna canneries in Thailand and in Europe. The outsourcing of canning operations by large multinational companies engaged in fish processing and their reliance on third party canneries also have opened up new market opportunities for countries like the Maldives to toll-pack for them.

The dimensions of globalization of the fisheries sector, discussed above, also have implications for the fisheries governance in the Maldives. Firstly, the decision making process envisaged in the evolving global instruments of fisheries management gives a greater role in the global fisheries management to regional organizations. Consequently, Maldives is forced to pay more attention to policies and actions of regional bodies in both formulating and implementing domestic policies on various aspects of its fisheries.

The State in the Maldives has been pursuing a delicate path between, on the one hand, the conflicting imperatives placed by these global demands to surrender some of the

[8] HACCP is a preventative system of control designed to minimise the risk of food safety hazards. The system is designed to identify hazards, establish controls, monitor the controls and provide for corrective actions. By implementing the system, fish processing plants are able to demonstrate that they are operating on a day-to-day basis with controls that ensure compliance with regulations (Manik, 2000:1).

government's decision-making powers to regional fisheries management organizations, and the demands filtered through domestic politics to continue a "nationalistic" and "closed" fishery policy, on the other hand. Until the late 1980s there was no coherent policy for fisheries management and development in the Maldives. The State response to these pressures from globalization, up to then, can best be described as ad hoc crisis management. Given the fact that globalization challenges outlined above have manifested, more or less, at different time frames and the State response has varied over the last four decades, it will be useful to examine these State responses in terms of four major stages in fisheries development in the country.

4.3 STAGES OF FISHERIES DEVELOPMENT

4.3.1 Guarded laissez faire (1954-1972)

Until 1954 government involvement in the fisheries of the Maldives was minimal (MRS, 1986:3). The harvesting and processing of fish (almost entirely skipjack-tuna) was solely a private sector, family-cum-community-based activity. Until the early 1970s the fisheries in the Maldives were governed chiefly by informal rules, based on community norms and customs. It was not until the early 1970s that fisheries gained full recognition with the establishment of a separate ministry entrusted to develop the sector. The creation of this ministry was, however, not followed by any comprehensive effort towards developing policies for the sector. Much of the development that took place since the establishment of the ministry was ad hoc or was based on the personal initiatives of the Ministers heading the portfolio.

Maldives Fish was the primary export product of the country, and given the fact that it was exported to a single destination, Sri Lanka, early pressures arising from the forces of globalization affected the country through this sole exporting market. Quality of Maldive Fish was not a major issue during this phase. The Sri Lankan market, though it

occasionally expressed concern over falling quality, continued to purchase it until the late 1970s.

Although Maldives declared a 200 nautical mile ocean zone of national jurisdiction and control as early as 1976, it did not have the resources either to exploit the zone or to protect it. Being unable to protect the EEZ created after the 1982 UNCLOS III against illegal fishing by foreign fishing vessels, the situation was no different to that which existed under the open seas regime. However, un-licensed fishing vessels poaching in the Maldivian territorial water only occasionally interfered with the local fishery. This is primarily because prior to the mechanization of local *masdhoni*, they did not usually travel further than twelve nautical miles from the shorelines of the islands lying on the outer rims of atolls in their search for schools of fish (Sathiendrakumar & Tisdell, 1986:289).

4.3.2 Experimentation with foreign partnerships (1973-1982)

In response to the reduction by Sri Lanka on the import of Maldive Fish the government of Maldives began to explore possibilities of exporting frozen fish.[9] Initially three companies began to operate fish collection, freezing and cold storage facilities in the Maldives.[10] Merely a decade later, when the price of tuna declined, all three foreign

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[9] In 1972, the Government of the Maldives approached the Japanese government seeking assistance in finding Japanese private sector companies that may be interested in undertaking the collection and export of fish from the Maldives. In response to this request a mission from the Federation of Japan Tuna Fisheries Co-operative Associations visited the Maldives and undertook a study of the fisheries situation in the country. The mission examined the possibility of forming a joint venture company with one or more fishing companies of Japan and the government of the Maldives. The report concluded that due to lack of support infrastructure such as refuelling facilities, water supply facilities, ship-repairing facilities, it was highly unlikely that any fishing enterprise would desire to participate in a tuna fishery joint venture with the Maldivian government (FJTFC, 1972:23-24).

[10] These companies were "HOKO" of Japan and ICP of Thailand. The third was a joint venture called Maldives Nippon Corporation (MNC). Of these three, MNC operated a five-ton/day tuna cannery and a fish smoking plant from 1977 onwards. Frozen fish were exported mainly to Japan, Mauritius and the United States. In addition, small quantities of a smoked tuna product (Katsuo-bushi) and canned tuna were sold to Japan and Europe. HOKO and ICP also exported dried fish and shark fin to Singapore (WB, 1979:4).

fishing companies discontinued their operations and withdrew from the Maldives.[11] The Maldivian government bought the investments of these companies, including their collecting vessels and the tuna-canning factory. As a result, since 1983 the government was involved in the processing of fish, which hitherto was the sole prerogative of the private sector.

The switch from dry fish (Maldive Fish) to wet fish (export of fresh and canned tuna) marked the beginning of the plugging of Maldives fisheries into the early phase of economic globalization. This historical entry into the global economy initiated a number of structural changes to the industry. With a ready supply of buyers, harvesters were encouraged by the government to increase their catch and to deliver it fresh to MIFCO for export and for processing. Thus, issues relating to freshness of the fish catch became paramount for the first time in Maldivian fisheries. Secondly, a reliable and continuous supply of tuna for canning became a major issue. As part of the effort to achieve such reliability, in 1974, a program for mechanizing the then sail driven *masdhoni* was launched, initially with assistance from the UNDP, and later, using loans and grants from multilateral development assistance projects.

The management and governance of the fisheries sector was affected in significant ways by the switch from dry fish to wet fish. Firstly, it brought changes to ownership of *masdhoni*. Before the switch to wet fish, the construction and operation of *masdhoni* were financed by individuals, largely using their own savings. With the introduction of wet fish there was an increased demand for large *masdhonis*. But larger mechanized vessels were much more expensive to build and operate. As a result, the commercial banks entered the fishing scene with loans to build *masdhonis* and to purchase engines for them. More importantly, new parties such as experienced skippers were able to acquire new generation of *masdhonis* on long-term pay back schemes under fisheries development projects implemented by the government.

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[11] Initially in 1979, the ICP withdrew and in the next five years the remaining two foreign companies also left.

The switch from dry fish to wet fish had important consequences to the employment and disempowerment of women in the fishing communities as well. Prior to the introduction of wet fish, women did most of the cooking, sun drying and packing of fish destined for export. With the switch to wet fish, these activities disappeared, leaving women in fishing communities with no other marketable skills to earn an income (MPND & UNDP, 2000:61).

4.3.3 Excessive protection of tuna fishery (1983-1988)

Discouraged by the experiences with foreign fisheries companies and partnerships, the government began building domestic infrastructure for the expansion of wet fish fisheries in the country. From 1978, large government investments were made to improve the State owned fishing company, MIFCO's capacity in the collection, handling, storage and export of tuna related products. The government had undertaken five major fisheries development projects focused on expanding freezing, storage facilities, tuna cannery, mechanization of fishing vessels, fuel distribution and installation of FADs in major fishing grounds in the country. (See Table 4.4).

Not only has government investment in the country's fisheries skewed towards the tuna segment, the tuna fisheries has been protected from both intervention from foreign parties as well as from all potential challenges from other types of fisheries. Having been largely locked out of the tuna segment, the private sector of the country began to exploit other marine resources such as reef fishery (e.g. groupers and snappers), aquarium fishery and the harvesting of lobster, giant clams, sea cucumber, beche-de-mer (Naeem, 1999:3) and long line tuna. Shark fisheries have being practiced in the Maldives for centuries but with increased market demand from East Asia, it also expanded in the 1990s.

Due to the overwhelming concentration on developing the tuna segment of the Maldive fisheries, the government was slow to recognise the economic benefits of a limited stock of lucrative non-tuna fisheries. Initially the private sector was able to take full advantage of unregulated and unhindered exploitation of non-tuna resources. But, as the exploitation

Table 4.4

Major projects undertaken by the government to develop the tuna segment of the Maldives fisheries

	Name of the Project	Funding Agency	Major components
1	Maldives Fish Wealth Exploitation Project	World Bank	• Construction of 100 *masdhonis* • Construction of 9 collector vessels • Construction of 3 freezer vessels • Construction of 3 Ice plants • Construction of 3 Fuel Tanks
2	Coastal Fisheries Promotion Project (Mandhoo)	Kuwait Fund	• Construction of 48 second generation *masdhonis* • Construction of a refrigeration complex, building the infrastructure of Mandhoo and fish handling equipment • Construction of a tug boat and 2 barges
3	Maldives First Fisheries Project	World Bank	• Mechanization of 500 *masdhonis* • Installation of navigational aids • Designing improvements to existing *masdhonis* • Construction of 5 new generation *masdhonis* • Procurement of a long range fisheries vessel

Table 4.4 (continued).

	Name of the Project	Funding Agency	Major components
4	Maldives Second Fisheries Project	World Bank	• Construction of a refrigeration complex containing 750 ton cold storage, a 40 ton per day freezing plant, 25 ton per day ice storage and ancilliary facilities at Felivaru Cannery • Construction of 4 collector vessels and a transport vessel • Undertaking civil works in Felivaru, including the construction of a jetty, a water supply system, housing, slipway and repair shop • Construction of oil distribution system containing 2, eight ton fuel storage tanks at Felivaru, 11 fuel storage tanks in other islands • Construction of 20 *masdhonis*
5	Maldives Third Fisheries Project	World Bank	• Establishment of freezing and cold storage facilities • Construction of Koodo Harbour • Upgrading collector vessels and associated infrastructure

Source: MOFAMR, (1999). Fisheries Sector: Performance, Challenges and Projects, Malé.

of these high valued products expanded, this "New Fisheries" began to clash with the "Old Fisheries" (tuna). For instance, tuna harvesters have claimed that the shark fishery destroys traditional fishing grounds because taking the sharks that are in and around schools of tuna reduces tuna catch. They further maintain that taking reef fish by aquarium fishers is destroying their traditional bait fisheries, which is essential for tuna fisheries in the country (Interview 5 May 2002a).

While sympathetic to the government's concerns for tuna harvesters, for reasons of food safety, the exporters engaged in the New Fishery claim that they are also entitled to get the benefit of government investment in the areas in which they operate (Interview 30 April 2002). They maintain that not only has the government by-passed them in fisheries investment, the government may also have unwittingly created obstacles against the expansion of the New Fisheries as well. For instance, exporters of fresh long line tuna, who belong to the New Fishery, point out the lack of State of legislation and rules to protect their investment such as fishing gear from been tampered with and destroyed by tuna fishers (Interview 2 April 2002). Exporters belonging to the new fisheries also claim that they do not have the predictability of government policy and guarantee of continuity of such policies that is commonly found in the tuna segment. For instance, they point out that the permits to export non-tuna products are granted on a temporary basis and that licenses issued for such exports can be withdrawn at any time by the government. This, they claim, provides no incentive for them to invest in new fisheries activities (Interview, 2 April 2002).

Competition for access to the same extractable resources between old and new fisheries is complemented by competitions and rivalries amongst the operators in the New Fisheries itself. Broadly viewed, there are two camps in the new fisheries sector. Those local parties who have gradually built up their infrastructure and established networks with harvesters, collectors and freight operators can be said to represent one camp. Then there are local parties who act as "commission agents" [12] who merely purchase non-tuna

[12] According to one interviewee, these are local "front men" who act as entrepreneurs. In fact, they are business agents of East Asian buyers (Interview 30 April 2002).

species (such as groupers, snappers, and sea cucumber) from local harvesters and deliver them to their sponsors in East Asia. The latter group is advantaged because they do not have to grant assistance to local harvesters and processors or tie up capital in terms of building and managing infrastructure for the collection and holding of non-tuna species alive or fresh until they are exported. Consequently, the latter parties are able to offer relatively higher prices for species that are in high in demand in the global markets, than offered by established local parties. The higher prices offered by Commission Agents have the effect of reducing supplies to established local exporters. The friction between new fisheries and old fisheries and between established local parties in the new fisheries and Commission Agents represents some of the emerging critical challenges posed by economic globalization in the Maldives fisheries.

4.3.4 Cautious liberalization (1989-2002)

In the late 1980s and early 1990s the government initiated a gradual process of liberalizing the tuna segment of the fishery sector of the country. According to one interviewee the speed at which the sector is liberalized is based on the capacity of the private sector to take on new responsibilities from the State as well as on the State's ability to create the necessary regulatory framework (Interview 18 April 2002). There is some evidence to support this "go-slow" approach suggested by the interviewee. It was the dried fish market that was opened up first in 1989. Until then, the State Trading Organization (STO) had a monopoly over the export of dried fish. In the same year the government abolished the then monopoly enjoyed by MIFCO on the export of reef fish. Seven years later, in 1996, new legislation was enacted to allow private companies to export fresh large yellow-fin tuna (Ahmed, 2000:2).

These phased reductions in the MIFCO's monopoly on multiple dimensions of Maldivian fisheries reached a high point with a major initiative by the government to open the collection, processing and export of tuna, in any form or shape, to the private sector. In 2002, the government announced that the country was being divided into four fishing

zones.[13] Of these, zone two and zone four have been reserved for MIFCO. The remaining two zones have been assigned to four local private sector companies (two companies per zone) through a process of competitive bidding.

Fishing zones allocated for the private sector were opened only for local parties. This may be related to the long held concern by the government that, if the fisheries sector is liberalized or if certain segments of the sector are privatized, those who benefit may be foreigners who may have a Maldivian as a "front man." The government was also concerned that if the fisheries sector is opened up the private entrepreneurs, in their attempt to maximize profits, may eventually reduce the purchase price of fish to a level that would undermine the economic well-being of fishermen (PRIMEX, GOPA & TPC, 1992 :175-177). This concern of the government was made evident by its decision to impose a price floor on fish bought from the fishermen on the parties who won the bids for the two zones (MOFAMR, 2001:1-2).

As for the motivation behind the government's commitment to the liberalization of the tuna segment of the country's fisheries, some have claimed that it was a policy decision taken under duress. For instance, one interviewee claims that the hesitant march towards the liberalization of the tuna fisheries is related to the huge losses sustained by MIFCO over the past five years and partly due to the slump in the world tuna prices in 1999. According to this informant, although the current liberalization of the tuna segment has been proposed by donors, such as the WB, the government was reluctant to implement them until the rejection by Thailand's canneries of two containers of frozen tuna due to low quality (Interview 6 May 2002).

[13] Zone A consists of Haa Alif, Haa Dhaalu, Shaviyani and Noonu Atolls; Zone B consists of Raa, Baa, Lhaviyani, Malé Atoll; Zone C consists of North Malé , South Malé , Vaavu, Faafu, Meemu, Dhaalu, Thaa and Laamu Atolls; Zone D consists of Gaafu Alifu, Gaafu Dhaalu, Foammulah and Seenu Atoll. See Map on Figure 1.1 for locations of Atolls.

4.4 AN EVALUATION OF STATE RESPONSES: A SUMMARY

4.4.1 Internalizing global instruments of fisheries management

Maldives has not been enthusiastic to licence foreign fleets to operate in its EEZ. There seems to be two main reasons for this. First, lacking the equipment, money and trained personnel to monitor its territorial waters the government perceives that opening the EEZ to foreign ships of any kind (including fishing) might cause a threat to national security. Second, the government wanted to encourage local parties to exploit the EEZ. However, a combination of factors, including the dwindling foreign currency resources in the 1970s, due to the falling exports of Maldive Fish, pressure by distant fishing nations to open the EEZ as well as limited local capacity to exploit the zone, forced the government to open up its EEZ to foreign fishers. It was only in 1985, some nine years after the country declared a 200-mile EEZ, that Maldives licensed foreign companies to fish in this EEZ. Then, nine years later, in 1994, partly because of their non-compliance with the requirement to regularly submit full catch and effort data, the licences of all foreign vessels at that time were terminated (Anderson, Hafiz & Adam, 1995:1). As the number of local parties registered for long line fishing in the EEZ reached 42 (at the end of 2002), the government has announced that it would not renew licenses of the foreign companies currently fishing in the EEZ (Anonymous, 2002d).

Global instruments formulated to manage international fisheries have assigned a major role to regional fishery organizations to implement these instruments. Maldives has been cautious in joining these regional fisheries bodies for two main reasons. First, it fears that being party to such organizations might place restrictions on the county's fish catch. This is based on the argument that once distant fishing nations move into the Indian Ocean on a large scale there will be pressure to allocate quotas amongst the member countries of such regional organizations to set total catch for the whole region.[14] Maldives is opposed

[14] Such arrangements are already in place in the South Pacific. Countries like Kiribati have been constrained from expanding the number of fishing vessels which can be licensed to fish in its territorial waters because Palau Arrangement for the Management of the Western Pacific Purse Seine Fishing has imposed a limit of

to any sort of restrictions placed on its current freedom to fish any amount it wishes from its territorial waters. Second, there seems to be a fear that distant fishing nations, with their political and economic clout, may be able to influence decisions of the regional fisheries management bodies and may persuade these bodies to grant distant fishing nations greater access to EEZs of countries belonging to these regional bodies. Maldives fear that, one day, it will be forced to accept the will of the majority and let purse seine fishing into the country's EEZ, which is currently banned.

The rationale behind the opposition to any potential restriction on the country's fish catch and allowing purse seine fishing in its territory is linked to two fundamental arguments. They are: first, unlike major fishing nations in the Indian Ocean, the dependence on fishery for employment and for food in the Maldives is much higher. Second, from a conservation point of view, it is argued that Maldives has only been harvesting tuna using pole and line, and therefore cannot exploit the fish stock, especially skipjack-tuna, to a level that will endanger the overall stock of these species (Interview 14 April 2002). The Maldives has maintained that if distant fishing nations were allowed to join regional fishery bodies, as a "licence" to fish in the Indian Ocean (as provided by the emerging global instruments of fisheries management), fishing companies from these countries will move in with their super purse seine vessels and over-fish the Indian Ocean and move on to other locations when the catch rates decrease, leaving the ocean-dependent countries like the Maldives to bear the long–term consequence of overexploitation of the fish stock (Interview 4 July 2002).

4.4.2 Capacity of the segments of the fisheries to adapt to the demands on quality improvements

It was pointed out, in the beginning of this Chapter, that expanding regionalism in the major markets for Maldivian fish products has accelerated the demand for improved

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205 licences for purse seine vessels, authorized to fish in the waters of its eight members (Anonymous, 2002e).

quality of export to these markets. Similar to the expansion of dimensions of quality imposed by tour operators in the tourism industry of the Maldives (See Chapter Three), it is no longer possible to export fish and other marine animal products that just meet the basic hygienic and health standards. The new global demands on quality of fish and other marine living products have broadened to include, in addition to the quality of the finished product, the quality in the process of making the product, and quality in the management of the resources prior to the processing, and quality in the management of process itself. Supermarkets purchasing canned tuna, for instance, now demand audits on the labour regulations, trade union handling and issues related to gender equality (Arnason, 2002:12). This "broad brush" approach to quality by the developed countries has led one interviewee to claim that the "*very standards, morals and ethics of importing parties are been imposed on suppliers of the product chain*" (Interview 6 May 2002).

The improvement of quality of fisheries products, at least regarding products that are exported to the EU and other developed countries, has been an aspect of globalization to which Maldives has paid keen attention. MIFCO is well aware of the fact that due to its marginal contribution to the global supply of canned tuna, the Maldives cannot influence the world price of tuna, nor can it increase production to a level that would have any effect on the world supply of this product. The only card MIFCO has at its disposal to play is continuous improvements in the quality of its products (Interview 6 May 2002). In spite of the high cost of compliance with international quality standard regimes such as HACCP and ISO, both for the government and for private sector fish exporting companies,[15] Maldives has been quick to adopt such quality standards. In accordance with the global demand for better quality, as of the end of 2002, MIFCO's tuna cannery has implemented ISO 9002. MIFCO also has a EU number (MDV 001) for permanent export of fisheries products to EU. Additionally, the cannery has received certification from Campden and Charleywood, the UK's most reliable quality assessor and standards setter, for its laboratory which tests the quality of frozen and fresh tuna (Shakoor, 2002:7). MIFCO's Felivaru Cannery also enjoys Higher Grade Approval from the European Food

[15] According to one interviewee, it costs nearly a quarter of a million United States dollars to implement ISO in the fisheries sector of the Maldives (Interview 18 April 2002).

Safety and Inspection System. As a result, canned tuna from the Maldives enjoy a high market reputation in Europe.[16]

It was MIFCO's processing side which has responded to the market calls to improve the quality of export of fish and fish products. Maintaining the freshness of skipjack-tuna, the ingredient used for canned tuna, is experiencing real difficulty in adjusting to the global demands for quality improvements. This is mainly because pressure to maintain quality of fresh fish catch has not yet been directly felt by the fishermen. Due to its overwhelming requirement to fulfill the social obligation assigned to it by the government, in terms of purchasing the fish catch of the entire country, MIFCO has, so far, failed to convince the fisherman of the need to deliver fresh tuna for its processing operations. The only action MIFCO has been taking in response to low quality tuna delivered to its collecting facilities is to refuse to purchase it. This course of action has been futile in the face of opposition from politically strong tuna harvesters. There is, however, a gradual increase in the number of fisherman who carry ice on board their *masdhonis* in holding tanks to keep the fish catch fresh. The position of *masdhoni* owners, in general, is that installation of such tanks will reduce the amount of fish catch they can carry on board, which in turn would reduce their income. They are only willing to carry ice on board if the price of fresh fish is increased to a level that would compensate for the loss of weight of fish they could carry on board, had they not been carrying ice (Interview 5 May 2002b).

The government's effort to improve the quality of Maldive Fish has so far had very limited success. Maldive Fish is processed in small-scale family or cottage-based operations. These processing facilities in the fishing communities are so basic that any attempt to impose even minimum quality standards, it is claimed, would destroy the livelihood of a large number of families in these communities. Nor has the government being able to formulate a set of standards of quality to which exporters of Maldive Fish are required to adhere (Interview 5 May 2002a).

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[16] MIFCO's cannery is packing under some of the UK's most prestigious labels including John West (StarKist/Heinz) and Princes (Mitsubushi) and well known canned tuna distributors such as Mitsue. Likewise, exports to Germany are destined for reputable labels (La Palmon and Miranda). Exports to Switzerland go to Migros, one of that country's is leading supermarket chains (PRIMEX, GOPA & TPC, 1992:88).

Compared to the canned tuna segment, Maldives Fish is exported to a market that does not, yet, require stringent certification of quality such as those required for export to EU. Even if the Sri Lankan market requires certification of quality, like many developing countries, it has a lax system of enforcement. As a result, Maldivian exporters have not faced severe regulatory problems. However, this situation is unlikely to continue much longer given the fact that the Sri Lanka authorities are developing stricter controls (MOH, 1999:10).

The New Fisheries in the Maldives have responded more promptly to the expanding markets created by economic globalization. In the case of species such as groupers, snappers and sea cucumber, for instance, local harvesters, collectors and exporters have adopted guidelines on quality issued by their East Asian customers. These guidelines include both pre-harvest and post-harvest standards on quality (Interview 30 April 2002). However, compared to the processing of canned and frozen tuna, where quality standards are relatively more established, quality standards on reef fish and other non-tuna species are still focused on catering to the particular requirements of individual importers. The New Fisheries has, so far, not benefited from State facilities developed to monitor the quality of fish products. For instance, MIFCO's infrastructure established for quality control to export to the EU is not available for private sector use (Interview 2 April 2002).

4.4.3 Changing power base of the fisheries elites

The fisheries law of the country that came into effect in 1987 is a direct response to the requirements laid out by the UNCLOS III. The fisheries law incorporated major responsibilities assigned by the conventions to coastal States. This law also formalized selective aspects of informal arrangements of the so-called *holhuashi*[17] component regarding fisheries that have been going on in the country for centuries. The consultative

[17] Holhuashi is a Maldivian term used to refer to a wooden seating structure usually located near the waterfront. It is a place where fisherman rest and discuss pressing problems and challenges facing the fisheries of the country. It is where the "game plans" for fisheries are made for the next day and for the forthcoming season.

mechanism in place in the fisheries sector has undergone a number of changes due to new developments in the sector. The increased segmentation of the sector, over the last three decades, has required the government to listen to views of all segments of the industry. While the tuna segment continues to be the dominant segment of the fisheries of the country, other segments such as the New Fisheries have become important for government, in terms of their generation of revenue, foreign currency and employment. For instance, vocal agents, especially in the export of New Fisheries' products, are increasingly becoming influential in the formulation of the government fisheries policy (Interview 16 April 2002). The diversity of parties that have succeeded in securing a relatively permanent position in the consultation process in fisheries is in sharp contrast to the situation in the tourism sector where, in spite of the existence of a multitude of parties and sub-sectors (such as supply companies) that provides the support structure for the tourist resorts, it is the resort operators that the government deals with, when it comes to the crunch of policy-making.

With the expansion of the size of the *masdhoni* its ownership is moving from household into corporate entities (Shakoor, 2002:4-5). One consequence of this changing relationship is the separation of ownership and operation of *masdhonis*. Compared to the previous owner-operator mode of managing *masdhonis,* skippers are gaining power and influence over the operation of the vessels at the expense of the owners. Given the increasing preference by fishers to go fishing on large and modern vessels, skippers are now picking and choosing fishers who are skilled. The power to select crew has given skippers more authority and clout in the fishing communities. Increasingly it is the skippers, not the *masdhoni* owners, who are now taking initiatives in community development activities in the islands. Furthermore, it is now becoming common practice in the fishing communities for skippers to be heavily represented in IDCs, in place of the *masdhoni* owners, which has been the practice thus far (Interview 27 April 2002). In other words, social status of *masdhoni* owners is being gradually degraded due to changes in

the size of these vessels, facilitated by increased access to new fishing technology and global fisheries markets.[18]

It seems that some types of demands of global markets for improvements in quality in the fishery product are easier to meet than others. Those aspects of quality that are compatible with traditional practices of Maldivian fisherman such as conservation through environmentally sustainable methods of harvesting gear (such as pole and line) are easily localized, while there is real difficulty in incorporating quality standards on local *masdhoni*. Similarly, flexibility shown by the private sector in adjusting to global demands on quality in non-tuna fisheries is partly aided by the high-valued and smaller quantities they produce and the easy access to air transportation at relatively cheap rates to export fresh and semi-processed fish products to world markets.

4.5 CONCLUSION

The Maldives fisheries industry responded in a mixed manner to the responsibilities and rights associated with the soft and hard laws regarding global governance of fisheries. The reorientation of the global fish markets by the restructuring of large MNCs within the production and supply chains created new opportunities for Maldives to supply for niche markets and to link to the global supply chains in fisheries products. Increased quality standards imposed by expanding regional trading blocs as well as the global value chains of fish and fishery products has compelled the Maldives to apply international quality standard in its canning and frozen fish processing facilities.

The State and private sector response to these challenges from globalization has varied over time. Until the early 1970s, when the only major export of the country was Maldive Fish and the only exporting country was Sri Lanka, forces of globalization were not perceived as requiring pro-active policy responses. The sudden switch from dry fish to

[18] See Sathiendrakumar & Tisdell (1989) for an interesting study of the traditional basis of the social status of *masdhoni* owners in the Maldives.

wet fish in the early 1970s brought with it a heightened reality that forced the Maldives to constantly adapt to the changing demands from the global fisheries markets.

Because of the close relationship between food security and employment, reforms in the fisheries sector were pursued by the government at a very slow pace. However, in the early 1990s the tightly controlled tuna fishery was liberalized with expanding avenues for the private sector to process and export fish and other marine animal products.

Notwithstanding this go-slow approach of liberalization of the fisheries sector, expansion of the new fisheries, fed by global demand for non-tuna species, has laid the foundation for a major change in the fisheries sector in the country. The expansion of fish storage capacity and the subsequent increase in the size of *masdhoni* has brought a reduction in the power and influence of traditionally powerful *masdhoni* owners.

Overall, it seems that the government's fishery policy has dealt only with the most pressing issues. It was only when foreign exchange began to dry up in 1972, that a frantic search for alternatives to a single product (Maldive Fish) / single market (Sri Lanka) scenario was sought. While the fisheries sector of the Maldives is responding, albeit slowly, to the forces of globalization, with greater private sector participation, the pace and mode of this adaptation has been different from that of other SISs. Several SISs in the South Pacific region have attempted to manage their large EEZ based fisheries resources by adopting the concept of "harmonized minimum terms and conditions" of access for foreign fishing vessels (Lodge, 1992:277). Maldives has opted for a unilateralist approach and has preferred to deal with foreign companies on case-by-case basis within a broad framework of charging royalties. The geographical concentration of countries in the South Pacific may have played an important role in their preference to adopt regional management regimes to manage the exploitation of their EEZs.

In spite of the falling number of people directly engaged in the country's fishery, because of issues related to food security, reform in the fisheries sector will continue to be highly political. Conceptualization of the long-term needs of the industry at the broader national

level is expected to improve the capacity of the fisheries sector to respond more effectively to the challenge arising from globalization. Improving the overall capacity of the public sector to respond to the pressures of globalization will play an important role in this quest.

CHAPTER FIVE: PUBLIC SECTOR CASE STUDY

5.0 INTRODUCTION

The main purpose of this chapter is to move from the micro focus of the last two chapters of this thesis to examine how the public sector of the Maldives, as a whole, has interpreted and responded to economic globalization. The case study on tourism brought forth, in some detail, how the multifaceted forces of globalization are shaping the public policy making process and the governance regime in the Maldives. Compared to the tourism case study, the fisheries sector (examined in Chapter Four) illuminated how the domestic forces that are in action in the governance of the Maldives are realigning with the new players and forces introduced by economic globalization. An examination of the public sector is expected to provide additional insights into the socio-political dimensions of the country that is shaping the governance of the Maldives in the current era of globalization.

The chapter seeks answers to two fundamental questions: First, what are the primary ways by which economic globalization is affecting the public sector of the Maldives? Second, what are the prominent factors and conditions that shape the public sector's response to economic globalization in the country? To seek answers to these and other related questions posed in the forthcoming paragraphs, the chapter is divided into five sections. In order to locate the findings and claims made in the chapter in the broader context of the country, the first section provides an overview of the political and social context in which the public sector in the Maldives operates. The second section reviews the multiple processes through which globalization is impacting the public sector. The discussion in the third section focuses on how the country has attempted to address the challenges posed by globalization to its public sector. The fourth section provides an evaluation of State responses by mapping out those salient features that have shaped the public sector's response to the emerging challenges from the global economy. The final section wraps up the discussions of the chapter.

The chapter maintains that, unlike the developmental policies advocated by the major international donors, specifically the WB under the rubric of good governance, the approach to addressing the challenges posed by economic globalization to the public sector of the Maldives has not been dominated by pro-market and anti-state economic policies. Not only has government involvement expanded to virtually all spheres of the Maldivian economy, there is also a deepening of this involvement in terms of long-term planning. As for the role of governance, the State in the Maldives is working to strike a balance between, on the one hand, a desire to embrace selective elements of alien political and administrative systems, somewhat similar to those proposed by dominant perspectives of governance, and on the other hand, reluctance to do away with the historically, culturally and traditionally embedded political and administrative system that is in place in the country. The chapter claims that in the push towards creating new political and administrative institutions and strengthening existing such institutions, the government has stressed the procedural routines, instead of the values embodied in such institutions. It is further maintained that, although political and administrative decentralization has featured prominently as a State response to the challenges arising from globalizing, transfer of "real" power to make key decisions, especially those relating to the allocation of resources, to lower levels of administration has not taken place. The experience of the Maldivian public sector, in adjusting to the pressures of globalization suggests that, in spite of the expansion of avenues for lower levels of the State bureaucracy and grass root organizations to express their voices, the country's political and administrative systems continue to exhibit a high degree of centralization. In short, the public sector responses towards the challenges posed by economic globalization are shaped by a dialectic of caution and pragmatism.

5.1 SETTING THE SCENE

The Maldivian public service is built on the foundations of a political system based on informality, custom, tradition and religion. The fundamental design of the formal and informal structures and organization of the Maldives have remained remarkably intact for

the last eight hundred years of the known history of the country (Latheef, 1992:12). Islamic faith has had a major impact in shaping the local culture and tradition in the Maldives. Throughout the recent history of the country the belief in Islam and its role as a form of "ideology" has made it an extremely powerful source of social authority, political power and leadership (Latheef, 1993:9). The cumulative effect of custom, tradition, limited natural resources and adherence to a moderate interpretation of Islam has been the development of an individual Maldivian mentality that accepted simplicity, limited material wants and respect for hierarchy and elites (political, economic and societal) in the society. The socio-economic developmental aspirations of the national leaders were also, more or less, defined by sticking to their ancestors' vision of moderation and simplicity. Until late the 1960s, the State was mirroring this individual Maldivian mentality, preferring to remain simple and isolated from the rest of the world. This deep-rooted system of governance, however, did not stop the Maldives from acting as a "cultural melting pot", taking ideas from the political, administrative systems and social structures of those diverse traders and adventurers who visited and conducted trade with the country (Research Link, 1991:13).

The Maldives has governed itself throughout almost all of its known history. Consequently, not only did the country not inherit a public service system from a colonial master, but, the time tested internal administration of the county has survived, largely intact. The long history of self-governance meant that the country's ruling elites were not disturbed during or after full independence from Britain. The change from Sultanate to a Republic took place within the same political and administrative bedrock. One consequence of these factors was the fermentation of a highly centralized system of administration in the Maldives.

There are three broadly defined levels in the administration of the Maldives. The central level of administration based in Malé comprised of a multitude of ministries, departments, State Owned Enterprises (SOEs) and other organizations operating at the national level. The second level of administration is based in the Atoll capitals. An Atoll Chief, who is appointed by the President and who works under the supervision of the Ministry of Atolls

Administration (MAA), sits at the apex of atoll level administration. The last level of administration in the Maldives is at the island level. Each inhabited island has its own administrative office that administratively reports to the Atoll Office. The island offices act as the administrative arm in the islands for the implementation of policies of all government ministries and departments in the respective island (Zameer, 1994:26).

According to the Constitution of the Maldives the executive power of the State is vested in the President and the Cabinet of Ministers, the Legislative power is vested in the People's Majlis (the Legislature) and the People's Special Majlis. The power of administering justice is vested in the President and the courts of the Maldives. The constitution also makes the President both the Head of State (HOS) and the HOG, in addition to being the Commander-in-Chief of the Armed Forces and the Police of the Maldives. The constitution further centralizes power in the hands of the Executive by allocating the supreme authority to propagate the tenets of Islam in the country and the highest authority to administer justice in the country to the President (MIAAC, 1997:1-10). On the administration of justice, the constitution grants the President the power to appoint and remove the Chief Justice of the State and other justices of courts (MIAAC, 1997:36). Given the constitutionally mandated concentration of power in the hand of the Executive, it may be claimed that there is a high level of fusion of powers and responsibilities between the Executive and the Judiciary.

At the administrative level, it is a widespread practice in the Maldives for members of the Legislature to hold positions in the State bureaucracy. On the one hand, the low remuneration of Members of Parliament (MPs) is said to be one of the reasons for them to have a second job in the bureaucracy. On the other hand, low public service salaries have also prompted people to seek election to the Parliament. The enmeshing of the Executive and Legislative functions is some times claimed to be due to the inadequate volume of trained manpower (WB, 1980:43). Similar to the fusion between Executive and Judiciary, the practice of MPs holding public service jobs has led to fusion between the Executive and the Legislature. The thin boundary between the three arms of the State in the

Maldives has led the World Bank (1980:8) to claim that, "effectively the President controls the Legislature and holds Executive and Judicial powers."

This fusion of responsibilities runs deep in the Maldivian State. Latheef (1992:17) talks about a public service-wide practice of "multiple role phenomenon". He points out that, like many other SISs where the population is small and scattered, a given individual in the Maldives may play multiple roles as a politician, a bureaucrat, a businessman, a community leader and more. The government even encourages public servants to have a second job in the private sector. This practice is justified on many grounds: it retains highly skilled and entrepreneurial staff in the public sector; it reduces the demands to increase public service salaries; over time, it brings into public sector policy making invaluable measure of practical knowledge and understanding of the workings of the private sector; and it reduces the cost of data collection for policy making.

While there are some institutionalized avenues such as Atoll Development Committees (ADCs), Island Development Committees (IDCs) and Women's Development Committees (WDCs) at the atoll and island level, and Ward Development Committees (WDCs) in Malé, and interdepartmental committees at the ministerial level (GOM, 1996:27) that links the public and the government, the fusion of the three arms of the State forms an unstructured forum for policy input and policy coordination. In the absence of political parties this system of close relationships between the various arms of the State is said to provide an important avenue for the transmission of public wishes and public mood to the government, albeit, in a highly personalized manner (Interview 3 June 2002).

At a more selective level, systematic meetings are held between the President and organized groups, most prominently, with tourism industry representatives and wholesale and retail traders. These "Theemuge meetings" [1] are aimed at channelling information to the government on matters affecting these groups and explaining government policies and programs to the participating groups (Salleh & Othman, 1992:77). It is with this backdrop

[1] Theemuge is the official residence of the President of the Maldives.

of the constitutional and administrative set up of the State that Maldivian public sector's responses to the challenges of globalization are formulated and implemented.

5.2 GLOBALIZATION AND THE PUBLIC SECTOR

5.2.1 Changing modes of development assistance

While the political economy of development assistance predates the current swell of interest in globalization, the increasing application of economic rationality to development assistance by IFIs and bilateral and multilateral donors has been a relatively recent phenomenon. During the Cold War, like most developing countries, Maldives was able to tap into development assistance[2] from both Western donors as well as the Soviet bloc countries. With the break up of the former Soviet Union and Eastern Europe and the subsequent change in the World Order in the late 1980s, sustained socio-economic development of SISs like the Maldives became dependent on economic help from the industrialized West and international donor agencies. The exclusive dependence on western donors meant that they are able to impose conditions of eligibility to development assistance, as well as to influence how the aid money is to be utilized.

The post-Cold war era has redefined the development assistance regime in several ways.[3] First, major western donors have sharpened their focus on granting development assistance to reduce abject poverty. Second, in their attempt to widen the definition of what constitutes foreign aid, the Political Right has succeeded in changing the composition of development assistance in favour of loans rather than grants (Thérien, 2002:457). Third, there has been an increase in the calls for "trade not aid" as a more effective way to help developing countries to grow economically (Grant, & Nijman,

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[2] OECD defines development assistance as loans and grants allotted to developing countries that fulfil three conditions. They are: (1) the loans and grants must come from the public sector, (2) they must be granted with the aim of fostering economic development, and (3) they must be concessional and contain a grant element of at least 25% (OECD, 1985:171).

[3] See Thérien & Lloyd (2000) for a good summary of the changing focus of development assistance by multilateral and bi-lateral donors.

1998:187). This movement towards commercialization of development assistance has gained favour amongst the largest donors. The commercialization of development assistance is built on the premise that socio-economic development can be achieved at a faster rate if the private sector is left as the engine of growth instead of government-run foreign aid programs.

There is a changing emphasis in the international foreign aid regime towards rewarding countries that adopt market-oriented policies. Burnside and Dollar (1997), for instance, have argued that foreign aid has a positive effect on economic growth only when such aid is granted to countries that practice good fiscal, monetary and trade policies. In line with this emerging paradigm of foreign aid, Sachs (1996) proposed that development assistance should be granted only to countries that take strong measures to promote market-based and export-led growth. Likewise, Collier (1997:12) has proposed that aid should be selectively used as a reward for good policy performance, while aid should be withheld to punish bad performers and reluctant reformers. He claims that selective allocation of foreign aid has the advantage of rewarding good performers because they act as "role models" for others in that the performers become a "competitive threat" to non-performers, inducing the latter to become good performers. During the 1990s virtually all donor agencies began to adopt this reward strategy and have selected recipients on the basis of good behaviour and good performance (Pronk, 2003:390). The movement towards granting aid to specific countries based on their adoption of certain kind of economic policies has led Doornbos (2001:102-3) to claim that the emphasis on good governance in development assistance has resulted in a change from "conditionalities" to "selectivity."

Access to development assistance by the Maldives has been seriously undermined by this emerging aid regime. For instance, while there is widespread general poverty in the Maldives, especially in the atolls (MPND & UNDP, 1998), the social structure of the society, with its close familial relationships, has prevented the spread of abject poverty in the country. Maldives is not in a position to take advantage of the increasing emphasis on trade over aid either, because it does not have a special trading partnership with any

particular donor country. The switch from aid to trade and foreign investment did not open any additional opportunities to the Maldives either. Except for tourism and, to a lesser extent, garments, air transport, telecommunication, boat building, water, and sewerage (WTO, 2002:12), Maldives has not become a priority country for global investments. Unlike many other SISs, the Maldives's room for adjustment and manoeuvre in the face of the new agendas of donor countries is extremely narrow. Maldives cannot fall back on the aid flows provided by former metropolitan powers when multilateral donor assistance falls (GOM, 1999:51-53).

The increasing priority given by donors to loans as opposed to grants has affected the Maldives adversely. As seen from Table 5.1, since the late 1980s there has been a gradual reduction in the grant component of development assistance received by the country. Until the early 1990s the total increase in external assistance to the Maldives has been mainly through concessional loan finance. Grant aid increased slightly in the early 1990s only to be reduced in the mid 1990s. Overall, the grant component of the total development assistance to the country fell from an average of around 75% for the period 1988-90 to 46% for the period 1994-96 (GOM, 1999: 49). However, since the late 1990s the grant component has increased significantly to represent more than 80% of the total foreign aid disbursements. However, the increase in the grant component is not due to an actual increase in the grants, rather it is due to a fall in the loan finance component of the total foreign aid. In fact, the actual amount of grant money received by the Maldives fell between the periods 1994-1999 by five percent.

5.2.2 Imminent graduation of the Maldives out of the list of LDCs

While the newly emerging regime of development assistance has affected large and small developing countries alike, Maldives has been faced with an additional challenge to its socio-economic developmental aspirations. Since 1971 the country has been included in

the United Nation's list of the Least Developed Countries (LDCs). In 1997 the Committee for Development Policy (CDP)[4] of the UN recommended the Maldives, along with three

Table 5.1

Aid disbursements by type of assistance (1988-99)
(US$ Millions)

Period	Disbursement			Grant component
	Grants	Loans	Total	(%)
1988-90	68.8	24.6	93.4	74
1991-93	78.6	64.1	142.7	55
1994-96	71.2	82.1	153.3	46
1997-99	67.0	14.6	81.6	82

Source: Government of the Republic of Maldives, (1999); UN, (2002).

other countries,[5] for graduation to the status of developing country in 2000.[6] However, upon review of the social, economic and environmental vulnerabilities of these four countries[7] the CDP singled out Maldives as the only country meeting the criteria for graduation in 2000 (Anonymous, 2002).

Compared to other developing countries, LDCs enjoy special advantages under the Generalized System of Preference (GSP) of the General Agreement on Tariff and Trade

[4] Formally known as the United Nations Economic and Social Council.
[5] These three countries were Cape Verde, Samoa and Vanuatu.
[6] A country qualifies for graduation from the current list of forty-nine LDCs, if it meets graduation thresholds on two of the three criteria The criteria underlying the current list of LDC are:

- A low income, as measured by GDP per capita. (i.e. annual per capita GDP less than US$ 1035).
- Real human resources, as measured by a composite Index Based on indication of life expectancy at birth, per capita calorie intake, combined primary and secondary school enrolment, and adult literacy.
- A low level of economic diversification measured by a composite Index based on the share of manufacturing in GDP, the share of the labour force in industry, annual per capita commercial energy consumption and UNCTAD's merchandized export concentration Index (Anonymous, 2002f).

[7] See Anonymous (2003) for a summary of vulnerability profiles of the Cape Verde, Maldives, Samoa and Vanuatu.

(GATT) and Word Trade Organization (WTO). The WTO uses CDP's criteria for determining LDCs as the qualifying criteria on which countries become eligible for preferential treatment. This practice of awarding preferential treatment to countries, though tolerated by the WTO, goes against its cardinal principles of creating a level playing field to allow goods and services (but not labour!) to operate freely.[8] The neo-liberal thinking that swept the globe during the 1980s and 1990s only heightened the debate in the policy circles of major western countries on minimizing the scope and extent of GSP measures.[9]

The impending graduation, which in 2000 was deferred until 2001 and again delayed until 2003, is expected to generate major reverberations through the entire economy of the Maldives. Upon graduation to a developing country status, exporters of canned tuna have to pay 24% import duty to export to the EU. Garment export to the United States will also be severely curtailed because the export is possible due to preferential treatment received under the LDC status. Furthermore, concessional development finance, which amounts to 15% of the GDP (during the late 1990's), would be wiped out immediately upon graduation. Future loans for developmental projects will have to be negotiated at commercial rates of interest. This would create a serious debt burden for the country (Basheer, 2002).

5.3 PUBLIC SECTOR'S RESPONSE TO THE EMERGING CHALLENGES FROM GLOBALIZATION

Maldives has taken a broad range of measures to reduce the impact of the fall in development assistance and the prospect of imminent graduation of the country out of the list of LDCs. These include: reforms aimed at redefining the role of the State to that of

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[8] In fact the WTO has consistently maintained that preferential schemes such as Generalized System of Preference have only had very limited success in generating any large-scale benefits to the LDCs. See WTO, (1997).

[9] One commentator has gone so far to allege that the expanding influence of the WTO, along with the US hegemony, has a significant impact on the foreign policy objectives of the United Nations, including CDP's decision in recommending graduation of Maldives to the status of developing country (Ahmed, 2002:3).

enabler and facilitator of development rather than direct provider of development; expanding the private sector's role in the economy; reforming the public sector to streamline and further professionalize it to increase its overall efficiency and productivity (MPND, 1998:5). Other measures in this direction include reforming the SOEs, fiscal consolidation, and political and administrative decentralization.

5.3.1 Redefinition of the role of the State

In the Maldives, as elsewhere, providing a clear vision of the future national development priorities, both to the private and the public sector, is seen as a prerequisite for concerted national efforts to address the challenges posed by globalization. Although national development planning in the country began in the 1950s,[10] during most of the 1960s and 1970s planning was ad hoc. The limited planning that took place during this time was based on national and sectoral visions put forward by the Head of the Executive (HOE) or his close associates. But, as the national development needs multiplied with growing aspirations and expectations of the people through education, travel and media, there was an institutionalization of the planning process. The first step towards this was the initiation of the so-called "Hakuraage planning process" [11] (Interview 23 June 2002). In 1978 and 1979, several heads of ministries and departments and leaders of the business community were invited by the government for a "town hall" meeting at Hakuraage to discuss and seek advice on areas they thought government should pursue in its development policy. According to this informant, most of the developmental policies implemented during the first decade of the current government (i.e. 1978-1988) were the outcome of the building blocks laid in these meetings.

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[10] The first socio-economic development plan, the "Three Year Plan for Maldives (1950-1952)", was unveiled in 1950. The plan addressed the pressing issues facing the Maldives at that time. It outlined the objectives that were to be achieved and laid down strategies to achieve these objectives. It also included a policy framework for national development as well. However, following this initial planning effort, there was no articulated development planning for the next 26 years (MPND, 2002:vi).

[11] Hakuraage is the name of a government building in the Maldives.

Since 1985, the government has produced six national development plans, each of which have outlined national and sectoral developmental objectives. In addition, the government has prepared Master Plans for the sectors of Education, Health and Science and Technology. In 1999, the government announced a vision of the development of the country for the next two decades. Vision-2020 includes broad strategies aimed towards making the Maldives a high-ranking middle-income country by the year 2020 (PO, 1999a). The Sixth National Development Plan (2001-2005) is wholly designed as a policy and strategy-oriented blueprint to steer the development of the first five years of the Vision 2020 (MPND, 2002).

The government has sought to further clarify the role of the State in the socio-economic development with the adoption of the Public Sector Investment Programme (PSIP). PSIP is an annual compilation of national development projects that are funded by both local and external resources. The annual PSIP is used as an instrument to reveal the government's funding priorities for development projects. In addition to these annual compilations, a three-year rolling PSIP is maintained to inform donors and international financing institutions about the development plans of the government (MPHRE, 1998: 18). These long term planning initiatives aimed at redefining the role of the State are seen by the government as essential in creating awareness both in the public service and the private sector, regarding the future role of the State.

5.3.2 Expanding the role of the private sector in economic development

There is a belief among policy makers in the Maldives that creating an enabling environment for the expansion of the role of the private sector in the economy requires both removing impediments to private sector participation as well as providing incentives to the private sector actors. One of the major obstacles facing the private sector in the Maldives, as was identified in Chapter Three and Four, is the limited access to investment finance. There is a general lack of financial instruments available to absorb domestic savings in the country. The embryonic status of the financial sector of the country meant

that the large volume of household savings, which would have been used for productive investment in comparatively more advanced financial systems, remains untapped in the Maldives (MPND, 2002:29).

The government has adopted a number of measures to address this excess demand for investment finance by the private sector. These include easing restrictions on domestic commercial banks regarding their lending practices. The case-by-case approval of loans by the Maldives Monetary Authority (MMA)[12] has been replaced by a more flexible system of bank specific quantitative credit limits. The government has also removed sectoral limits on commercial bank lending that were imposed in the early 1990s (WB, 2001:1). There has been a partial liberalization of Rufiyaa interest rates, with some freedom being granted to the banks to charge interest rates of Rufiyaa loans based on demand and supply (ADB, 1997:335). A leasing company by the name of Maldives Finance Leasing Company Pvt. Ltd (MFLC), funded both by the public and private sectors and the World Bank's International Finance Corporation, was established in 2002. The MFLC is aimed at addressing the demand for long-term equipment financing for all sectors of the Maldivian economy. In order to expand non-bank finance for investment the government has initiated a process to rejuvenate the hitherto dormant, Employment Provident Fund (EPF).[13] The government is examining ways to expand and transform the Fund into a National Provident Fund (MPND, 2002:28-30).

The government has also taken measures to remove or reduce what it considers a hindrance to private sector participation in the economy. In this respect, it has further liberalized and streamlined the procedures regarding imports by eliminating, in 1998, import quotas except for rice, sugar and wheat flour. Two years later, in May 2000, major changes were brought to customs commodity classifications and the average duties for several items was lowered (WTO, 2002:viii).

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[12] The equivalent of a Central Bank in the Maldives.

[13] EPF was established on 1 March 1988 to encourage savings amongst staff. The participation in the fund is not mandatory. The government and the employees contribute 5% of the basic salary of the employee to the Fund (ILO, 1994:6).

Notwithstanding these measures taken to expand the private sector's role in the direct provision of goods and service, there is an emerging consensus amongst policy makers that, for a foreseeable future, the public sector will play a leading, albeit a regulatory, role in the Maldivian economy. The continued relevance of the State and its critical role in steering the State implies the need to build the State's capacity to restructure the overall civil service to meet the changing needs (WB, 1991:45).

5.3.3 Mainstream public sector reform

The third pillar in the government's response to the impact of economic globalization on the public sector is reforming the public sector itself. Although national development plans of the Maldives have consistently included policy objectives regarding the public service,[14] it was not until 2000 that a long-term vision of the public sector was formulated in the form of a public sector reform initiative (PSD, 2000). Not only was there an absence of a vision for public sector reform until that time, there was also a general lack of follow-up evaluation of past reform initiatives.[15]

From a historical viewpoint, administrative reform in the country between the 1950s and the 1970s was primarily aimed at developing the basic machinery of government and the institutional capacity to carry out the expanding functions of the State, especially those related to external trade (Interview 3 June 2002). During the period 1981-1982 public sector reform was concentrated on strengthening the personnel system of the civil service (Norcross, 1984:ii-iii). It was during 1982 that the National Office for Personnel Management and Administrative Reform (NOPAR) was created. This office aimed to provide leadership role in introducing, fostering and guiding changes in organizational concepts, structures and relationships and administrative system requirements that would assist the government's development agenda (Norcross, 1984:iii). Under the aegis of NOPAR, the organizational set up of the government was revised and the role and

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[14] See MPHRE, (1994:182-192) and MPHRE, (1998:28).

[15] A welcome exception to this is the recent work of Asim (2001) in which he examined the causes for the failure of the first-ever performance appraisal system in the Maldives.

responsibilities of various units were clearly defined to avoid duplication and ensure adequate coordination of functions (WB, 1984:3).

Having laid the foundation of the public administrative system in the early 1980s, reforms during the late 1980s and most of the 1990s were aimed at changing the machinery of government to reduce overlap of functions between the President's Office (PO) and line ministries, and between line ministries. These include, amongst others, the 1994 transfer of the Secretariat of the National Scholarship Board from the PO to the MPHRE and the transfer of activities related to the preparation of the national budget from the PO to Ministry of Finance and Treasury (MOFAT) (PO, 1995). Related functions undertaken by various ministries and departments were brought together under mega-ministries created in 1996. For example, matters related to the protection of children, then administered by the Ministry of Home Affairs, were transferred, in 1998, to the Ministry of Women's Affairs and Social Security (PO, 1996a). Under this push towards consolidation of machinery of government, national research institutions were given greater recognition. In 1998 the Environment Research Unit was upgraded to Environment Research Centre. In the same year, the Marine Research Unit was changed to Marine Research Centre. Another trend that was discerned from the machinery of government reform of the 1990s was the emphasis on changing the image of government departments from monolithic bureaucratic entities to service oriented organizations. In this new emphasis on quality, the name of Customs was changed, in 1998, to Maldives Customs Services and the Prisons Division was changed to the Department of Corrections (PO, 1999b).

This emphasis on quality in the overall public sector reforms of the Maldives gained steam from the mid 1990s onwards. In 1996 the government launched a performance appraisal system for the public service that was based on a system of rewarding employees who perform above a specified set of criteria in such aspects as quality of work, job knowledge and performance. Those who performed above this benchmark level received annual salary increments (PO, 1996b). The focus on improving quality of service received another boost with the establishment of the Public Service Division (PSD) in 1999. PSD was established as a semi-autonomous entity within the PO, with the aim of

"motivating the public service for effective and efficient delivery of services" and promoting "best" practices and a culture for service improvement (PSD, 2003). Similar to the advisory committees established for tourism and fisheries sectors, the government established an Advisory Committee on Public Service Reform (ACOPSR) in 1999. ACOPSR largely consist of ministers and is mandated to advise the PSD on matters relating to public service reform in the country. With advice from ACOPSR, since its establishment, PSD has been pursuing an active program to encourage the effective use of information technology as a vehicle for improved service delivery.

A Network of Senior Government Officials[16] (NOSGO) was set up in 2000 with the objective of assisting in wider dissemination of ideas and strategies that are seen as useful for public service improvement. It is also envisaged that the network will facilitate the exchange of ideas across ministries and departments, and would play an important role in consultation amongst the public servants on public service reform (PSD, 2001:3).

The dominant role played by SOEs in the delivery of goods and services in the Maldivian economy is seen by the private sector players as inhibiting its expansion. The government seems to have accepted the advice from donor agencies that reforming and reorienting SOEs should be a major part of the policy package in responding to the challenges posed by economic globalization. From a historical standpoint, the severing of independent trading links by Maldivian merchants with neighbouring countries, in the 1950s, led to the monopolization of trade in the hands of the State. One way the governments in the 1950s handled these newly assumed responsibilities was the creation of SOEs. While there were a number of semi-public companies in operation between 1950s and early 1970s, as seen from Table 5.2 many of the SOEs that are currently in operation were established since the late 1970s.

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[16] All government ministries and departments are required to have an Employee Affairs Committee (EAC). These were originally formed in 1998 to monitor the fairness of the implementation of the performance appraisal system in their respective jurisdictions (PO, 1998a). It is the head of the EAC in the ministries and departments, in their capacity as focal persons, who represent the core participants of the network of senior government officials.

Table 5.2

Clusters of time periods in the formation of SOEs in the Maldives

1965-1976	1982-1988	1992-2000
State Trading Organization Plc.	Maldives Transport and Contracting Company Plc.	State Electric Company Ltd. (STELCO)
Maldives National Shipping Limited	Dhivehi Raajjeyge Gulhun Pvt. Ltd. (Dhiraagu)	Malé Water and Sewerage Company Pvt. Ltd.
Air Maldives Pvt. Ltd	Bank of Maldives Plc.	Maldives Industrial Fisheries Company Ltd.
	Allied Insurance Company Pvt. Ltd.	Maldives Post Ltd.
	Maldives Ports Authority	MIFCO Boat Yard Ltd.
		Maldives Airports Company Ltd.
		Island Aviation Services Ltd.
		Maldives In-flight Catering Pte. Ltd

Source: PO, (2002a).

One of the primary objectives of the reform of SOEs that began in the late 1980s was to relinquish many of their activities to the private sector (WB, 1991:ix). Currently, there are fifteen SOEs that have been corporatized under the Company's Law (10/96). To reduce government involvement in management and operations, more than half (57%) of these SOEs have been partially privatized. Three of the eight (21%) partially privatized companies have sold their shares to the public (ADB, 2002a: 21-23). Table 5.3 provides details of these corporatized and partially privatized SOEs in the Maldives.

Table 5.3

Corporatized or partly privatized SOEs in the Maldives (end 2002)

Name of the SOE	Government	SOEs	Local and overseas holdings
	(%)	(%)	(%)
Not corporatized			
1. Building, Construction and Mechanical Works	100		
2. Maldives Academy of Performance Arts	100		
3. Maldives Ports Authority	100		
4. Nasandura Palace Hotel	100		
Corporatized with limited liability			
1. Island Aviation Services Ltd.	100		
2. Maldives Airports Company Ltd.	100		
3. Maldives Industrial Fisheries Company Ltd. (MIFCO)	80	20 (STO)	
4. Maldives National Shipping Ltd.	100		
5. Maldives Post Ltd.	100		
6. MIFCO Boat Yard Ltd.		100 (MIFCO)	
7. State Electric Company Ltd.	100		
Partially Privatized			
1. Air Maldives Pvt. Ltd*	51		45 (MHS)
2. Allied Insurance Company Pvt. Ltd.		100 (STO)	
3. Bank of Maldives Plc.	75		25(Public)
4 Dhivehi Raajjeyge Gulhun Pvt. Ltd.(Dhiraagu)	55		45 (C&W)
5. Maldives In flight Catering Pte. Ltd.	65		35 (SATS)
6. Maldives Transport and Contracting Company Plc.	52.5	7.5 (STO)	40 (Public)
7. Malé Water and Sewerage Company Pvt. Ltd.	70		18 (IFU), 12 (NTR)
8. State Trading Organization Plc. (STO)	97.5		2.5 (Public)

IFU = The industrialization Fund for Developing Countries, Denmark; MHS= Malaysian Helicopter Services; NTR = NTR Holdings and HOH Water Technology, Denmark; SATS = Singapore Airlines Terminal Services; C&W = Cable and Wireless
*The company is now bankrupt and the government of Maldives has filed legal actions against MHS.

Source: Adapted from ADB, (2002a). Country Economic Review: Maldives, p:22.

There has been some progress in relinquishing activities undertaken by the SOEs to the private sector. In early 2002, five years after the country gained access to the Internet, the government has opened the Internet Service Provider (ISP) market to competition. Once the second ISP provider comes into operation DHIRAAGU will lose its monopoly as the sole Internet service provider in the Maldives. STO have voluntarily moved out of wholesale and retail of several types of merchandize, including home hardware, from its overall business activities.

In an effort to strengthen the management and fiscal prudence of SOEs, each of them has been assigned to a cabinet minister for the purposes of overseeing their management. In addition a Public Enterprise Monitoring and Evaluation Board has been mandated to develop reform strategies for SOEs and to oversee the performance of them on behalf of the MOFAT. The government has also taken steps to strengthen the Audit Office in evaluating the performance of SOEs. Along with the Board of Directors for each of the SOEs, there are thus three layers of oversight on their functioning (CPCS & Slee, 1999:2-7).

5.3.4 Accelerated financial sector reforms

Currently import duties and tourism tax make up the bulk of the Maldives' tax revenue. Non-tax revenues comprised principally of dividends from SOEs and resort lease. Except for a 25% bank profit tax, there is no income tax in the country. The government, in general, has followed a three-point approach to respond to the falling levels of development assistance. These include controlling government expenditure, expanding the tax base, and better utilization of public funds and development assistance.

Since the early 1990s, when the donor assistance began to dwindle and the limited assistance that was granted was being commercialized, the government declared its intention to exercise expenditure restraints. But since the 1990s the government has, in fact, increased its outlay. For instance according to the World Bank (2002), since the early 1990s government expenditure on public sector employment, general administration

and expenditure on public order and internal security has increased markedly. There was a 19% nominal increase in government expenditure in 1999 followed by another 21% in 2000 and an 8% increase in 2001.

The government has taken a number of measures to expand the tax base and to improve the tax collection procedures. In 2001 it brought adjustments to several fees and charges levied on government services. The rates for stamp duty, commercial land lease, non-fishing vessel registration fees, secondary schools fees, and business fees for rental/wholesale trade were raised (WB, 2002:9-10). The government is working to introduce a business profit tax and a property rental value tax to broaden the current tax base. The necessary legislation is being drawn up to implement these two taxes. Tax collection procedures were strengthened with the establishment of the Department of Inland Revenue in 1996 and a Revenue Board in 1997 (WB, 1991:53). The Maldives Customs Services has adopted a harmonized tariff system to improve the collection of import duties.

Efforts are also being made to better utilize the public expenditure. The government has taken a favourable stand on donor advice concerning the need to introduce a program budgeting approach in the budgeting process. Unlike the current practice of single-year budgeting for capital expenditure, under the program budgeting approach line ministries and agencies will have to prepare multi-year development programs showing both capital and recurrent expenditures (WB, 2002:18).

5.3.5 Decentralized political and administrative governance

Political and administrative decentralization has featured in the government's development policy agenda since the early 1980s. These policies are primarily aimed at increasing political legitimacy and reducing the cost of centralized decision-making. Past initiatives taken to devolve functions to lower levels of the bureaucracy include the amendment of Law No. 1/68 J (official issues), in 1990, granting ministers and senior public servants the autonomy to carry out their mandates in accordance with the rules and

regulations laid down by the government. The same Law reiterated that both ministers and public servants would be held responsible for their conduct. In 1993, administrative circulars were sent to ministers by the PO emphasizing the scope of their responsibilities and the authority granted to them by law to make decisions in accordance with government policy (PO, 1993).

At the atoll and island level, the MAA have made a number of attempts to gradually devolve planning and management functions to atoll offices and island offices. The then loosely formed atoll, island and women's development committees were institutionalized to facilitate the participation of the atoll population in decision-making (ADB, 2000:4). In 1994 the ADCs, IDCs and WDCs were elected and their roles and functions were reviewed and rationalized (MPND, 2002:23).

Regional development is at the pinnacle of the government's policy of decentralized development of the atolls, at least since the early 1980s. Under the current regional development initiative, the archipelago is divided into five regions. They are the Southern, South Central, Central, Northern Central and Northern development regions. Of these five regions the government has begun developing two regions, one in the north (in Kulhudhufushi island of Haa Dhaal Atoll) and one in the south (in Hithadhoo island in Seenu Atoll) (GOM, 1999:43, See map on page 21). A major objective of the regional growth and development policy is to encourage larger sections of the population to move to selected regions. The Population Development and Consolidation Programme adopts a strategy of encouraging the inhabitants of small and remote islands to voluntarily move to larger islands, where socio-economic services and job opportunities are in place, to enable them to enjoy a better standard of living (MPND, 2002:23).

5.3.6 Responses to prospects of graduation from LDC status

Since 1997, the Maldives has been trying to convince the UN's CDP and donor community that the decision to graduate the country from the list of LDCs was arrived at

on the basis of inaccurate information using an assessment criterion that was deeply flawed. The government has consistently argued that many of the indicators traditionally used to measure a country's level of development, including those embodied in the methodology of the CDP, have bogus relevance when applied to a small archipelagic State like the Maldives (GOM, 1999:4). The government has pointed out that the specific developmental challenges facing the country, including its geographical spread, population dispersal, extreme paucity of land-based resources, and economic constraints such as susceptibility to external shocks (due to the high level of imports and very limited amount of exports) are qualitatively different from large countries. The government has been particularly critical of the current criteria for graduation used by the CDP by pointing out that the criteria do not take into account economic challenges such as a narrow economic base, diseconomies of scale, limited access to capital markets, social and human resource constraints, and fragility of the ecosystem (GOM, 1999:8-20).

To back its claims of spurious relevance of the current criteria used by the CDP, the government in 1998, with assistance from UNDP, undertook a comprehensive study of vulnerability and poverty in the Maldives. According to the Vulnerability and Poverty Assessment Report (VPAR) around 15% of the population in the atolls lives on incomes of Rf 7.5 per day or less.[17] The VPAR further revealed that half of the population of the atolls lives on a per capita income of US$ 1.3 per day or less; and that 22% of the population in the atolls survives on a per capita income of US$ 0.85 per day; and 13% on US$ 0.6 per day or less (MPND & UNDP, 1998:21). Armed with this comprehensive study of poverty in the Maldives, the government attempted to demonstrate that high economic indicators do not always translate into improved human development and decreased poverty.

Part of its efforts to demonstrate to the donors and international community, at large, that high economic indicators of the Maldives are bloated and do not give an accurate status of the economy, the government has adopted measures to strengthen the manner in which national accounts are formulated and reported. These efforts are aimed at preparing

[17] 1 US$ = Rf. 12.69

accurate assessments of the discrepancy between domestic and national incomes.[18] Also, since the late 1990s the government has taken steps to establish a system to undertake periodic surveys and strengthen routine acquisition of administrative data from all concerned government ministries and agencies to analyse and disseminate this information to the wider development community (ADB, 1998:2). For example MMA has been posting its quarterly economic reports of the Maldivian economy on its website.

Another strategy adopted by the government in dealing with the imminent graduation of the country from the list of LDCs is to extract guarantees from international donors of continued development assistance in the post-graduation years to reduce disruption to development policies. Citing multiple development challenges facing the country, Maldives has been pushing international donors to treat the country as a "special case" in the allocation of development assistance (GOM, 1999:iv). In the Round Table Meeting, held in 1999, between the government and major donors the latter have expressed "commitment to continue to treat Maldives as a special case, offering concessionary lending and grant assistance based on its economic and environmental vulnerability" (UNDP, 2000:3). Efforts made at the UN to treat the country as a special case have also produced some success. For instance, in 2001, the Economic and Social Council of the UN recommended to the Secretariat of the UN that, "benefits available to the graduated country should be gradually reduced, according to the specific needs of that country, as opposed to the immediate elimination of such benefits" (UN, 2001).

5.4 AN EVALUATION OF STATE RESPONSES: A SUMMARY

This section examines whether the government's responses to the forces of globalization, discussed above, have brought their intended outcomes. The government's effort to redefine the role of the State have led to only a gradual reduction of its activities in the direct provision of good and services. As seen from Table 5.4 over the period 1997-2001

[18] Demonstrating the divergence between national and domestic income is important given the fact GDP is one of the criteria used to promote a country out of LDC status.

nearly two thirds of the total government expenditure was on general administration and social services (i.e. education, health, social security and welfare and community programs).

Table 5.4

Government expenditure on the social sectors (1997-2001)
(In percentages)

Year	1997	1998	1999	2000	2001
General Administration	22.10	20.19	21.41	26.11	26.70
Education	16.44	20.44	18.07	19.75	18.33
Health	10.95	10.61	10.40	10.92	10.31
Social security and Welfare	3.43	3.37	2.81	2.81	2.32
Community programs	7.90	12.59	9.73	8.14	8.43
Total	60.82	67.2	62.42	67.73	60.09

Source: MMA, (2001). Annual Report.

The creation of SOEs has been a favoured method adopted by the government to reduce the direct involvement of the public sector in the production of goods and services. However, there is criticism of the speed and depth to which corporatization of the SOEs has been pursued by the government. For instance, it has been pointed out that senior management of several SOEs still relies on advice and instructions from ministers, rather than their Boards, with regard to performance requirements and policy decisions (CPCS & Slee, 1999:iii). Criticism has also been levelled against the dual reporting structure of the SOEs. According to one study the practice of reporting both to their Board of Directors and sponsoring Ministry dilutes the level of effective governance that can be achieved for the enterprise (CPCS & Slee, 1999:2-7).

Similarly, the duty to be transparent and the right to hear dissent is compromised by the widely used practice of employing Executive Directors (ED) or Managing Directors (MD) in the Board of Directors of SOEs and the continued practice of appointing serving senior bureaucrats to the Board of Directors. The cumulative effect of these practices is that they make it extremely difficult for the Board of SOEs to hold their manager(s) accountable where a given SOE has not performed when the senior executive (whether one calls them ED or MD) is also a member of the Board (CPCS & Slee, 1999:3-6). The practices of having serving senior bureaucrats on the Board of Directors have the effect of avoiding constructive policy debate in the Boards. This is mainly because the members of the Boards who wish to debate issues are rarely in a position to engage in such debates, given the fact that the rest of their fellow directors are either their superiors in the bureaucratic hierarchy or senior officials in the government (CPCS & Slee, 1999:2-7).

The lack of impartiality in the management of SOEs is aggravated by the fact that, in some cases, the chairperson of the SOE is amongst the regulators themselves. A good example of this is the STELCO, whose Chairman is also the political and executive head of the regulator for STELCO, Ministry of Trade and Industries. Under these circumstances it becomes extremely difficult to hear dissent (Interview 3 June 2002). The reforms aimed at strengthening the management of SOE have, therefore, not reduced the government's role in their operation.

The central roles played by SOEs in the economy of the Maldives have also not been reduced in the past three decades. An interviewee claims that donors have been successful in persuading the government to create corporatized enterprises in line with good governance assumptions in the hope and expectation that these will grow to function like independent business entities over time. In practice, the interviewee claims that the SOEs in the Maldives have seldom met these expectations (Interview 12 June 2002b). One could not help but think that there is a deliberate policy to maintain the public sector's strong control and influence over SOEs in the Maldives.

Others have pointed out that SOEs in the Maldives, like many in other SISs and in developing countries, operate with a confusing mix of social and profit objectives (WB, 1991:51). A case in point is MIFCO where, on the one hand, it has to fulfill an overbearing set of responsibilities, including the purchasing of fish catch of the entire country, in some cases only to be rejected by the overseas buyers due to their low quality. On the other hand, the company is hard pressed to make a profit to help the government to pay the multimillion-dollar loans that the government borrowed to expand the harvesting, collection and storage infrastructure of the tuna segment of the fishery industry in the country.

The relinquishing of some of the activities undertaken by SOEs has been accompanied by the assumption of new functions and responsibilities. This is most notable in the case of STO, which have entered into four areas of business under partnership arrangements with domestic and foreign companies. In 1999, STO established a partnership with a local company to form Maldives Gas Pvt. Ltd. In the same year it entered into a partnership arrangement with a foreign company to form Lafarge Marine Cement. Two years later in 2001, Fuel Supplies Maldives Pvt. Ltd. was established by STO in a partnership with a local company. Finally, STO formed a partnership arrangement with a local company under the name Maldives Structural Products (STO, 2003).

As development assistance became more scarce the government has, in the past three decades, progressively expanded and accelerated its national development planning activities. But this planning process has largely been a top-down exercise with atoll and island level contribution limited to generating legitimacy to policies that are being decided by the government rather than contributing to the making of these policies. The effectiveness of the government's efforts to make the annual PSIP a guide for the public sector planners and private sector investors has also been questioned at the atoll level. There is a feeling amongst senior political and administrative officials at the atoll level that the PSIP has principally helped donors and central ministries in determining the future goals of the national development strategy. An informant expressed disappointment regarding what s/he viewed as the slack on the part of the government in

informing atoll and island level administrators whether funding has been allocated for projects included in PSIP that have implications for their respective jurisdictions (Interview 20 June 2002).

The relatively wide leeway granted to ADCs and IDCs to formulate atoll and island budgets, along with the resumption of election of members to the IDCs and ADCs has created an impression of democratic decentralization at the atoll and island level. But, there continues to be very limited freedom at the atoll and island level regarding spending decisions. The central bureaucracy more or less dictates the spending agenda. Unlike the early 1970s, when ADCs were elected, and when they enjoyed a high level of autonomy, backed by independent finance (Personal communication 19 June 2002), the renewal of ADCs and IDCs in the 1990s has not made them decision-making bodies. The regulations governing ADCs and IDCs are biased towards sustaining the power of Atoll chiefs and island chiefs over the ADCs and IDCs. At the subjective level, the Atoll Chiefs and Island Chiefs are unwilling to share their powers with the committees. The government's decentralization efforts have treated IDCs and ADCs only as advisory bodies with very little power and authority to make decisions.

Though the declared intentions of strengthening ADCs and IDCs is to expand community participation in the political and administrative spheres of development in the atolls and islands, the decentralization experience of the past three decades suggests that it has, in fact, reinforced the notion that community participation is governed by formal structures. These formal structures favour the relatively well educated groups of the community and those belonging to well established families and largely exclude the less fortunate sections of these communities. There is, thus, an absence of a structure that provides for regular and continued participation by the people of all walks of life in the islands. The community is more often called upon to implement development plans laid out at the central levels. In the end then, local participation is reduced to compliance (MAA, 1992:4).

The experience of the past two decades on administrative decentralization suggests that there is continuing support for an early observation of the Maldivian public service by Benerjee (1979:7), who claimed that there were major reservations at every level of Maldivian bureaucracy to both give authority and to assume responsibility. Latheef (1993:59-60) speculates that the reluctance of the Executive to delegate authority to lower levels may be related to the tendency of the general public in the Maldives, at large, to hold the HOE responsible for everything that happens in the government. He claims that, under these circumstances, meaningful delegation of responsibilities will not occur unless the heads of departments and other senior bureaucrats take full responsibility for effective execution of government policy to meet the demands of the public. The legitimate expectation of the public for the Executive to be responsible and accountable for government's action does not necessarily have to lead to a centralized system of administration. In the absence of organized opposition parties, all HOEs in the country, both past and present, have resorted to personalized and centralized administration as a response to the public's demand on government accountability.

In the more recent efforts aimed at reforming the public sector of the country, the effectiveness of NOSGO as a forum for new initiatives to improve the public sector has been open to debate. An astute observer of public sector reform in the Maldives has claimed that, although NOSGO provides an avenue for senior officials from ministries and departments to propose and exchange new ideas and visions on how to reform the public service and debate the progress of reform initiatives implemented by various ministries and departments, there is very little initiative from members on either of these fronts. The informant observes that this lack of initiative is the primary reason why PSD had to instigate discussions in the meetings of NOSGO (Interview 27 May 2002a). Members of the respective ministries and departments represented in NOSGO are supposed to assimilate into the wider departmental level to create energy for new ideas and discussions on public service reforms. According to Asim (2002:12) not only have the members of NOSGO so far failed to do this, he maintains that the Network's focal points have mostly worked by themselves with little or no involvement from heads of other sections or even units of the same department.

There are misgivings on the operational structure of NOSGO. On the one hand, some members of the NOSGO complain that the network is too large and the meetings are held in formal settings which, according to the informant, discourage free flowing ideas, new initiative and frank discussions on sensitive and controversial issues (Interview 27 May 2002a). On the other hand, some members of the network who are more accustomed to hierarchical administration have argued that in place of the open agenda that has been given to them by the PSD, they would like the PSD to give them a list of areas on which they ought to put forward new ideas to the network (Interview 5 June 2002). There seems to be a clash between more "liberal-minded" members and the "old guard" in the network, with the former calling for more latitude and the latter calling for central direction, when it comes to developing new ideas to improve the public sector.

Thus far, it is evident that while long term development planning is seen as essential in redefining the role of the State in the Maldives, it has been top down, defined by a technocratic consultation process, that engages with a relatively small and educated elite from Malé and the atolls. While the need to broaden avenues for investment finance has been recognized by the government to expand the role of the private sector in the country, measures taken in this regard have not been sufficient to satisfy the demand for investment funds. Neither has the reform of SOEs reduced government control over them. Lack of institutionalized systems for local participation is seen as an impediment to the success of the decentralization efforts.

The government's efforts aimed at increasing non-tax income have borne some success, especially since 2000. As seen from Table 5.5, in the last five years the government revenue from non-tax sources has increased more than twice as quickly compared to tax-based revenue (13%), which increased only by about five percent. The government has adopted a very cautious approach in expanding the tax base pointing to legal impediments that need to be crossed before introducing business profit tax and property rental value tax.

Table 5.5

Tax and non-tax based revenue (1998-2002)
(in Rf. millions)

Item	1998	1999	2000	2001	2002*	Average change (%)
Tax revenue	902.7	977.3	1013.8	1039.9	1100.3	5.8
Non-tax revenue	927.8	1151.1	1188.8	1277.3	1528.3	19.7
Total	1830.5	2128.4	2202.6	2317.2	2628.5	13.4

* Budget estimates

Source: MPND, (2002).

It has been more than five years since the government declared its intentions of introducing these two taxes.

5.5 CONCLUSION

The imminent graduation from the list of LDCs and the gradual redefinition of development assistance regime has prompted the Maldives to take important steps towards including developing new sources of revenue to compensate for the loss of development assistance, expanding the role of the private sector, and reducing the role of the government in the direct provision of goods and services. The government has also paid greater attention to reducing poverty with the implementation of a number of projects on regional development.

Experiences from the public sector reforms, including the reforms of SOEs, and initiatives on decentralization clearly illustrate that the government has sought to reform the public sector by broadly adopting the WB's good governance framework. However, the evaluation of these measures reveals that they have been largely implanted on the existing traditional system of governance in the Maldives. This uneasy co-existence of various aspects of "modern" political and administrative systems along side the tradition-

based system has given the government the option to switch back and forth between the "old" and the "new" system of governance and modes of interest representation and modes of decision making, whenever it is deemed necessary and convenient. Such switches are made, in some cases, as part of an effort to adapt to the challenges arising from globalization; in other cases the switch is made for reasons of political expediency.

This chapter highlights that the task of nurturing the existing tradition-based systems and institutions in the Maldives and establishing new neutral and overseeing institutions to improve governance, in line with new demands placed by globalization, is proving to be highly problematic. Some of the institutions that were established, over the last twenty years, to strengthen the domestic governance regime are still showing signs of mismatches with societal values and historical legacy. For example, the Anti-corruption Board is still viewed by the public as a "detached" institution and its role and importance in the lives of average citizens is seen as trivial (Interview 27 May 2002b). This may be related to its perceived ineffectiveness in investigating issues, that the public sees as requiring urgent inquiry, or that the public have accepted that some degree of corruption is an inherent part of the socio-economic development process. This experience is somewhat similar to what Fombad (2001:62) found in his analysis of Botswana's attempt to strengthen governance through enactment of the Ombudsman Act. He found that the Ombudsman, being allowed to take up other public and private sector engagements, makes it harder for the incumbent to investigate matters that involve public interest, making the office a lesser significant institution in the eyes of the general public. One explanation of the "misfit" of some of the modern governance institutions and the societal attitudes in the Maldives may be related to the fact that the government, under pressure from donors or by choice, installed them before the general population has reached a level of awareness or political consciousness that can sustain relevance and effectiveness of these institutions.

Many of the governance reforms to date, by choice or by chance, for the most part, have affected the central level administration in the Maldives. Over the last two decades, there have been a number of attempts to decentralize the political and administrative system of

the country. These include, amongst others, the delegation of responsibilities from the PO to line ministries. The line ministries, however, have not passed on these responsibilities and authorities to atoll and island level administration. When viewed from the prism of the history of political and administrative systems of the country, this may not be surprising given the fact that, from time immemorial, administration of the atolls has been seen as a political exercise in the country. This image continues to be cherished even today. It is common, for instance, for politicians and even heads of departments that deliver public services to atolls and islands to parcel them as personalized political favours! (Interview 12 May 2002a).

Access to relatively generous development assistance, accompanied by fairly effective domestic economic policies implemented over the past three decades, has allowed the Maldives to make great leaps forward from a subsistence society to the status of a "middle human development" country (UNDP, 2003). But, given the fact that ordinary citizens of the country have not been called upon to make political sacrifices to achieve this progress, they are far removed from the responsibilities that accompany such progress. Even the responsibility of creating awareness of the political rights of the public seems to have fallen on the government!

Good governance, as proposed by prominent IFIs and donor agencies is based on the principal of loyal opposition. It is built on a foundational assumption that government has to be constantly checked upon and scrutinized by an independent set of institutions adopting a variety of rationally verifiable methods. When statehood and independence came to the Maldives, not only was nationhood well established, statehood itself was not the result of strife, civil war and demise of colonial rule or occupation. Consequently, unlike those countries that have experienced colonialism or foreign occupation the State in the Maldives is not always looked upon as a malevolent entity. As a result, there is only limited understanding and acceptance of the concept of institutionalized opposition in the political culture of the Maldives. It is only in the last decade that the voices calling for the establishment of a political party in the country began to gain momentum.

CHAPTER SIX: COMPARATIVE ANALYSIS OF THE CASE STUDIES ON TOURISM, FISHERIES AND THE PUBLIC SECTOR OF THE MALDIVES

6.0 INTRODUCTION

This chapter provides a summary of the critical findings of the research. The chapter evaluates the empirical findings of the three case studies presented in this thesis and draws out common themes, observations and concepts regarding the manner in which the domestic governance in the Maldives has adapted to the exigencies of globalization.

The fundamental argument of this thesis is that in the current environment of expanding economic globalization, governance, as conceived by major donors, especially the WB, may not be an effective developmental paradigm in the context of SISs like the Maldives. The case studies examined in the thesis suggest that efforts to create institutions and procedures to strengthen domestic governance, as proposed by the WB's good governance model may, in fact, reduce the capacity of the country in responding rapidly and effectively to protect market niches and to capitalize on new opportunities created by economic globalization. The analysis of the case studies reinforces the view that a more fruitful avenue for improving governance in SISs, like the Maldives, is to strengthen their existing, deeply embedded, informal modes of governance by democratizing these systems by creating greater avenues for the participation of the masses in the policy-making process.

6.1 GLOBALIZING FORCES AFFECTING THE THREE SECTORS

As discussed in detail in Chapter Two, globalization is a multifaceted phenomenon, which covers amongst others, the spheres of economics, technology, transport, communication, politics, culture and religion. While these different spheres are interlinked and cannot be satisfactorily examined in isolation, this study has primarily concentrated on the economic dimensions of globalization. Economic globalization

covers a wide spectrum of areas, including trade, global investment finance, the role of multi-national companies, the role of regional trading blocs and the political economy of access to exploitive natural resources. The three case studies of the Maldives examined in the thesis points to the presence of the following primary clusters of globalizing forces affecting them.

- Accelerated proliferation of broad-based global standards in the production and service delivery
- Re-orienting regionalisms to take advantage of the globalization process
- Accelerated moves toward free trade by international development agencies
- The expanding role of MNCs
- Changing global rules and norms on the management of marine resources
- Evolving opportunities and challenges in gaining access to global markets

6.1.1 Accelerated proliferation of broad-based global standards in the production and service delivery

The proliferation of quality standards across the globe is a strong manifestation of globalization. Unwavering improvements of quality in export of fish and other marine animal products and service delivery have become a necessity. Maldives has been forced to adopt quality standards (such as ISO) driven by private sector firms, importing countries and trade blocs, in products such as canned, chilled and frozen tuna as well as in the export of fresh non-tuna marine animal products. These standards have now become so pervasive that they have been gradually incorporated into the national laws, rules and regulations in the Maldives.

Expanding regionalism in Europe has accelerated the process of harmonizing the systems of quality control for imported fish products to the community. The EU, US, and increasingly importers of Maldives fishery products in East Asia, have adopted strict guidelines for the import of fish and other marine animal products. Competent laboratories, accredited by the EU, to monitor quality of exported products during the

processing and obtaining EU approved certificates for food-processing facilities have become a pre-condition for export to the EU. In other words, the quality standards devised by governments of importing countries and international organizations have been imposed on the fishery industry of the Maldives.

The minimum standards set by the government on the quality of accommodation and service provided in the tourist resorts of the Maldives are based on standards formulated by the WTO*. In some areas, such as the size of the built area of the island, the local quality standards exceed WTO* standards. Leading players in the tourism industry have elevated the service delivery standards well above these already high, government-mandated levels. Major tour operators from Europe send personnel to tourist resorts that they have invested in, to inspect, amongst others, quality of food and drinks, service delivery, safety, and hygiene standards. Since the majority of major tour operators working in the Maldives are from Europe, they have directly imposed on the Maldivian resort operators the quality standards that have been demanded from them by their home countries. In short, standards adopted by the national governments of the feeder markets of tourists to the Maldives regarding quality of accommodation, food and the general welfare of tourists are being imposed by European tour operators on the Maldivian tourist resort operators.

Pressure to improve the efficiency and effectiveness of public sector service delivery in the country has come from donor agencies and international consultants. For instance, donors such as the WB and ADB have been instrumental in persuading the government to adopt market oriented management reforms during the early 1990s, including the corporatization of the SOEs. In the late 1990s donors have broadened their emphasis to include good governance, both in the negotiation process and project documents they produced. The ADB, under its good governance agenda, has provided development assistance to the Maldives to strengthen the country's national accounts and the legal system. The ADB has been one of the major donors funding the various decentralized

* World Tourism Organization

development programs through funding for the government's regional development initiatives.

6.1.2 Re-orienting regionalisms

Regional organizations that Maldives is associated with in the fisheries sector are undergoing profound changes in their effort to take advantage of the new realities of globalization. For instance, in accordance with the provisions of the UNCLOS III, member States of the Indian Ocean Tuna Commission (IOTC) have allowed fishing vessels from distant fishing nations to operate in the EEZs of member countries. With small-scale domestic fishing fleets and heavy reliance on income from canning fish and from transhipments of fish by foreign fishing fleets, SISs such as Mauritius and Seychelles, do not depend on the Ocean, either for their basic food or for employment, as much as the Maldives.

In contrast, Maldives has been an artisanal fishing nation for hundreds of years. In the Maldives, the fishery is a source of both food and employment for the majority of people living in the atolls located outside the tourism zones. Given these conditions, the country is now forced to balance its national economic interests of protecting its EEZ, on the one hand, and is under a lot of pressure to follow similar policies to those adopted by the regional countries, although Maldives is not a member of the IOTC, and open its territorial waters and EEZ to distant fishing nations, on the other. Maldives has been hesitant to join regional fisheries management bodies that in the future may allow unchecked exploitation of the fisheries resources of the Indian Ocean. The Maldives fear that joining such an organization will be an endorsement of such exploitations, which could jeopardize access to stocks of fish and other marine animals in its territorial waters, adversely affecting the food security of the country in the long run (Interview 12 May 2002b).

Another regional dimension arising from globalization is the expanding supply of fishery products that was traditionally supplied by the Maldives. The secure market of Sri Lanka

for Maldive Fish is under threat from other regional countries such as India and Pakistan, who now produce dry skipjack-tuna and package it at far lower cost (Shakoor, 2002:6). Also, unlike the past, Maldive Fish exported to Sri Lanka is no longer used only for local consumption. It is used as an ingredient to make other products (e.g. Maldive Fish Chips) primarily destined for Sri Lankan Diasporas through out the world. The era of Maldives Fish as a finished product, destined for a single regional market, is fast ending. The Maldive Fish segment, the least exposed of all segments of the Maldivian fisheries to the vagaries of globalization, is no longer operating on an exclusively regional platform; instead it is beginning to operate on a global scale.

6.1.3 Accelerated moves towards free trade by international development agencies

Discussions relating to policies adopted by international donors regarding development assistance predate current debates on globalization. The globalization process has, however, added new nuances to these debates. It was claimed in Chapter Five, that the neo-liberal efforts toward greater economic integration of the world economy have led to a shift in the eligibility criteria adopted by major donors regarding development assistance for developing countries. The US-led push, in concert with the WTO, towards free trade has opposed granting preferential market access to developing countries and is favouring the commercialization of development assistance and propagating granting of development assistance to those countries which adopt market friendly economic policies.

The push towards phasing out the preferential access to markets in developed countries has affected the Maldives in multiple ways. As pointed out in Chapter Four, the export of canned and chilled tuna to EU, not to mention clothing and apparel exports from the Maldives to the US, have been possible under preferential treatment. Similarly, access to soft loans and grant aid, currently available to the Maldives, is substantially dependent on its continuation of the LDC status.

6.1.4 The expanding role of MNCs

It was evident from Chapter Three that franchises of global tour operators and international airlines have gradually established their presence in the Maldives over the past three decades. International tour operators have expanded their role in the tourism industry of the Maldives through their financing of local private sector resort construction projects, and their role in operating charter flights to fly tourists to and from the Maldives. Tour operators also play a dominant role in the promotion of the Maldives as a tourist destination.

During the past one and a half decades internationally renowned hotel chains such as Hilton, Banyan Tree and the Four Seasons have established their investments in the country. These hotel chains and international management companies, with their respective blend of quality, have brought benefits as well as challenges to the management of the sector. Their uncompromising stand on quality has forced local resort operators to raise their standards in order to remain competitive. Their arrival has forced the State to become relatively more transparent in the planning and implementing of the tourism policy. The arrival of these hotel chains has also increased the number of expatriates, especially at the managerial level, leading to an increase in the leakage of foreign currency as salary payments.

6.1.5 Changing global rules and norms on the management of marine resources

The global action towards the management of the world fishery resources has provided both opportunities and challenges to SISs like the Maldives. UNCLOS III has granted coastal States the legal authority to exploit 200 mile EEZ on a sustainable basis. The convention has empowered coastal States to determine TAC in their EEZs to avoid over exploitation of the species or dependent species living in these seas (Willman, 2001:13). The UN Fish Stock Conference has emphasized the need for the management of stocks

over their entire migratory range (Juda, 2002:122). The Code of Conduct for Responsible Fisheries negotiated through the Food and Agriculture Organization has elaborated on international action on reducing incidental catch of seabirds and bi-catch (Lodge, 2002:96).

Assigning legal jurisdiction over 200 miles of coastal water has provided coastal States with access to revenue, which many States have sought to collect by selling licenses to third parties who wants to fish in their EEZs. In general, however, most developing countries, including virtually all SISs, have found it extremely difficult to convert these "tenured" rights into concrete economic gains. For instance, in the early 1993, on average, EEZs around the world were generating between 2.2% to 10% of gross revenue of the total catch to developing countries (Peterson, 2002:315). At the same time, the establishment of EEZs has increased the cost of surveillance of the zone and the cost of prosecution of those who violate the zone. The evolving measures of global governance of the fisheries have, for the most part, shifted the burden of global coastal fisheries management to thinly resourced coastal States like the Maldives.

Under UNCLOS III, coastal States are required to grant access to their EEZs to foreign fishing fleets to catch fish up to the maximum allowable catch, in excess of domestic capacity to exploit the zone. Given the limited local capacity to exploit the EEZ, Maldives was forced to open its EEZ to fishing by foreign fishing fleets. The limited capacity to undertake surveillance of the zone meant that fishing companies operating in the zone can violate their terms of agreement and illegally transfer fish catch on sea to waiting reefers and export their catch without transhipping them through the designated ports. Overall, then, global instruments of fisheries management have required the State in the Maldives to accommodate global economic interests, without being given the resources to take advantage of the legal rights assigned to it by international agreements and conventions to manage the fisheries resources under its legal jurisdiction.

6.1.6 Evolving opportunities and challenges in gaining access to global markets

Global supply chains have become important factors in the evolving international trading system (Gereffi, Humphrey, Kaplinsky & Sturgeon, 2001:1-3). In the global tuna canning industry for instance, big canneries, operated by the US and Thailand, have established forward linkages with large supermarkets and restaurants and vertical linkages with fishing fleets (Brus, 2001:1-2). These thickly connected conglomerates with access to multi-million dollar advertising to promote their brands make it extremely difficult for small-scale producers, like the Maldives, to establish their own brands of canned tuna. Consequently, access to international fishery markets is increasingly becoming possible only through access to global supply chains.

In order to adjust to the new realities of global trade in the fisheries, influenced both by the UNCLOS III and the emerging new modes of trade defined by supply chains, export of fishery products from the Maldives is undergoing a change from supplying finished products to world market to supplying semi-processed products to global supply chains. This is evident from Table 6.1, which shows that the export of frozen tuna to canneries in Thailand and the supply of fresh reef fish is increasing at a faster rate than the export of finished products such as canned tuna.

6.2 STATE REACTION TO GLOBALIZATION: TRENDS AND OBSERVATIONS

6.2.1 Expanding public-private co-operation

As the impact of economic globalization deepened, the State has sought to expand public-private participation in the provision of goods and services. This has taken several forms of sharing of costs between public and private sector in providing public services and forming partnerships with private sector companies. The public-private participation has also taken the form of expanding avenues for private sector participation in the public policy-making process. During the formative years of development of tourism in the

country, the government arranged with international tour operators to bring in tourists on packaged tours (Colton, 1977:40). Since the late 1980s, such public-private sector relationships have taken a more indirect path. For instance, until the early 1990s tourist resort operators were overwhelmingly focused on promoting their respective resorts alone. International tour operators, for their part, were primarily promoting only those resorts that they had invested in. The government has been successful in expanding this two-tier system of tourism promotion into a three-tier promotion strategy. In this three tier system local resort operators, international tour operators and the government are jointly promoting the Maldives as a single destination; at the same time, local resort operators continue to pay additional attention to promoting their respective resorts and tour operators also undertake publicity campaigns to sell beds in resorts they have invested in.

The public-private partnership in the promotion of tourism has not been confined to close working relationships between the MOT and private resort operators. Dhiraagu has been undertaking a long-term program of selective upgrading of telecommunication facilities in those atolls where tourism has expanded. The company has also been sponsoring tourism promotional campaigns on an ongoing basis.[1]

The public-private cooperation extends to training of personnel for the tourism sector as well. Although it was the government, with financial support from the EU and UNDP, which established the Faculty of Hotel and Tourism Studies it is the tourist resorts which have sponsored many who are undertaking training in the faculty.

Similarly, the expanded public-private cooperation can be discerned in the surveillance of the EEZ in the fisheries sector. While the government is gradually increasing the capacity of the Coast Guard of the Maldives (CGOM) to undertake surveillance of the territorial waters and the EEZ of the country, because of the vastness of the ocean area[2] under the

[1] A good example is the joint sponsorship by Dhiraagu and MTPB of the recently held Deep Blue Open five-star Prime World Qualifying Series (surfing competition) in Lhohifushi tourist resort, which was broadcast to the world via Internet by Dhiraagu.

[2] The area of the country's EEZ extends to some 859,000 sq. km (MPND, 2002).

Table 6.1

Composition of exports of selective fisheries products (1996-2001)
(in millions of US dollars)

Particulars	1996	1997	% change	1998	1999	% change	2000	2001	% change
Frozen species:	18.0	26.0	44.0	23.6	15.4	34.7	11.6	14.7	26.7
Frozen tuna	16.0	23.6	47.5	23.0	13.4	41.8	9.9	12.9	30.3
Frozen reef fish	2.0	2.4	20.0	0.6	2.0	233.0	1.7	1.8	5.8
Canned fish	16.0	16.3	1.8	16.7	8.6	-48.5	10.8	9.3	-13.8

Source: MMA, (2001). Annual Report.

country's jurisdiction, local fishermen have been asked by the government to play an active and vigilant role in monitoring the EEZ. Specifically, the fishermen are being requested to track and report the location and other details of the unidentified vessels in the Maldivian territorial waters and in the EEZ to the CGOM. The government rewards those fishing vessels that aid the CGOM in tracking and apprehending illegal fishing vessels. Such rewards usually involve one-time cash payments to the owner of the concerned fishing vessels. In the public sector, as pointed out in Chapter Five, SOEs such as STO have formed partnerships with local private sector companies and foreign companies.

In response to the increasing complexities facing the three sectors examined in the thesis, the government has expanded the level and mode of consultation with both domestic and international players, stakeholders and institutions. Until the late 1970s government consultation with the three sectors has principally involved seeking personal advice from prominent players in the sectors. While this practice still continues with regard to some types of challenges facing the sectors, there is a general shift from a personalized system of consultation to an institutionalized mode of consultation, at least as seen from the surface.

The institutionalized mode of consultation in the tourism sector consists of a number of boards, administrative and technical committees. These include the Tourism Advisory Board, Advisory Committee on Formulation of Regulations on Tourism, Technical Committee on Formulation of Regulation on Maldivian Tourism, Maldives Sports Tourism Committee and Advisory Majlis for the Maldives Tourism Promotion. In the area of human resources, the government has created the National Tourism Human Resource Development Committee (PO, 2002b). These committees bring together a trio of players, including, representatives from all relevant ministries and departments and the private sector.

The Fisheries sector has also witnessed an expansion of institutionalized consultative mechanisms. These mechanisms include the Fisheries Advisory Board, and the

Presidential Committee on pricing of fish. Compared to the tourism sector, however, the institutional arrangements developed for consultation in the fisheries sector are overwhelmingly composed of ministers. While high-level ministerial representation from wide-ranging sectors brings together diverse viewpoints of various segments of the bureaucracy into fishery policy-making, the private sector is underrepresented, as compared to the tourism sector in these institutionalized mechanisms of consultation. The lack of wider permanent representation by the private sector is, however, to some extent compensated for by the annual event held to mark the Fisherman's Day[1]. During this annual gathering, especially the seminar meetings held during the event, fishermen, *masdhoni* owners, fish processors, importers and wholesalers, and retail traders of fishing gear as well as officials of the MOFAMR and MRC sit together and discuss the challenges facing the country's fisheries sector and debate the possible solutions to these challenges.

As discussed in Chapter Five, the establishment of ACOPSR and NOSGO in the public sector were aimed at moving away from the PO centred policy-making mentality regarding public sector reform. The ACOPSR, in its advisory capacity, aims to bring together a diversity of viewpoints from different sectors of the economy to the policy making process on public sector reform. NOSGO was aimed at generating new ideas and assisting in the cross fertilization of these ideas across government ministries and departments. The creation of NOSGO was seen by the government as a major improvement over the, then existing, system of ad hoc consultation with selective public and private sector individuals seeking their advice on various issues.

6.2.2 Direct and indirect government assistance to the economic sectors

Direct government financial assistance and incentives were provided to the tourism sector to increase the capacity of mainly tourist resort operators to adapt to pressures arising from globalization. Both tourism and fisheries sectors were granted soft loans by the

[1] Fishermen's day is marked on 10 December of every year.

government. For the tourism sector, such loans were primarily granted to tourist resort operators to purchase bottle crushing machines and incinerators. The government also granted small loans to private sector resort operators who experienced short-term cash flow problems due to limited local investment financing.

Indirect government assistance to the tourism sector includes building infrastructure such as the country's international telecommunication network and upgrading the International airport. Tourism and fisheries sectors both benefited from exemptions from import duties. Materials imported to build new tourist resorts were fully exempted from import duties, while half of the import duties of materials imported to renovate existing tourist resorts were exempted from import duties. In the fisheries sector, import duty on timber imported for the construction of fishing vessels and marine engines imported for *masdhonis* is exempted, upon application for such duty exemptions.

There is, however, a qualitative difference in the infrastructure development initiatives undertaken by the government with regard to fisheries and tourism. As pointed out in the Chapter Four, it was the government that made direct investments in tuna harvesting (e.g. mechanization of traditional fishing vessels and installation of FADs in selective regions of the country), collection, freezing (purchase of collector vessels and construction of freezing facilities) and canning (upgrading of the fish cannery in the Felivaru Island). In the tourism sector the government did not provide direct infrastructure development in tourist resorts. It was the private resort owner/operator who built infrastructure such as harbours, jetties, installed electricity, water and sewerage, and other services that are commonly undertaken by the government as municipal activities in other parts of the world.

6.2.3 Long term developmental planning

The three sectors have, in varying degrees, benefited from the broader national development planning process. The development plans assisted the public by providing it

with the general direction of the government's development agenda. The development planning process also provided guidance to the private sector parties, including those in the tourism and fisheries sectors, on where they should focus their future investment priorities, in the light of government's investment program. The national development planning process provided less direction to the fisheries sector players, compared to the tourism sector. For instance, the government's ad hoc investment decisions on expanding the freezing and storage capacities did not envisage the potential expansion of the harvesting capacity that followed. This was especially true in the southern atolls where the opening of Koodoo fishing complex encouraged *masdhoni* owners to sharply expand the harvesting capacity, making it impossible for MIFCO to purchase and store the increased fish catch.

Sectoral master plans gave additional insights into the government's long-term vision, to both the public and private sector players and stakeholders regarding how the government plans to develop individual economic sectors. The FTMP outlined ways to reduce the negative impact of tourism to the socio-economic development of the country. The plan effectively endorsed the then ongoing practice of developing resorts in uninhabited islands. This policy was important for the future expansion of the industry because it helped to minimize the external influence from tourism on the cultural values, lifestyles and religious beliefs of the people of the Maldives. With its emphasis on spreading the benefits of tourism to the entire archipelago and by its focus on developing environmentally sustainable tourism, the second tourism master plan provided even greater policy direction and predictability to the private sector players in the industry.

6.2.4 Strategic use of State controlled land as a policy tool

In the face of challenges posed by globalization the State in the Maldives has used land as a public policy tool. As pointed out in Chapter Three, the government was extremely effective in incorporating the objectives of tourism policy into the processes designed to assign islands for resort development in 1997. The high weights attached to resort rents in

the overall criterion for allocating points in the competitive bids drawn to award islands for resort development has been effective in achieving the government's objective of encouraging resort operators to improve the quality of tourism products offered in the country. The high resort rents of the 1997 bidding process have forced local hoteliers and resort owners to be efficient and to devise innovative ways to create and offer attractive holiday packages to the Maldives.

These high resort rents have contributed to the incorporation of professionalism into Maldivian tourism industry as well. The personalized system of resort management, that was prevalent during 1970s and 1980s, has been gradually giving way to a new form of professional management, lead by a new breed of entrepreneurs who, unlike their predecessors, regard the resort operations as a business, not as a life style.

The high resort rent rates is partly responsible for the entry of international hotels chains and hotel management companies to the Maldivian tourism. In line with the undeclared policy of the government of "letting only the efficient managers operate tourist resorts", higher resort rents have forced inefficient local and foreign resort operators to pass control of tourist resorts to more efficient domestic and foreign operators.

6.3 PACKAGING AND TIMING OF STATE RESPONSES

State responses aimed at taking advantage of economic globalization and those aimed at minimizing the negative impacts arising from it, outlined above, have been packaged by the government in a specific manner. The reforms have been, in general, put together to create the impression that they are essential for the continued expansion of the national economy and future prosperity of the country. Examples of these were found in the fisheries case study, where co-operation between fishermen and CGOM is regarded by both parties as essential for the protection of the very livelihood of the fishermen as well as for the protection of national security.

In other instances, State responses to globalization have been framed as though they are essential for the protection of national unity and religious harmony of the country. A major objective of the long term planning of the tourism sector was to reduce the negative impacts of tourism on the society. The government policy of discouraging females from working in the tourist resorts falls under the ambit of these broader government efforts to protect the national unity and religious harmony of the country from the adverse influences from tourism.

State responses to globalization, in some instances, have been combined with a larger package of measures aimed at protecting the fragile natural environment of the country. Soft loans granted to the tourist resorts by the government to purchase incinerators and bottle crushers were part of a larger government policy on the protection of the natural habitat of resort islands and lagoons surrounding them. This policy was effective in dismissing claims by other sectors that the government was favouring the tourism sector over other sectors.

The implementation of policies aimed at adapting to globalization has been expedited, not stalled, by external pressures. The manner in which the government acted when confronted with external pressures, in all three case studies, suggests that it is easy for the government, in times of crisis, to justify and carry out politically difficult policies that are, nevertheless, seen as essential by the government to engage with the globalization process. It was pointed out, especially in Chapter Four, that in times of non-crisis the overall response of the State to the external challenges facing the fishing sector has been caution. In these periods, the government has taken the most minimal steps possible away from the status quo and adopted a "wait and see" strategy. This mode suddenly changes in times of crisis, and the government tends to speed up the implementation of those very same policy initiatives that it has been reluctant to pursue up to then. It seems that global crises that directly impinge the country provided great opportunities to the State policy makers to make "spurts of changes" in very short periods of time. Chapter Five provides further support to this claim. The imminent graduation of the country's development status from LDC to a developing country has prompted the government to seriously

pursue an accelerated program of liberalization of the fisheries sector to reduce the burden on the public purse due to the loss-making MIFCO. Another example of this is the accelerated moves made by the government to introduce new taxes, such as a value added tax on land and a corporate profit tax to expand the national revenue base (ADB, 1997:33) in anticipation of the expected loss of access to soft loans from donors due to the removal of the country from the list of LDCs.

6.4 INTERVENING FACTORS THAT DEFINE STATE REACTION TO GLOBALIZATION

6.4.1 Perception of the political leadership

Perceptions of political leaders in the Maldives towards engaging with the global economy have played a profound role in the State's approach towards globalization. Until 1978 the government was not particularly "globally oriented", preferring to address socio-economic development issues using whatever resources it could muster domestically. The post-1978 era has been marked by a profound enthusiasm to engage with global players, especially with the international development agencies. Unlike the pre-1978 era, the policies of the latter government are built on the conviction that engagement with the globalization process will bring new opportunities that could be exploited, if pursued with the appropriate caution, and if timely measures are put in place to compensate those that are negatively affected by such an engagement.

This shift in the attitude of Maldivian leadership can be attributed to three major reasons. First, it is due to the exposure of the new breed of political leaders that took office. Unlike their predecessors, the current leaders have spent long periods overseas and have experienced the working of political and administrative systems of both developed and developing countries. Secondly, the new leaders found themselves less burdened by the nationalistic sentiments linked to the traumas related to the severing of dependency status from Britain. Thirdly, by the 1980s when the new government came to power a relatively

good foundation was already in place in the areas of telecommunications, tourism and shipping, which allowed the incoming government to build on these foundations to engage with globalization in a more meaningful way.

6.4.2 Modalities in determining threats and opportunities from globalization

Who defines what is a threat and what is an opportunity arising from globalization, and the degree of the perceived threat and opportunities, has a major influence on the subsequent reaction of the State to these developments. In other words, the modalities involved in determining the challenges posed by economic globalization to the respective sectors influence the way the State reacts to the challenges of globalization. It was clear from Chapter Three that the key players who defined, not only the kind of challenges, but also the degree of such challenges posed by globalization to the tourism sector are local resort operators and their affiliate organization, MATI, in concert with foreign tour operators. Because of the relatively limited direct access by foreign tour operators to policy makers in the government, it is largely local resort operators, either through MATI or as lone resort operators, who define threats or opportunities to the sector and transmit these to the policy makers. In fact, there are cases in which local resort operators have bloated the magnitude of the challenges posed by global shocks on the industry to extract as many concessions as possible from the government. A good example of this is the calls by several prominent resort operators on the government to extend their lease period to compensate for the fall in tourist arrivals due to the Gulf War in 1990 (Interview 7 July 2002). Similar calls were echoed following the fall in tourist arrivals due to 11 September 2001 attacks on the US.

In sharp contrast to the prominent role played by foreign parties in the tourism sector in defining the challenges posed by globalization, it is the government-owned MIFCO, which largely determines the type and magnitude of such challenges facing the fisheries sector. Because of the confidence the company has in the government that the latter would bail it out (which the government has done in the past few years) if cash flow

problems arise, the company has been less prudent about the emerging global challenges to its operations and to the fishing sector as a whole. In fairness to MIFCO it should also be noted that on those occasions when it has alerted the government to issues related to changing global markets on fisheries markets, the government has opted not to follow MIFCO's advice. Instead, the government has pursued the politically acceptable path of running an inefficient company and catering to the demands of the politically strong skipjack-tuna Fishermen to purchase their catch, regardless of the market situation.

Chapter Five revealed that challenges posed and opportunities created by globalization to the public sector have been identified by a combination of players, including political and public sector elites, the general public and international donors. Because of the wide span of administration of the Maldives, the general public have used multiple avenues to transmit their perception of threats arising from and opportunities created by globalization *vis-à-vis* the public sector. It is normal practice in the Maldives for members of the public to narrate their interpretation of threats and opportunities arising from globalization to senior public servants or politicians.

6.4.3 The burden of existing systems

In comparative terms, the Maldives is still in the early stages of participation in the globalization process. It has the benefit of learning from the experience of other countries in dealing with globalization. The Maldives is evolving from a relatively centralized, informal and personalized system of politics and administration and does not have many of the established systems, tools and management cultures that are ingrained in large developed countries. In the 1970s, when the country began to engage with the global economy (with the establishment of the tourism industry and with the switch from dry to wet fish) the kinds of demands placed by globalization on the country were not hard to fulfill. For instance, there was and continues to be no unionized labour in the country. Nor is there a universal social insurance scheme to overcrowd private investment.

The combination of opportunity to learn from hindsight and the lack of rigid systems that are connected to typical nation-states of large developed countries has given the Maldives an opportunity to make bigger leaps forward from a personalized and non-institutionalized system to a flexible and generic system of governance, without having to struggle with historically established or colonially imposed political and administrative systems, like those found in other SISs such as Mauritius, Malta and Fiji.

6.4.4 Impact of geography

Besides conscious efforts made by the State to confront and adapt to the complexities of globalization, the three case studies examined in this thesis also point to the presence of a number of factors that are linked to the geographical location of the islands that provide space for the State to act in responding to the globalization process. It was the geography of the country, with its multiple islands, that allowed the State to engage with global players and still retain high levels of control over the type and quality of products/service and the direction of the tourism sector. Geography has allowed the government to pursue the development of a "one-island-one-resort" policy in tourism for example, which has been so instrumental in decreasing societal opposition to the expansion of tourism industry in the country.

The archipelagic formation of the country has also allowed the government to zone the country into fishing zones and to allocate them to different parties in an effort to create competition amongst domestic companies in the processing and export segment of the tuna fishery. Geography of the country has, thus, provided avenues for the State, in its dealings with global players, to formulate public policies in such a way that no single or a few foreign companies can have a controlling stake in any of the pillars (i.e. tourism and fisheries) of the Maldivian economy.

6.5 GLOBALIZATION AND STATE CAPACITY

6.5.1 Capacity to foresee new opportunities created by globalization

The Maldivian State's effort to confront globalization on multiple fronts has put a strain on its policy and administrative capacity. As discussed in Chapter Four, the overwhelming concern of the government to protect the tuna fisheries from exposure to global market volatility by attempting, amongst other means, to seal the sector from global players has blinded the government to new opportunities that were being created by globalization in the fisheries sector as whole. For instance, it was the private sector that took the initiative and began exporting fresh and chilled long line tuna to the lucrative markets of East Asia and Europe. MIFCO entered this market much later. In other words, unlike the MIFCO, the private sector fishing companies have shown greater willingness to take risks in order to tap into global markets. MIFCO, for the most part, followed the footsteps of those private companies that were successful in breaking into new markets.

6.5.2 Regulatory and oversight capacity

The concentration of the government's efforts on the tuna fishery meant that it paid limited attention to the exploitation of other fisheries species. The government did not put the necessary resources in to monitor the exploitation of non-tuna species in the country. Consequently, the local parties who acted as agents of global market forces were one step ahead of the government's regulation in the New Fisheries. One consequence of this regulatory oversight was the over-exploitation of some marine resources such as giant clams. This largely unmonitored and unregulated exploitation continued until 1992, when the government, upon realizing the degree of depletion of the stock, banned harvesting and exporting of giant clams.

Overall, there appears to be only limited government capacity to keep up with the regulatory and oversight responsibilities that are required by those segments of the

Maldivian fisheries that are dominated by the private sector. While there is a functioning infrastructure on quality management in place to cater to the needs of the public sector dominated wet fish fisheries, the private sector still relies on rudimentary methods of quality control developed by local private sector exporting companies in conjunction with their clients in the importing countries. As such, there is no uniform and institutionalized infrastructure for quality management of the fisheries products handled by the private sector.

The players in the New Fisheries segment have even urged the government to enforce the minimal quality standards that the latter itself has developed regarding the preparation and packaging of fresh fish for export. Established parties in the new fisheries have been particularly concerned with the lapse in the enforcement of hygiene standards by long line tuna packers for export to markets such as Japan. They claim that the export of sub-standard long line tuna by inexperienced local packers is tarnishing the image of the Maldives amongst Japanese importers. The government has, thus far, not been able to respond, in any effective manner, to these calls by local companies in the New Fisheries for the government to intervene in their segment in order to protect the quality of exports.

The government's limited institutional capacity has led it to rely on the private sector actors for up-to-date market information essential for regulating both the tourism and fishery sector. A clear example of this is the tourism sector, where the MOT (the regulator of the tourism industry in the Maldives) is highly dependent on a handful of major local and foreign resort operators for up-to-date information and data on the domestic and global tourism situation. Likewise, players in the New Fishery are in possession of up-to-date market and product information compared to State institutions mandated to oversee the industry. The increasing reliance of the regulators on the private sector parties, which they are supposed to oversee, is placing tremendous strains on the ability of the former to perform its regulatory task effectively.

6.5.3 Polarization of economic sectors

As access to foreign aid decreases the government is getting more dependent on the tourism sector to provide it with the necessary revenue to fund the social sectors of the economy. The relatively limited avenues that can be used to expand the revenue base of the country have forced the government to make concessions to the tourism sector. These concessions have mostly taken the form of providing multiple avenues for tourist resort operators/owners to participate in the broader economic policy making of the Maldives. Former and current resort operators and technocrats from the tourism sector are being called upon to advise the government in its efforts to relocate the local economy in the reconfiguring global economy. Thus, perhaps with no forethought, the government is socializing the norms and business practices of the tourism sector to other economic and social sectors of the Maldivian economy. These relative privileges awarded to the tourism sector make it clear that globalization has accelerated the polarization of economic sectors in the country.

6.5.4 Change in the power base of sectoral players

The reconfiguring relationships between players and stakeholders in the three sectors suggest that the globalization process and State policies aimed at addressing the ensuing challenges have led to a gradual change in the landscape of economic and political elites in the Maldives. In the fisheries sector, for example, the traditional "big man" status of owners of *masdhoni* is gradually fading. Compared to the pre-1980s, access to *masdhoni* by individuals with no prior source of wealth, in the latter years, under the government-sponsored long-term pay back schemes of distributing such vessels has led to a de-linking between access to finance and ownership of fishing vessels.

The gradual change in ownership has strengthened the role of professional skippers at the expense of traditional *masdhoni* owners. The elevation of the status of the skippers is partly due to the reorganization of the fishery sector itself. Before the introduction of freezing and canning to the Maldivian fishery, virtually all the fish landed in the country,

after local consumption, were processed into Maldive Fish. A major chunk of the processing was done in the households of owners of *masdhonis*. The revolution brought to the Maldivian fisheries due to the export of frozen, chilled and canned fish drastically reduced the processing of fish undertaken by owners of *masdhonis*. The decreased role of the latter in the processing of fish has led to a relative increase in the influence of skippers. This is because the focus has now shifted towards increasing the catch to sell it directly to the canned tuna processors and exporters.

Prior to industrial processing of fish and before the arrival of private sector players in the New Fisheries, the key players in the governance of the fisheries sector have been those who have to dirty their hands in the harvesting and processing of fish. The industrialization of the fishery in the Maldives has led to an increase in the power and influence of those who operate on the "fringes" of harvesting and processing of fish. For instance, with the introduction of the New Fisheries, new parties who are not directly involved in the harvesting or processing of fish and other marine animals began to emerge as playing significant roles in the way the country's fishery sector is managed. The influence of these parties on the country's fisheries sector hinges on their linkages to global markets and to their access to up-to-date market information on new fisheries. Exporters of long line tuna and non-tuna fisheries products belonging to the New Fishery, who have developed special relationships with intermediaries of global markets in East Asia and Europe, have secured permanent access to the policy-making process in the country's fisheries sector. Another such group is those parties who act as local agents for foreign fishing companies that operate in the EEZ. They have now become influential voices in the management of fisheries in the country.

In the tourism sector, resort owners and resort operators continue to be prominent players in the economic policy making of the country. But, as stressed in Chapter Four, the increased cost of building and operating resorts to cater to high paying tourists has led to a gradual movement towards de-linking ownership and operation of resorts. The owner-operator resorts are becoming fewer and more resort islands are being leased to large

local and foreign companies to operate. The resort operators of the pioneering era are gradually assuming the role of Landlords.

The policies aimed at confronting globalization have, thus, facilitated the creation of a new breed of entrepreneurs in the tourism and fisheries sectors. The power and influence of these new groups of players are no longer linked to their status in society or is based on their family background or access to income from uninhabited islands leased to them by the government. Neither is their influence based on political favours that they can offer to politicians. Rather, the authority of this emerging breed of entrepreneurs is derived from the government's perception of the intrinsic linkages between the economic well being of these new entrepreneurs and that of the health of the overall domestic economy.

6.6 GLOBALIZATION AND GOVERNANCE

6.6.1 Constitutional history and governance reform

Good governance, at least as proposed by the dominant models discussed in Chapter Two, is built on the premise of the instrumentality of the general public to force the government to take measures towards the creation and strengthening of liberal market oriented and democratic political systems. The experience of the Maldives, discussed so far, indicates that the public's capacity to influence the domestic governance is closely linked to the constitutional history of the country. The constitution that converted Maldives from an ancestral monarchy to an elected monarchy, and later, from an elected monarchy to a Republic was the outcome of a compromise reached between the Sultan and progressive elements of the Maldivian political elite. The first constitution was very particular on the powers and rights of the Sultan. This legacy has continued until today. Even the revised constitution of 1997 has placed heavy emphasis on the rights and powers of the HOE.

The four constitutions and seventeen amendments that came into effect since the adoption of the first constitution in 1932 have largely left checks and balances of the State to be

devised by the Executive (People's Majlis, 2002). The Executive, in turn, has not been in a hurry to install these checks and balances between the arms of the State, unless forced to do so by external pressure, especially from international donors and major trading partners. Even these pressures have failed to install fundamental instruments of checks and balances such as trade unions, consumer associations, and independent and viable civil society organizations that are customarily found in political systems adopted by large economically developed countries. Lacking these institutions at the societal level, the revised constitutions have also largely omitted reference to them (Interview 27 May 2002b). Given the absence of an opposition party, along with the lack of a vibrant civil society, there is only limited opportunity for the public to force the government, using any form of institutionalized mechanism, to act in any particular manner.

6.6.2 Viability of neutral and oversight institutions

The creation of the Anti-Corruption Board, the strengthening of the Audit Office, and the expansion of the capacity of MMA are some of the few steps taken by the State towards strengthening checks and balances of the Executive. It is interesting to note that the creation of these institutions and their functioning has followed the traditional patterns practiced in the Maldives. It has been an age-old practice, in the country, to place "neutral" and overseeing institutions under the authority of the HOE. There is a general belief amongst politicians that when these institutions are placed under a line ministry they will lose their independence. The present government, like its predecessors, has felt that the neutrality of these overseeing institutions is not diminished if they are placed under the PO, and not under the Parliament. One can debate whether locating these neutral institutions under the PO compromises their independence in a manner similar to that which is feared if they were to be placed under the authority of a line ministry (Interview 3 June 2002). According to mainstream approaches to good governance, these neutral institutions should only be answerable to the Parliament.

6.6.3 Centralized and personalized administration vs. the rule of law

As argued throughout Chapter Five, centralized administration is a key feature of the governance regime in the Maldives. It was observed that the centralized administration is perpetuating the existing personalized administration. In the environment of a centralized and personalized system of administration, due process and rule of law tend to be regarded as a "last resort". For instance, laws are only introduced, in general, when the government finds it impossible to manage without them. Even when they are introduced there is a bias against the adoption of detailed statutes that lay down, for example, the conditions under which they can be applied, the consequence of violating them, and methods of appeal. Instead there seems to be an overwhelming preference to rely on tradition to implement laws. One often quoted reason for this prejudice against detailed laws is that broadly worded laws give those in charge of formulating and implementing policies, under the mandate of the law, the required flexibility, and that this practice saves precious human and material resources (Interview 12 June 2002b). This is somewhat different to what takes place in other jurisdictions, where authority to formulate policies based on statute is always a "bracketed affair". Compared to relatively more mature political systems, where laws tend to be elaborate with regard to how they can be applied, the political and administrative arms of the State in the Maldives like to have wide latitude in formulating policies and procedures. There seems to be a general consensus amongst both politicians and public servants in the Maldives that they do not welcome what one interviewee calls "any forms of knots that would tie them to a principal" when it comes to policy making (Interview 3 June 2002). The long held practice of not questioning the government with regard to powers assigned by the constitution to the Executive has conditioned the Maldivian public not to question policies formulated and implemented under these "open" laws.

While this process of policy-making is conducive for quick action it discourages due process and what Paltiel (1989:266) would refer to as the "subordination of the behaviour of State officials to rational, predictable and publicly recognized procedures" or rule of law, something which is essential in the currently dominant good governance agenda.

6.6.4 Foreign aid and government accountability

One reason why the government has been able to adopt a "go-slow" approach to political and administrative reforms, including the expansion of checks and balance, is related to the absence of income tax system in the country. Since the late 1970s, the government has depended on foreign aid, especially grants and loans from donors, on generous terms, to finance the country's development. This has enabled the government to finance socio-economic development projects according to an agenda that is negotiated with its donors. As a result, accountability has become a matter between the government and the donors and less between the government and the citizens (Brautigam, 1992:11). Development assistance, along with the implementation of a relatively successful set of economic policies over the last decade, has allowed the expansion of the economic pie on an annual basis, making it easier for the government to "buy off opposition" to its policies.
Not only does the public not pay income tax, it receives benefits from the State free of charge, such as land and housing, and free welfare services, such as medical expenses to selective people, based on the assessment of their needs. Consequently, the public seems to have accepted the view that it is not reasonable to demand accountability from government for the budgetary allocation and how funds are being spent when they themselves did not contribute to financing it in the first place! These conditions give the impression that, it is only when the public starts to pay income taxes that it will have the wherewithal to force the government to take constitutional, legislative and administrative measures to bring about critical reforms aimed at strengthening political governance in the country as well as developing greater independence between the arms of the State.

6.7 CONCLUSION

Comparing and deducing common themes from the three case studies and evaluating the common themes have been the objectives of this chapter. To this end, it was argued that proliferation of global standards in production and service delivery and global rules and norms on the exploitation and conservation of marine resources have affected the two

major economic sectors of the country in complex ways. It was acknowledged that, while increasing the quality of production and service delivery is an ongoing process in all industries, international tour operators have been instrumental in imposing a particular set of values regarding service delivery, human resource development and gender issues.

Firstly, it was maintained in the chapter that one of the major reasons why tourist resorts in the Maldives have been able to incorporate global standards of service delivery relatively smoothly is due to the synergic relationship between resort owners and tour operators in the Maldivian tourism industry. The fisheries sector, however, has experienced a bumpy road in this regard. MIFCO has developed the infrastructure to fulfill global demands on quality but it has been forced to rely on Fishermen to supply fresh fish to its cannery. The lack of reciprocal improvements in the infrastructure on the harvesting of fish has meant that accessing fresh fish has been problematic for MIFCO. This has hindered MIFCO's efforts to comprehensively respond to the global demands regarding the quality of marine products.

Secondly, it was claimed that efforts by global developmental organizations to do away with the practice of allocating markets in the developed countries on preferential basis and the increasing dependency of developing countries on global supply chains to tap into global market are other major global dimensions that are impacting on the Maldivian State.

Thirdly, the expanding role of MNCs and the mismatch between the interest of regional groupings, especially in the fishery sector, and national economic interests of the Maldivian interests is challenging State policy makers.

Using specific observations and trends from the three case studies, it was argued that Maldives has, in general, adopted a favourable stance towards economic globalization. Although the manner in which the country reacted to these pressures, to some extent, resembles the policies proposed by IFIs and multilateral donors, there are major differences as well. It was maintained in this chapter that interpersonal relationships,

personalized management and centralized administration played prominent roles in the policies pursued by the State to address these challenges.

The three case studies show that it was not always possible to have agreement between policies adopted to adapt to and / or take advantage of globalization and those designed to improve governance. It was noted that flexibility to adapt to globalization may be enhanced when political and administrative elites have relatively broad leeway in public policy making. These features are, in general, antithetical to the dimensions of WB's good governance.

Furthermore, contrary to the claims made by the WB's governance model, the thesis has found evidence to suggest that expanding globalization has, in fact, increased the calls, by the private sector, for greater State involvement in the economy rather than to reduce its role. Specific areas where the State was called upon to play a greater role include: sectoral planning; general infrastructure development; human resource development; and regulation, especially those relating to quality control of products and services produced and exported to the global markets. The last chapter of this thesis will compare these observations with the contemporary literature that was reviewed in Chapter Two.

CHAPTER SEVEN: INSIGHTS FROM AND IMPLICATIONS FOR LITERATURE

7.0 INTRODUCTION

The chapter provides the concluding statements relating to the knowledge that has been gained from the research conducted on the relationship between economic globalization, governance and socio-economic development in the Maldives. This Chapter is divided into five major sections. The first section links the major observations and trends from the three case studies to the contemporary literature reviewed in Chapter Two on globalization, governance and socio-economic development. Section two presents the concept of informal societal networks as part of a possible alternative explanation of how Maldives has adapted to the vagaries of globalization. Thirdly, the chapter will discuss how a comparative political economy approach, which was adopted as the major approach for this study, can be further developed and enriched. The fourth section outlines the implications arising from the findings of this thesis for the governance literature. The fifth section outlines public policy implications arising from the thesis.

7.1 THEORETICAL ENGAGEMENT

7.1.1 Debates on globalization: The Maldivian context

On the discrete level, it is clear that, for SISs like the Maldives, the debates framed in terms of "pro-globalization" or "anti-globalization" are not particularly useful. This may be partly due to the limited natural resources that may have attracted foreign interests that may wish to control these resources, which may have created a tense standoff between those who are adversely affected by globalization and those who benefit from the process. Another reasons for the limited relevance of the current conceptualization of globalization relates to the fact that the country is not well networked into the anti-globalization movement. This is mainly because Maldives does not yet have a very robust and

autonomous civil society. This in turn is partially related to the small size of the population and, as pointed out in Chapter Six, and is partly due to the centralized political and administrative structure of the country, which discourages the evolution of an independent civil society to flourish. A third reason why debates on globalization have not materialized in terms of the dominant poles of the debates in the literature is because no industry of the economy or segment of the society has yet been negatively affected due to global integration, to the extent that they feel the need to join global movements opposed to the globalization process.[1] This is in deep contrast to the anti-globalization debates that have equated the globalization process with a "juggernaut", leaving little choice for parties on the fringes.

The tourism sector embraced globalization, largely because key players in the sector were already highly integrated into the globalization process. Though there continues to be ambivalence, all segments of the fisheries sector have accepted the position that engaging with the globalization process provides greater benefits than costs. Similarly, the public sector has also taken on board the philosophy behind the globalization process. The players and stakeholders in the three sectors have cautiously embraced globalization, concentrating on the expanding opportunities being created by the process. Key policy makers in the country seems to have also accepted that globalization is not something that States like the Maldives can fully embrace or stand aside from. Globalization is seen as something that the country has to come to grips with. However, in contrast with the more idealistic and stylistic accounts of both the "pro" and "anti" poles of the debates on globalization, the knowledge distilled from this thesis points to the high degree of adaptability and resilience of the State and society in the Maldives to the pressures arising from globalization and modes of this adaptation, and the differences in the modes of these adaptations compared to the dominant literature on globalization.

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[1] While there is no active opposition from any of the three sectors against integration into the global economy, there are a number of "hotbeds" that could fuel anti-globalization feelings in both the tourism sector and fisheries sector. These include: growing friction between local capital and global investors; increasing frustration by the local staff working in the tourism industry regarding the low levels of social protection, including low levels of salaries they receive, compared to foreign workers; friction between established local exporters of New Fisheries products to East Asian markets and those parties who act as local agents of importers; friction between new fisheries and old fisheries; and friction between management of tourist resorts and various segments of the fisheries sector.

7.1.2 Impact of globalization on the State

Hyperglobalists present an image of globalization in which global market forces are dominating, and in some cases, totally surpassing the territorial State (Ohmae, 1995). According to this view, countries like the Maldives will have little power to confront these challenges from the global market and will be widely exposed to the whims of globalization. The case studies examined in this thesis, however, sketch a more nuanced picture of State adaptation. Engagement of the country's tourism sector with the global players, for instance, points to the fact that the Maldivian State has, to a large extent, endured and, in some cases, expanded its influence over MNCs. As evident from Chapter Three, and to a lesser extent in Chapter Four, the Maldives has adopted policies generally conducive to the entry of MNCs. The pro-MNCs stance of the State, however, was not entirely due to the intrusive expansion of the forces of globalization, as globalists would have us believe. There is no doubt that the falling developmental assistance, pressure from donor agencies and a growing budget deficit played some role in creating the space for and accommodation of MNCs in the Maldivian economy. But domestic factors, including limited investment finance, a narrow professional and managerial base and limited private sector access to global markets have been other critical factors that led to the gradual expansion of the role of MNCs in the Maldives, especially in the tourism sector.

Hyperglobalization theorists, such as Gray (1998) and Greider (1997), have claimed that expansion of global financing is dictating economic and fiscal policy of governments everywhere. They claim that footloose global capital is forcing governments around the globe to reduce regulatory standards, including, but not limited to areas such as the protection of the natural environment and labour. Globlists further claim that unchecked globalization has led to a reduction in the capacity of the government to tax capital. They further claim that if government policies on labour, tax and environmental protection were not reformed to the likings of global finance, MNCs would move to other locations, which offer lax regulatory environment (Andrew, 1994; Garret, 1995; and Rodrick, 1997).

As was made abundantly clear in Chapter Three, there is a heavy reliance on global finance to construct tourist resorts in the Maldives. Unlike borrowing from international lending agencies or from international commercial banks, global financing of tourist resorts in the country has taken the form of loans by local resort operators from foreign companies and individuals, and largely on equity basis. Due to this heavy reliance on global capital, one would expect the claims of footloose capital to be true for the Maldives. But there is no such exit of global companies from the Maldivian tourism industry. The claim of footloose capital flight is based on the assumption that global companies are relatively unconstrained to move from one country to another. The global tourism and travel companies are not principally attracted to the Maldives due to a pro-business regulatory environment, or due to the presence of a highly trained human resource base or to the availability of cheap domestic labour. Instead, foreign tour operators, international hotel chains and international hotel management companies have invested in the Maldives because of the natural beauty of its islands and its undersea environment. Maintenance of these pristine environmental ecosystems in the Maldives has been largely due to regulations imposed by the government on the tourism industry regarding environmental protection.

Moreover, the saturation of tourist destinations worldwide means finding alternative tourist destinations that surpass the attraction of the resort islands of the Maldives is, at best, difficult. This may limit the options for global companies to relocate their investments in the Maldives elsewhere. The freedom in relocating their investments is further complicated by the presence of a long line of parties in the pipeline who are willing to invest in the country's tourist resorts, which acts to lessen the impact of the threat, or actual removal, of investment by a particular global company. Therefore, global capital, in spite of its power, is not unconstrained from going on a hunting spree for countries that offer the lowest operating costs. Hence, in spite of the pro-MNCs position adopted by the Maldives, the claim of their dominance of the local economy and the country's economic policy making is not well supported by the case study on tourism reviewed in this thesis.

Not only were the global actors, such as international tour operators, international hotel management companies, and foreign fishing companies operating in the Maldivian EEZ, dependent on the good will of the government to continue their activities in the country, the government has persistently devised innovative ways to direct, regulate, guide and, if the need arises, to evict foreign companies operating in the tourism and fisheries sector of the country. This was evident in the 1994 termination of licenses of all foreign vessels that were fishing in the EEZ of the Maldives.

Another central claim made by globalists, in general, is that expanding globalization is shifting the cost of welfare from capital to labour. It is maintained that expansion of globalization has led to a shift from full-time to part-time work and to the reduction of health and other welfare entitlements to labour (Higgot, 1999 and Rodrick, 1997). When Maldives began engaging with the globalization process in the early 1970s, in any meaningful way, domestic capital was not burdened by welfare commitments for their workers. Except the public sector, which had a rudimentary system of social protection, including a non-indexed pension scheme that provided half of one's salary after twenty consecutive years of service there were no State mandated health insurance or pension entitlements for the private sector dominated industries of tourism and fisheries. In the fisheries sector, the bulk of the employment is in harvesting and Fishermen work for a share of daily fish catch, rather than on fixed salaries. As a result, *masdhoni* owners were not required to provide health insurance or pension entitlements for their employees.[2] There is no support to the claim that jobs previously filled by males are now being filled by females either in the tourism or the fisheries sectors. As discussed in some detail in Chapters Three and Four, due to religio-cultural reasons only a very small number of women have taken work in either of these two sectors. These observations support Yang's (2000) view that, claims of decline in the welfare of labour due to the expansion of global capital are true when their exists a prior State sponsored welfare arrangement. The claims of decline of welfare of labour is less relevant to those States, like the Maldives, where

[2] This does not negate the fact that fisherman who regularly went fishing on a particular *masdhoni* were granted financial assistance by the owners of the vessel. Such assistance is provided in accordance with social and cultural norms in the society, rather than due to any government regulation.

the responsibility for social protection continues to be largely located within the family and society rather than the State or in the Capital.

It was the accelerated engagement of the country with the globalization process that expanded the welfare protection for labourers in the three sectors. Local resort operators were happy to overlook the plight of the labour working in the resorts until the arrival of international hotel chains and international hotel management companies, which began to upgrade the standards of accommodation, food and training for labourers working in the resorts, as part of these companies' overall human resource development programs. It was only when local resorts operators and subsidiaries of global tour operators faced competition from international hotel chains that serious efforts were made by tour operators to raise the level of protection and social rights of labourers in the Maldivian tourist resorts. This observation does not negate the gradual efforts made by European tour operators to improve living conditions of resort employees and gender related issues in line with the European Union's new emphasis on the protection of human rights, amongst other ways, by inspecting these standards in those resorts to which they send clients and in which they have made investments (Interview 18 May 2002).

Similarly, in order to obtain the certificate to export canned tuna and other marine animal products to the EU, MIFCO has to maintain certain minimum standards for the welfare of its workers. Thus, as far as the experience of the two economic sectors reviewed in this thesis is concerned, globalization is gradually shifting the burden of social welfare from labour to capital. It should, however, be noted that one way the capital, especially the resort owners / operators, has responded to the increasing burden on the welfare of local labour is by switching from local tenured labour to expatriate contracted labour. This has not yet happened in the fisheries sector where the government does not issue work permits for expatriates to work in the harvesting segment of the tuna fisheries. The privatization of the processing and export of the tuna segment of the fisheries in 2001-2002 period, however, is expected to increase the number of expatriates working in the fisheries sector of the country.

7.1.3 Modes of State adaptation

According to Cerny's (1990 and 1999) "competition state" thesis the main objective of the State in the globalizing environment is the pursuit of market competition. In so doing, he argues, the State will give preference to market modes in providing public services. The case studies have shown that the government did attempt to implement public sector reforms that are broadly in line with the Washington model of NPM. These reforms include the introduction of competitive bidding, to allocate tourist resorts, liberalization of the collection, processing and export of skipjack-tuna segment of the Maldive fishery, corporatization of SOEs, and the privatization of some aspects of SOEs. However, as the evaluation of these reforms (see Chapter Six) clearly shows, these reforms were undertaken simultaneously within measures designed to achieve a multitude of social objectives. The movement to reduce State involvement in the production and delivery of goods and services was accompanied with an increase in State involvement in additional economic activities, especially through partnership between SOEs and local and foreign companies.

Weiss's (1997) "catalyst state" model implies that those States that have the ability to take timely action have the edge in coping with and devising innovative ways to confront the externalities arising from globalization. Such timely action, Weiss argues, is achieved by maintaining a particular strategic coalition, all the while retaining a high degree of independence from the rest of the parties and elements in the coalition. For Weiss (1997) the factors that facilitate the formation of such strategic coalitions include: State sponsored access to investment finance; market oriented regulations; and government sponsored research and development program. The underlying factors that led to the formation of the strategic coalition in the Maldives are different from those proposed by Weiss. It was the perception of mutual stake in the health of the economy that brought major stakeholders together in the Maldives. Sub-alliances within broad consortia of stakeholders in the tourism sector were not facilitated by the government-sponsored access to investment finance, nor was it possible due to an overly market oriented regulatory regime in place. Rather, it was the polarization of resort ownership and resort

operation that provided the avenues for the State to form strategic alliances with selective stakeholders in the industry. The one-island-one-resort concept, facilitated by the geographical formation of the country, also contributed to this process of sub-alliance formation.

According to Armstrong's (1998) Social State thesis States adjust to globalization through IS. He claims that States exchange ideas and experiences and reach a broad understanding of how to restructure themselves and how best to strengthen institutions of international society to accommodate globalization. Faced with immediate graduation from LDC status, Maldives has adopted a policy of engagement with like-minded small States in order to gain favourable donor attention for its claims concerning the problems associated with the decision to graduate the country from the list of LDCs. To this end, Maldives has been successful in delaying at least the graduation of the country from the LDC status by instigating debate in the UN regarding the problems associated with the criteria used for graduation from the list of LDCs.

7.1.4 Globally oriented good governance: A second look

Major international donors have either explicitly claimed or made imperative in their arguments that those countries which have made the greatest strides in building the necessary governance institutions and "rules" and patterns of behaviour will be in a superior position to react promptly and to act proactively to the challenges posed by globalization (Moore, 1995) and achieve high levels of socio-economic development (WB, 1989 & OECD, 1995).[3] The evaluation of the case studies in this thesis lends only guarded support to this claim of a positive relationship between, on the one hand, good governance and socio-economic development, and adaptability to globalization, on the other.

[3] Also see Weiss (2000).

The case studies suggest that "informality" and "trust" are some of the fundamental pillars of governance in the Maldives. In the traditional sector of the fisheries local harvesters of New Fisheries have only informal and oral agreements with local exporters of new fishery products. Similarly, local exporters of New Fisheries products work on the basis of un-written understandings with overseas East Asian middle-men, who act as suppliers to lucrative markets in Hong Kong and Japan. It was noted in Chapter Three that local labour in the tourist resorts preferred not to have work contracts to protect them against violations of their rights by resort operators. Instead many who work in unskilled and semi-skilled jobs in the resorts do so because of the trust they have in the management or manager of their respective resorts.

This culture of trust is a well-established phenomenon in the entrepreneurial circles throughout the Maldives. For instance Dana (2002:560) in his study found that, in general, Maldivian entrepreneurs are not inclined to form a company and register it with the government if it is a business relationship between people who cannot trust each other. In other words, the existence of reasonably well functioning State institutions, such as judicial courts, to address grievances that arise between parties is no guarantee to encourage the private sector to expand their business activities. Trust and informality override all State instituted mechanisms designed to expand economic activities. These findings seem to contradict Latheef's (2002:247) assertion that the private sector in the Maldives is "evolving from the traditional unincorporated personal sector towards a corporate sector working within legally defined, predictable boundaries".

With the incorporation of civil society and social capital into their lexicon, the neo-liberal interpretations of governance has undergone a face-lift (WB, 1997a). Social capital was quickly included as an intervening variable between governance and socio-economic development in the overall good governance model professed by large donors and IFIs. The WB has claimed that social capital has the beneficial effect of efficient information sharing, co-ordination of activities and collective decision-making regarding development related activities (WB, 1997b). This claim takes to heart that a synergistic relationship

between the State and social capital can be built by using "soft technologies", such as, institution building and organizational change (Evans, 1996b:1036).

As far as the three case studies examined in the thesis are concerned civil society did not play a significant role in adapting national governance of the Maldives to the exigencies of globalization. The increase in the mobilization of activities of NGOs during the late 1990s, largely through foreign funding, did not last long. As the century came to a close the government succeeded in persuading foreign donors that funnelling development assistance through NGOs, in the political and administrative settings of the Maldives, is not an effective way to utilize development assistance (Interview 27 May 2002b). The UNDP's switch in financing development projects through ADCs and IDCs, rather than semi-independent local NGO's, is a good indication that donors have accepted the government's argument that funding for national development through government is more effective than through small NGOs which are, for the most part, run by part time employees.

At the same time, the State has largely co-opted those few established local NGOs by providing them with provisions such as land to undertake their activities. These few established NGOs that operate in the country are formed / managed by senior public servants. The design of the study did not allow the author to further investigate the reasons for the limitation of NGOs activities. But it is reasonable to speculate that a major reason for the limited role for NGOs in the Maldives could be their potential to become politicized. Since there are no political parties in the country, the government is hesitant to grant NGOs substantial political space for fear of them becoming undeclared political parties.[4] More research is, however, needed to substantiate this claim.

The implied constructability of social capital by State action in the recent literature on governance put forward by the WB was not substantiated from the case studies reviewed in the thesis. As noted in Chapter Five, with increased direct government funding of

[4] According to a senior official of a local NGO in the Maldives this has actually happened in one of the largest southern atolls (Interview 27 May 2002b).

developmental activities in the atolls there has been a substantial decline in the relatively well-developed system of community-based decision-making and vibrant networks of community participation in the socio-economic development prior to 1970s (Personal communication 6 June 2002). Community level discussions regarding future development needs of the atolls and islands have been taken over by institutionalized ADCs, IDCs and WDCs. These politico-bureaucratic institutions, devised by the State, to generate and coordinate societal input to the public policy making process can be viewed as part of soft technology (Evans, 1996b) designed to create social capital. In other words, there is a move away from relying on society-based generation of ideas towards techno-administrative based generation of ideas. This observation lends some support to Coleman's (1990:321) claims that purposive intervention to create social capital leads to entropy of informal networks, thereby decreasing, not increasing social capital.

7.2 THE ROLE OF INFORMAL SOCIETAL NETWORKS IN THE GOVERNANCE OF THE MALDIVES

The preceding discussions on the role of trust, informal actors, rules, networks, mechanisms and procedures have enabled the author to sketch the broader framework of a concept that seems to play a pivotal role in the adaptability of governance in the Maldives to the exigencies of economic globalization. While acknowledging at the onset the embryonic nature of this concept and the need to undertake further research within the context of the Maldives and beyond, to make it more robust, the concept of "informal societal networks" (ISNs) has great potential to fill at least some of the conceptual and empirical lacuna in the currently dominant models of governance.

The working of ISNs in public policy-making is analogous to the functions performed by embryonic cells, to use a biological metaphor. It is known that when limbs of vertebrate animals such as salamanders are amputated new limbs grow using embryonic cells. Likewise in SISs, especially in those where there is high degree of cultural, religious and social homogeneity, when confronted by external threats, such as from economic

globalization, there seems to be a concerted effort made by all levels of the government and society to find solutions to such challenges. The majority of the players themselves are seldom fully aware of the significance of the role they play in this broad-based, ground level policy-making process. It is these ground level analyses and thought processes of the ISNs that form the basis policy formulation by the formal and visible actors and institutions involved in policy-making in the Maldives. Once ideas are formed at the general societal level, the elites of the society (which may include respected community leaders from the islands or wards of Malé, retired public servants, politicians, business leaders and entrepreneurs) debates them and "filter" these ideas before funnelling them to the official channels of policy making. These second level ideas are then supplemented by technical input from specialists in the concerned field. It is this level that is the most visible in the public policy making on the broad governance of Maldives.

The concept of ISNs is broadly related to the literature on network society. According to the network society thesis proposed by Castells (1996:470) the dominant functions and processes in the contemporary times are chiefly organized around networks. According to him, this network-based social structure is highly dynamic and open for innovation without threatening its balance. The ISNs are also built on the foundations laid by the literatures on policy communities and policy networks (Heclo, 1978; Jordan, 1990; Powell, 1989; and Rhodes, 1990) and civil networks (Carroll & Carroll, 1999). According to the policy networks approach to governance, policy process differs considerably across policy domains, whereby, some domains are dominated by few actors representing limited sets of interests; while in others the organizational morphology is dominated by a complex set of widely diverse interests (Atkinson & Coleman, 1992:156-7). The private sector's innovative methods of forming new alliances, both with partners and competitors alike, have moved the debates on policy network approaches to the all-encompassing so-called network governance approach. Jones, Hesterly, & Borgatti (1997:913) define network governance as "inter-firm coordination that is characterized by organic or informal social systems, in contrast to bureaucratic structures within firms and formal contractual relationships between them". Park (1996:798) argues that this type of network

is not solely based on the price mechanism of the market or the authority relationship of hierarchy. Instead it is a hybrid of both. To put it another way, while organizations are free to choose counterparts there also exists a high levels of dependence between the members as within a hierarchy. Carroll & Carroll (1999) have examined the role played by what they call civic networks in the public policy making process in the context of Mauritius. The Carrolls' civic network approach juxtaposes the relatively broader aspects of civil society and more focused actors of the policy networks.

The ISN idea proposed here is broader than policy networks and civic networks discussed above because it encompasses a wider range of actors in the policy making process than covered in that literature. While civic networks concentrate primarily on visible civil society groups and on policy networks in specific fields, in addition to the role of civil society and formal mechanisms for policy making, including consultation committees, ISNs cover the role played by individual actors at all levels in the policy making process. Some of the components and features of the informal societal networks that influence governance in the Maldives are summarized next.

The bureaucracy is one of the important domains in which the ISNs operate in the Maldives. Given that the PO issues, relatively broad, mandates to ministries and other government entities and ministries themselves do not usually issue policies based on these mandates,[5] decision-makers at all levels of the bureaucracy have the opportunity to pursue a variety of activities that they can claim falls under the broad mandate assigned to them by the PO. The HOE, in his efforts to encourage innovation of the administrative systems is receptive to new initiatives regardless of their origin. In these circumstances, some senior officials of the bureaucracy are inclined to propose and adopt measures that may be beyond their ministerial and departmental mandates to gain favour with the HOE (Interview 27 May 2002c). This avenue enables a broad cross-section of the bureaucracy to link up directly with ordinary citizens to form multiple and fluid networks.

[5] A notable exception is the Ministry of Science and Technology, which published a telecommunication policy soon after its establishment in 1998.

One of the principal ways by which the ISNs are linked to the policy-making process is through the "revolving door" between the politicians and the public servants. Although there are very few "professional" politicians in the Maldivian political system, in the sense of large multi-party political systems, the elites of all backgrounds of the country are overwhelmingly political. Not only do retired public servants wield significant influence over current public servants and politicians, the government frequently seeks their services as well. It is often the public servants who, over time, go through a "metamorphosis" to become politicians. The current job classification system of the public service in the country has the effect of promoting people from their public service jobs to political roles (PO, 1998b).[6] Once public servants reach this threshold they are "expected" to think and act like politicians. It seems then, in spite of the highly centralized political and administrative system, and not withstanding the proneness to corruption and misuse of power, the political and administrative system in the country avails, to selected individuals and groups, the opportunity and freedom to experiment with new methods and procedures in the face of multiple challenges posed by globalization. The seamless linkages between politicians and pubic servants and the enduring influence of retired public servants and politicians make them an important part of the web of informal networks in society that shapes State policy in the Maldives.

The political-public service linkages are compounded by the informal integration of private sector think tanks and consultancy firms specialized in various fields, to State apparatuses. Private sector research and consulting firms specialized on, amongst others, finance, accounting, auditing, development planning, architecture and teaching, form part of these ISNs. Since public servants in the Maldives are not restricted from forming private companies in their areas of expertise or working in the private sector, their expertise and knowledge base is interchangeable between the private sector and public sector. Private sector practices adopted by these companies, without any conscious effort, are often incorporated into government policy. This is partly due to the high

[6] For instance, according to the classification system, when one reaches a certain level in the bureaucratic hierarchy one moves to jobs that are regarded as political. For example, currently Executive Director is the highest public service cadre of the classification system. The next promotion will be the political post of Deputy Minister.

representation of personnel from these companies in the government decision-making bodies. Similarly, private sector research and consultancy firms have little trouble in embracing some of the government policies and advocating them to their private sector clients. A good example of this is the receptiveness of private sector firms to public service human resource management practices. While these private sector research and consulting firms are not part of the officially recognized channels of policy inputs, they are beginning to be a highly influential set of actors belonging to the ISNs in the overall governance framework in the Maldives.

In the tourism sector for instance, as discussed in Chapter Three, it is usually the MATI that lays out the general policy agenda for debates regarding tourism policy in the Maldives. Though institutionalized, to a higher degree than in other think tanks, MATI also relies on a loosely connected private resort operators, albeit those that control the majority of resort beds in the country, for ideas and issues to be included in its reports and working papers. These reports are published or presented to the government as part of the input of MATI to the policy making process. Other resort operators who have direct access to politicians and senior bureaucrats take their concerns to the policy makers in person. Similarly, local travel agents and local air transport and sea transport companies also make their concerns known to the respective ministers and high level bureaucrats on a personal basis.

Local tourist resort operators in the Maldives are also highly successful businesspersons. Many of the resort owners have other businesses in the areas of import, export, wholesale and retail trade, transport, and construction, and have investments in other economic sectors including fisheries. As such, prominent resort operators are also the key figures in the Maldives National Chamber of Commerce and Industries (MNCCI). There is, thus, an integration of ideas and personalities between different sectors of the economy, making them another influential network in the public-policy making process in the Maldives.

While more informal and dispersed in nature, discussions that take place among *masdhoni* owners and among harvesters contribute hugely to the policy framework on

which the national fishery policy is made. Although there are no functioning national or regional associations of *masdhoni* owners in the Maldives, *masdhoni* owners, skippers and harvesters are thickly connected to the local and central bureaucratic and political apparatus, on an individual basis. *Masdhoni* owners form part of the economic elite in these islands' communities. Furthermore, like tourist resort operators, who have subsidiary business ventures, *masdhoni* owners also frequently have retail trade shops and operate inter-island transport businesses. The web of relationships between these parties is another way in which ISN manifests in the Maldives.

The preceding discussion of ISNs alerts us to the multiple ways through which relatively institutionalized entities such as the MATI, MNCCI, private sector think tanks and non-institutionalized and informal mechanisms such as *holhuashi,* and the multi-level relationships between the public and private sector influence public policy-making in the Maldives. The co-existence of informal and formal modes of governance in the broader contexts of the private and public sector in the Maldives lends support to the view that purposeful engineering of formal political and administrative institutions aimed at developing the capacity of the State to adapt to globalization are unlikely to totally eclipse the informal mechanisms that are so pervasive in generating the forums for discussion that enable the State to take appropriate policy measures to adapt to the pressures arising from globalization.

The neo-liberal models of good governance, prevalent in the IFIs such as the WB, with their close ideological alignment with Public Choice Theory and Principal-Agent Theory, for the most part would dismiss ISNs and the role played by political elites as "rent-seeking". The modes of State adaptations, discussed above, would constitute poor governance according to WB (1992:9) criteria. The ISNs that have played such a critical role in domestic governance in the Maldives in the face of great opportunities created by globalization and challenges posed by the process do not fulfill many of the requirements of the WB's model of good governance. For instance, the networks do not have the clear accountability structures that are viewed by the dominant models as critical to safe guard against corruption. Nor is there much transparency of the activities of these informal

networks. There is indeed a blurring of what is public and what is private in administration due to, amongst other factors, the practice of public servants working in the private sector. As argued consistently throughout this chapter, the many layered public policy making processes, ranging from gestation of the policy agenda at the level of ISNs, to the extremely subjective manner in which these policy agendas are picked up by the political elites, to the eventual decision making in the Maldives, contrast sharply with the rationalistic modes of policy making advocated by the WB's literature on governance.

Yet these are exactly the features of the governance process that seem to have allowed the Maldives to be relatively successful in constantly adapting to the challenges posed by economic globalization. The subtle and malleable phenomena of ISNs, as pointed out above, in one sense, is similar to the policy community approach given the fact that some of the actors are visible and tend to manifest a strong alignment to specific areas of policy. In another sense, however, ISNs are highly personalized, yet highly grounded in the bedrock of society, as seen from their embeddedness to the public sector institutions, corporate sector and to the general community.

It is clear that, at least in the Maldivian public policy-making context, the flexibility and adaptability of national governance to the exigencies of globalization is dependent on the smooth relationship between ISNs and bureaucratic and political elites. Given the absence of political parties in the country, political elites have evolved to become an important forum for generation of debate and compromise on public policy. Unlike several countries of South America and many countries of Africa, where the elites have strived to dominate the policy agenda the political elites in the Maldives seem to co-exist within the broader ISNs. ISNs play a balancing role in maintaining the various factions of society that are affected by globalization in check. All the players and actors in these networks are aware that if they press too hard to achieve their sectoral goals it will lead to dysfunctional outcomes. The wide representation of individuals across many of these networks makes it easier for them to adopt more moderate and mutually accommodating position in addressing challenges posed by globalization.

The author was handicapped in the quest to further investigate the workings of the ISNs because when this study was launched the critical role played by the ISNs was not evident. It was only after the examination of the interviews and other materials collected for the thesis that the importance of the concept was realized. As such, it was only possible to lay a rudimentary and schematic representation of the concept, drawing inferences from the interviews and based on personal knowledge and experience in working in the bureaucracy of the Maldives. In spite of the promise of ISNs as a potential candidate to fill some of the conceptual gaps in the currently dominant models of good governance, more research is needed to further refine this concept.

7.3 IMPLICATIONS FOR CPE

This study has adopted CPE as its major ontological approach. CPE, in general, seeks to determine the complex linkages between politics and economics by examining, amongst other factors, the role of government in policy making in terms of government institutions or processes. The historical institutionalist strand of CPE assigns analytical primacy to State institutions and to broadly conceived political institutions (Pontusson, 1995). Recently, there is a widening of the focus of the approach to non-traditional political institutions such as the Central Banks (Jayasuriya, 1994) to determine how States formulate public policy. CPE, informed by the literature on East Asian economic experience, has emphasised the activities of societal actors such as business associations. For scholars in this paradigm it is the pressure from the increasingly assertive private sector that gradually moves the politicians to shift from patrimonial styles of administration to more rational, even handed policy-making and implementation (Hawes & Liu, 1993:658).

This thesis has shed additional light on the analytical framework of CPE by providing support for the role of ideas, the role of agenda formation, political leadership, informal networks and the role of political elites in the public policy-making process. The thesis has expanded our understanding of what Weaver and Rockman (1993) call "second tier" institutional variables in the CPE's broad research agenda. These include, among others,

the relationship between the executive and legislative. In terms of the relationship between the executive and the legislative branches the thesis calls attention to the fact that, in SISs like the Maldives, the clear separation between politics and public service, as idealized in large and more mature political systems, is not practical. The study also shows that in many cases attempting to reduce the overlap between the public-private-politics in the Maldivian context may, in fact, be detrimental to its efforts to take prompt and effective action to adapt to the pressures of globalization. Drawing on the insights gained from the political culture and constitutional history of the Maldives, the thesis has maintained (see Chapter Five) that the attitude of the Head of the Government towards engagement in the global economy is a critical factor that shapes State policies towards globalization.

The role of ideas, which was so critical in the workings of ISNs, goes some way in addressing the criticisms levelled against CPE by Blyth (1997) and Sikkink (1991). Blyth (1997) for instance, has maintained that schools of institutionalism seldom treat ideas as objects of investigation in their own right. Sikkink (1991) maintained that, in spite of the critical roles played by ideas held by groups in determining whether a given economic policy is followed and gets consolidated, ideas tend to be treated as a second order of importance. For Sikkink (1991) ideas are similar to what Hall (1993) has termed "policy paradigms". Policy paradigm is the framework of ideas and standards that policy makers operate which specifies both the goals of policy and the kind of instruments that can be used to achieve these goals and the very nature of the problems they are meant to be addressing (Hall, 1993:279).

Hall's (1993) policy paradigm is relevant to the Maldivian context because it makes the point that, while material conditions (such as finance and adequately trained personnel) may delimit what is economically possible, it is the flexibility of the policy paradigms conceptualized by ISNs that more or less broadly frame policy outcomes in the Maldives. However, unlike Hall's policy paradigm where insulated bureaucratic and political elites become the bearers of different "policy paradigms", in the Maldivian context, the policy paradigms tend to be located in a more dispersed sphere. Because of the multi-layered

relationships, as explained in the workings of the ISNs, between citizens, politicians and bureaucrats, such policy paradigms tend to find more places for gestation.

One of the major problem of Hall's policy paradigm is it has no satisfactory explanation of how or why certain ideas come to be accepted over others (Blyth, 1997:237). This is a challenge that needs further investigation in the context of the Maldives as well. While there is access to a wide spectrum of players and stakeholders to participate in the process of formulating the overall policy agendas, it is not clear what criterion or procedures are used by the elite in the Maldives to filter the core areas of debates that they present to the decision making bodies from the "noise" generated during the initial stage of idea formation. It is in this juncture of "moulding" the policy agenda that bureaucratic and political elites exercise their power and authority in public policy making in the Maldives.

The CPE approach has mostly favoured structural, rational and economic theories as the basis for their explanation of the complex linkages between politics and economics, including the relationship between globalization and governance. This is not surprising given the fact that overwhelmingly studies on the subject have been undertaken on large and industrialized countries (Gourevitch, 1986; Haggard, 1990; Loriaux, 1988; Ikenberry, 1988). The findings from the three case studies of this thesis point to the need to expand the focus in CPE towards societal and psychological dimensions in explaining ways and means by which the politics of governance is shaped by the economics of globalization, and vice versa. This change in focus of CPE is called upon to find a more accurate explanation of the workings of governance in the socio-cultural environments, such as those found in the Maldives, which are largely informally based, personality dominated and heavily wired with societal relationships.

7.4 RESEARCH DIRECTIONS

The findings of this thesis regarding the impact of economic globalization on the governance and the effectiveness of the governance response to these challenges by the Maldives are based on three sectors of the country. Hence, the findings of this thesis may

not provide conclusive evidence for the claims made in the thesis. Further research is needed to incorporate expanding economic sectors such as manufacturing, construction and retail trade to corroborate the findings of the thesis. The analysis of the three sectors has brought forward a number of research questions that need further investigation using additional research tools such as focus groups to determine, amongst others, the motivation behind the actions of the players. This section of the chapter will draw attention to research that may provide further depth to the findings of the present thesis.

The factors of globalization affecting the three sectors were deduced based on the emphasis placed by interviewees and on the literature reviewed for this thesis. Additional areas that were only marginally touched on in the thesis need to be examined in future research to fully understand the complex linkages between economic globalization and its impact on domestic governance in the Maldives. In the tourism sector, these aspects include a broad based examination of the role of international airlines, insurance firms, commercial banks and companies that supply material for the day-to-day operation of the resorts. A detailed analysis of the growing friction between the tourist resort operators and fisheries regarding their use of common resources of the seas is likely to bring out further nuances of the debates on the impact of globalization in the Maldives.

The thesis has only made passing reference to how the foreign policy of the country aided the process of adaptation to economic globalization. It was pointed out how the adoption of a policy of open and friendly relationships with like-minded countries were a major pillar in the strategy in resisting the attempts by the UN to graduate the country from the list of LDC. More emphasis needs to be laid on examining the ways by which the Maldives was able to capitalize on the sympathy generated in world opinion towards SISs like itself due to linking of the environmental vulnerability (e.g. global warming and sea level rise) to the issue of graduation from the LDC status. This policy was successful in "buying time" to adjust its socio-economic policies to sustain economic development without the benefits of the LDC status. There is a need, however, to take a more comprehensive stock of factors and conditions that allowed the Maldives to generate

debates in the donor communities regarding the fate of SISs, like itself, to the prospects of loss of privileged access to overseas markets and development assistance.

It was maintained throughout the thesis that the role of political leadership aided the relatively successful adaptation to the globalization process. Global orientation of the political leaders was maintained as one of the determining characteristics that laid a bridge between the global economic pressures and national interests. Additional analysis is required to find the avenues utilized by the political leadership to convince the relatively "conservative" public to embrace the globalization process.

The ISNs that were so instrumental in generating the necessary flexibility in the policy making process in the adaptation of the governance of the Maldives to the pressures of economic globalization will be viewed by both dominant theories of governance and democracy as an undemocratic. These non-elected networks, which lack visible lines of accountability, will be viewed by the dominant theories of governance as an obstacle to the rule of law. The thesis has sought to address this challenge by claiming that, at least in the context of the Maldives, the combination of religious, social and ethnic homogeneity and the small size of the population has allowed the ISNs to be well grounded in the Maldivian society. But the particular combination of these factors may not occur in other SISs. As a result, more intellectual energy is warranted to bridge the gap between the demands of SISs to adapt to the exigencies of globalization by utilizing fluid and generic societal networks and the demands for democratic governance, which is supposedly built on institutionalized, transparent and predictable avenues of public policy-making.

The thesis has no doubt shed important light on the research questions posed at the beginning of this study. More qualitative and quantitative research is needed to substantiate the linkages between the concepts, players, informal institutions and patterns of behaviours identified in this thesis. Though it is primarily concerned with determining and evaluating the complex linkages between economic globalization, governance and socio-economic development in the context of the Maldives, its findings add to both the existing knowledge on the complicated research areas covered in the thesis. The findings

of the thesis are also expected to be relevant to other SISs jurisdictions around the world. At the same time, caution should be exercised against over-generalizing its findings to jurisdictions that have markedly different socio-economic conditions, size and history to that of the Maldives. The findings of this thesis will be more relevant to mini-States that have limited exploitable natural resources, have widely spread out populations of less than a million people and those States that have not experienced long and intrusive colonial rule.

Clearly a single country study like this one will not be able to do full justice to all the aspects of the broad research agenda set for this study as plainly as a comparative study of multiple countries and sectors. However, the thesis has sought to minimize these potential weaknesses by incorporating published literature on comparable SISs. Although comparisons are drawn, throughout this thesis, with the dominant models of governance and globalization, the ontological and methodological setting of this study has been primarily focused on hypothesis generating, rather than hypothesis testing. As such, the thesis has adopted a broad agenda and sought to raise multiple issues, albeit in less detail. It is hoped that further research will be undertaken on these issues raised and debated in the thesis. Most of the findings from this study will have a direct relevance to policy formulation in the Maldives in many ways.

7.5 POLICY IMPLICATIONS

7.5.1 Assimilating new players and forces to the governance framework

The globalization process has necessitated finding ways to incorporate new players, stakeholders, institutions, relationships, systems, networks and procedures into the country's governance framework. In a society where tradition, religion and personalized authority continue to stand side by side with the rule of law, the process of incorporating the forgoing into the policy-making process need to be handled with great care. The findings from the thesis clearly inform us that policy makers need to be more vigilant in balancing the calls by those linked to global economic forces for greater autonomy and

those calls from the embedded societal groups to exercise caution and to be more selective in engaging with global forces.

So far, the State in the Maldives has "managed" the delicate process of incorporating new players and dimensions into the existing governance process by delaying the process of decision-making to allow interested parties to forge alliances and express their views on policy matters. The government has also formulated "Vision 2020", to galvanize public and private sector developmental efforts. Managing the challenges posed by economic globalization to the best advantage of the socio-economic development of the country requires a State that is capable of envisioning its future role in the next decade and beyond. Therefore, it is prudent to conceptualize the future of the country based on its history, culture, religion, geography and the inspirations of its people. This conceptualization, formulated upon the basis of a comprehensive scanning of the global and domestic environment (Baker, 1998:107-108), should identify "bottom lines" that the State will not want to fall below. These bottom lines, set in economic, social and religious dimensions, should be bench marked and made transparent. These benchmarks should be constantly reviewed and updated through a participatory process. Such a dynamic process of setting and reviewing the benchmarks would enable policy-makers to use these benchmarks as guideposts. These guideposts will also be useful for the private sector players when they make their business plans.

7.5.2 Expanding the autonomy of the public sector's research capacities

While the thesis has acknowledged past efforts to strengthen the research capabilities of the three sectors examined in the thesis, more needs to be done in this regard. First, a Maldives Tourism Research Bureau should be established and research functions of the MOT should be transferred to this autonomous bureau. The mandate of this bureau should be to undertake research on the impact on the country's tourism industry arising from both the domestic and global context. To this end, the bureau should have the authority to

undertake studies on the health of the country's tourism and to collect, collate and publish relevant statistics on various dimensions of the tourism industry of the Maldives.

Given the increasingly intrusive regulatory instruments on global fisheries it is imperative that more attention to be paid to the research aspects of the Maldives fisheries. Currently, MOFAMR uses MRC as a tool for policy justification, rather than using its research capabilities to guide fisheries policy. In order to make informed policies on the fisheries industry it is high time to expand the autonomy of the MRC.

Likewise, it is essential to expand the capacity of the public sector to "scan the global environment" to determine the diverse forces affecting domestic governance. Since its establishment PSD has primarily relied on data collected by other government agencies to determine challenges posed by globalization to the public sector. Instead, the PSD should expand its capacity to collect, collate and publish relevant information and data on aspects crucial for the public sector to take advantage of the globalization process. PSD should give particular attention towards strengthening the process involved in determining how the government decides what aspects of the public sector need reforming and when to implement such reforms. To this end, it is important that PSD's current, politically oriented reform agenda be supplemented with input from systematic surveys and research studies of the workings of the public sector.

Building the research arms of State institutions and increased dissemination of their research findings to the public is expected to enrich the quality of discussions held amongst members and groups in the ISNs. Access to up-to-date and high quality research material, including those on the analysis of government policy regarding the health of the major sectors of the Maldivian economy, will help to bridge the gap between the power and influence of the political and economic elites and non-elites who are participating in the policy making process through ISNs. Access to widely available analysis of this sort, along with up-to-date statistics, will make the process of decision-making, within the framework of ISNs more democratic in the long run.

7.5.3 Forecasting challenges from globalization

Currently, tourism policy in the Maldives to a high degree is shaped by local tourist resort operators' interpretations of the perception of the health of the industry by international tour operators and international management companies. This arrangement has suited the country well in keeping the powerful players in the global tourism industry at arms length. While continuing this practice, it may be in the best interest of the country to establish a systematic and ongoing process of engagement of domestic tourism players with global tourism actors. To this end, it will be beneficial for the tourism industry to have an annual tripartite meeting between representatives of the concerned government ministries and departments, a consortium of tour operators, international hotel chains and management companies working in the country, and representatives of local resort operators. This would provide an opportunity for these parties to arrive at a long-term understanding of the interests of all the players. This will enable the parties to pursue their respective objectives in the industry within a framework of mutual understanding of the positions of the other parties.

7.6 CONCLUSION

The thesis set out to examine the usefulness of the conceptualization of governance which is chiefly associated with the WB as an effective policy response in addressing the socio-economic development challenges faced by SISs in the current era of economic globalization. Using the two major economic sectors of the Maldivian economy, tourism and fisheries, along with its public sector, the thesis evaluated how the country responded, between 1966 and 2002, to the pressures of economic globalization. Primarily relying on published material and interviews with representatives of the three sectors, presently serving and retired politicians, historians and other relevant parties, the thesis was able to uncover important insights into the means and avenues through which the three sectors are both coping and shaping their path in the face of economic globalization.

The examination of the research undertaken for this thesis does not lend support to the claim made by the WB, that institutionalized modes of good governance are a prerequisite for socio-economic development. It was obvious from the analysis of the case studies that, contrary to the neo-liberal preaching, economics have not replaced politics as a policy response to globalization. This finding reinforces Leftwich's (1994) call to pay greater attention to the bedrock on which good governance is expected to take root. The overall message from the thesis is that the characteristics of governance, that were instrumental in providing the social and political space to adapt to the pulls and pushes of economic globalization in the Maldives are very different from the kind of governance prescribed by IFIs and other multilateral development agencies.

A major policy implication arising from the findings of this thesis for future research is that key assumptions and value systems built into the WB's good governance model need to be modified, perhaps by incorporating aspects of the concept of ISNs into the overall governance framework, if governance is to have greater relevance to jurisdictions like that of the Maldives.

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Personal communications:

Personal communication on June 19, 2002 with a retired Island Chief, whose identity will remain anonymous.

Personal communication on June 10, 2002 with a retired cabinet minister whose identity will remain anonymous.

Personal communication on June 6, 2002 with a senior official from the Ministry of Atolls Administration whose identity will remain anonymous.

Interviews

Interview held on 7th July 2002 with a senior public official from the tourism sector whose identity will remain anonymous.

Interview held on 4th July 2002 with a senior official of Ministry of Fisheries, Agriculture and Marine Resources whose identity will remain anonymous.

Interview held on 3rd July 2002 with a resort operator whose identity will remain anonymous.

Interview held on 30th June 2002 with a senior government official from the Maldives whose identity will remain anonymous.

Interview held on 27th June 2002 with a senior official from a reputable travel agency in Malé whose identity will remain anonymous.

Interview held on 23rd June 2002 with a senior politician with more than thirty years of experience whose identity will remain anonymous.

Interview held on 20th June 2002 with a former senior official of the Ministry of Tourism whose identity will remain anonymous.

Interview held on 12th June 2002(a) with a senior official from MATI whose identity will remain anonymous.

Interview held on 12th June 2002(b) with a senior management official of a major SOE whose identity will remain anonymous.

Interview held on 5th June 2002 with a senior public servant whose identity will remain anonymous.

Interview held on 3rd June 2002 with an observer of the political and administrative system in the Maldives whose identity will remain anonymous.

Interview held on 27th May 2002(a) with a senior government official who has a keen interest in the Maldivian political and administrative system whose identity will remain anonymous.

Interview held on 27th May 2002(b) with a senior official with extensive experience in development planning and managing NGOs, whose identity will remain anonymous.

Interview held on 27th May 2002(c) with an informed observer of the Maldivian political and administrative system, whose identity will remain anonymous.

Interview held on 26th May 2002 with a senior management official of a prominent private sector fishery company in the Maldives whose identity will remain anonymous.

Interview held on 18th May 2002 with a resort manager whose identity will remain anonymous.

Interview held on 16th April 2002 with a senior official of Ministry of Fisheries, Agriculture and Marine Resources whose identity will remain anonymous.

Interview held on 15th May 2002 with a senior public official from the tourism sector whose identity will remain anonymous.

Interview held on 12th May 2002(a) with a senior official with extensive experience in the public sector as well as in managing the private sector organizations whose identity will remain anonymous.

Interview held on 12th May 2002(b) with senior official of MIFCO whose identity will remain anonymous.

Interview held on 9th May 2002 with a senior public official from the tourism sector whose identity will remain anonymous.

Interview held on 6th May 2002 with senior official of MIFCO whose identity will remain anonymous.

Interview held on 5th May 2002(a) with senior official of Ministry of Fisheries, Agriculture and Marine Resources whose identity will remain anonymous.

Interview held on 5th May 2002(b) with a skipper/owner of two fishing vessels from a predominantly fishing island whose identity will remain anonymous.

Interview held on 30th April 2002 with a prominent local exporter of fish whose identity will remain anonymous.

Interview held on 27th April 2002 with a senior official involved in the development planning of the Maldives whose identity will remain anonymous.

Interview held on 18th April 2002 with a senior official in MIFCO's Felivaru Canning Factory whose identity will remain anonymous.

Interview held on 14th April 2002 with a senior official of Ministry of Fisheries, Agriculture and Marine Resources whose identity will remain anonymous.

Interview held on 2nd April 2002 with one of the earliest exporters of non-tuna fishery species in the Maldives whose identity will remain anonymous.