The political economy of development: The case of the tourism industry in the Maldives

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This dissertation is dedicated to my late uncle Mr. Ibrahim Naseer who has always supported my education and career

Abstract

This dissertation will seek to examine the reasons behind the success of the Maldives tourism industry. It will look at what theories best explain the success of the industrial policy. It will argue that the political economy theories of rent seeking are crucial to understanding how the tourism industry managed to grow so successfully in the context of a rent seeking society, given the political structure of the country and the nature of rents.

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1. Introduction

The Maldives is an island nation scattered in the Indian Ocean comprising 1,190 small coral islands of which 200 are inhabited by a total population of approximately 300,000 people. The capital Malé, an island by itself, lies in close proximity to the International Airport, also an island by itself. The unique archipelagic coral island nature of the Maldives provides the country with an extensive fishery base and a marine ecological system. The main economic activity is tourism which contributes more than 70 per cent to the country's GDP directly and indirectly, followed by a second major fisheries sector (World Bank, 2006; ADB, 2007).

An effort to modernise the country began in late 1978 with succession of power by President Maumoon Abdul Gayoom. Largely unheard in the 1980s to the rest of the world and being the UN list of Least Developed Countries, the country was ready for graduation from this list by 1998[1]. Per capita Gross Domestic Product has increased from approximately US$ 100 in the late 1970s to US$ 771 in mid 1980s to US$ 2,541 in 2004 with a sustained 7.9 per cent growth rate for the past 15 years. The World Bank and other international organisations and the Government of Maldives (GOM), attributes this higher growth to '*prudent macroeconomic management*', '*commitment to liberalisation policies*' and '*continued stable political environment*' (World Bank, 2006). Paradoxically, this tourism-led growth has been sustained for the past 30 years with increasing inequality between the capital and outer atolls, concentration of the tourism industry in the higher echelons in the society and with a strong control on the population by the leadership with a policy of criminalisation of criticisms of the government[2]. While the GOM acknowledges the first two issues, steps taken to close the income gap and a wider participation in the tourism industry have been less successful. An opposition movement began in early 2000 which has led to a democratisation process '*led by the GOM*'. The country is facing a multiparty presidential election for the first time in its history in October 2008.

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[1] The decision had been deferred by the GOM twice since.

[2] Although the GOM has not officially outlined this as a policy, events during the 1980s and 1990s shows this has been an unofficial policy.

While local entrepreneurship by the pioneers of the tourism industry have been substantial, regulating the capacity control and tight control on whom to lease resorts have made the industry economically viable and politically easier to manage. This research attempts to evaluate the policies the GOM has followed in tourism development and the implications of these policies. It is evident from the ownership structure of the industry that while policies have been largely liberal for external investors, local investments have been selective and decisions to lease islands for resort tourism development have been political. An investigation into the political economy of the country sheds light into why the government has been able to sustain high levels of growth without being contested from non-tourism factions of the society.

1.1 Methodology

This research has been conducted by doing interviews with key stake holders in the industry and key people in the government including former Ministers for Tourism. It analyses government reports and other related documents on tourism development including the three tourism master plans, tourism policies and rules and regulations, independent reports and studies. As these institutional mechanisms create a vast amount of rents, it will be examined whether the policy conclusions forwarded on industrialisation could explain the Maldivian growth rates. Notably, we shall look at whether the development story provided by the international institutions and the GOM does give a clear picture of how political stability and high rates of growth was maintained. An alternative explanation will be forwarded by analysing the patron-client relationships in the economy which explain how the government was able to extract maximum rent from the tourism industry, using the Political Economy models of rent seeking.

1.2 Limitations

Given that the tourism industry is tightly control and some key stakeholders in the industry comprise the bureaucracy of the country, data on individual lease rents are not dissipated even to the Ministry of Finance. Lease holders often change hands largely towards the already established resort owners and this poses a challenge to verify indirect ownership of resorts by government and industry stakeholders mainly because of the unavailability of data. Further, government officials are hesitant to release any data on corruption issues, and in cases where these have been released, proper investigations have not been done because of the centralised mechanisms in the industry. Finally, since the democratisation process began, there have been major changes to the institutions, and executive and ministerial level individuals have left the government and formed other political parties. For this reason, the study focuses mainly from 1978 to 2000.

1.3 Argument

Many small island states have specialised in international tourism development which have contributed to successful economic growth in these countries (Tisdell 2001; Prasad, 2003; Velde and Nair, 2005; Jayaraman and Ward, 2006; Algieri, 2006). This research attempts to analyse the factors behind the growth of the tourism industry of the Maldives which has been the main driver of the economic growth of the country. While socio-political stability has been a major factor contributing to the growth of the country, it would be argued that liberalisation policies have not been followed locally. Growth has been in favour of the pre existing elite class who controlled these sectors traditionally and a very few has been allowed to enter the industry. Rents created by the government in these sectors although favoured some few individuals (through political givings, maintenance of the monopolistic nature of the industry), did not effect the critical decision of high value added nature of the industry which was made *ex ante*. It would be analysed how the cost of these rent seeking activities was secondary and kept low as these rent seeking activities was state led, politically controlled and managed.

1.4 Structure

The way that this research is organised is as follows. The next section outlines the Maldivian economic background showing the economic growth rates, increasing contribution to the Gross Domestic Production from the tourism industry and scores on governance indicators. Section three analyses the literature on industrial policy and rent seeking. Section four focuses on the institutions, regulations and rules governing the tourism industry, accounting for some of the decisions made by the GOM on the tourism industry. The second part of section four evaluates how these regulations and institutions create avenues for rent seeking followed by its social outcomes. Finally, section five summarises and draws some policy conclusion.

2. The Maldivian Economic Background

During the past 30 years the Maldivian economy has grown at a substantial rate. A study by Fitzgerald (1983) defined the status of the country as a poor society with an income per capita of US$ 200; living and consumption standards for the vast majority of the population are minimal based on simple thatched houses without light or water and a diet of fish and rice. Although nominal literacy is high, functional ability is low, with primary education confined to a minority and completed secondary education minimal. This situation is unrecognisable today as per capita Gross Domestic Product has increased from approximately US$ 100 in the late 1970s to US$ 771 in mid 1980s to US$ 2,541 in 2004 with a sustained 7.9 per cent growth rate for the past 15 years. During the same period, encouraging social developments have also been made. Primary education is nearly universal, literacy rates have increased to 98 per cent. Primary health care is near universal[3] (GOM, 2005). The country was classified in the UN list of Least Developed Countries in 1980s, by late 1990s the country was ready to graduate from the UN list of LDCs to lower middle income category.

The Maldives, being one of the small island developing state (SIDS), share the characteristics of the United Nation's definition of small state. These specifically for the Maldives are; a small domestic market; a narrow and fragile recourse base; a shortage of skilled manpower; difficult inter-island transport and communication; high cost of social and economic infrastructure provision;, heavy dependence on external trade and vulnerability to external shocks and natural disasters.

Despite being disadvantaged with the small island nature of the country, the Maldives has surpassed the neighbouring South Asian countries on GDP and other social indicators. The driver behind these achievements has been increased revenue from the tourism sector which account for almost 70 per cent of the GDP directly and indirectly. According to the official reports of the international organisations, '*commitment to liberalisation*', '*prudent economic management*', and social and political stability complemented by homogeneity of race and religion have all contributed to

[3] All statistics obtained from the Statistical Division of the Ministry of Planning and National Development, Government of Maldives.

the country's long term social and economic growth (World Bank, 2006; ADB, 2007). While these reports acknowledge the costs of these developments, the reasons for social and political stability has been overshadowed by these impressive growth rates. Further, careful readings into the local economy demonstrates tourism and fisheries have been controlled by the government, the benefits of which accruing to the upper echelons, which explains the growing disparity between the capital Male and outer regions in terms of income and social indicators (ADB, 2007).

On issues of governance, the Maldives has a good track record compared to the rest of South Asia on most governance indicators as shown in figures 1 and 2 below. However, voice and accountability is lower than the regional average, reflecting the 30 year dictatorial rule of President Gayoom since 1978. Further, it is not surprising that most of the governance indicators have shown a decline since the democratisation process began in 2004 apart from voice and accountability, as more issues are being uncovered.

Figure 1: Governance indicators for the Maldives

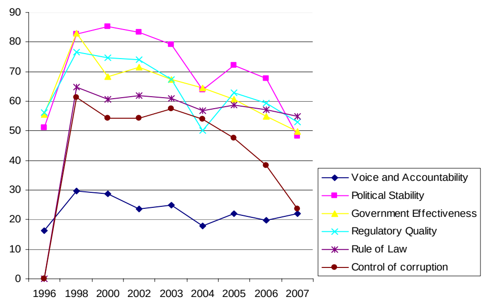
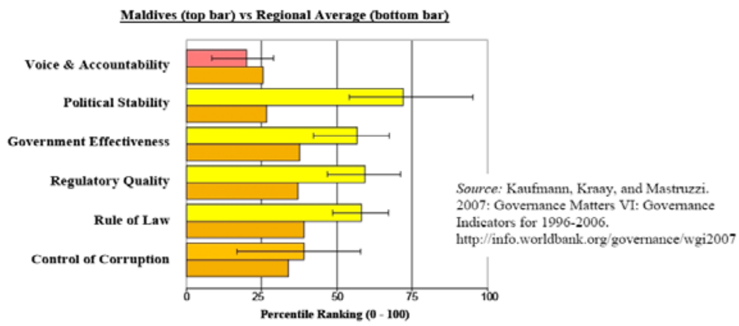


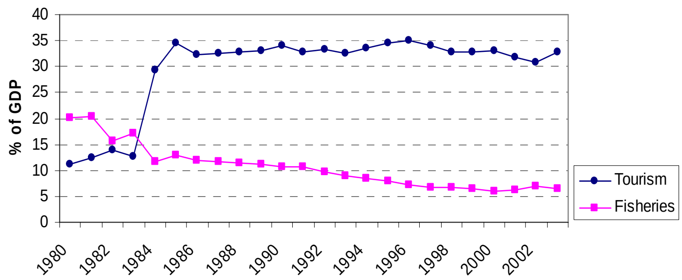
Figure 2: Maldives Governance Indicators and the South



2.1 Tourism Sector

These impressive growth rates have been led by a successful development of the tourism industry which started in 1972 led by a few local capitalists. During the 1970s, the Maldives was largely unknown to the rest of the world with a subsistence fisheries sector with poor infrastructure and low socio-economic developments. The economic situation was evaluated in 1970s by a UNDP consultant who advised to proceed with exporting fisheries product in the world market given the comparative advantage in fisheries resources. The GOM was advised not to invest in the tourism sector given the poor infrastructure, lack of skilled labour, dependence on imports for all goods and services and because the country was 100 per cent Muslim (GOM, 1998). Despite this advice, clear signs of success were showing in the unregulated tourism industry whilst the fisheries sector was experiencing adverse shocks mainly from a decrease in the world fish prices during late 1970s (GOM; 1984). Policies were enacted in the 1980s to support the growing tourism sector which has proven successful in terms of revenues accrued; while measures to develop the fisheries sector, which is the mainstay of the majority of the population, have been less successful (Sathiendrakumar and Tidell; 1988). As shown in Figure 3, the contribution to GDP from tourism increased significantly while the fisheries sector has shown declines.

Figure 3: Percentage of GDP from Tourism and Fisheries



Source: Statistics Department, Ministry of Planning and National Division, GOM

The tourism industry was overhauled in 1979 by enacting a Tourism Act and introducing rules and regulations which controlled entry into the industry by way of capacity control. This resulted in the escalation of profits, and increasing quality in the existing resorts. Contribution from tourism to GDP has escalated from around 13 per cent of GDP in 1979 to 70 per cent (directly and indirectly) in 2004, while profits from industry have also skyrocketed.

Figure 4: Revenue from Tourism (1985-1995), million US$

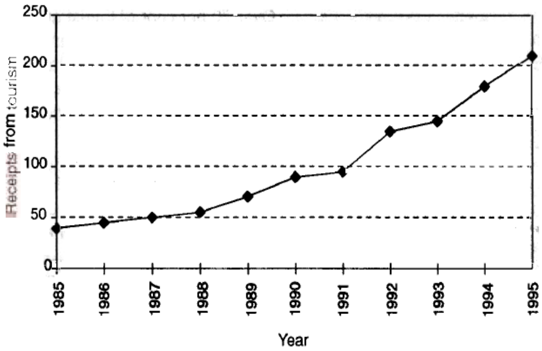
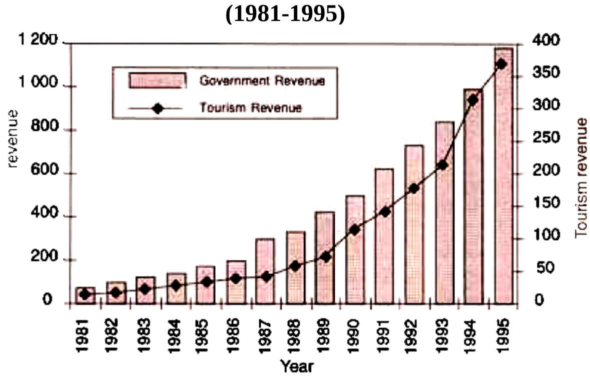


Figure 5: Tourism contribution to GDP (1981-1995)



Source: Statistical Department, Ministry of Planning and National Development, GOM

3. *Literature Survey*

The methodology for analysing economic development and industrial policies depends on the institutions through which the state intervenes in the industry, the type of bureaucracy, patron client relationships and the type of technologies used. The institutions, bureaucracy and the patron client relationships depend on the type of the state. The state in turn creates the institutions in which the state intends to govern. The economic role of the state is then to create, maintain, and reallocate property rights using its monopoly power over violence if necessary (Khan, 2004).

The dominant view on the institutions and the role of the state in economic and industrial development has been the neoclassical school. State intervention is required only where markets fail, although failure to correct markets results in higher costs than would be incurred by market failures[4]. Proponents of this view, namely Krueger (1990), Srinivasan (1985) and World Bank (1983) argue that government failures are bigger than market failures especially in developing countries. These failures take the form of rent-seeking and corruption, distortions in the market and reduced growth rates (Krueger, 1990; Srinivasan, 1985; Bhagwati, 1982). The World Bank's policy prescriptions to developing countries have been following this line. However, after the Bank recognised state involvement in the development success of East Asian countries, there has been a swing away from this extreme no intervention position towards 'market friendly' intervention. The policy conclusion however remains to keep the state to intervene functionally to provide goods and services which the state has a comparative advantage of, and not selectively favouring some industries. Industrial policy according to the World Bank should not be to manage the politics of large big bang reforms, but to facilitate the relaxation of constraints as they emerge, institutions do not have a panoramic view of the obstacles *ex ante* (World Bank, 1997). Policy implication of this consensus view is to adopt free market policies along with governance reforms to correct government failures.

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[4] Krueger (1990) identifies both failure of omission and failure of commission. Failures of commission are government failures in provision of goods that could be provided by the market. These include 'high cost public enterprises and underperforming government manufacturing sectors traditionally not associated with the government. Failures of omission are government failure in providing infrastructure and public goods. Such failures include failure to maintain infrastructure and controls in the financial market by maintaining fixed nominal exchange rate.

The New Institutional Economics (NIE), drawing from neoclassical, Marxist and public choice theory focus on the state to solve coordination problems to reduce higher transaction costs and reduce appropriations. This argument stem from the view that the process of growth is inherently destabilising for the ruler since technological change and the spread of efficient markets would alter relative prices changing the initial property rights structure. Stable property rights are achieved by social order and credible commitment by the state to constrain themselves from ex post appropriation. Stable property rights defined by low expropriation risk and low transaction costs are critical for efficient exchange (Coase, 1960), efficient monitoring within the firm (Alchian and Demstez, 1972) and long run investment and innovation (North, 1990; Acemoglu, 2001; Bates, 2001; and Rodrik, 2003). Therefore, institutions should be democratic and follow transparent and accountable practices for growth to foster.

Successive state interventions in South East Asian economies have shown that such interventions, when efficiently managed, results in levels of growth higher than what the competitive markets would deliver. This approach has been taken by the statists and developmental state economists, namely Johnson (1982), Evans (1995), Okuno-Fujiwara et al (1997), Kohli (2004), Amsden (1989), Wade (1990), and Chang (2007). These economists have highlighted *leadership priority* and the *quality of bureaucracy* and most importantly, *coordination* between the state and the capitalists as essential in sustaining higher levels of growth in South East Asia. Further, these high growth economies intervene in the socio-economy by assisting in the creation of new capitalists and ensuring that they succeeded in the acquisition of technology and entrepreneurial capacity by active *interventions in property rights* and *management of rents created by the state* (Rodrik 2002, Khan and Jomo 2000, Woo-Cumings 1999, Lall and Teubal 1998, Aoki, Kim and Okuno-Fujiwara 1997, Rodrik 1995, Page 1994, Chang 1994, Wade 1990, Amsden 1989).

While it is clear that these characteristics have been important components contributing to successful state intervention and industrial policies in the regions, the mechanisms which enabled the state to control such interventions without being subject to higher rent seeking costs, rests with the political power and the autonomy of the state and its institutions, kinds of patron-client relationships that existed in these economies and the ability of the state to manage these rents in favour of growth.

Khan (2000a, 2000b, 2002) identifies the institutions and policies that are likely to succeed in a social transformation model[5]. This model puts developing countries in a dynamic social and economic transformation where states intervene to create and change property rights and devise rent management mechanisms to accelerate the capitalist transition and acquire new technologies. Dynamic social transformations therefore require institutions and states which can *alter property rights in favour of growth*, *manage growth enhancing rents and destroy growth reducing ones* and organise ring fence transfers to *maintain political stability* (Khan, 2002). This requires a state to have effective enforcement mechanisms in terms of institutional and political capability (autonomy to impose changes without being resisted by groups who might loose out from these changes) and a compatibility of institutions with the interest of powerful social groups.

The literature on state intervention and industrial policy points extensively towards whether or not it is right to intervene in the markets which create rents. When states intervene in economic development, more specifically setting up industrial policies in favour of some industries, the question is whether the state is able to successfully lead these industries and successfully manage rents created by such interventions. Because rent seeking activities including corruption is the main argument against state intervention in economic activities and selective industrial policy, I shall examine the specific theories of rent seeking and the policy prescriptions these theories advocate.

[5] The Social Transformation Model looks into how the state and its institutions engage in transformation of social and economic aspects towards a successful capitalist system given the political and social structure of the countries.

3.1 Theories of rents and rent seeking

'Rent seeking is the resource wasting activities of individuals in seeking transfers of wealth through the aegis of the state'. Buchanan, Tollison and Tullock (1980)

'Rent seeking is the expenditure of resources and effort in creating, maintaining or transferring rent… which can be legal as with most forms of lobbying, queuing or political contributions… or illegal such as bribes, illegal political contributions, etc'. Khan (2000)

Rents and the process of rent seeking has come into immense importance since the seminal work of Tullock (1967), Krueger (1974) and Posner (1975), Bhagwati and Srinivasan (1980). This literature argues that trade restrictions, monopoly rents and artificial barriers created by the state would result in costs higher than the deadweight loss associated with these restrictions. The argument follows that apart from the administrative costs associated with these rents, resources are diverted towards competing for these rents rather than investing in the productive sectors of the economy resulting in the reduction of growth. In circumstances where rents are not created by the government, as in Bhagwati (1980)'s analysis of Directly Unproductive Profit (DUP) seeking, but take the form of new technology or newly discovered natural resources offering above market returns to these factors, the entrepreneurial activities that are attracted to these activities are then different from rent seeking. However, if the existing entrepreneurs seek to restrict entry into the market by way of lobbying to the government to issue licences, result would not yield to production hence immiserising growth in the economy. Further, Murphy, Shliefer and Vishny (1993) shows that the presence of rent seeking activities in the economy exhibits an increasing returns, and is self generating relative to productive activities, afflicting innovative activities in the economy and reducing growth.

The public choice school following the work of Buchanan (1980) and Tullock (1980) have contributed to this literature by arguing that rent seeking activities are directly related to the scope and range of governmental activity in the economy and to the relative size of the public sector. According to this view, rent seekers, apart from diverting resources in lobbying efforts, engage directly in politics to secure access to decision making power. Tullock (1980, p.25) describes that 'it is the presence of rent seeking that allows officials to devote time away from the necessary functions of the government. In this system, there is poverty and higher levels of poverty where rent-seeking is dominant'. This, according to Tullock (1980), is the reason for Asia's backwardness.

The conclusions that could be drawn from these arguments are:

1. Government restrictions on markets deviates resources away from productive activities towards rent seeking activities which results in social waste of resources and **low output**
2. **Investment is hampered** by rent seeking activities as resources are used in rent seeking activities
3. **Innovation** drives economic growth and government restrictions hurt innovation more than it reduces output
4. Rent seeking itself **exhibits an increasing return**, placing the economy in a vicious cycle.

New Institutional Economics (NIE) has extended the concept of rents and rent seeking, and argues that rents and economic rights are related, and that the process of rent seeking is closely related to the process of institutional change. For example, Congleton (1980) has argued that democracies are less vulnerable to rent seeking dissipation than authoritarian or dictatorships. On the other hand, Kunicova and Rose-Ackerman (2005) suggests that plurality rule systems are less prone to rent-seeking losses and corruption than are proportional representation systems. (See Congleton (2002) for a detailed analysis).

The re-examination of the success story of East Asian economies, revealed how governments created rents in socially desirable ways to stimulate growth by creating institutions to have checks and balances on these rents. Stiglitz (1996), Amsden (1989), Aoki et al. (1997), Chang (1994), Kim and Ma (1997) emphasised on the subsidies and other forms of protection created by these governments to stimulate innovation and growth, at the same time placing *institutions to monitor* these rents resulted in socially beneficial outcomes.

One of the major shortcomings of these literature are its excessive focus on social costs of the resources used up in rent seeking. The government exogenously determines rents, and the rational economic agents maximise revenue by seeking this rent. Khan (2000) analyses the different types of rents which rent seeking has created in different contexts resulting in differential rent outcomes. By focusing on the distribution of power in the society, patron-client relationships and the organisation of rent-seeking, Khan (2000) analyses how in some situations successful rents have been created and managed enhancing growth, while in other situations have resulted is less productive outcomes. Drawing from institutional economics and political economy, the conditions conducive to creating socially valuable rents under which different rent seeking scenarios are outlined below.

Conditions for creating value enhancing rent	
Different rent seeking scenarios	**Conditions conducive to the creation of socially valuable rents**
A) Rent seeking through private negotiation with no role for the state	A-i) Gainers always compensate losers
B) Rent seeking by attempting to influence the state	B-i) The spending power of rent-seekers is proportional to their gain or loss
	B-ii) The political power of rent-seekers is proportional to their gain or loss
	B-iii) Political demand for transfers can be met with a stable set of redistribution
C) Rent seeking led by the state	C-i) State officials are value-maximisers who learn rapidly from their mistakes
	C-ii) The cost of collecting bribes or taxes does not differ across groups
	C-iii) The state's institutional structure allows all costs and benefits to be internalise
	C-iv) Losers does not have the power to politically resist the state
Source: Khan (2000), 'Rents, Rents Seeking and Economic Development', Cambridge University Press	

The re-evaluation of the successful growth of the East Asian economies have shown that creating of rents for capitalist transformation and the efficient management of these rents was crucial. Amsden (1989), Chang (1994), Kim and Ma (1997) and Khan (2000) have outlined how rents for learning which was created by the state in South Korea, followed by effective performance monitoring ensured that these rents were value enhancing. The nature of this state-led rent seeking in South Korea was successful because conditions Ci - Ciii partially held and condition C-iv was crucial (Khan, 2000). This explanation of rent management shed light into the kinds of rents that would be successful in certain political context during certain periods of time.

4. Analysis

In this section, we shall firstly look at state intervention in the Maldives economy; secondly, the means by which political stability was maintained during the capitalist transition to high growth; and thirdly, how the state devised rent-management strategies, and what form they took.

4.1 State Interventions

This sub-section will look at the way in which the state intervened. It shall be argued that the intervention was extensively used under Gayoom to redistribute property rights which led to a successful capitalist transition.

Up until 1ate 1970s the economy of the country has been largely subsistent and the majority of the population's economic activity had been fishing. The mechanism by which the state intervenes in the fisheries sector had been by buying from the local fisherman and exportation to neighbouring countries[6]. The government set the buying price from the fisherman and to the neighbouring markets. As a policy to improve the fishing industry, a motorisation of fishing vessels began in 1980s which did not improve the income from this sector (Tisdell and Kumar, 1988). Further, the fisheries sector was subject to adverse international prices (World Bank, 1980; GOM, 1984). Shipping and tourism which comprised a substantial percent of the GDP in 1970s, were the economic activities of the elite class. The Maldivian National Shipping Line (MNSL) was operated by the government and controlled by the Vice President Koli Ali Umar Manik. However, adverse effects arising from external shocks and internal management rendered the sector unprofitable in 1980s (World Bank, 1980).

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[6] Ilyas Ibrahim (Brother-in-law) of President Gayoom, was in charge of the export of fishing industry. There has been many allegations (one which was investigated by the government) that Ilyas and Koli Umar Manik buy fish from the local fisherman and add up a higher mark up during exportation.

4. 1 Interventions in the Tourism Sector

The tourism sector which evolved in an uncontrolled and laissez faire manner was fully overhauled by the government in early 1980s. When the industry started, resorts were mainly constructed in private islands, which could only be obtained by the elite in the country (Colton, 1995). The Tourism Act of 1979 nationalised all land in the country and islands for resort development were leased by the government. An important factor which has been barely mentioned by the government in its tourism related documents is that after the tourism industry kick started, all permits given to ordinary people operating guest houses in inhabited islands were voided in May 1984 *'to protect large investments made by the resort owners'* (Ministry of Tourism, 1998). The official line for this appropriation since late 1990s has been to stop the adverse social impacts from tourism. While this has been beneficial in many ways, the expropriation of the right to accommodate tourists in inhabited islands by local islanders whose permits to engage in direct tourism related activities were not compensated, and have not been benefiting from the growing industry. It is clear from these facts that the government's role largely shifted in favour of the resort owners.

The heavy state involvement in these sectors, first by nationalising all land (expropriating all land from the then owners) and secondly by increasing taxes implies that the state did quite the opposite of '*protecting property rights and reducing transaction costs*'. This increased the appropriation risks subject to the governments will and increased costs after the heavy taxes were levied.

The Tourism Policy

A tourism policy was formulated in 1979, named the Tourism Act of the Maldives. The Act determined the zones and islands for the development of tourism, leasing of islands for development as resorts, management of all tourist related activities and regulations of persons providing these activities. The Act specifies that the zones for development, islands for development as resorts and places for development as marinas *shall be determined by the President*. Further, the Act specified the number of rooms in each resort, guest houses and hotels, and placed a time limit on construction of resorts and specified the amount of taxes.

Further, it states that the *President shall have the discretion* to determine the principles for exemption of import duties on materials imported for the construction of tourist resorts or tourist hotels situated on land under the Act, the construction of marinas or for the purposes of the upgradation of such establishments, and to exempt such duty in accordance with those principles (Tourism Act 1979, GOM). It should be noted that all subsidies for the import food and other basic necessities were abolished in 1980.

According to the Environmental Protection and Preservation Act (4/93), all guest rooms in tourist resorts should be facing the beach[7] with a minimum of 5 meters of linear beach available in from of each room. Only 68 per cent of the beach can be allocated to guest room, 20 per cent to public use and 12 per cent left as open space. Construction on reef flats are discouraged although permitted provided that equal open space is left on the land for each building developed on the lagoon. Such has been the extent of control by the government in the tourism industry. Although these restrictions could be justified on environmental grounds, it places pressure to expand the number of rooms in a given island which then was largely subject to the approval from the Tourism Ministry (Ministry of Tourism, 1998).

Allocation of islands for resort development

The Tourism Act further specifies the procedure for leasing islands for resort development. In cases where the government or a public company makes investments to build a resort, it does not go through a competitive bidding process. The rent for the government from leasing island has been different for each resort implying that different resorts pay different bed taxes and rents. Island lease agreements were signed behind closed doors to protect the investors[8]. This process of leasing and differential individual rents has been much criticised on the grounds that new entrants to the

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[7] This is largely to preserve the tourists' perception and to maintain the beachfront vista.

[8] The Government does not reveal any information on the lease rents for individual resorts islands. A break down of lease rents for individual resort islands are not even dissipated within government departments such as the Ministry of Finance and Treasury.

industry are subject to increasingly higher rent. Up until 1994, the bid evaluations were finalised by the President, there was no formal rules governing the evaluation process. An ex-Minister for Tourism describes the process prior to 1994 as following:

> When all the biddings have been made, the Minister for tourism would spend a day with the President in his office and finalise who to rent the resorts to. There have been occasions where bids have been accepted after the deadline. (Interview with an ex-tourism Minister, September 2008).

Although the bidding process was overhauled in 1994 by improving bid evaluations to international standards, the evaluation team was appointed by the President. The decisions made by this team are approved by the President. Although the President largely accepted the decisions of the team, when political stability was in question and in cases where close relatives and associates wanted such islands, he overruled the decision. Some of these cases include appropriation of assets from Ahmed Naseem (one of the pioneers of tourism industry) after an alleged coup in 1980 for merely political reasons (Colton, 1995). Islands of Hudhufushi, Vilivaru and Biyaadhoo were given to associates of the President without going through proper bidding process (Interview with former Tourism Ministers). Presence of cronyism and nepotism is evident in all three cases. The first island was handed over to Mr. Abdul Rauf, father-in-law to the President's son after the island was fairly won by another party through the bidding process. The second two islands have had similar twists in favour of close associates. Also, many of the cabinet ministers and MPs are owners of such leases (directly and indirectly) which questions the integrity of these regulations and institutions.

Tourism Master Plans

The importance of the tourism sector was recognised especially after the economic difficulties in early 1980s when fishing and shipping industries were undergoing difficulties (World Bank, 1980). Accordingly, three Tourism Master Plans have been enacted since 1983. The First Tourism Master Plan (FTMP) was formulated in 1983, which established guidelines for the development of the industry and *identified zones in different parts of the country* (FTMP, GOM, 1982). Further, the master plan was originally designed to incorporate wider participation by the local community in terms of agricultural products, construction and souvenir provision to the resorts. The zone identified in the plan was

Gaaf Atoll (south Maldives), however the then Fisheries Minister lobbied and blocked the developments on the grounds that the atoll was predominantly a fishing atoll and introduction of tourism would create 'industrial conflicts and resources sharing'. Ironically, the atoll proposed by the Fisheries Minister was Ari Atoll in which the Fisheries Minister's son had a resort under development (Interview with former Tourism Minister H.E. Hassan Sobir). In terms of the capacity control, it was applied only to new entrants to the industry while the existing ones did increase capacity in terms of number of rooms built and further expansions. Also, lease rents were not applied to the already existing resort owners who were operating on formerly 'private islands' even though all land were nationalised under the Tourism Act (Interview with the former Tourism Minister, Mr. Ibrahim Hussain Zaki). The first tourism master plan contributed to the clustering of the industry in one region and concentration of tourism wealth in the already existing resort owners.

The Second Tourism Master Plan identified some of the shortcomings in the tourism policy, especially concentration of tourism wealth and the need to expand tourism to outer atolls. However, because of the policy itself and the ownership structure that had existed, it has been difficult for new entrants in terms of increasing lease rents (which are lower for existing lease holders) and the change of the tax system.

Institutions governing the tourism policy

Institutions that were created to oversee the industry are Department of Tourism and Foreign Investment Bureau under the President's Office former in 1979 which later became the Ministry of Tourism in 1988. In 1984 the Tourism Advisory Board was created as a consultative body comprising leading resort owners. All members in these institutions are formally appointed by the President. Further, there are huge overlaps in these government institutions and resort owners in terms of representing public and private sector. The small number of public and private sector stakeholders involved in the industry in a sense allows coordination to be maintained (Sawkar, Noronha, Mascarenhas, Chauhan, and Saeed, 1998). However, the roles of these institutions and the regulations governing these institutions are very broadly defined giving room for interpretations suiting given situations. Although the government does recognise the importance of efficient institutions, little has been done to strengthen accountability and transparency of these institutions (ADB, 2007).

To summarise the section, the tourism industry has been heavily centralised with most of its powers vested on the President, subject to rent seeking activities and corruption. However, development of the tourism industry has been a leadership priority for the President. It is also the case that the industry has been controlled by a few individuals accruing enormous profits. The quality of bureaucracy has been efficient although lacking manpower and educated personnel. The institutions and regulations governing these institutions are broadly defined subject to manoeuvring. Given all these factors, the Maldivian tourism industry has thrived for more than 30 years. The policy conclusions outlined in the mainstream literature for state intervention in economic activities and industrial policy attributes much to protection and stability of property rights, and efficient institutions and effective enforcement of it. While these goals are desirable in itself, these have not been a precondition for the successful tourism-led growth in the Maldives. The *social transformation model* by Khan (2002) outlines the transition developing countries go through from tradition production systems to capitalist systems. In this model, emphasis is made on the ability of the state to intervene in property rights and devise rent management systems to accelerate this transition. As this model allows incorporating a broader picture explaining many of factors unexplained by the mainstream literature that had led to the growth of the Maldives, the next two sections analyse the political stability and autonomy of power, and the rent management process that existed in the Maldives during the period 1979 to 2000.

4.2 Maintenance of Political stability

A continued and stable political environment has been a major factor for high rates of sustained growth in the Maldives, especially for attracting foreign investments (World Bank, 2006). Khan (2002) outlined the importance of maintaining political stability by ring fence transfers which was evident in high growth states like Malaysia. As we shall see, the Maldivian case is interesting in this regard. In order to understand the ways in which political stability was maintained it is necessary to first examine the nature of the Maldivian polity.

The Maldivian polity is very different from the neighbouring South Asian countries. The country remained largely independent throughout its recorded history apart from a brief period of Portuguese colonisation from 1558 to 1573. The British did not colonise the Maldives like they did in the Indian subcontinent, however was under its protectorate controlling the country's foreign policy, leaving the country to its own devices ensuring the continuance of the traditional systems of rule. The form of government, neither borrowed from the west nor patterned with the ideals of Islam is 'Maldivian with two millennia of adaptation to their particular requirements of the fragmented landscape and cultural history of the country' (Maloney, 1980, p.23). Maloney (1980) and Colton[9] (1995) observe that the strength of the government rests on the undergirding of Islamic authority, the law and people's commitment to religion[10]. Up until a few years ago, freedom of speech was not articulated and criticisms to the government were criminalised at all levels and there have been many cases of imprisonment and banishment of political opponents[11]. The government and the ruling elite's point of view is that such freedom is not necessarily needed for a homogenous society like the Maldives (Ellis, 1998).

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[9] Interestingly, Colton is a friend of the current president Gayoom first met when Gayoom was serving in the Permanent Mission of the Maldives in New York, and further, Colton resided with Gayoom's wife during the time of research in the Maldives.

[10] It should be observed that even as late as 1970s the population remained largely uneducated. The form of education system predominant in islands is teachings of Quran. There were a few schools in male which taught other subjects. This could be one of the reasons why the government was able to easily control the peoples in the islands through means of Islam.

[11] The alleged coup of 1980 as described by Colton (1995) and imprisonment of the current opposition party leader Mr. Mohamed Nasheed and his associates during 1980s, 1990s and early 2000 are just few cases (See http://www.maldivesculture.com/govern01.html)

The constitution that existed in 1979 gave the President enormous powers. Executive, judiciary and legislative powers are under the President who appoints and dismiss members of all three sections. There were no political parties or opposition candidates. President Gayoom was nominated by his two brother-in-laws to the Parliament as a nominee for the presidential election in 1978. After being elected, President Gayoom chose those 'who he could trust and rely … in the climate of fear prevailing, limited to relatives and colleagues from his student days' (Ellis; 1998). Strong and unchallenged leadership has been a prominent characteristic in the Maldivian polity. The *Far Eastern Economic Year Book 1984* described President Gayoom's regime as one which he manipulates the factions and alliances among the entrenched elite families which have long controlled the political and economic life of the country. Even though the President himself does not have any businesses, many presidential aides, and minister and MPs have known business interests, '*which at times are at odds with the official responsibility*' (The Far Eastern Economic Year Book, 1984).

The class system

The three classes which remained from the times of the Sultanates are ordinary people (regarded as *meehun*), learned, business people and close associates of the aristocrats (*beykalun*) and the elite aristocrat (*beyfulhun*)[12]. The capital Male was (and remains) the populous city of the government and business centre where the 'elite has controlled both the traditional and modern economic systems.. as they held positions of power that perpetuate its maintenance of control over the economic resources..' (Colton: 1995). Although the class system has been evolving with increasing education, entrepreneurships and general increase in the levels of income, the elite class holds the majority of the economic assets in the country. This could be seen in terms of land ownership since land is extremely scarce in the Maldives, especially in the capital Malé. The relationships between capitalists and the ruling elite were mutually advantageous as loyal attachment to the ruler was the only way a capitalist could do business and the ruler needed the wealth of the traders to stay in

[12] It should be noted that since President Gayoom's 'modernisation' programme began, the class structure has had enormous changes by which many ordinary people were allowed to take positions of power and through the promotion of private businesses.

power. This mutual relation was important to sustain political stability at the expense of socio-economic inequality.

The question of leasing islands and resort development becomes political in the Maldives for the following reasons. Firstly, a resort owner provides employment to surrounding inhabited islands where much of the economic activity is based on fishing which is subject to internal and external shocks. Secondly, since employment in the resorts are a definite sources of income for islanders surrounding a resort, whether or not the lease holder is sympathetic to the President becomes important in election campaigns as they could directly campaign for the President. Finally, given the enormous incomes from tourism industry and tourism being the bloodline of the economy, it is rational for the President to keep a bay all lease holders given the changing relative prices as incomes increase.

Most of the economic assets and land are confined to the *beyfulhun* and *beykalun.* When the tourism industry began in 1972, it was these two groups who had the capacity to invest in the industry. However, after President Gayoom's modernisation program began changes to the socio-economy of the country were made. Relations with the outside world were established and more importantly, bilateral relations with the Arab world, East Asia, Europe and East Asian was a key to pouring aid to the country[13]. Infrastructure developments, increased education and health along with increased economic activities saw a general increase in the levels of incomes. However, inequality between the capital and outer atolls increased during the same period. The changes in the economic and political scenes took a different form since. Many of the ministerial position individuals incorporated into the tourism industry by securing lease agreements. Although, the pioneers namely Universal, and Champa and Crown companies kept primacy in the industry as the founders of these companies were made special advisor and economic advisor to the President. This represents the kinds of transfers made by the President (in this case in terms of a

[13] President Gayoom read in Al Azhar University in Egypt. Since then maintained close ties with the Arab leaders. Bilateral relationships with other countries were strengthened during the first few years of coming to power. The president was awarded Grand Order of Mugunghwa (the highest order of the Republic of Koreas) in 1983.

higher position) to maintain political stability which was also compatible to inducing growth.

In summation, the history of the Maldivian politics and the power structure is necessary to examine the ability of the state to implement the economic policies and the kinds of policies that are appropriate for the Maldives. Firstly, the Maldives was not colonised in its recent history, enabling the traditional modes of strong authoritarian rule to prevail. Secondly a rigid class system along with authoritarian rulings has made the lower class of *meehun* powerless to resist state and its policies. The economic and political powers have been sustained in the elite class which took a different form since the modernisation era. However, as more ordinary people were able to attain higher levels of education and wealth, Maldivians have found less need to rely on the president to provide and protect their economic and political rights. This has been one of the major reasons for the current uprisings and the democratisation movement led by a growing opposition to the regime.

4.3 Rents in the Maldivian Tourism Industry

This section examines the kinds of rents created by the government in the tourism industry, followed by the costs associated with these rents[14]. The analysis of social outcomes of these rents implies that the overall costs of these rents have been fairly low given the class system and political stability. These rents were necessary to create a high value added industry which has been largely beneficial for the society in terms of higher economic and social achievements.

The Maldivian Tourism Industry today is one of the most regulated industries on environmental and social grounds. Given the geographical archipelago setting of the country, it could be said that the economy has a comparative advantage in marine activities[15]. All rules and regulations in the tourism industry outlined in section four, and the centralised decision making process giving enormous powers to the President created large scale rents and more avenues for rent seeking activities. An example of rent seeking process in this context would be offering bribes and transfers, and using political powers to get secure islands for resort development in return for political support. The rents created by these interventions could be seen as a *natural resource rent*. However, given the nature of the tourism itself which has to be sustained, maintained and promoted, selling the Maldivian tourism as a 'product', regulations in the sector have created a *learning rents* which increased quality of the tourism sustaining high value for these rents (See Khan 2000 for different types of rents and outcomes).

Rent seeking process in the tourism industry

One of the limitations in analysing the rent seeking costs in Maldivian economy is unavailability of data. The concentration of tourism revenue in a few hands which overlapped in the executive sectors of the government and the tourism industry indicates that the rents flow largely in favour of the executive and owners of the

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[14] Rents here refer to the excess incomes received from regulations in the markets. Not to be confused with lease rents in the tourism industry.

[15] This should imply that the fishing industry should have a bigger advantage than tourism, but the former was not showing signs of increment in profit and investment compared to tourism.

tourism industry. When the industry began in 1972, a total of three capitalists were involved in the industry. This first generation of resort developers are at an advantage in terms of taxes payable as logical interpretation of the bidding process would reveal that when these lease agreements were signed, with lack of competition and development of the industry, the amount per bed in taxes would have been much lower for the first generation when there was limited competition. Further, the government assigns greater proportion to the amount of rent proposed in the big evaluation process.

Of the 14 resorts in operation in 1978, 6 were owned by Universal Enterprise, 2 by Champa and Crown Company, and four small holders (GOM; 1998). The current government's centralisation of the industry has resulted in a change in the ownership structure of the industry, although new entrants to the industry remained closely associated with the current regime. As depicted in Table 1, by late 1990s, pioneers of the industry (Universal Enterprises and Champa and Crown Company only) controlled 18 resorts, members of the cabinet and members who had at some point in the last 25 years held a ministerial position controlled 20, close associates of the President[16] operated 13 and the remaining 32 to non-affiliated members.

Table 1: Ownership structure (1972 – 2000)

Owners	**No. of resorts**
Initial starters (only Universal and Champa and Crown companies	18
Ministers (who had held a ministerial position between 1979 – 2004)	20
Associates (Affines and family of the President)	13
Non-affiliates	32
Total	**83**

Source: Calculated from the information available from the Ministry of Tourism

While tourism policies have been fairly liberal for foreign investors (which has been necessary especially in the initial period to attract foreign investments), local ownership structure of the industry distributes these rights to the elite and executive faction of the society (an investigation by the Friends of Maldives named selected resorts in which close associates of the President had acquired[17]). On

[16] Associates here are affines, family and President's personal friends.

[17] Friends of Maldives is an opposition backed organisation. A recent investigation by FOM has revealed a list of resorts in which President Gayoom's close associates including senior ministers are owners and shareholders. (http://www.minivannews.com/news/news.php?id=1670)

occasions where newcomers could enter the industry, lease hold rights were '*either formally or informally* transferred to the established local tourism business or to foreign parties' because increasing investment costs and lack of finance for new comers (Second Tourism Master Plan: Review, 2000). This policy has been enabling the already established resort owners a very strong foothold in the industry. Up until 1994, resorts which were operating in 'formerly private islands' were not subject to lease rents which has been increasing at a substantial rate since regulations on entry to the industry. Although this resembles monopolistic behaviour incurring all the costs associated with functionings of monopolies, rent seeking behaviour remains largely in this elite and executive group. Importantly, because *senior officials in the government are value maximisers*, acquiring islands and efficient management of it demands them to be competent because of competition among the group. The smallness of the group in this patron-client relationships imply that the *cost of collecting bribes or transfers is not high* enough to suppress growth in the industry. However as the industry grows and becomes more profitable the costs of securing these rents increase as well. Since the democratisation movement in 2004, many alleged corruption cases have been unveiled including political contributions, lobbying and other informal transfers (mainly on the three opposition websites, namely minivandaily, Maldives culture and Dhivehi Observer websites). Investigation of such cases is highly unlikely in the current regime as this might question the credibility of the regime which is currently fighting for election in November 2008.

As outlined previously, the institutional mechanisms in the industry gives the president enormous powers, importantly the right to distribute islands for resort developments. Although the president largely agrees with the committee, there have been many cases where lease rights were given on political grounds, subject to corruption and cronyism. One such case has been appropriating the properties from Ahmed Naseem, one of the pioneers of the industry after an alleged coupe in early 1980s (Colton, 1995). Another well known case is leasing island of Villingili for resort development. The island was not originally designated to be developed as a resort in the Master Plan. The decision was made just prior to the presidential election on 1994 and was a '*political giving*'[18]. The lease rights were acquired by

[18] As described by an the ex-tourism Minister Zaki in an interview in September 2008.

Energy Tours Pvt Ltd whose shareholders included the then Tourism Minister, Attorney General (MP for the atoll) and the government[19].

Three other reported cases where the President has changed the decision made by the bid evaluation committee has been Hudhufushi Island, Vilivaru Island and Biyaadhoo Islands. In the case of Hudhufushi Island the bid was rightfully won by Mr. Ibrahim Shafeeq (shareholding with a Spanish company). The President decided to give the island to Abdul Rauf, father-in-law of the President's son, after the bid was won by Mr. Ibrahim Shafeeq[20]. The island was not developed by the required date, accruing fines over Rf 102 million (approximately US$ 8 million) of which Rf 51 million was pardoned by the government (Haveeru News, 2004). In these cases it was evident that the lease holders did not have the capacity to invest and add value to the economy. These cases represent some of decisions made by the government to ensure political stability at the expense of adding value to the economy. Given the important of political stability and authority of the government to redistribute rights, the *losers do not have the power to politically resist the state* for fear of appropriation but mainly because it is mutually beneficial to support the state.

Other costs associated with the regulations in the industry include poor economic linkages with other sectors of the economy and immense leakages from the industry (GOM, 2000). This stems from government policies with no corporate tax or windfall taxes on profits allowing capitalists to appropriate all profits (First Magazine, 2000; GOM, 2000). While this has been necessary in terms of attracting foreign investment especially in the initial years, as the profitability increased and industry matured the policies did not change.

One issue identified in the last master plan is the lack of accountability and transparency in the tourism associated institutions. The country does not have the

[19] The GOM expropriated the agreement given to Energy Tours Pvt Ltd after the aforementioned two minister resigned from the government and joined the opposition movement. The island was later bided to Shangri-La and Mohamed Manik (close associate of the President). http://www.minivannews.com/news/news.php?id=702, http://bankrupt.com/TCRAP_Public/030919.mbx

[20] Information obtained from formal and informal conversations with former tourism ministers.

accounting and financial capabilities established to ensure full accountability of government and private sector[21] (World Bank, 2000). Most importantly, on the issue of revenue from individual tourist resorts, the Ministry of Tourism does not dissipate information on individual resorts even to the Ministry of Finance. As identified in the review of the STMP resorts did not provide figures of earnings adequately to monitor the revenue yields, and the profits from the industry do not enter the Maldivian banking system as many of the transactions in the industry are done else where in the world (STMP: Review, 2000). While this cost is high in itself, it does not affect the current tourism tax revenue of the country.

In terms of overall costs generated by this rent seeking process, it has been fairly low because of the following reasons. Firstly, because of the rigid class structure that existed especially during the initial phase of tourism development, it did not create resistance from ordinary people and did not have to be compensated. The concentration of the industry in the elite class meant that state officials maximised value and the cost of collecting bribes were low. Importantly, the centralised decision making process and the power and autonomy meant that the process was state led.

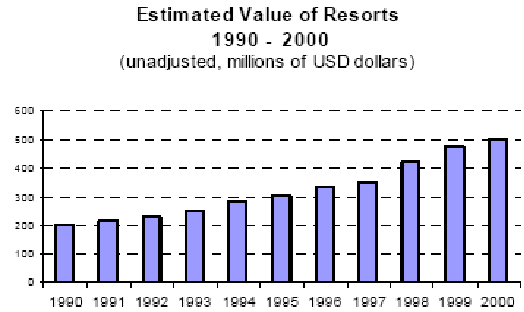
Rent Outcomes

In order to analyse the net social benefits which these rents had created since 1978, it is important to analyse the institutional and political conditions which had prevailed in the Maldives since 1978 which enabled this tourism-led growth. Rent outcomes vary substantially with changes in the institutions, political conditions, relative value and profitability of industry (as shown by Khan, 2000), which is the reason for many social and political changes taking place in the Maldives currently.

The governments *ex ante* decision of capacity control creating barriers to entry increased the quality of the resorts and the services and skyrocketed the collateral value of resorts. What could be viewed as a natural resource on environmental

[21] Accounting and auditing requirements of the Company Law (1996) are not specific, with a single rule being that companies with share capital over RF 1 million must be audited by accountants registered in the Auditor General who is directly appointed by the President.

grounds, took changed to learning rents with increased subsidies and tax breaks for the industry. This resulted (as shown in figure below) in an escalation of the value of resorts from approximately US$ 200 million in 1990 to more than US$ 500 million by 2000 (Ministry of Tourism, GOM, 2000). This also increased the investment cost from approximately US$ 3000 in the 1970s to US$ 500 million by 1990s.



Source: Ministry of Tourism, GOM

Another aspect of the capacity control involved letting into the industry selected new developers which enabled the right amount of competition among the resort developers stimulating innovation and improvements. Further, the centralisation of the industry allowed the government to market the industry and sell *Maldives* as a product (STMP: Review, 2000). This enabled the maintenance premium high value added industry, generating bigger revenue from the industry[22]. Further, the process of distribution of these rights enabled performance to be maintained through competition among the local resort owners who were also competing with international investors. Given that operations and management of resorts have largely been done by the private sectors competing internationally, this requires the industry to be competent to international standards leaving less room from governing monitoring of these rents.

In terms of the social outcomes, it could be argued that the industry would not have been maintained in terms of its high end quality and profits generated, if not for the heavy regulation and involvement of the government. It could have resulted in environmentally and socially undesirable outcomes. On the other hand, given the social stratification and the traditional concentration of wealth, it could not have been politically viable for President Gayoom to destroy the existing property right

[22] The Ministry of Tourism have a separate marketing sector, alongside several offices in key segments in Europe.

system and extract the same amount of revenue. In this sense, it was necessary for the President at the time to protect their rights and give them rents to generate a higher growth in order to extract the maximum rents from the industry. The economic growth led by the tourism industry as emphasised in earlier sections, has generally increased incomes followed by improvements in other social indicators. Despite these rents and the rent seeking nature of the industry, it has been one of the most successful tourism industries in the world. The per capita income has increased from approximately $ 100 in 1970s to over $ 2000 in 2004. The tourism industry has expanded from 17 resorts in 1978 to 83 by the end of 1999. Direct and indirect revenue from tourism sector comprise almost 70 per cent of the GDP.

To summarise the section, intensive regulations controlling entry into the industry and the top-down decision making process has created large vents for rent seeking activities. Rent seeking was led by the state after the ex ante decision of modernisation and overhauling the tourism industry, *internalising the costs and benefits*. Transfers were made to maintain political stability especially in the initial period by bringing in the elite class into the executive levels of the government[23]. Given the polity of the country and the class system, the flow of rents in this patron-client system remained in the upper echelon of the society, resulting partially *lower costs of collecting bribes and taxes* along with the need to *maintain efficiency* in the industry because of the competition among the group. Further, the class system and the traditional elite ownership of economic and political power rendered losers from these regulations powerless to resist the state. Therefore, given the political power structure and the nature of the industry, rents created by the regulations and centralisation of the industry have been managed efficiently. However, as the revenue from the industry has increased substantially over the past decades increasing the overall income in the society, there has been less need for reliance on the President for protection of these economic rights. This is one of the reasons for the current opposition uprisings and the democratisation movement that followed.

[23] Two important decision made by the President on this sense was making Koli Umar Manik (Chairman of Universal Group) the Special Advisor to the President and Champa Hussain Afeef (Chairman of Champa resorts) the Economic Advisor to the President. These two companies also represents majority in the Maldives Association of Tourism Industry (MATI) and Maldives Tourism Development Corporation (MTDC). Further, Gasim Ibrahim (close associate of the first lady family and owner of all Villa Resorts) was kept close, made Finance Minister when he started being sympathetic to the opposition movement in 2004.

5. Conclusion

As we have seen in the first section, the Maldivian economy grew at a substantial rate during the last thirty years. This increase in the economic growth was followed by improvements in social indicators, surpassing the regional levels. When the tourism industry started in 1972, it was unregulated and only the economic activity of the elite class. Despite the advice from the UNDP consultant not to develop tourism as an industry, the government overhauled the industry by regulating the industry, implementing capacity controls along with government led promotions. While these regulations were necessary on environmental and social grounds, the distribution of rights for tourism development has been political on some occasions. A careful analysis of the rules governing the industry shows that it creates a bigger avenue for rent seeking behaviour. Corruption, and other rent seeking activities were evident from the ownership structure of the industry and the few incidents analysed in section four. Although there are no statistics available for corruption indices in the Maldives for period before 2004, the elite power structure and the business interests of cabinet ministers and MPs gives a picture of the kinds of rents seeking activities that have been involved in the economy. Transparency and accountability is low coming from President Gayoom's 30 years of rules controlling judiciary, executive and the government. Despite high levels of corruption and rent seeking behaviour of government officials and industry wide capitalists, the growth of the industry has been remarkable. While political stability was a major factor attracting foreign investment, commitments to liberalisation and prudent macroeconomic management was less evident. Deep analysis of the class system and the distribution of power and rights have shown that efficient rent management by the state has been essential for this high growth to be realised. As the value of these rents changed and industry matured, the policies governing tourism sector needs to be restructured. In general, as the income levels surpassed the primitive accumulation phase, there is less need to rely on the government and the president for economic rights. This has been one of the reasons for the recent opposition movement and the current democratisation process.