

Free Trade Agreement with China Would Significantly Reduce Government Revenue, Finds New Study by Baani Centre

September 7, 2023 - An economic analysis of the China-Maldives Free Trade Agreement (FTA), passed through parliament during former President Abdulla Yameen's administration, has found that the FTA would lead to a significant reduction in Maldivian government import duty.

The "Economic Analysis of the China-Maldives Free Trade Agreement" study, released today by the Baani Centre for International Policy, a Maldives-based think tank, takes a macroeconomic dive into the FTA, to assess the agreement's potential impact if it were ever implemented.

The China-Maldives FTA was passed by the People's Majlis amidst great controversy in November 2017 by the then ruling Progressive Party of Maldives (PPM), as part of the previous administration's foreign policy tilt towards China. However, the FTA was never ratified, nor was enabling legislation passed by parliament. President Solih's administration, which assumed office in 2018, chose not to move forward with it.

The FTA was especially controversial because the 1000+ page document was passed by the Majlis in just one hour, during an emergency sitting of parliament. The parliamentary committee tasked with reviewing the document approved it in 10 minutes. Just 30 MPs voted in favour of the agreement. Most MPs and government officials have never seen the FTA. Baani reviewed a copy of the still unpublished FTA for this study.

With the presidential election fast approaching, the FTA is once again relevant. Opposition candidate Mohamed Muizz's manifesto states that, if elected, he would activate the FTA with China, ostensibly to boost Maldivian fish exports.

Reduced Government Revenue

According to the study, import duty accounts for nearly 14 percent of all government revenue. Chinese import taxes amount to approximately 19 percent of all import tax. The study estimates that the China-Maldives FTA would immediately lead to a loss of \$41 million in tax revenue per year – some 3% of all government revenue.

However, the study notes that this is a conservative estimate, and that the lost revenue would likely be much higher given that the FTA not only eliminates tariffs from Chinese imports, but also goods imported from other countries that are originally made in China.

As Chinese-made goods become cheaper because they are not subjected to import duty, a 'substitution effect' would occur, whereby consumers would opt for the cheaper Chinese goods over those made in other countries. This would lead to further reductions in import duty for the Government, over and above the immediate 3% drop.

Would Consumers Benefit from the FTA?

The study questions whether consumers would benefit from the FTA, regardless of the loss in government revenue. Comparing data from pre-Covid vs. Covid months to determine how import duty burdens are shared by tourists and locals, the study notes that nearly 50% of import tax costs are actually passed on to tourists. However, it is unlikely that the reduction in import taxes resulting from the FTA will significantly reduce the overall tourism prices and boost tourist arrivals, as other tourism related costs (labor, capital, etc) far outweigh savings from reduced import duty.

Although there will be some benefit to local consumers from the FTA, given the absence of information into the specific policies supporting the implementation of the FTA, it is yet difficult to determine the extent of the net benefit of reduced tariffs that will be felt by local consumers.

Noting the lack of publicly available information regarding the FTA, the study calls for deeper analysis and review of such trade agreements, to determine the extent to which the larger economy and consumers stand to benefit from such agreements.

NOTES TO EDITORS:

The full report can be downloaded at baanicentre.org/research/.

The Baani Centre for International Policy is a think tank based in the Maldives that provides a perspective on international issues from the viewpoint of small island states. For more information on the Baani Centre for International Policy, please visit: www.baanicentre.org

ENDS



אנו מציעים את המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית, כחלק מהתהליך המעמיק של המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית, כחלק מהתהליך המעמיק של המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית.

המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית

למידע נוסף על המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית, ביקרו את baanicentre.org/research או שלחו לנו דואר אלקטרוני.

המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית, כחלק מהתהליך המעמיק של המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית, כחלק מהתהליך המעמיק של המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית, כחלק מהתהליך המעמיק של המחקר והניתוחים המובילים של מרכז באני למדיניות בינלאומית.

מרכז באני