Maldives’ domestic politics and foreign affairs have evolved around China and India. The internal political polarization is redolent of its diplomatic relations with both countries. It came closer to China when the Progressive Party of Maldives (PPM) ruled the country. Maldivian Democratic Party, distancing itself from China, remained in favor of India.

China’s foreign policy towards the South Asian region has evolved to consolidate its regional interests, Maldives has been important for China due to its strategic location in the Indian Ocean region. Chinese investment in the Maldives gradually increased during the 1980s and since then, it has maintained a cordial bilateral relationship with Maldives despite the political transitions. Both countries came closer under the banner of the Belt and Road Initiative (BRI). China has undertaken a range of projects in Maldives under the BRI including infrastructure, energy, economic development, and socio-economic development. However, Maldives, a country with a GDP of USD 4 billion, has accumulated debt under Chinese investment.
Although the Maldives’ spokesperson has rejected the reports of debt burden stating loans are manageable, China has offered debt reduction and suspension offers to facilitate Maldives. Meanwhile, India has been wary of China’s expanding influence in Maldives. Bilateral ties between India and Maldives have been equally crucial. Their relationship is based on India’s “Neighborhood First” and Maldives’ “India First” policy. Whereas Sino-Maldives’ multidimensional relationship cannot be ignored, China will continue to remain an important bilateral development partner of the Maldives. This newsletter aims to explore the dynamics of Sino-Maldivian relationship, especially under the BRI.

**SINO-MALDIVES BILATERAL DIPLOMATIC AND TRADE RELATIONS**

China and Maldives established bilateral diplomatic relations in 1972. Since then, the relations further evolved[1] with increased economic and diplomatic engagements.[2] The nature of bilateral relations has been influenced by the political transition in Maldives. China’s relations with Maldives gained a strategic foothold in 2013 after Abdullah Yameen came to power. The new administration, in the post-Yameen year, has criticized Chinese investment and projects yet underlined it would not cancel or suspend any projects signed with Chinese firms. Historically, during 1985- 2001, Chinese companies signed projects worth USD 46.37 million with various firms in Maldives. Both countries have opened embassies in each other’s capital with Maldives being first in 2009 and China in 2011.[3] The bilateral relations transformed and flourished with increased Chinese investment, aid, and grants to Maldives. In 2014, China provided USD 16 million grant aid to Maldives and in 2017 Maldives signed its first ever Free Trade Agreement (FTA)[4] with China covering investment, trade in goods and services, and economic and technical cooperation, prior to which about 70% of Maldives’ GDP relied on the tourism industry. Both countries have signed joint ventures to promote tourism followed by an increase in Chinese tourists from 35,000 in 2008-2009 to 363,626 in 2014. However, the hike in China’s year-on-year exports to Maldives[5] resulted in a negative trade balance[6] for the latter whereas the bilateral FTA has yet to be ratified.
Recently, China vowed USD 63 million grants to Maldives for infrastructure development and an ‘unspecified amount of medical aid’ to improve the social healthcare system. Both sides agreed on mutual visa exemption, technical cooperation on grant aid, seawater desalination, public health, and collaboration on key projects including the Belt and Road Initiative (BRI). Maldives supported the ‘one-China policy’ and appreciated China’s adherence to the five principles of peaceful coexistence. They include mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence.

MALDIVES STANCE ON BRI

In September 2014, Chinese President Xi Jinping visited Maldives and underlined the idea of increased connectivity between the two countries by proposing the Maritime Silk Road (MSR) initiative. The two signed MoUs on tourism, energy, and marine cooperation. The same year in December, during the 1st meeting of the China-Maldives Joint Committee on Trade and Economic Cooperation (JCTEC), both countries agreed to jointly promote the construction of the 21st Century MSR to tap the potential in bilateral practical cooperation. China further assured enhanced support in various sectors including energy, transport, infrastructure, and socio-economic development.

INFRASTRUCTURE

China-Maldives Friendship bridge (Sinamale Bridge)

Prior to the bridge inauguration, locals heavily relied on waterways and Jettys to commute between the Islands which were vulnerable to changing weather conditions. The main purpose to build this bridge was road connectivity. The bridge running from the airport island to Male made it easier for tourists and locals to transfer back and forth and access both islands. It has brought tangible benefits to locals including business opportunities with reduced travel time between the islands.
The 2 km long China-Maldives Friendship Bridge[13] is the first cross-sea bridge in the Maldives built under the 21st century under the MSR. The project started in 2016 and involved the construction and operation of a bridge linking Male and Hulhule islands in Maldives. [14] The total cost of the project is around USD 200 million, largely funded by China via direct aid and discounted loans to the Maldives. Out of a total of USD 200 million, China provided a grant of USD 116 million and a USD 72 million loan while the government of the Maldives had to bear the rest i.e. USD 12 million.[15] Before bridge construction, a Maldivian consultancy outlined adverse environmental impact of the project. During construction, locals aggrieved about the inaccessibility to the surfing spots.[16] A few months before the bridge opened, the opposition criticized the cost of the project. Eleven among many surfers, including the Maldives’ bodyboarding champion, were arrested for surfing Raalhugandu or protesting its public closure. They protested against the construction of a bridge citing concern that the bridge could destroy Malé’s main surf break. Nonetheless, the bridge was officially inaugurated in August 2018 and brought convenience to the life of the Maldivians. The continent’s flow of traffic over the bridge stimulated the socio-economic activities providing benefits to business enterprises and locals within the region.[17]

Expansion of Velana International Airport

The airport went under major expansion to meet the increasing passenger demand. It aimed to cater to the projected passenger growth that is likely to reach 7.3 million by 2030.[18] In 2014, during President Xi Jinping’s visit to Maldives, both countries signed an agreement[19] on the expansion and upgrading of Velana International Airport, previously known as Ibrahim Nasir International Airport. Abdulla Yameen’s government in Maldives, considered a pro-Chinese government, cancelled the contract which was previously given to India’s GMR Infrastructure and awarded it to ‘Beijing Urban Construction Group’. The project, worth approximately USD 800 million,[20] involved the construction of a new 3,400 meters long and 65 meters wide runway, 45 million litre capacity fuel farm, and 80,000-ton cargo terminal. The newly built runway was opened in 2018, albeit the Maldivian government reserved the operational rights due to security reasons.[21]
Laamu Atoll Link Road Project / China Link Road

The 15 km long link road runs through four islands connecting Fonadhoo, Kadhdhoo, Maandhoo, and Gan. Work on the link road project began in 2014[22] and it was opened to traffic in 2016. President Yameen officially inaugurated the road in 2018.[23] In the beginning, the project was identified as a potential Special Economic Zone (SEZ) but no development work has been initiated so far. Different media sources have cited different costs of the project i.e. between USD 25 to 30 million.[24] However, the estimated cost is around USD 26 million which was provided in the form of Chinese grant aid. The road was designed and built by Second Harbour Engineering (a subsidiary of China Communications Construction Company) and Jiangsu Transportation Engineering Group respectively.[25] The road is reported as a ‘gift’ from the Chinese government to Maldives.

SOCIAL DEVELOPMENT

Environmental Protection

In 2014, China gifted Maldives 200 trash cans[26][27] of 500,000 MVR [31,525 USD]* to help the country improve its waste management system and environmental protection. In 2016, China again donated trash bins to Maldives but there is no information regarding the exact amount and monetary value of that donation. During the second Belt and Road Forum (BRF) held in Beijing in 2019,[28] the Ministry of Ecology and Environment of China jointly launched the ‘BRI International Green Development Coalition’ with the environmental departments of total 25 countries including Maldives. Recently, China agreed to assist Maldives to develop its marine economy[29] and tackle the peril of climate change.

*As per international conversion rates on 13 Jun 2022.
Healthcare Development

China has donated 200,000 doses[30] of the Sinopharm vaccines to Maldives to assist the country in its fight against the COVID-19 pandemic. Maldives received the first 100,000 doses of the vaccines while the second batch[31] of another 100,000 which was due in March 2021 is still pending. However, recently appreciating China’s help amid the outbreak of COVID-19, Foreign Minister Abdulla Shahid has underlined China’s significant role in the 80% high vaccination rate in the Maldives.[32]

Education and Cultural Cooperation

To promote bilateral cultural cooperation, China gifted cultural items[33] to Maldives in 2014. Later, the China-Maldivian Cultural Association (CMCA) was formed to support cultural exchange programs and scholarships for youth in Maldives.[34] The CMCA has offered opportunities to students in Maldives to participate in cultural exchange programs and facilitated at least 3 students, each year, to get a scholarship to Chinese universities. In 2018, 11 students from three universities in Maldives participated in the cultural exchange program. The Chinese government has stressed promoting bilateral exchanges and cooperation in various fields including culture, education, healthcare, and agriculture.[35]

Maldives housing project: Hulhumale Phase-II

China has supported the housing construction program in Maldives. Since 2010, it has built over 10,000 housing units to help and support thousands of families to improve their living conditions. Hulhumale Phase-II is the continuation of the Sino-Maldives housing project started in 2010. During phase-I, completed in 2012, China built 1,000 housing units[36] in Hulhumalé. In 2014, the government of Maldives signed the Hulhumale Phase-II agreement with China.[37] China State Engineering and Construction Company (CSECC) was awarded the project financed by a preferential loan offered by China. The project, begun during the Yameen administration as the ‘Hiyaa Project’, was renamed as ‘Vinares Project’ under Ibrahim’s administration. So far, 7,000 units[38] have been completed in phase II.[39]

As per one media report, the China Machinery Engineering Co. Ltd. (CMEC)[40] has undertaken a three-phase housing project in Maldives with the first and second phases being completed in 2012 and 2017 respectively.
The third phase is under construction. On the other hand, a few media reports have unveiled that China, once committed to lending 85% of the total cost for the second phase (third phase) of the housing project launched in 2020, has withdrawn[41] its financing offer. The lack of funding would halt the construction which is expected to begin in June 2022.[42]

It is pertinent to note that the aforementioned ambiguity[43] regarding the information on housing projects has raised the question of credibility and transparency regarding Chinese investment in Maldives.

**ENERGY**

**Sea-water desalination project**

In 2014, China provided a USD 500,000[44] emergency grant to Maldives to expedite the repair of the desalination plant to restore the unimpeded water supply to locals. In 2020, both sides have signed an agreement of USD 11.8 million to establish micro-grid desalination plants in five[45][46] Maldivian islands. The project was awarded to a Chinese company i.e. Jiangsu Fenghai New Energy Seawater Desalination Development Co. Ltd.

**AGRICULTURE DEVELOPMENT**

China and Maldives signed an agreement for cooperation on an agricultural research project worth USD 150,000[47]. The project, signed in 2014, has not been commenced yet. [48] There is no information regarding the commencement of this project except the ‘initiation ceremony’ of the project held in 2015.[49]

Moreover, the bilateral cooperation in pest control started in 2012 under China’s initiative of ‘Science and Technology Assistance for developing Countries’. In 2014, China transferred the agri-based technologies to Maldives to control coconut leaf beetles (the most serious insect pest). Since then, the Hainan province’s Academy of Tropical Agricultural Sciences has sent various experts to Maldives to implement the prevention and control of the coconut leaf beetle. In May 2015, the inauguration ceremony of China funded the ‘pest control program’[50] held in the Maldives. A few years later, in 2019, Maldivian Minister expressed gratitude[51] to China for providing pest control training and assistance to its farmers.
CHINESE DEBT TO MALDIVES

Maldives faced a severe economic crisis in the post-Yameen era (2018). In 2019, the Chinese debt to Maldives stood at around USD 3 billion. It is reported that Maldives owes China around USD 3 billion (a few reports quoted USD 1.4 billion) as repayment for loans for projects undertaken during Yameen’s government. Former Maldivian President Mohammed Nasheed lamented that from 2020 onwards 15% of Male’s budget will be spent on repayment of Chinese debt. According to the World Bank (WB), around half of Maldives’ external debt is due to China, followed by bondholders 13%, and India 9%. The WB listed Maldives among nine countries that are at high risk as a result of Chinese loans. Despite the precarious economic outlook, Finance Minister Maldives Ibrahim Ameer refuted all rumors regarding the country’s depleting reserves stating the country’s debt is manageable. It will not go bankrupt and can repay loans. However, FM Ibrahim underlined that most of the Chinese projects, signed during the previous government, are at inflated prices.

Under the G20 Debt Service Suspension Initiative, China has included Maldives among 77 other developing countries while extending the reduction and suspension of debt service payments.

THE INDIAN FACTOR

China and India have been trying to build regional influence in the Indian Ocean region. Maldives maintained good diplomatic relations with both India and China yet the nature of bilateral relations with each fluctuated with the political transition in Maldives. China-India’s quest for influence in Maldives cannot be parted from the country’s domestic political wrangling. However, China’s growing influence in Maldives might be a serious strategic concern to India and it might feel the risk of being pulled away from the trajectory of becoming a regional hegemon. India has been trying to exert its influence in Maldives as Chinese projects in later could pose a security challenge to India. For that matter, the Indian government urged Maldives to call off the Sino-Maldives deal on establishing the ‘Joint Ocean Observation Station’ on Makunudhoo. At times, there have been rumors about a Chinese naval base in Maldives. To India’s relief, these have remained speculative. Until now, the Chinese navy has visited the Maldives only twice.
China lost its influence after Yameen was ousted and the new government aggrieved about the inflated prices of Chinese projects. India has been prioritized over China as ‘India First’ has become the stated policy of the Maldives’ administration.[62] India has also been eager to promote bilateral relations. It is significant to note that India’s total pledged financial assistance to the Maldives has surpassed USD 2 billion since the formation of the new government. A total of 302,000 Chinese tourists visited the Maldives in 2013,[63] up by 45.1% year on year. China has become the largest source of tourists in the Maldives for four years running. But Chinese visitorship to Maldives dropped in 2020 when it enacted outbound travel ban to curtail the spread of COVID-19. Meanwhile, India became Maldives top source of tourism economy. Around 62,905 Indian tourists visited Maldives, accounting for 11.3% of the total market share. Nevertheless, Maldives cannot afford to alienate its ties with China owing to various reasons including the external debt, yet it will maintain its bilateral relations with India. Meanwhile, the US has signed a defense pact with Maldives to counter China’s growing presence in the region. Since the US and India are strategic partners and members of QUAD, the US-Maldives defense deal is making a further drift in Maldives’ relationship with India in the broader global context.
Both India and China have been vying for influence in Maldives, a country whose politics have decided its foreign policy. China’s influence on the island was eclipsed by the pro-Indian regime in Maldives. The turning point in Sino-Maldives relations came when Maldives joined the BRI. Though China has tried facilitating Maldives via BRI-linked projects and investments, the pros of the Chinese initiative have been overshadowed by the cons. It is essential to mention that there is the information gap about BRI-related projects and investments in Maldives. Because the governments on both sides have not publicized complete detail of BRI-led projects. Multiple media reports have reported differently about a housing project in Maldives. There is no particular database that could provide accurate and detailed/concrete information of BRI projects. Moreover, same have been reported with two or more names that has stirred confusion among common people. It has affected the credibility and transparency of BRI-related projects in Maldives. Nonetheless, the recent Sino-Maldives bilateral agreements like visa exemption (Maldivians would be allowed to travel to China on a 30-day visa-free basis once borders reopen) enhance people-to-people understanding and friendship.

Although India and China have occupied a substantial space in the domestic, social and political discourse of Maldives, the BRI-related investment in the country has regional and global implications. Amidst the growing rivalry between India and China, Chinese investment in Maldives has stirred security concerns for India at the regional and the US at the global level. The BRI-led infrastructure investment in Maldives might strengthen China’s grip in the Indian ocean region thus altering the current geopolitical balance of power in the region. On one hand, Maldives needs to tread carefully to maintain balanced relations with both Asian giants, on the other hand, it needs to strengthen bilateral ties with the US in order to balance its ties with China. India is the traditional partner of Maldives and the Indo-US strong ties are reminiscent of the US interest in the Indian Ocean countries. However, the presidential elections next year are important. It will decide the political discourse of Maldives. If PPM beats MDP, the foreign policy of country would be China oriented as the former President Abdulla Yameen will be contesting on behalf of PPM in the presidential election of the year 2023. And if MDP beats PPM, it may pursue the ‘India First’ policy.
References


