

Financing the Connectivity Project: A New Milestone in India-Maldives Relations

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Summary

India's decision to finance the Greater Male Connectivity Project will be a new milestone in its relationship with the Maldives. New Delhi has also extended financial and renewed quotas for the supply of essential goods which will help the island state overcome the serious economic challenges posed by the COVID-19 pandemic.

The Maldives is a small Island country with limited resources. For development, it has to largely depend on foreign investments and assistance. The country's economy is highly dependent on its tourism sector which attracts visitors from across the world. Besides tourism, the construction sector is growing, as the Maldivian leadership is focusing on the development of civic infrastructure in the country. During then-President Abdulla Yameen's tenure (2013-2018), substantial Chinese investments poured into the Maldivian infrastructure sector which, as the present government accuses, pushed the country into debt. After Ibrahim Mohamed Solih took over as President in 2018, he promised to re-negotiate the debts with China.¹ However, this lost some steam in successive months. In an interview to *Xinhua News Agency* in July 2019, the Maldives' Foreign Minister Abdulla Shahid said, "The heightened cooperation between our two countries [China and the Maldives] has indeed been mutually beneficial to our peoples. China will remain as an important economic and bilateral development partner for the Maldives, in its journey to become one of the most vibrant middle-income developing countries."² In September 2019, Shahid visited Beijing where he met Chinese leaders and discussed "strengthening relations between the two countries."³

More than dealing with the Chinese debt issue, Solih has been successful in resetting relationships with the Maldives' traditional friend – India. During Solih's early days as President, India provided financial assistance to clear some of the country's debt. Since then, India has provided more assistance to the Maldives to carry out developmental projects and has also supplied medicines and equipment to fight the COVID-19 pandemic. This paper looks at the civic infrastructure projects in the island nation and India's assistance to further develop them.

¹ "Seeking Renegotiation Of Debt, Maldives To Send Envoy To China", *NDTV*, 21 November 2018. <https://www.ndtv.com/world-news/seeking-to-renegotiate-debt-maldives-to-send-envoy-to-china-1951291>. Accessed on 15 August 2020.

² Zhu Ruiqing & Tang Lu, "Interview: Maldives, China set example of friendship between small and big countries in int'l community: Maldivian FM", *Asia & Pacific News*, 21 July 2019. http://www.xinhuanet.com/english/2019-07/21/c_138245046.htm. Accessed on 16 August 2020.

³ Ministry of Foreign Affairs, Republic of Maldives, "Foreign Minister Abdulla Shahid arrives in China on an official visit", 17 September 2019. <https://foreign.gov.mv/index.php/en/mediacentre/news/5213-foreign-minister-abdulla-shahid-arrives-in-china-on-an-official-visit>. Accessed on 15 August 2020.

Infrastructure Projects in the Maldives

In 1971, when the Least Developed Countries (LDC) denomination was instituted, the Maldives was admitted as a LDC.⁴ To improve its economy in 1978, the Maldives joined the World Bank and the International Monetary Fund. In the 1980s, despite some positive development in the country's tourism sector, the Maldives was listed as one of the 20 poorest countries in the world.⁵ For the first time in 1997, its economic situation improved and it qualified for graduation from the LDC list. This improvement was mainly the result of a marked change in country's healthcare and education sectors, and the structure of its economy widened due to the growth in tourism.⁶ In the 2000 and 2003 reviews of the LDC list, the Maldives failed to graduate from the LDC list. Eventually, on 1 January 2011, it graduated from the LDC to the developing country list.⁷

As the Maldives began to pay greater attention to economic development, one of the major areas it focused on was civic infrastructure. This was needed to develop its tourism sector. The Maldives' government drafted the Strategic Action Plan (SAP) 2009-2013 with support from the World Bank. The SAP emphasised on a nationwide transport system; affordable living costs; affordable housing; quality health care for all; and prevention of narcotics abuse and trafficking.⁸ The World Bank assistance programme focused on the major sectors such as fisheries and tourism and their related infrastructure, human resource development, building government capacity, and post-tsunami recovery and reconstruction.⁹

Besides the World Bank, infrastructure projects in the Maldives have been assisted mainly by China and India. On 14 October 1972, China and the Maldives established diplomatic relations. On 26 May 2009, the Maldives opened its embassy in Beijing. On the economic side, since 1972, China has been providing aid to the Maldives. The two countries restored direct trade in 1982.¹⁰

In December 2014, the Maldives signed a memorandum of understanding (MoU) with China to officially join the Chinese-led Maritime Silk Road project.¹¹ Afterwards, more Chinese assisted projects were launched in the Maldives. Allegations were made against Chinese companies for grabbing land in the name of carrying out infrastructure projects in the

⁴ "Vulnerability Profile of Maldives: October 2003", *United Nations Conference on Trade and Development*. https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/vulnerability_profile_maldives.pdf. Accessed on 15 August 2020.

⁵ "The Maldives: A Development Success Story", The World Bank, 10 April 2013. <https://www.worldbank.org/en/results/2013/04/10/maldives-development-success-story>. Accessed on 15 August 2020.

⁶ "Vulnerability Profile of Maldives", October 2003, op cit.

⁷ "Maldives identifies challenges in graduating to a developing country", United Nations Office for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States. <http://unohrrls.org/news/maldives-identifies-challenges-in-graduating-to-a-developing-country/>. Accessed on 16 August 2020.

⁸ "The Maldives: A Development Success Story", op cit.

⁹ Ibid.

¹⁰ Ibid.

¹¹ "Maldives officially joins China's maritime silk road policy", *China Daily*, 19 December 2014. https://www.chinadaily.com.cn/world/2009-08/19/content_8589136_2.htm. Accessed on 15 August 2020.

Maldives.¹² These are also being pointed out as reasons for the Maldives' debt crisis. One such project is the China-Maldives Friendship Bridge. The total cost of the bridge was about RMB1.26 billion (\$253.7 million) with 57.5 per cent of this cost being covered by a grant from the Chinese government. Another 36.1 per cent of the cost was in the form of a preferential loan from the Chinese government and the remaining 6.4 per cent borne by the Maldives.¹³ China was also engaged in the expansion of the Velena International Airport and the construction of the Hulhumalé Phase II housing project.¹⁴

Former President of Maldives and present Speaker of Parliament, Mohamed Nasheed, claimed that soon after Solih came into office, China handed the government an invoice of US\$3.2 billion (\$4.35 billion).¹⁵ This was denied by China, which, however, maintained that the amount of debt is closer to US\$1.5 billion (\$2.01 billion).¹⁶ Nasheed also accused the Chinese for the inflated cost of projects. For example, as Nasheed stated that Sinamalé bridge could have been built for US\$77 million (\$104.8 million). However, it has a price tag of around US\$200 million (\$272 million).¹⁷

After Solih came into power, the Maldives' relations with China have soured a little. The vacuum created by China has been suitably filled by India which is financially assisting and helping the Maldives to develop civic infrastructure projects in the country.

India's Assistance for Civic Infrastructure Projects in the Maldives

India has assisted the Maldives in several areas of development, such as providing concessional budget support, credit for water and sewerage facilities in selected islands and the construction of other civic infrastructure projects. In 2008, India provided US\$100 million (\$137 million) and again, in 2011, provided another US\$100 million (\$137 million) as Standby Credit Facility to the Maldives.¹⁸ In 2011, the Export Import Bank of India provided the first loan to the Maldives for the construction of 485 housing units in the country.¹⁹

¹² "China defends 'completely normal' Maldives investments", *Maldives Independent*, 14 July 2018. <https://maldivesindependent.com/business/china-defends-completely-normal-maldives-investments-139354>. Accessed on 16 July 2018.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ "China Hands Over \$3.2 Billion Bill to Maldives for Building Spree; Solih Govt Clueless About Total Debt", *News 18*, 23 November 2018. <https://www.news18.com/news/world/china-hands-over-3-2-billion-bill-to-maldives-for-construction-spree-solih-govt-clueless-about-total-debt-1948711.html>. Accessed on 15 January 2019.

¹⁶ Ibid.

¹⁷ "Foreign minister extols China-Maldives partnership", *Maldives Independent*, 22 July 2019. <https://maldivesindependent.com/politics/foreign-minister-extols-china-maldives-partnership-146729>. Accessed on 15 August 2020.

¹⁸ Ministry of Finance, Republic of Maldives, "Government of India". <https://www.finance.gov.mv/ministry/international-cooperation/government-of-india>. Accessed on 16 August 2020.

¹⁹ Ministry of Finance, Republic of Maldives, "Export Import Bank of India". <https://www.finance.gov.mv/ministry/international-cooperation/export-import-bank-of-india>. Accessed on 16 August 2020.

To deal with its debt, in December 2018, India's Prime Minister Narendra Modi announced a US\$1.4 billion (S\$1.9 billion) loan to the country.²⁰ In March 2019, then-External Affairs Minister of India, Sushma Swaraj, paid a visit to the Maldives. During the visit, India and Maldives signed a US\$800 million (S\$1.1 billion) Line of Credit Agreement. It was mainly to assist the Maldives to develop infrastructure in the country.²¹

In June 2019, after winning the parliamentary elections for the second successive term, Modi visited the Maldives. During this visit, he assured the Maldivian leadership of India's full support in realising its aspirations for broad-based socio-economic development and the strengthening of democratic and independent institutions.²² Modi and Solih also stressed the need to work towards:

“... expeditious implementation of people-centric and socio-economic projects including in areas of water and sanitation for many islands, Addu city urban development and support for SME Finance Corporation under the US\$800 million dollar [S\$ 1.1 billion] Line of Credit Agreement.”²³

Due to the increase in demand and on-going works, there has been some boom in the Maldives' construction sector. In its economic review report of fourth quarter of 2019, the Maldives Monetary Authority found that construction-related imports such as of wood, metal, cement and aggregates, along with other items, had increased by 14 per cent.²⁴ To develop civic infrastructure in the Maldives, in May 2019, the government set up a 100-per cent state-owned company, the Maldives Fund Management Corporation Limited. This company's objective is to attract finance from international markets and increase private sector investments in the country's construction sector.²⁵

One of the major shortcomings of the Maldives' development plan is that it has not been expanded to many other islands of the country. To widen this, Solih's government has decided to take infrastructure development projects beyond the country's capital city, Male and few other areas. For this purpose, the government has launched specific projects for

²⁰ “Maldives dismisses reports of Indian military base in Malé in return for \$1 billion aid”, *The Times Now News.Com*, 30 November 2018. <https://www.timesnownews.com/international/article/maldives-india-relationship-abdulla-shahid-china-ties-dismisses-reports-of-indian-military-base-in-male-in-return-for-1-billion-dollar-aid-president/323408>. Accessed on 15 December 2018.

²¹ N Sathiya Moorthy, “Swaraj's Maldives visit lends economic direction to political ties”, Observer Research Foundation, 29 March 2019. <https://www.orfonline.org/expert-speak/swarajs-maldives-visit-lends-economic-direction-to-political-ties-49355/>. Accessed on 13 June 2019.

²² Ministry of External Affairs, Government of India, “India-Maldives Joint Statement during the State Visit of Prime Minister to Maldives”. https://www.mea.gov.in/bilateral-documents.htm?dtl/31418/India_Maldives_Joint_Statement_during_the_State_Visit_of_Prime_Minister_to_Maldives. Accessed on 18 June 2019.

²³ Ibid.

²⁴ “Construction sector witness improvement in Q4-2019”, *Maldives Business Review*, 8 March 2020. <https://mbr.mv/8903/>. Accessed on 22 April 2020.

²⁵ “Maldives Economic Update 2019”, Asian Development Bank. <https://www.adb.org/sites/default/files/institutional-document/544946/maldives-economic-update-2019.pdf>. Accessed on 14 August 2020.

individual islands and atolls by year-marking project-centric funding from foreign countries, starting with India.²⁶

Keeping its promise of developing civic infrastructure projects in the Maldives, on 13 August 2020, India announced the provision of funds for the Greater Malé Connectivity Project (GMCP). India's External Affairs Minister, S Jaishankar, announced that India will support the implementation of the GMCP "through a financial package consisting of a grant of US\$100 million [S\$137 million] and a new Line of Credit of US\$400 million [S\$ 549 million]."²⁷ The GMCP will connect Male with neighbouring islands of – Villingili, Gulhifahu and Thilafushi – through a bridge-and-causeway link spanning 6.7 kilometres.²⁸ Once completed, the GMCP is expected to boost economic activity, generate employment and promote holistic urban development in the Malé region.²⁹ This announcement came after a virtual meeting between Jaishankar and Shahid.

The GMCP, as reported in *The Times of India*, was one of the key election promises made by the Maldivian Democratic Party for which Solih sought assistance from India during Jaishankar's visit to the Maldives in September 2019.³⁰ The GMCP will be longer than the 1.39 kilometre-long Maldives-China Friendship bridge, which links Male to Hulhule island. It was opened in April 2018.³¹

Besides funds for the GMCP, Jaishankar announced a financial package of US\$250 million (S\$343 million) to support the Maldives' efforts to fight against the COVID-19 pandemic.³² The two countries also agreed to start direct cargo ferry service between India and the Maldives, which will reduce logistics costs and time for traders.³³ Fulfilling India's commitment under the bilateral trade agreement of 1981, Jaishankar conveyed the decision to renew quotas for supply of essential commodities to the country for the year 2020-21.³⁴ India also created an air travel bubble with the Maldives. This will facilitate the movement of people between the two countries. This service is scheduled to start on 18 August 2020.³⁵ Jaishankar and Abdulla Shahid "expressed satisfaction at the progress that has been

²⁶ N Sathiya Moorthy, "Maldives: Development & Decentralisation, MDP's plank for Island-council polls?", Observer Research Foundation, 21 January 2020. <https://www.orfonline.org/expert-speak/maldives-development-decentralisation-mdps-plank-for-island-council-polls-60525/>. Accessed on 28 April 2020.

²⁷ Ministry of External Affairs, Government of India "Meeting between External Affairs Minister and Foreign Minister of Maldives", Press Release, 13 August 2020. https://www.mea.gov.in/press-releases.htm?dtl/32888/Meeting_between_External_Affairs_Minister_and_Foreign_Minister_of_Maldives. Accessed on 13 August 2020.

²⁸ Ibid.

²⁹ Ibid.

³⁰ "India to build 'largest Infra project' worth \$500m in Maldives", *The Times of India*, 14 August 2020. <https://timesofindia.indiatimes.com/india/india-to-build-largest-infra-project-worth-500m-in-maldives/articleshow/77535503.cms>. Accessed on 15 August 2020.

³¹ "Maldives: India Bids to Overtake China in Funding 'High Visibility' Infrastructure", *The Wire*, 13 August 2020. <https://the.wire.in/diplomacy/maldives-india-china-funding-infrastructure-jaishankar-abdulla-shahid>. Accessed on 14 August 2020.

³² "India extends financial support of US\$ 250 mln to the Maldives", *Avas*, 14 August 2020. <https://avas.mv/en/87313>. Accessed on 15 August 2020.

³³ Ministry of External Affairs, Government of India, "Meeting between External Affairs Minister and Foreign Minister of Maldives", op cit.

³⁴ Ibid.

³⁵ Ibid.

achieved in the implementation of bilateral projects and initiatives, especially those under the US\$800 million (S\$1.96 billion) Line of Credit.”³⁶

Conclusion

Given the economic condition and limited resources, the Maldives has to depend on foreign assistance. During Yameen’s tenure, the Maldives relied heavily on Chinese investments at the cost of deteriorating its relationships with its traditional friend, India. Relations with India have been reset only after Solih came into power in 2018. Since then, India has been providing more financial assistance and helping the Maldives build a strong civic infrastructure in the country. The two countries are likely to agree on increasing their engagement during Solih’s visit New Delhi, which is due this year, provide the COVID-19 pandemic situation improves.

Once the GMCP is ready, it will benefit the people living on four islands. It will also boost economic activities across the bridge. After the GMCP, India may want to engage in the development of other islands besides Male. Such engagements under the policy mentioned in this paper will bring India and Maldives even closer to each other.

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³⁶ Ibid.