



China's Investments in Maldives: Implications for India in the Indian Ocean Region



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Introduction

Maldives, a group of 1200 islands spanning around 90,000 square kilometres in the Indian Ocean Region, has been in the limelight for the last decade.¹ The archipelago country is strategically important for both India and the Indian Ocean Region (IOR). It is geographically located overlooking India and some of the key international maritime shipping lanes also passes through its Exclusive Economic Zone (EEZ). The Maldivian economy is primarily driven by tourism and fish exports, and for decades India has been an important trade partner. China, although was investing in Maldives through the later part of the first decade of the 2000s, but the intensity increased post 2013 because of its Belt and Road Initiative (BRI), providing loans for infrastructural projects and economic development.²

Key Points

- China has heavily invested in the archipelago— both in terms of providing financial assistance as well as leasing a few islands in the name of 'development'.
- Maldives' import dependency and more specifically, issues of Chinese loan repayments call for concerns of 'debt trap' in the near future.
- In the long run, if China plans to convert any of the 'leased islands' into a naval base in the archipelago, then it will have security implications for India.
- Although, India's total share of exports to Maldives has been increasing on a year-by-year basis, but its role as the leading supplier of goods and services is facing a huge 'China Challenge'.
- India implemented nine projects under the High-Impact Community Development Project (HICDP) scheme in Maldives under its 'Neighbourhood First Policy'.

The increasing Chinese presence, especially the movement of its naval ships near India's territorial waters, is a matter of great concern for the Indian subcontinent. The excessive

dependence of Maldives on imports, gave China the opportunity to grant loans to the archipelago, therefore, giving rise to the possibility of Maldives finding itself in a debt trap in the near future. This is not only a Maldivian concern but more importantly for India. In fact, a pertinent security concern worries India — that if few Maldivian islands are leased to China for 50 plus years, and as China have a history of turning such islands into dual use strategic hotspots, like the ones it claims in the Spratly Islands in the South China Sea, then there is high possibility of similar instances occurring in the Indian Ocean as well. However, Chinese stratagem of investing in the neighbouring countries bordering India (both land and water boundaries) has forced India to refocus on its “Neighbourhood First Policy” and particularly in an archipelago nation like the Maldives. The paper intends to decode the Chinese infrastructural investments in Maldives and also examine the possible implications of these investments on India.

Dramatic Shifts in Maldives’ India and China Policy

Over the last few years, Maldives has been shifting its India- China axis with the change of Governments. India-Maldives relations began to grow after Mohamed Nasheed assumed Presidency of the Maldivian state (2008-12).³ However, in 2013, when Abdulla Yameen became the President, there was a policy drift which witnessed an inclination towards China as he was more close with the Chinese President— Xi Jinping— while with India, the relations were getting strained.⁴ It was not just the closeness of the leaders but more importantly the Chinese ability to disseminate funds as required for fulfilling the development projects in Maldives. During Yameen’s term, China heavily invested in the archipelago and even got few islands on lease in the name of ‘development’. China’s first loan (from EXIM China) to Maldives came in 2010 for the building of houses in Hulhumale.⁵ Given the Chinese trend, there is a huge possibility that the world’s second largest economy may, in the long run, use one of these ‘leased’ islands for strategic purpose.⁶ India has been expressing concerns on such issues over the years. Moreover, during his term, ties between India and Maldives also got deteriorated.

After the elections in 2018, the Maldivian Democratic Party (MDP), came back to power with Ibrahim Mohamed Solih as the President and former President Mohamed Nasheed as the speaker of the parliament— The Majilis.⁷ Therefore, the focus again shifted towards India; and the leaders thanked the latter for its excessive support for a democratic win in the nation overthrowing Yameen’s government. However, there exists an uncertainty that the Maldives might fall into a ‘Debt Trap’— as they are yet to repay the Chinese more than USD 3 billion, wherein their annual economic output is just USD 4.9 billion (2019)- mostly reliant on tourism and the pandemic has hit the sector badly.⁸ Given the fact that, China aspires to have a

military base in the IOR, therefore, it may tactically use one of the ‘leased Islands’ in Maldives for military/civilian technological use in the future, which would be a serious concern for India’s National and Maritime Security.

China’s Trade and Major Investments in the Island Nation: Case of Island of Feydhoo Finolhu and Kunaavashi

In the past seven years, particularly after the announcement of BRI as mentioned earlier, China has invested billions of dollars in several nations especially in smaller economies, including in Maldives for infrastructural development. The economic indulgence of funds in the name of development has been a critical aspect of China’s expansionist agenda. China’s investments are prevalent in South East Asia, South Asia, West Asia and Africa. According to the Maldivian Embassy in Beijing, the diplomatic relations between the two dates back to 1972 and China has been providing aid in the form of grants since then.⁹ Interestingly, between 1982 and 2002 there was no proper trade between them. However, after 2002 the trade between the two countries drastically increased from USD 2.9 million to USD 64 million in 2010 and crossed more than USD 469 million in 2019.¹⁰ A Free Trade Agreement (FTA) was also signed between China and Maldives in 2017, thereby, giving access to China in the island nation.¹¹ Along with this, President Yameen had also leased a few islands to China in the name of infrastructural development. Apart from the frequent high-level diplomatic meetings, there was also an influx of Chinese tourists visiting Maldives during his tenure.

Over the last few years, the trade figure of China’s export to the Maldives has been more than their traditional partner, India. According to statistics given by the Maldives Customs Service, China exported goods and services worth approximately USD 488 million to Maldives in 2018 whereas Indian exports stood at USD 287 million.¹² An increasing trend of imports from China to Maldives was prevalent in 2019 as well— Chinese exports accounted for USD 469 million whereas India’s share of exports stood at USD 290 million. Until August 2020, China exported approximately USD 185 million (Jan-Aug), and India exported more than USD 169 million (Jan-Aug) to Maldives.¹³

The BRI gave an opportunity for the Chinese to extend its investments in the IOR as Maldives joined the project in 2014 and this changed the outlook of their bilateral relations. Since then, China has been actively involved in developing capital assets in Maldives like the upgradation of the Maldivian International Airport, construction of the bridge connecting the airport and the Maldivian capital— Male, as also has been involved in housing and road projects.¹⁴ Maldives also leased a few islands in the name of development to the world’s second-largest economy. However, military usage of these islands by China cannot be ruled out totally, given the case of Spratly Islands in the South China Sea.¹⁵

Island of Feydhoo Finolhu and Kunaavashi

Image 1: Feydhoo Finolhu in 2014



Source: Google Earth Pro, 2020

In 2016, an undisclosed Chinese company had acquired a tiny islet named Feydhoo Finolhu on a 50-year lease for a paltry sum of \$ 4 million.¹⁶ This islet is strategically positioned near the International Airport at Male, and the low leasing tag price, makes it wary that they may use it for more than commercial purposes. Interestingly, since 2006, the island was used as a minimum-security jail and further in 2010 it reopened as a Correctional Training Centre for Children, and later was leased to China in 2016.¹⁷

Image 2: Feydhoo Finolhu in 2019



Source: Google Earth Pro, 2020

The transformation of the Island from Image 1 to Image 2 in three years is surprising—as the Chinese company constructed an extension, which was previously 38,000 sq. metres to 100,000 sq. metres, thereby developing it into a possible resort hub (Image 3).¹⁸ These images show that the Chinese company had accelerated the drilling and filling for making an artificial extension for the leased island. Further, another island in Kunaavashi atoll was also given on lease for 50 years to a joint venture named CJL Investment, partly owned by a Chinese developer- Guangdong Beta Ocean and a Maldivian partner.¹⁹ Both Feydhoo Finolhu and Kunaavashi were under the scanner, due to the possibility of them being used by the Chinese for secret military purposes. However, from Image 3 below, it appears that the Feydhoo Finolhu island is an entirely constructed resort and there seems to be no space for any civil/military activity as such—but one cannot rule out any such development from the Chinese in the future, as the satellite images may appear to be deceptive.

Image 3: Feydhoo Finolhu as in August 2020



Source: Google Earth Pro, 2020

China's Developmental Projects and Strategic Vision in Maldives

While investments made in these two islets are susceptible to strategic concerns, the most noticeable infrastructural investments have been in the Capital, Male and the nearby island of Hulhumale. These include the extension of the Velana International Airport in Male and the construction of the 'Sinamale Bridge' or 'China-Maldives Friendship Bridge'—connecting the capital with Hulhumale. Incidentally, India's GMR was supposed to build it, however, later the Maldives Government endorsed it to Beijing Urban Construction Group in 2014, who thereafter constructed a new runway, a new fuel farm and a cargo terminal.²⁰ Interestingly, when Maldives cancelled GMR's (India) agreement to modernise and operate the GMR Male International Airport Limited (GMIAL) for 25 years, the Indian company filed a

case at the international arbitral tribunal, and thereafter Maldives were ordered to pay a compensation of \$ 270 million to GMR.²¹ It is, therefore, suspected that China had donated the amount for the Maldives as the amount was paid promptly by the latter.

Table 1: EXIM –China in Maldives (Figures in Chinese Yuan (CNY) and USD)

Year	Projects	Currency	Amount
2016	China -Maldives Friendship Bridge	CNY	455,600,000
2015	Expansion and Upgrading of the Ibrahim Nasir International Airport at Hulhule	USD	373,838,500
2012	Development of 1500 Housing Units in Maldives	CNY	982,500,000
2010	Development of 1000 Housing Units in Hulhumale	CNY	481,000,000

Source: Export Import Bank of China; <http://english.eximbank.gov.cn/en/>

In the last decade, the Export-Import Bank of China has been funding significant projects in the administrative and commercial centres and mainly prioritising the port cities. Similarly, in Maldives, they have been investing and funding in the core centres with an aim to project its soft power in the IOR. Apart from China's involvement in developing the airport, it is also involved in constructing residential houses and apartments as well as buildings for foreign missions.²² Moreover, this has been the Chinese trend in many smaller nations whereby, by providing loans for development and connecting them with BRI, China gets access to the nation's coastal borders specifically and thereafter secures its hold in their respective economies as well. However, the worry for these small nations directly lies on repayment, as it may lead them to a debt- trap, which is unimaginable for countries like Maldives which are dependent mostly on tourism for their revenue. Concerns would aggravate if a natural disaster or a pandemic such as what happened since early 2020 with the unexpected lockdown, thereby creating a huge ruckus in their financial planning and further making it hard for the policymakers to take apt decisions.²³

In the South China Sea, China's construction of artificial islands has been a success. Similarly, if China gets access for making islands in the Indian Ocean, it would bring China closer to India's periphery. Like, for instance, Feydhoo Finolhu Island's strategic location near to the airport and proximity to the capital city exemplify a questionable impression as there is a possibility that China might use it for both civil and military/strategic purpose in the

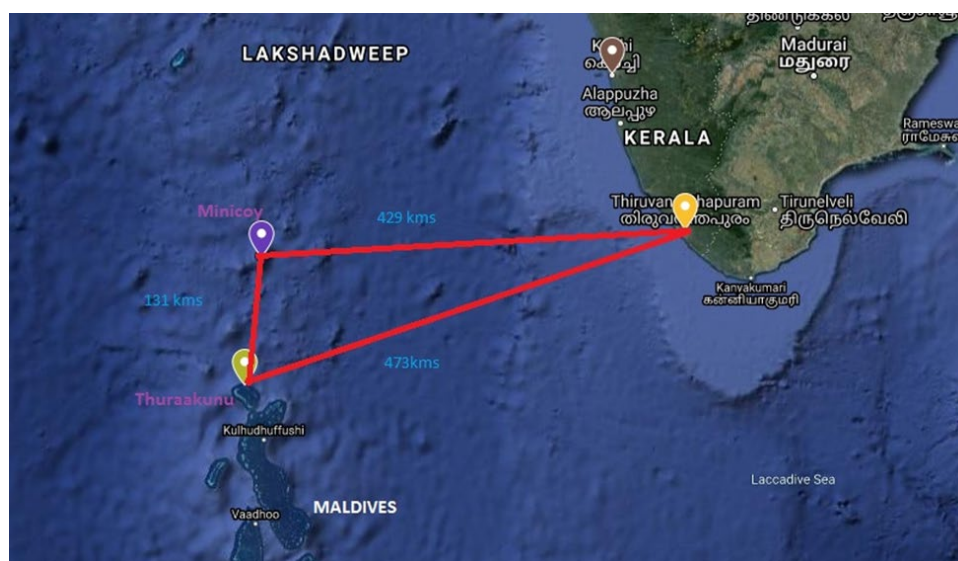
future. Moreover, there are other islands which are closer to India's maritime boundary, and thus the uncertainty prevails. This would be a matter of security concern for India.

Implications for India

Until 2012, for more than three decades, India was Maldives' leading trade partner, given the reliance on goods and essential services. India's total share of exports to Maldives has been increasing on a year-by-year basis, but its role as the leading supplier of goods and services to its southern neighbour has been diminishing because of a more active role played by China. The status-quo was disturbed after President Yameen assumed Presidency of Maldives, as he encouraged Chinese investments into the archipelago, therefore, providing an opportunity for the Chinese to build its presence in the IOR—the peripheral area of security concern for India.²⁴

India's nearest island to Maldives— Minicoy— is just 133 km away from Thuraakunu— the island at the northern tip of the Maldivian archipelago, and just 472 km away from Thiruvananthapuram in Kerala, which is the nearest port city of the Indian mainland apart from the naval base at Kochi. Map 1 below shows the polygon of connecting points that makes the region more strategic, as the marked area is very close to the passage for sea lanes of communication, through which navy ships exercise patrolling and ships that carry goods transit. Therefore, if China plans to establish a naval base in the archipelago, then it would be a direct threat to India's Maritime and National Security.

Map 1: Connecting Maldives and India



Source: Map adapted from Google Maps and annotated by Author

Image 4: Gaadhoo Island in the Laamu Atoll, Maldives (2015 and 2020)



Source: Google Earth Pro, 2020

India has been closely observing the Chinese developments in Maldives. Although the Chinese embassy in Maldives was built quite late in 2011, but their engagements were at its peak during the tenure of President Yameen. However, the Chinese embassy at Male had an ‘unusual’ set of antennas in their compound, giving rise to suspicion as to whether those were for dual -civil/military use or embassy’s connectivity. Later, it was covered, making it suspicious again.²⁵

Image 5: Gadhdhoo Island in Gaafu Dhaalu Atoll, Maldives (2016 and 2019)



Source: Google Earth Pro, 2020

Apart from the Islands discussed in the earlier sections, in 2016 orders were given by President Yameen for resettlement of the population in the inhabited island of Gaadhoo in southern Lamu Atoll to Fonadhoo island— the capital of the atoll— due to the impacts of climate change.²⁶ According to Ahmed Naseem, former Foreign Minister of Maldives, there were indications that in early 2016, that the Gaadhoo Island would be given to the Chinese to build a port and the resettlement was part of that strategy.²⁷ The Chinese were entitled to construct roads on the island, giving rise to more suspicions, as the island looks isolated and inhabited as evident from Google Earth pictures (Image 4). The island lies in the one and half degree channel, through which the majority of international trade transits from Maldives to Africa, and even to West Asia.²⁸ Since, the island is inhabited now, it would be easy for China to build infrastructure for civil/military usage. A naval base in an island located in the

IOR would mean access to the International waters and strategic positioning for controlling the region which, therefore, would be a huge setback for India.

Incidentally, there is another Island named Gadhdhoo in the Gaafu Dhaalu Atoll, also in the southern atoll, and the name seems to be similar like Gaadhoo.²⁹ Noticeably, the island has made some considerable amount of development in the last few years, however what makes it significant, is the presence of bunkers on the eastern end of the island and the infrastructural development of the harbour (Image 5). Given the secrecy that China keeps in its projects, there is a high possibility that China might portray the development of the island under the 'cover' of tourism infrastructure first, followed by berthing, supply, and ultimately the construction of a possible future Chinese naval base operated by both Maldives and China. However, there is no accurate data on the number of islands leased to China and this is a vital concern for India.

India's Developmental Assistance to Maldives

India's assertiveness in approaching its neighbours is important as China has been increasing its presence in India's neighbourhood, by means of infrastructural and financial assistance especially in the southern smaller economies. India has also become more active since Prime Minister Modi's 'Neighbourhood First Policy', as it is imperative to get the trust of your neighbours to thrive ahead as a regional power.³⁰ India's outreach to Maldives has intensified, since President Solih came to power — India has been providing developmental aid as well as bilateral meetings are being held regularly.

Maldives, due to its saltwater surroundings, most times faces a drinking water crisis, therefore, during such crisis India extends a helping hand and provides them with required levels of drinking water. Even when it comes to medical infrastructure and education, India has provided sufficient support and also encourages students from the island nation to visit India for their higher studies.³¹ Indeed, such soft power elements have been vital to India's engagement with Maldives.

The economy of Maldives is tourism-oriented and a significant share of revenue also comes from the fisheries department. However, the ongoing pandemic has affected the Maldivian economy badly— with travel bans imposed by the countries due to Covid-19, and has hit hard on the Maldivian tourism sector, thereby, affecting the livelihood of a large section of its population. In this dire situation, it was India who extended a helping hand to Maldives, by providing financial assistance of USD 250 million to fight the economic impacts and damages caused by the coronavirus and the lockdown.³²

Moreover, the Indian embassy at Male had announced that budgetary support is extended without any conditions and the repayment norms would also be flexible. Apart from this, the Export-Import Bank of India have signed an agreement with the Government of Maldives on the Line of Credit for USD 400 million to disperse fund for the Greater Male Connectivity Project (GMCP) - single largest infrastructure project in the island nation.³³ Earlier in 2019, India provided USD 800 million to Maldives for financing infrastructural projects.³⁴ However, all these are part of India's soft power projection and have been a saviour to the Maldivian economy especially when the Chinese banks have asked the Maldivian government to clear the debt of USD 10 million amidst the pandemic.³⁵

In March 2020, a team of Indian doctors and nurses were sent to Male to help with the Covid -19 preparedness, and also two consignments of medicines of 5.5 tonnes and 6.2 tonnes each was donated and airlifted during April and May respectively, and further 580 tonnes of food aid was also delivered. India had also uplifted certain export restrictions especially on medical consumables, respiratory apparatus, testing kits and reagents, with a view to help the Maldivian economy in fighting the pandemic. Moreover, as per the request of the Government of Maldives, India had sent doctors and nurses on short term contracts to Male to tackle and reinforce their health system.³⁶

As part of New Delhi's 'Neighbourhood First Policy', in August 2020, India implemented nine projects under the High-Impact Community Development Project (HICDP) scheme in Maldives by granting USD 5.5 million assistance.³⁷ The scheme focuses on local island community development, building capacities with local councils for proper execution of the project and supporting of the local economy. Therefore, with India being the immediate neighbour and nearest goods and services supplier, along with providing ground level assistance and development- India's Neighbourhood 'First' Policy and Maldivian President Solih's India 'First' Policy go hand in hand.

Conclusion

Given the growing bonhomie between India and Maldives, the increasing presence of Chinese naval ships patrolling close to the Indian periphery is a matter of vital concern.³⁸ India needs to keep a constant check on the Chinese developments in the archipelago so as to counter any suspicious military access on the islands— which were further leased by Maldives for business endeavours during President Yameen's tenure. The islands are close to southern India and can pose a threat to India's overall security, given the technological prowess and maritime deployments that China has achieved over the years. In order to win the heart of the masses in the island nation, India has to be proactive in its approach through projects like HICDP and also by providing grants and aids, whenever required. The

increased Chinese patrolling in the IOR is a valid reason for India to use its military and technological prowess, if required. Apart from this, an influx of extremism in the region is also an added concern. Moreover, being the largest nation (in size and economy) in the Indian Ocean Region, India is responsible for safeguarding its borders and also its neighbours from potential threats. An enhanced military pact between India and Maldives might be a crucial turning point to deal with the regional security challenges posed in the short-run and a multilateral security pact with the other neighbours in the long-run.

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