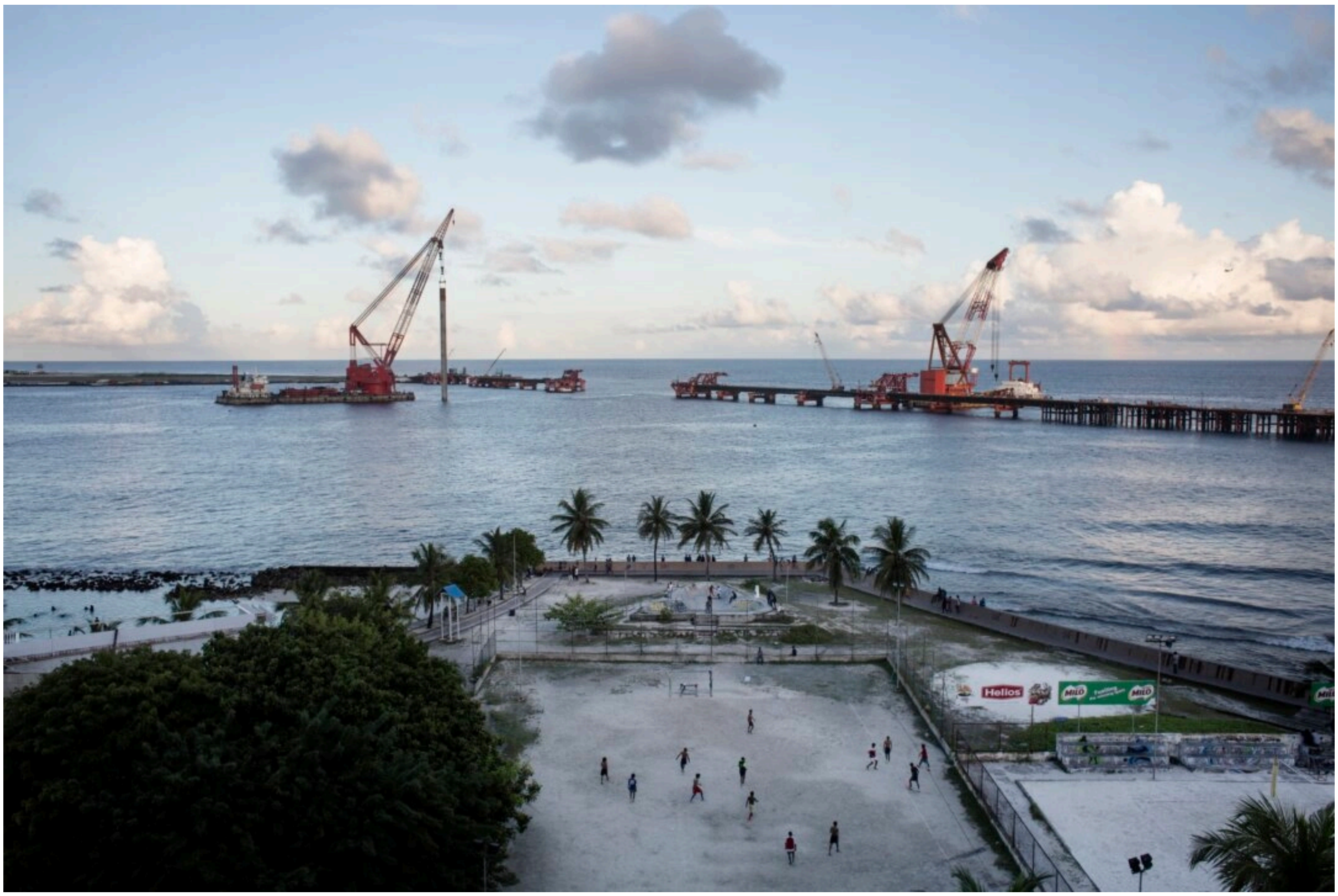
The Dark Side of Chinese Investments in the Maldives



A general view of the Chinese-led bridge construction project connecting the capital island Male to the airport island of Hulhule in Male, Maldives, on Oct. 27, 2016. Aishath Adam/Getty Images

By Panos Mourdoukoutas
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Commentary

After Sri Lanka and Pakistan, the Maldives are beginning to see the dark side of Chinese investments: A debt trap that could cost the country its economic independence. The tiny Indian Ocean nation owes China a huge debt and is striving to repay it.

According to the latest World Bank report published in October 2024, the Maldives' total public and publicly guaranteed (PPG) debt was $8.2 billion, or an estimated 115.7 percent of GDP, in the first quarter, compared with $7.2 billion, or 109.7 percent of GDP, in the first quarter of 2023.

China's ties with the Maldives began the usual way: Beijing invested heavily in building the island's infrastructure, with Chinese state-owned contractors designing and executing high-profile projects financed by Chinese state-owned banks.

One of these projects is the 1.3-mile China–Maldives Friendship Bridge, which connects the eastern end of Male to the western corner of Hulhumale Island. It was launched in 2015 and completed in 2018 at a cost of $200 million. Other projects followed, including a national museum, housing, renewable energy ventures, and upgrading the country's international airport, following the eviction of Indian contractors.

On the surface, these investments are a great deal for both parties. For the Maldives, they help build its infrastructure, a necessary condition for developing and integrating its economy, while creating jobs and income for the locals involved in the construction projects.

For China, these investments help execute Beijing's Belt and Road Initiative (BRI, also known as "One Belt, One Road"), an ambitious plan to advance the Chinese regime's interests in Asia, Europe, and Africa. A Chinese-funded infrastructure could eventually serve as another military outpost in the Indian Ocean and turn it into the "China Ocean," surrounding Beijing's old adversary, India.

On March 4, 2024, the Maldivian defense ministry announced in a post on social media platform X that the country and China had signed a bilateral military agreement, indicating the warming of Sino–Maldivian ties and the worsening of Indo–Maldivian ties.

"The most crucial element in the close ties between the two countries is that Maldives is at the cross-seaways of Chinese trade routes," Yiannis Tsinas, a former Washington military diplomacy analyst, told The Epoch Times. "One of these seaways leads to the Middle East, where China imports a large chunk of its oil."

Tsinas sees these close ties between the two countries as an upgrade to China's military presence in the region. "Beijing can cut potential naval cooperation between India and Japan and be a step closer to containing India's presence in the area."

In addition, the Chinese regime could turn Maldives, a member of India's free trade zones, into a transit trade post for Chinese products on their way to India.

On closer examination, these investments are great for China but not for the Maldives, for the usual reasons. One is that the infrastructure projects are designed and executed by Chinese contractors rather than international contractors following competitive bidding. These contractors use political rather than economic criteria in performing feasibility studies, placing Chinese bureaucrats' priorities ahead of the Maldives economy's needs.

As a result, some projects cost too much and serve too few consumers to be economically viable.

Another reason they are even less viable is that financing comes from loans from Chinese state-owned banks under conditions too binding for the Maldives to afford—that's when the loans become "debt traps," advancing Beijing's hidden agenda.

The Maldives' growing indebtedness to China is reflected in its soaring debt-to-GDP ratio, which reached 100 percent in the early 2020s, when the country ran persistently high current account deficits.

That's a red flag for debt-rating agencies, which had closely monitored the situation. For instance, in August 2024, Fitch Ratings downgraded the country's debt to "CC," a "junk" high-risk status.

"The downgrade of the Maldives' IDRs to 'CC' reflects Fitch's assessment that intensified pressures from the country's recently deteriorating external financing and liquidity metrics have made a default event more likely within the rating horizon," said Fitch.

"This is underscored by a recent material decline in the foreign-reserve buffers alongside elevated external debt service and limited external financing inflows."

Fitch's downgrade makes it hard for the country to borrow funds in international markets to pay for a $500 million sukuk, a bond that claims to comply with Islamic Shariah law.

That leaves Maldives between a hard rock and a hard place if it wants to avoid an outright default. The hard rock is the IMF, which flagged the country's debt last year. The Washington-based institution is notorious for the stringent requirements it places on providing bridge financing to ailing nations. These requirements often cause a great deal of political unrest, as has been the case in Pakistan, which has already received IMF loans.

"The developing countries will find themselves in a dilemma when they borrow external debts," wrote Qi Liu, author of the Master's thesis titled "China's One Belt One Road Initiative—A Debt Trap?" presented at the University of Denver in 2020.

"The borrowers must accept scrutiny if they decide to borrow from the IMF. As a result, the essential projects for national welfare (like BRI projects) might need to be given up, and industrial development might be disturbed by the IMF's dictation," Liu wrote.

The hard place is China, which may provide new loans to Maldives at even more stringent conditions or swap debt for equity, transferring control of critical infrastructure to Beijing, as was the case with Sri Lanka.

However, that won't be an easy solution, as China and the IMF/World Bank will have to negotiate ultimate control over the projects that are part of the BRI.

"Chinese state-owned enterprises are currently arranging all BRI projects," Liu said.

"If other international institutions join the funding of the BRI projects, these institutions will have to share voting rights with the Chinese SOEs [state-owned enterprises]. In terms of the decision-making process, it is unnecessary and goes against the wills of the Chinese SOEs to give up the dominance over the projects."

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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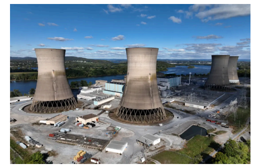

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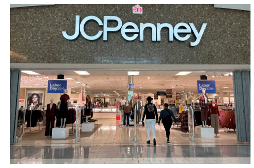

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