

INDIA-MALDIVES BRIEF

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POLICY BRIEF

ABSTRACT

India has historically been a provider of economic support as well as capacity building assistance to the Maldives. It has also acted as a security provider to the island nation, particularly during the 1988-attempted coup. In the years leading up to the 2012 ouster of Maldives' first ever democratically elected president, India was the main financial and political supporter of the country.

Today a strong bilateral relationship with Maldives continues to be important to India as it tries to strengthen its influence in the Indian Ocean. India is trying to counterbalance the growing Chinese influence in the region and play a much more substantive role in the 21st century global economy.

This brief analyzes the Indo-Maldives bilateral ties, highlighting India's growing development partnership, disaster relief support, security cooperation and trade with Maldives, as well as looking into Maldives' geostrategic significance in the Indian Ocean Region (IOR).

INTRODUCTION



Maldives President Abdulla Yameen meets PM Narendra Modi at the 8th SAARC summit

During the last decade, as India's interests have expanded further into the Indian Ocean, the geo-strategic importance of the Maldives to India has increased commensurately. Not only has New Delhi remained dedicated to its assistance in the Maldives during bilateral disputes, but it has also evinced a pattern of escalating support. In the past, India's developmental assistance to the Maldives has been driven by three key priorities; maintenance of cultural and historical relations, trade and economic access, and finally, security interests, including the safeguarding of critical sea lines of communication. As India has increased its development cooperation with the Maldives, it has also strengthened security arrangements, demonstrating growing geostrategic ambitions in the Indian Ocean waters. These changes highlight the complexity of the bilateral relationship as New Delhi recognizes the strategic importance of the island chain while in turn the Maldives realizes its own leverage.

A BRIEF HISTORY

India was one of the first countries to establish diplomatic relations with the Maldives after it gained independence in 1965 and the two settled their maritime border in 1976. [1] Today, both nations are members of the South Asian Association for Regional Cooperation (SAARC) and signatories to the South Asian Free Trade Agreement (SAFTA). During the first few decades of independence, the bilateral partnership was limited, although the two did sign a comprehensive trade agreement in 1981. However, bilateral relations took their first major step forward following India's intervention to crush a coup against the Maldivian government in 1988. The Indian armed services quickly restored order in the archipelago and the Indo-Maldivian relationship reached a new high. [2] Since then, India has provided considerable economic assistance and training in the fields of health, civil society

development, infrastructure development, disaster relief, and telecommunications. Even following the February 2012 “soft coup” against the democratically elected Mohammad Nasheed, India did not waver in its support to Maldives.

DEVELOPMENT COOPERATION: INFRASTRUCTURE, DISASTER RELIEF, AND TRAINING

Educational Infrastructure

Early bilateral development cooperation focused on health infrastructure. In 1986, India agreed to establish and finance entirely a medical complex in the capital of Male. At an estimated cost of 425 million rupees (US\$ 13.1 million) the 200-bed Indira Gandhi Memorial Hospital was finished in 1995.[3] At present, the hospital provides the most sophisticated tertiary care in the Maldives. India continues to support the institution, and in November 2011, India financed a major renovation of the hospital at a cost of 372.4 million rupees (US\$ 7.76 million).[4]

In 1996, India established in Male the Faculty of Engineering Technology, an institute of technical education. The facility can train at least 200 students each year in various technical and vocational areas.[5] At present, India is also establishing the India-Maldives Friendship Faculty of Hospitality and Tourism Studies as well as a police academy in Male. These projects fall comfortably in line with India’s history of building long-term educational and health infrastructure in the Maldives.

Disaster Relief

Disaster relief and management has been a second key part of Indian assistance to the Maldives. Following the tsunami that hit in December 2004, India was the first country to provide relief. Within 24 hours of the wave’s impact, the Indian Coast Guard and Air Force arrived with relief materials.[6] India continued to provide assistance throughout the crisis at a total cost of 363.9 million rupees (US\$ 8.8 million). Over the next three years, India’s rebuilding assistance continued, with two budgetary support grants of 10 million rupees each in 2005 and 2007 (totalling around US\$ 0.5 million).[7]

POST 2007 SUPPORT: AN INCREASE IN INTENSITY

Over the last five years, Indian assistance to the Maldives has on average accounted for 5 percent of India’s development cooperation budget, up from less than 0.5 percent in 2002-

07. The total amount of support in the form of grants and loans reached an average of US\$ 25 million a year. These changes come at the convergence of China’s new interest in the region and the advent of democracy in Male in 2008.

In 2008, following the first direct presidential elections in the Maldives, India committed to supporting and strengthening electoral systems and democratic structures. Total aid in grants and loans to Maldives accounted for 18.7 percent of India’s developmental assistance in 2008 – a significant allocation of money to a country with a population of only 4 million. India also donated electronic voting machines valued at 15 million rupees (US\$ 345,000) in 2008, and beginning in June 2011, it began providing training to election officials from the Maldives.[8]

CREDIT FACILITY AND LINES OF CREDIT

During a visit of the newly elected President Nasheed to India in December 2008, India extended a Standby Credit Facility (SCF) of US\$ 100 million to the Maldives.[9] \$50 million was assigned for imports from India, while the remaining \$50 million was designated as budgetary support.[10] Following this, in December 2010, the Export Import Bank of India announced its first Line of Credit (LOC) to the Maldives worth US\$ 40 million for the construction of 500 housing units. The LOC has a two percent concessional interest rate with a repayment period of 20 years, putting it in the same interest rate category as loans provided to low income countries by the International Development Association of the World Bank.[11]

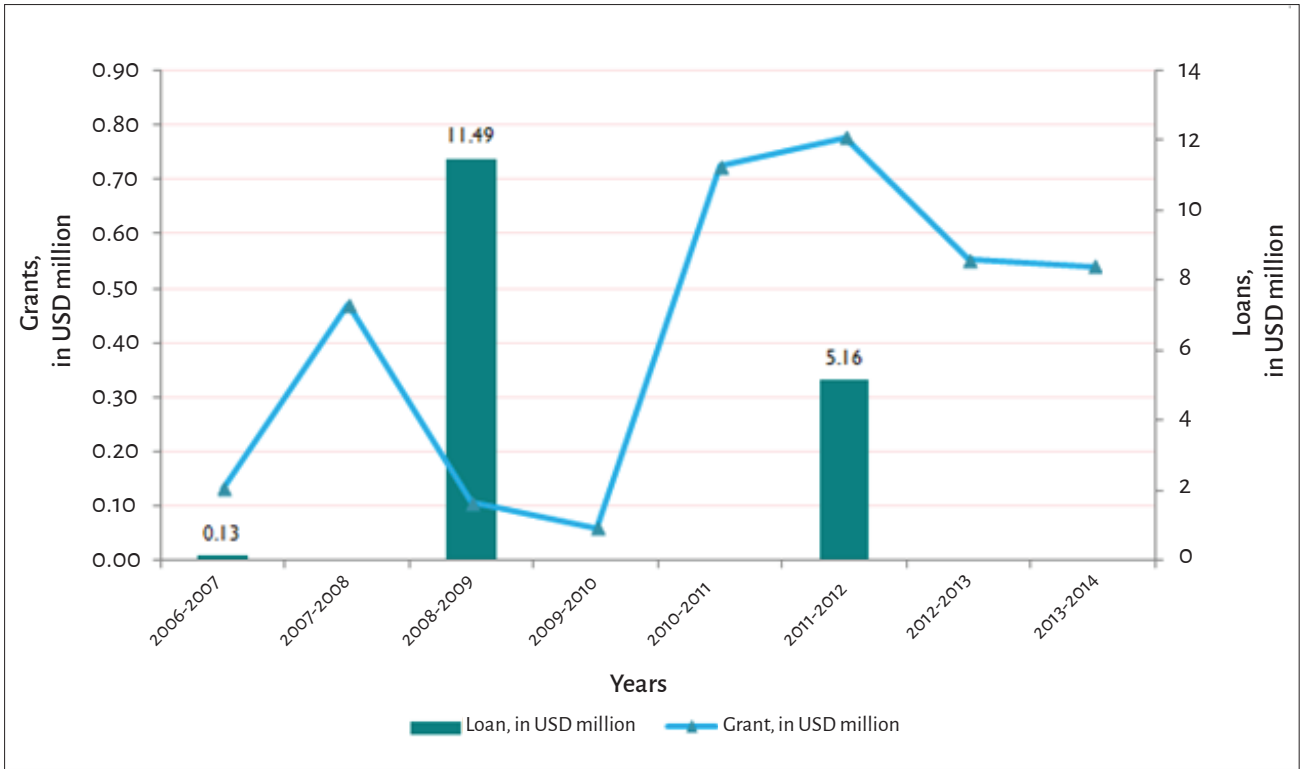
A second SCF of US\$ 100 million was extended when Indian Prime Minister Manmohan Singh visited the Maldives in November 2011.[12] This SCF of \$100 million, along with another loan in the amount of USD \$51 million, was equal to over 25% of the Maldives annual budget for 2011.[13]

Following the change in government in Male during the 2012 soft coup, India has remained committed to its development assistance to the Maldives, even increasing its support by adjusting the terms of the 2011 SCF such that US\$ 75 million would be for budgetary support, while US\$ 25 million would remain earmarked for Indian imports.[14]

TRADE

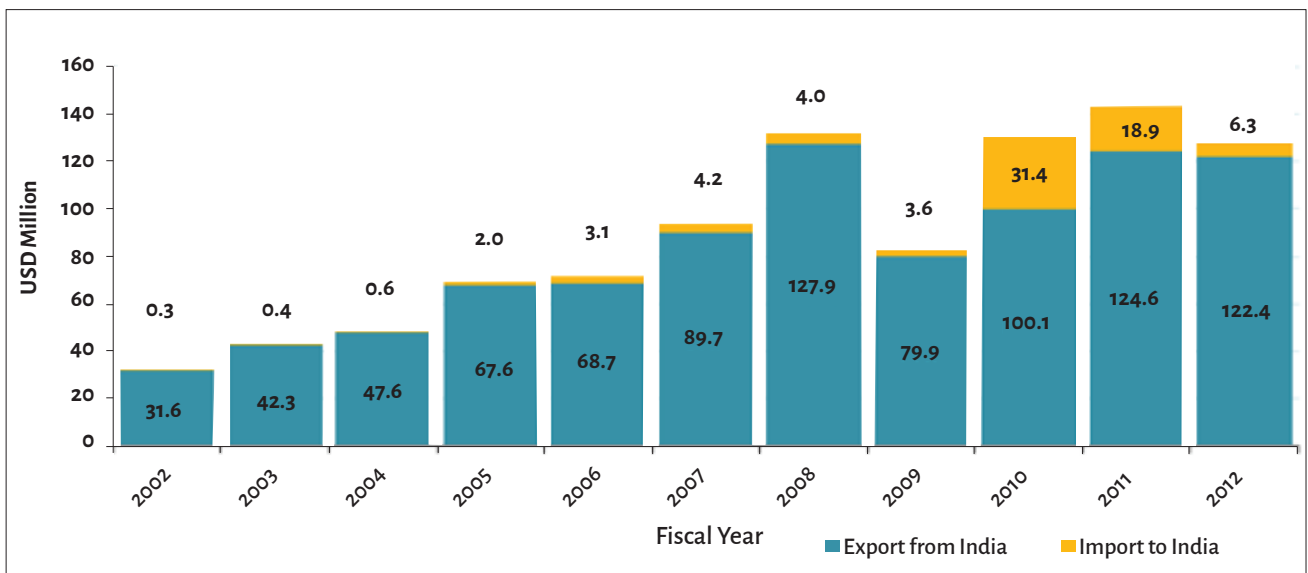
Although India and the Maldives signed a trade agreement in 1981, bilateral trade is not commensurate with its potential. However, since the early 2000s, Indian exports to the

Figure 1: Total grants and loans provided by India to the Maldives (in USD million)



Source: Indian Development Cooperation Research (IDCR) Program at the Centre for Policy Research

Figure 2: India-Maldives Trade Data (in US\$ million)



Source: Indian Development Cooperation Research (IDCR) Program at the Centre for Policy Research

Maldives have been growing exponentially. In the Indian fiscal year 1999-2000, bilateral trade was valued at 333 million rupees (US\$ 7.8 million). As of 2011-12, the total trade volume between the two countries stood at 7 billion rupees (USD \$144.52 million). However, while Indian exports have increased substantially, Maldivian exports to India have not, leaving a bilateral trade deficit of almost US\$ 105 million. [15] India remains the Maldives' third largest trading partner. India imports primarily scrap metals, while Indian exports to the Maldives consist of agricultural and poultry produce, textiles, pharmaceuticals, and a variety of engineering and industrial products. [16] While China has now broken into the top ten in terms of trade volume with the Maldives, it has only risen one place in the ranking since 2007. India's current exports to Maldives are four times as large as Chinese exports to the Maldives, leaving India with a sizable advantage in influence over the small island state. [17]

SECURITY

Since the early 2000s, major increases in development cooperation have correlated closely with new security agreements. These agreements cover every sector of security, from environmental protection to terrorism. However, while some arrangements on climate change and disaster relief have been signed, Indian defense cooperation has primarily focused on strengthening traditional security agreements. This increase in development cooperation policy, beginning in the early 2000s, but accelerating in 2006-2007, follows increased Chinese presence in the region.

In 2006, rumors reached New Delhi that the Maldives was considering leasing an island to Beijing for a naval base. In response, India signaled that it would continue providing the island's security, offering Male a state-of-the-art 260-ton fast-attack craft to aid in guarding coastal waters.

New Delhi did not waste time in taking initiatives to strengthen defense cooperation with the newly elected democratic government either, positioning two helicopters for better surveillance, setting up new radar systems on all 26 atolls, and training the Maldivian security forces to operate the new equipment. [18] Moreover, in 2009, the Indian Coast Guard has begun carrying out regular sorties over Maldives to look for suspicious vessels, while the Southern Naval Command is incorporating the islands further into the Indian security grid. [19]

The November 2011 agreement that established a second Standby Credit Facility also enhanced the level of security cooperation between India and the Maldives. The two states agreed to cooperate on piracy, maritime security and terrorism, and to establish coordinated patrolling of the area. [20] India concluded the twentieth DOSTI, literally meaning "friendship," naval exercise with the Maldives in April 2012, even adding Sri Lanka to the two-decade bilateral engagement. Additionally, in October 2012, India announced that it would station a defense attaché in Male and increase training of Maldivian helicopter pilots and defense personnel. [21] Finally, in July 2013, the three countries signed an agreement to advance maritime domain awareness in the region. [22]

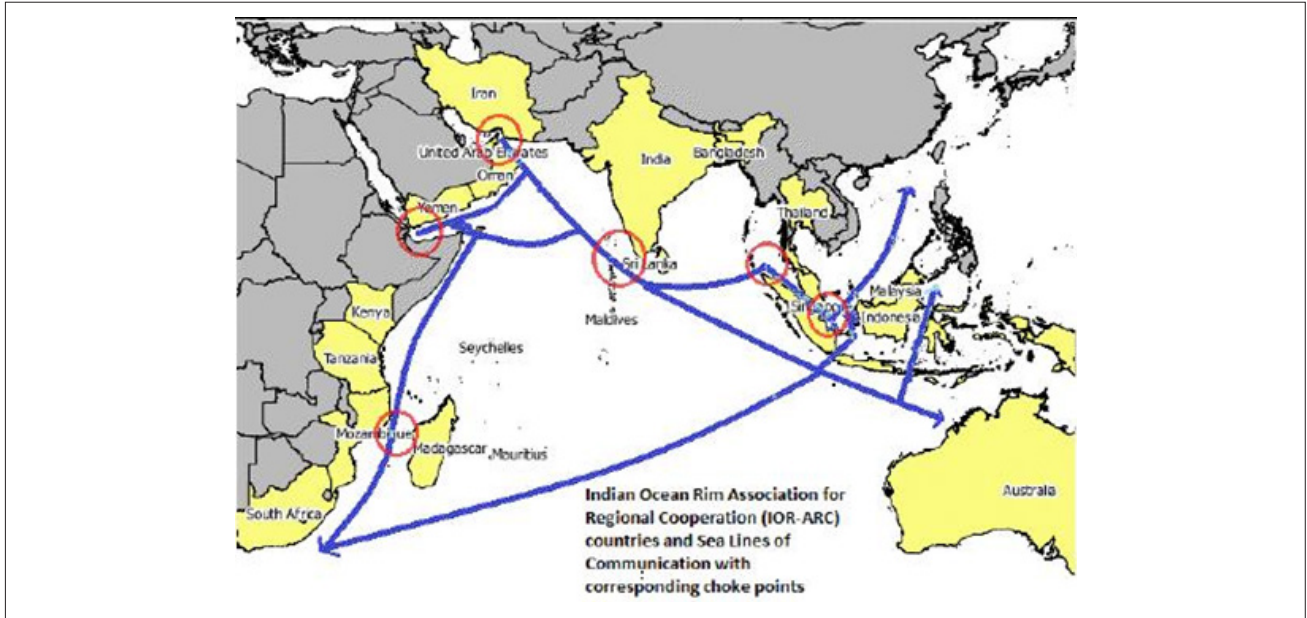
GEOSTRATEGIC IMPORTANCE OF MALDIVES

The geostrategic importance of the nearly 1,200 islands of the Maldives as a "most important interstate," [23] underlines the importance for New Delhi of positive bilateral relations with Male. At present, India is dependent on oil for more than 90 percent of its energy needs, and over the next few decades, 90 percent of that oil will come from the Persian Gulf by way of the Arabian Sea. [24] Moreover, coal imports from Mozambique, are set to increase dramatically, augmenting the coal that India already imports from around the Indian Ocean from countries such as South Africa, Indonesia, and Australia. [25] Beyond refueling stations, by maintaining access to these ports, the expanding Indian Navy can safeguard its interests by providing security for the sea lines of communication and ensuring vital resources reach India's coasts. Moreover, such access provides strategic depth in any potential conflict with China, wherein India could attempt to restrict the flow of oil through the Indian Ocean to the Malacca Strait.

At the same time, similar trade, energy and geostrategic imperatives are driving Chinese ambitions in the Indian Ocean region. Eighty-five percent of China's oil and natural gas passes through the Indian Ocean on its way to China's Pacific Ocean ports. [26] Beijing's already significant "economic aid and diplomatic outreach" will only increase as it looks for increased access to modern deepwater ports. [27]

By increasing the weight of its developmental assistance, India is aiming to not only maintain, but also expand its leverage over Indian Ocean Rim states to preclude a more

Figure 3: Critical Sea Lines of Communication between Indian Ocean Rim Association Countries



Source: Indian Development Cooperation Research (IDCR) Program at the Centre for Policy Research

permanent Chinese presence in the waters around the Indian Ocean littoral. However, China's increased presence may not be all bad news for India. While New Delhi is naturally wary of Beijing's motives in the region, until it can commit an increased level of investment in regional infrastructural and port development, China's projects will serve to improve regional trade and connectivity, benefiting the entire Indian Ocean region.[28]

Success in the Indian Ocean, and consequently the 21st century global economy, will center on increased access to global resources. This access will principally be a response to the strength of bilateral relationships. India's development cooperation adds a dynamic quality to the strength of the relationship by emphasizing cultural heritage, developing

economic engagement, and integrating cooperative security networks. As these imperatives drive India's development cooperation, New Delhi will do well to maintain its engagement with Male while looking to accommodate the growing interests of states that will lay in the wake of the Indian Navy.

Disclaimer: The values quoted in this article are based on initial calculations by IDCR from publicly available data sources and/or from IDCR's interactions with officials from the Government of India. These figures are believed to be accurate, but not guaranteed. They may change as IDCR identifies and addresses discrepancies in the publicly available data. When quoting from this article, please indicate the date it was last updated.

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