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The Challenges in Muizzu's Maldives: A Stocktaking

Aditya Gowdara Shivamurthy

Abstract

Mohamed Muizzu was sworn in as the seventh president of the Maldives in November 2023 after intense electoral competition with seven other candidates and a highly competitive second round. However, his administration's five-year term will not be without challenges. Muizzu's rise to power comes at a time when the archipelago is experiencing significant domestic and strategic challenges. As the Maldives gears up for parliamentary elections in late April, this paper assesses the critical economic, political, social, and geostrategic challenges confronting Muizzu's Maldives, and identifies their broader implications.

In 2008, the Maldives elected its first president under the multiparty electoral system, making the country the youngest democracy in South Asia. A new president has been voted to power in each subsequent election for five-year terms. The presidential elections are typically followed by parliamentary polls within six months. In the September 2023 poll, the Progressive Alliance’s Mohamed Muizzu emerged victorious against President Ibrahim Solih of the Maldivian Democratic Party (MDP) and six other candidates. The parliamentary elections are currently scheduled to be held on 21 April 2024.^{a,1}

Muizzu’s victory has garnered significant attention, especially from those who saw the second round of the polls as a competition between Solih’s ‘India First’ policy and Muizzu’s ‘India Out’ campaign.² Indeed, many observers also view Muizzu’s victory as a loss for India and a win for China.³ The change in guard in the Maldives comes at a time when the archipelago confronts significant political, economic, social, and strategic challenges. This paper assesses the impact of these issues on each other and the country’s foreign policy. It uses primary and secondary research (news reports and official government data) to highlight the crucial challenges before the Muizzu administration. The author visited the Maldives between 20-29 October 2023 and conducted 15 interviews and some informal and casual interactions with individuals from political parties and media outlets, policy analysts, and envoys/diplomats from other countries.^b

a The Maldives parliament currently has 87 seats. This will increase to 93 for the next parliament tenure (2024-2029).

b The names of those interviewed are being withheld for security and political reasons.

Maldivian Presidential Elections: A Summary

To comprehend Muizzu's current challenges, it is crucial to understand the interlinked issues faced by previous governments and how these shaped their choices.

In 2008, Mohamed Nasheed of the MDP defeated Maumoon Gayoom in the first multiparty democratic elections under the new constitution, ending the latter's 30-year rule. Nasheed's tenure coincided with the 2008 global financial crisis and waves of extremism. Nasheed's attempts to consolidate democracy, increase security, and boost economic growth compelled him to approach multilateral institutions and embrace an 'India First' policy, pushing for more defence and economic cooperation with New Delhi. Notably, attempts to work with India and respect its security concerns restricted his engagements with China.⁴

In the 2009 parliamentary elections, Gayoom's Dhivehi Rayyithunge Party and his stepbrother Abdulla Yameen's People Alliance together secured 35 of 77 seats in the parliament, acting as a significant obstacle to Nasheed's administration (the MDP had won only 26 seats). With increasing opposition from Gayoom's loyalists, the Islamists, and a brewing domestic crisis,^c Nasheed was forced to step down as president in 2012, with Vice President Mohamed Waheed succeeding him.⁵

In 2013, Yameen won the second presidential election with his new party, the Progressive Party of Maldives (PPM), formed with Gayoom. The PPM also secured a majority in parliament by forming a coalition with several small parties. During this time, Yemen's foreign policy was motivated by Islam, economic needs, and changing geopolitical dynamics, especially given China's growing interest in the Indian Ocean region and the launch of the Belt Road Initiative (BRI). The Maldives joined the BRI in 2014.⁶ Yameen distanced the West by accusing them of threatening Islamic values, but attempted to maintain good relationships with India, Japan, China, and Saudi Arabia in the initial years of his tenure.

^c Nasheed's tenure had faced severe challenges from opposition parties, Gayoom loyalists working in the government, and the hardliners. In 2012, these sections called for Nasheed to resign when a senior judge, allegedly a Gayoom loyalist, was arrested by the Maldivian army at the president's behest. The MDP launched several counter-protests. Unrest due to clashes between the state forces and protestors and an alleged coup compelled Nasheed to resign.

Maldivian Presidential Elections: A Summary

Around 2017, some PPM members of parliament (MPs) switched to the opposition and coalition partners abandoned Yameen, causing him to lose the majority in parliament. His attempts to secure his tenure by arresting opposition leaders and refusing to honour a court order invoked criticism from India and the West.^d In response, Yameen deepened ties with China—borrowed on high interest and authorised sovereign guarantees for loans, passed legislation to lease resort islands to China, signed a free trade agreement (FTA), and planned to establish a joint oceanographic observatory post, much to India’s strategic discomfort. To muster nationalist sentiments for the 2018 elections, he also asked India to withdraw two helicopters (donated in 2010 and 2013) and the Indian military personnel handling them.

In 2018, Yameen was defeated by a coalition of parties that were subject to crackdown during his tenure, with the MDP’s Solih elected as president. Solih’s administration returned to the ‘India First’ policy, and Yameen was criticised for borrowing extensively from China and putting the Maldives in a debt trap. China’s support of Yameen during the domestic crackdown and its attempts to finalise specific projects by contacting local politicians, mostly opposition parliamentarians and leaders, without informing or consulting Solih caused a distance between Beijing and the MDP government.⁷ The Solih administration’s decision to slow down Chinese projects and shelve the FTA created further rifts between the Maldives and China.

At the same time, relations with India deepened. During Solih’s maiden visit to India in 2018, the Maldives was offered US\$1.4 billion in assistance.⁸ India also offered low-interest loans and grants to start new infrastructure projects and keep the economy afloat. Defence cooperation also increased with India, with a hydrography agreement, the donation of a Dornier aircraft (with Indian personnel handling it), and an agreement to build a coastguard harbour at the Uthuru Thila Falhu (UTF).

In the 2019 parliamentary elections, the MDP secured 65 of the 87 parliament seats,⁹ ensuring relative political stability and avoiding a tussle between the parliament and the presidency (to some extent). This was

d In February 2018, the Supreme Court criticised Yameen’s crackdown on the opposition and ordered the release of nine leaders. In return, Yameen arrested these judges and declared a countrywide emergency.

Maldivian Presidential Elections: A Summary

despite increasing tensions between Nasheed and Solih, which ultimately led to the party splitting in 2023, with Nasheed eventually forming a new party, The Democrats, with some of his MDP supporters and parliamentarians. Another major challenge for the government was the ‘India Out campaign’ of the PPM and People’s National Congress (PNC) called the Progressive Alliance.^e The campaign politicised the growing defence cooperation between India and the Maldives and accused India and the MDP government of compromising Maldivian sovereignty.

Yameen’s ineligibility to contest in the 2023 presidential elections due to an ongoing prison sentence enabled Muizzu to emerge as the PNC candidate and later as a joint candidate for the Progressive Alliance. He continued the ‘India Out’ campaign by accusing the Solih government of corruption, inefficiency, and compromising the Maldives’ sovereignty to India.¹⁰ In September 2023, Muizzu emerged victorious in a highly competitive second round against Solih. Several factors contributed to his victory: anti-incumbency sentiments among the people, the MDP’s inability to deliver on its electoral promises, the spilt of the MDP, and the ‘India Out’ campaign.¹¹ Following his victory, Muizzu promised to send back Indian military personnel stationed in the Maldives and to review all defence and economic agreements signed with India. He also pledged to resolve housing issues and begin improving and developing infrastructure, airports, and a transshipment port in the first 100 days of his administration.¹²

e The struggle for the leadership of the PPM between Yameen and Maumoon motivated the former to form the PNC in 2019 as his ‘backup’ party. Yameen later emerged victorious in the political struggle and led both parties, collectively called the Progressive Alliance.

Muizzu's Political Challenges

Following his victory, Muizzu faced two crucial political challenges: concentrating power within the Progressive Alliance and ensuring his coalition won the parliamentary elections. For now, Muizzu seems to have triumphed over his first challenge. Before the elections, both the Progressive Alliance parties operated under Yameen's leadership. The distinctions between them were artificial, and the PPM overshadowed the PNC. However, as Yameen was disqualified from contesting in the presidential elections, he asked the PPM-PNC to boycott the poll. Both parties opposed this decision. While no one from the PPM contested the elections, primaries were held between former ministers Adam Shareef and Muizzu. Muizzu, who emerged victorious, contested the presidential poll on a PNC ticket and was later endorsed as a common candidate of the Progressive Alliance.

Power Struggle

Tensions escalated between Yameen and Muizzu as the latter secured his presidency ticket.¹³ A politician formerly affiliated with Yameen remarked that Muizzu was not the first choice when Yameen was looking for candidates following his disqualification.¹⁴ Politicians across the spectrum, except for those from the PPM and PNC, have noted there appear to be brewing tensions within the Progressive Alliance since the early days of Muizzu's presidency. A senior MDP politician remarked that this conflict began "too early," before Muizzu's swearing-in and long before the parliamentary elections that were due in the first quarter of 2024.¹⁵ Others believed Muizzu's faction was already gaining an edge over Yameen's group.¹⁶ Most arrived at a common inference—the alliance would splinter, and Yameen would lead the PPM, and Muizzu would lead the PNC.

Notably, Muizzu facilitated Yameen's shift from prison to house arrest, fearing he might lose the people's sympathy and support if the former president continued to be imprisoned. At the same time, he remained hesitant to completely free Yameen over fears of a potential power struggle.¹⁷ As a result, Muizzu concentrated on strengthening his hold on the coalition. He was elected president of the PNC, and the party opened an office and a social media account distinct from the PPM. Party membership increased from 3,000 to 16,000 members by late November, with some leaving the

Muizzu's Political Challenges

PPM for the PNC.¹⁸ Several senior leaders from the PPM and Yameen's loyalists were also offered ministries in Muizzu's cabinet.^f

When Yameen's loyalists tried to regain control of the alliance and held a press conference, the PPM senior leadership, now part of Muizzu's cabinet, expelled them. This led to Yameen's resignation from PPM-PNC and the creation of a new party, the People's National Front (PNF). Following this, Muizzu took over the leadership of PPM.¹⁹ This led Yameen's loyalists and PNF members to call for Muizzu's resignation on the grounds that he used Yameen to muster sympathy and failed to free him.²⁰

With Yameen gone, Muizzu is attempting to consolidate power within the alliance. He is accommodating, promoting, and grooming inexperienced political activists to crucial portfolios to consolidate power and deter them from joining the PNF. As a result, Muizzu's administration currently has nearly 300 deputy and state ministers.²¹ This has also led "inexperience" and "naivety" to overshadow rational policymaking. Derogatory remarks made by three deputy ministers^g against Indians and Indian Prime Minister Narendra Modi on social platform X, and Muizzu's hesitancy to take any strict action against them, is just one instance indicating his priority of consolidating power within the party.²²

However, with new members in its fold, the PNC—and the Progressive Alliance, to some extent— is also facing some challenges. By January 2024, the PNC claimed to have increased its membership to 40,000.²³ New members expect more benefits, political appointments, and job opportunities from the ruling party. For instance, the alliance's primaries for parliamentary elections saw over 283 people contest for only 70 constituencies. This contrasts with the senior leadership's desire to promote their cadres and activists. A previous attempt to dismiss old party cadres and Yameen loyalists from contesting in the parliamentary primaries led to heated debates and exchanges.²⁴ This is contributing to some discontent and factionalism.

f Some of these leaders include Yameen's nephew and current defence minister Ghassan Maumoon; fisheries and ocean resources minister Ahmed Shiyam; Minister of Islamic Affairs Mohamed Shameem; and Abdul Raheem Abdulla, the current special advisor to the president.

g Including Mariyam Shiuna, the deputy minister of youth empowerment, information, and arts.

Parliament Elections

The next big challenge for Muizzu is to survive the political struggle between parliament and the presidency. Since transitioning to a multiparty democracy, the Maldives has faced a consistent tussle between parliament (the legislature) and the president (the executive). As a result, elected governments have been keen to secure a majority in parliament to ensure smooth administration, secure the presidential tenure by avoiding parliamentary impeachment, and minimise the politicisation of policies during the presidential tenure.²⁵

When Muizzu was sworn in in November, six MPs from the PPM-PNC coalition and one MP from alliance partner Maldives National Party (MNP) resigned from parliament to join his cabinet.^h Subsequently, the Progressive Alliance had only four MPs, and the coalition partners, the MNP and the Maldives Development Alliance (MDA) had two MPs each. In contrast, the MDP had 55 MPs, and The Democrats had 13 MPs. The Jumhoory Party (JP) and independents have two MPs each.²⁶ This means the ruling coalition and allies had just eight MPs, allowing the opposition (primarily the MDP and The Democrats) to exercise control over parliament. As a result, parliament has passed some amendments to the parliament's standing orders simplifying the process of impeaching the president and vice president. Anticipating continued difficulties amid this lack of support in parliament, Muizzu was able to woo 14 MPs (13 from MDP and one independent) to the PPM-PNC.²⁷ The ruling coalition now has 22 MPs on its side.

The power struggle between the parliament and the executive persists. The Democrats and the MDP are pushing to impeach Muizzu for 'harming' the country's democracy and have also rejected the appointment of three of Muizzu's cabinet ministers. On the other hand, the government has sought a Supreme Court intervention to nullify the amendment that facilitates the easy impeachment of the president and vice president. The president has also reappointed the three ministers who were rejected by parliament.²⁸

^h In the Maldives, the executive powers are separated from the legislative powers. A serving MP cannot be a cabinet minister and vice versa. The president nominates cabinet ministers. As per Article 78 of the Constitution, parliament vacancies should be filled within 60 days. However, by-elections cannot be held if the next parliamentary election is scheduled within six months of the vacancy. As such, parliament currently has only 80 MPs until the upcoming polls.

Muizzu's Political Challenges

To avoid such struggles, gaining a majority in the upcoming parliamentary elections is a priority for the ruling coalition; the Progressive Alliance aims to secure 62 parliamentary seats.²⁹ The PPM-PNC has also encouraged its partners, the MNP and MDA, to contest independently in the elections,³⁰ which will likely divide the opposition's vote base.

On the other hand, the MDP is exploring opportunities to collaborate with its ally, the Adhaalath Party (AP).³¹ The MDP has also expressed an interest in working with the JP in the upcoming elections.³² Being a new party, The Democrats are keen to contest the parliamentary poll to further their legitimacy.³³ Meanwhile, the PNF will also participate in the elections, with Yameen endorsing 47 candidates.³⁴

Yameen has reportedly also been in touch with different political parties, including the MDP and The Democrats since his power struggle with Muizzu began.³⁵ As past political developments indicate, parties will cooperate and collaborate against the ruling government despite internal differences. Factors that once favoured Muizzu's victory—such as the split of the MDP, anti-incumbency sentiments among people and political parties, and disinformation campaigns³⁶—will now be a disadvantage, as the government is at the receiving end. Additionally, the PNF contesting the parliamentary polls against the PPM-PNC could splinter the vote base.

Muizzu has continued to bet on his anti-India campaign and ideology for political gains. He is portraying himself as a nationalist leader, who is the defender and upholder of the country's sovereignty and independence. But such extreme anti-Indian and nationalistic posturing could be counterproductive. His foreign policy has already drawn criticism from The Democrats and the MDP;³⁷ sections of the public have also expressed discontent with Muizzu's anti-India posturing.³⁸

The PPM-PNC's failure to defend its mayoral seat in Malé,³⁹ which was left vacant following Muizzu's election as president, indicates that the ruling alliance will have a difficult time in the parliamentary elections.

The change in guard in the Maldives also comes when the economy is under severe stress. The country faces increasing debts, low revenues, and depleting foreign reserves. The Maldives’ revenues largely depend on import duties, tourism taxes, green taxes, and property incomes. As an archipelagic nation, the country has little economic diversification, domestic production, and revenue generation.⁴⁰

The economy has consistently run on a budget deficit, despite seeking assistance and grants. The government’s expenditures have always been high, even as the country’s revenues and expenditures have grown in the last decade (see Table 1). A significant part of this expenditure has been allocated to the salaries and allowances of government workers, social welfare, interests on loans, and subsidies.⁴¹ Government expenditure on mega infrastructure and housing projects and bureaucratic expansions to accommodate political appointments have also increased overall spending. The COVID-19 pandemic further impacted this balance by increasing expenses, limiting tourism, and hindering revenue by an estimated 33 percent.⁴²

Table 1: The Maldives’ Expenditure and Financing

Year	Revenue and grants	Expenditure
2012	MVR 10.13 bn (US\$650 mn)	MVR 13.2 bn (US\$850 mn)
2013	MVR 11.9 bn (US\$770 mn)	MVR 13.6 bn (US\$880 mn)
2014	MVR 15.16 bn (US\$980 mn)	MVR 16.5 bn (US\$1.07 bn)
2015	MVR 17.30 bn (US\$1.12 bn)	MVR 21.4 bn (US\$1.3 bn)
2016	MVR 18.57 bn (US\$1.2 bn)	MVR 25.3 bn (US\$ 1.6 bn)

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Year	Revenue and grants	Expenditure
2017	MVR 20.25 bn (US\$1.3 bn)	22.4 Bn MVR (US\$ 1.4 Bn)
2018	MVR 22.22 bn (US\$1.4 bn)	MVR 26.5 bn (US\$1.7 bn)
2019	MVR 23.23 bn (US\$1.5 bn)	MVR 28.9 bn (US\$1.87 bn)
2020	MVR 15.22 bn (US\$980 mn)	MVR 28.7 bn (US\$1.86 bn)
2021	MVR 19.67 bn (US\$1.2 bn)	MVR 32.5 bn (US\$2.1 bn)
2022	MVR 24.27 bn (US\$1.57 bn)	MVR 34.1 bn (US\$2.2 bn)
2023	MVR 27.97 bn (US\$1.8 bn)	MVR 36.1 bn (US\$2.3 bn)
2024	MVR 27.31 bn (US\$1.7 bn)	MVR 37.5 bn (US\$2.4 bn)

Note: US\$ values are estimates.

Source: Ministry of Finance and Economy⁴³

Budget deficits covered by domestic and external borrowing and assistance have contributed to more debts. The Maldives' borrowing is both domestic and external, with domestic debts dominating the debt portfolio. These debts mainly include treasury bills (58 percent), followed by bonds and loans, often with high interest rates and a shorter duration for repayment. For instance, in 2022, the Maldives repaid MVR 1.3 billion (about US\$84 million) in principal repayment and MVR 1.7 billion (about US\$110 million) in interest repayment.⁴⁴ The country has a high debt-to-GDP ratio, currently at 97 percent (see Table 2).

Table 2: The Maldives' Debt Composition

Year	Debt as a percentage of GDP	Outstanding External debt	Domestic debt
2020 (July-December)	117	MVR 25 bn (US\$1.6 bn)	MVR 42 bn (US\$2.7 bn)
2021 (January-June)	126	MVR 27 bn (US\$1.7 bn)	MVR 45 bn (US\$2.9 bn)
2021 (July-December)	99	MVR 32 bn (US\$ 2.07 Bn)	MVR 48 bn (US\$3.1 bn)
2022 (January-June)	107	MVR 32 bn (US\$2.07 bn)	MVR 54 bn (US\$3.4 bn)
2022 (July-December)	96	MVR 33 bn (US\$2.1 bn)	MVR 58 bn (US\$3.7 bn)
2023 (January-June)	97	MVR 34 bn (US\$2.2 bn)	MVR 67 bn (US\$4.3 bn)

Note: US\$ values are estimates.

Source: Ministry of Finance⁴⁵

In terms of external debts, the top sources are credits (36 percent), bonds (24 percent), multilateral agencies (20 percent), and bilateral agencies (15 percent). The government has used external financing for infrastructure, ports, energy, and sanitation projects as they are offered long-term and more favourable terms. In 2022, the Maldives repaid some of its external debts, amounting to MVR 2.4 billion (about US\$155 million) in principal amounts and MVR 1.7 billion (about US\$110 million) in interest rates.

The increase in overall debts contributes to more debt servicing (see Table 3). In the first six months of 2023, the government had to service MVR 2.9 billion (about US\$187 million) in debt.

Table 3: The Maldives’ Debt Servicing

Year	Domestic debt servicing	External debt servicing	Total Debt servicing
2019	MVR 500 mn (US\$32 mn)	MVR 1.6 bn (US\$103 mn)	MVR 2.1 bn (US\$135 mn)
2020	MVR 2 bn (US\$129 mn)	MVR 1.4 bn (US\$90 mn)	MVR 3.4 bn (US\$219 mn)
2021	MVR 2 bn (US\$129 mn)	MVR 4.4 bn (US\$285 mn)	MVR 6.4 bn (US\$414 mn)
2022	MVR 3 bn (US\$194 mn)	MVR 4.1 bn (US\$265 mn)	MVR 7.1 bn (US\$459 mn)

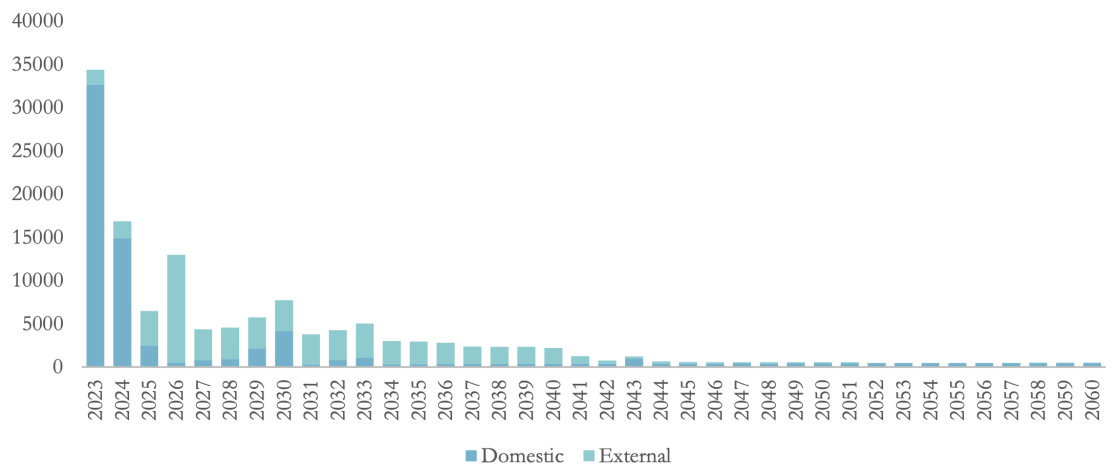
Note: US\$ values are estimates.

Source: Ministry of Finance⁴⁶

As of June 2023, the outstanding debt amounts to MVR 101 billion (about US\$6.5 billion).⁴⁷ The maturity of loans extends to 2060 (see Figure 1). Most domestic loans will mature by 2030, with external debts dominating the redemption profile thereafter. The Maldives will also have to repay a significant number of domestic loans in 2024, and external loans in 2026, both during Muizzu’s tenure (2023-2028). The World Bank has also stressed that by 2026, the Maldives will have to service nearly US\$1.07 billion in external debt, including US\$500 million for an Islamic bond and another US\$100 million for a private bond.⁴⁸

The Maldives is also struggling with foreign reserves. Debt repayments, the import of expensive fuel, a reduction in fish and seafood exports, inflation, the price rise of basic commodities, and increased imports have contributed to a severe depletion of foreign reserves. Notably, sensing the difficulties ahead, the Solih government began using India’s US\$400 million currency swap facility.⁴⁹

Figure 1: The Maldives' Debt Redemption Profile (2023-2026)



Source: Ministry of Finance⁵⁰

The country's official reserves declined from US\$790 million in January 2023 to US\$552 million in October 2023.⁵¹ While there was some increase in reserves in December 2023 (to US\$589 million), it reduced to US\$551 million by January 2024.⁵² Usable foreign reserves that are used for trade and everyday transactions also depleted from US\$254 million in January 2023 to US\$91 million by October 2023.⁵³ Such a reduction in foreign reserves at a time of inflation and increasing debt servicing highlights the crucial economic challenges before the Muizzu administration.

Additionally, the IMF has noted that the country's overall fiscal deficit and public debts are projected to be high, and the economy is at a high risk of external and overall debt distress, especially with high fuel inflation, and increasing imports. The World Bank also noted that fiscal and external deficits put the country at risk. Both bodies have urged the government to raise revenues, limit expenditure, maintain balance of payments, and manage debts efficiently.⁵⁴

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To overcome the crisis, Muizzu's government plans to raise US\$200 million from foreign sources for budget support.⁵⁵ An estimated US\$550 million in external aid is also projected for 2024.⁵⁶ In addition, payments for the services offered by the Malé' Commercial Harbour are being collected in dollars, for the first time since 2008.⁵⁷ The government is also working on a homegrown fiscal reform agenda; reforms to promote targeted income transfers, the healthcare system, and state-owned enterprises (SOEs) have been initiated.⁵⁸ The World Bank is also helping the Maldives rectify SOEs' economic difficulties.⁵⁹ Muizzu has also slashed the minimum rate of foreign investments to promote exports and foreign investments.⁶⁰

However, the government has also continued to propose several crucial mega infrastructure projects that will account for more expenditure or debts. For instance, the Maldives Industrial Development Free Zone, an SOE, will develop the Maldives Economic Gateway project in Ihavandhoo, which will entail a transshipment facility, a special economic zone, and ship repair and export processing zones.⁶¹ The Maldives Eco City project (also known as the Ras Malé project) will be the largest land reclamation project in the country, will consist of 65,000 housing units, and will be linked to the capital with an underwater train tunnel. The island will also be connected to a proposed airstrip.⁶²

In addition, the government is keen on shifting the Malé Commercial Port to Gulhifalhu. Nearly 40,000 housing units are promised to the country's northern and southern atolls. The government is also making progress on several bridges, such as linking Giraavaru and Thilafushi of Malé Atoll, Thinadhoo and Kaadedhdhoo of Huvadhu Atoll, and Hithadhoo and Hulhumeedhoo of Addu City.⁶³

Several airport projects are also making progress, adding to the public expenditure. Muizzu has pledged to develop 15 new airports, nearly doubling the number of domestic airports in the country (currently, 16). Initial contracting work has also commenced with two international airport projects: Thinadhoo and Villingili. Some domestic and international airports, such as Hanimaadhoo Kaadedhdhoo, Funadhoo, Fuvahmulah, and the main airport, Velana International Airport (VIA), are being upgraded. The latter upgrade will accommodate 25 million passengers, up

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from the current seven million passengers. The seaplane terminal adjoining the airport will also be shifted to Funadhoo island of Malé Atoll, which will, in turn, be connected to Malé island, the airport, and Hulhumale island through a bridge and monorail system.⁶⁴

Such mega infrastructure projects will contribute to fresh loans, expenditure, and trade deficits since all the goods will be imported. Thus, the budget and trade deficit and debt will continue to be an issue for Muizzu, and even his successors. The government will have to raise foreign reserves with external assistance and restructure its debts. The crisis in Sri Lanka—due to similar problems of declining foreign reserves, sustaining import and budget deficits, and continued borrowing from capital markets—should serve as a grim example for the Muizzu government.

“The Maldives’ economy is under severe stress due to increasing debts, low revenues, and depleting foreign reserves.”

Social Challenges in the Maldives

Besides economic and political challenges, Muizzu's government will have to face some crucial social challenges, such as the increasing presence and influence of hardliners, criminals, gangs, and extremists in the country.

Islamism

A crucial challenge for Muizzu is controlling the growing influence of Islamists and hardliners in the Maldives. The 2004 tsunami and the 2008 shift to democracy offered several hardliners educated in the Arab world and Pakistan an opportunity to openly preach their ideology under the pretext of freedom of speech and expression.

In an entirely Sunni Muslim country, politicians and political parties often collaborate and cooperate with hardliners for political benefits and even accommodate them in crucial portfolios. Maldivian presidents have been doing this since the Gayoom era, but the practice has grown since democracy emerged in 2008. As a result, the hardline interpretation of Islam now has a firmer presence in the country, at the cost of local practices and customs.⁶⁵

Although all political parties enjoy this proximity with hardliners, some of the most influential organisations, such as the Jamiyyathul Salaf (JS), have preferred working with the PPM-PNC over the MDP (and The Democrats), whom they consider to be more pro-Western and a threat to Islamic principles.⁶⁶ In the past, the hardliners had worked with the opposition (including the PPM leadership) to force Nasheed to resign.⁶⁷ The PPM-PNC's stance of distancing from the West under Yameen and accusing them of threatening Islamic values furthered their prospects of working with the hardliners.

This relationship is expected to continue under the Muizzu government. In conversation with this author, one politician mentioned that several of Muizzu's family members are in the JS leadership, and hardliners and the JS played a crucial role in helping Muizzu win the presidential election.

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Another politician mentioned that Muizzu's family was, in fact, one of the first to embrace Salafism in the Maldives.

Muizzu sees political benefits in wooing the hardliners and toeing their line, especially at a time when Yameen's party and the upcoming parliamentary elections pose challenges to his government. Notably, Muizzu's administration is considering implementing the death penalty,⁶⁸ which has been a long-standing demand of the hardliners. As the elections approach, the PPM-PNC will seek to appease the hardliners for rallies and votes.

Islamism is also contributing to Muizzu's anti-India posturing. The hardliners have often portrayed India as a threat to the Maldives and Islam, and this narrative is being furthered by increasing Islamisation. Specifically, the concept of *Ummah* (Islamic brotherhood) has made more inroads in society. As a result, many sections of society, such as some journalists, have used Indian politics as a pretext to portray the country negatively and as a threat to Islam.

The Islamists have also occasionally participated in campaign rallies.⁶⁹ Their role was crucial in the Yoga Day violence of June 2022, where they blamed India and the MDP for promoting 'unIslamic' values in the country. Since coming to power, Muizzu has seen two benefits of his anti-India stance: the ability to muster support from Islamists and cater to his voter base by portraying India as a threat to the country and Islam.

Youth, Crime, and Extremism

The growing influence of Islamists is also closely intertwined with extremism. Maldives has the highest per-capita foreign fighters in the world, and, in 2019, the Solih government acknowledged that around 1,400 people in the country followed the ideology of the Islamic State. This extremism is fuelled by the country's socioeconomic challenges, and used by politicians, Islamists, and criminals. Returning fighters from Syria and Afghanistan have also been crucial in spreading the extremist ideology.⁷⁰ This challenge has continued to grow under subsequent administrations.

Social Challenges in the Maldives

Table 4: Instances of Extremist Attacks in the Maldives (2007 onwards)

Year	Incident
September 2007	Bomb explosion injures 12 people. First terror attack in the Maldives in Sultan Park, Malé.
October 2007	Confrontation between the Maldivian security forces and extremists at the Dar-UI-Khair Mosque in Himandhoo.
February 2012	Buddhist artefacts vandalised at the National Museum in Malé.
October 2012	Afrasheem Ali, liberal religious scholar and a MDP MP, assassinated..
August 2014	Journalist Ahmed Rilwan abducted and killed.
September 2015	Hundreds of protestors denounce democracy; hoist Al-Nusra and Islamic State flags.
April 2017	Blogger Yameen Rasheed stabbed to death.
February 2020	Three foreign nationals stabbed in Hulhumale.
April 2020	Arson attacks on boats docked in a harbour; Islamic State claims attacks.
May 2021	Former president and then-speaker Mohamed Nasheed targeted in a bomb blast.
June 2022	Extremist mob disrupts Yoga Day celebrations.

Source: Observer Research Foundation⁷¹

A 2019 survey by the Maldives’ Ministry of Defence, the Embassy of Japan, and the United Nations Development Programme indicated that the youth are disenchanted and alienated from the government.⁷² There is an increasing gap between the youth’s education qualifications and the job market. Further, the youth bear high accommodation expenses and witness corruption and crime. This has contributed to an erosion of faith in democracy, making some youth more vulnerable to drug trafficking and gangs. In some cases, these youngsters also become a direct target of extremists for recruitment.⁷³

Social Challenges in the Maldives

Young political activists expressed similar concerns to the author, noting increased youth unemployment, housing costs, congestion, and a lack of recreational activities, leading youngsters to join gangs and commit crime. In some cases, the youth hint at a mismatch between their aspirations and job opportunities offered by the hotel and tourism sectors, the key employment providers in the Maldives.⁷⁴

This concern is well-acknowledged across the political spectrum. One politician remarked that “gangs are a reality in the Maldives”, and every government incorporates and interacts with them, giving them some political immunity.ⁱ Anecdotal evidence suggests that Malé currently has about 30 gangs that mostly enjoy political impunity and have close relations with all political parties. Similarly, Addu, the second major city, has close to 15 operating gangs. Both cities saw an increase in gang activities in the days following Muizzu’s swearing-in, especially since the police commissioner had yet to be appointed,^j indicating the extent of violence and gang activities.⁷⁵

A significant cause of concern is that several criminals and drug addicts have been easy targets for extremists. They are often lured to fight elsewhere with a promise of a good life through *Jihad*. For instance, nearly 50 percent of the Maldivian fighters in Syria had some criminal background.⁷⁶

Most criminal and extremist activities go without punishment. For instance, of the 188 cases related to extremism between 2014 and 2019, only 14 have been prosecuted.⁷⁷ In June 2023, the US even released a list of 18 supporters and 29 associated companies who were assisting the Islamic State and al-Qaeda, but some of these individuals and organisations continue to operate in the open due to their political links and related impunity.

The Solih government had increased rehabilitation programmes in the Maldives, mostly to appease the West.⁷⁸ These families of fighters are now

i All governments have interacted with and inculcated gangs by asking them to join political rallies and protests and intimidate political opposition. In return, these gangs receive favours from the government in the form of construction projects and are also offered immunity and autonomy to operate freely.

j In the Maldives, the Commissioner of Police is the top-rank police official in the country.

Social Challenges in the Maldives

being rehabilitated in the country under Muizzu's administration. Five families have already been brought back from the Türkiye-Syria border and are being rehabilitated.⁷⁹ There are also discussions on maintaining one central prison for the country and shutting down the others for logistical reasons.⁸⁰ Although prisoners might be segregated, risks are high with the potential interactions between criminals, extremists, and hardliners.

A report by the Solih government indicated how global developments, especially in Iraq, Afghanistan, and Syria, facilitated the easy entry of extremist ideology into the country. Some locals also expressed concerns about a possible increase in extremism amid the ongoing situation in Gaza and the consequent impact on tourism. Indeed, there have been calls to boycott Israeli passports and certain food franchises (with some franchises vandalised).⁸¹

Notably, these social challenges are not of Muizzu's making. Most of these issues are deeply entangled with the Maldives' society, economy, and politics and are a product of successive governments and their policy failures. These challenges have widened exponentially in recent years and will only continue to grow if not countered. To what extent Muizzu's government will be able to mitigate these challenges is yet to be seen, especially since many in the opposition continue to link the government with gangs and criminals.⁸² Issues such as youth unemployment, increasing crimes, and developments in Gaza have only exacerbated these challenges.

“Issues such as youth unemployment, increasing crimes, and developments in Gaza have only exacerbated the Maldives' extremist and Islamist challenges.”

The Key Strategic Imperatives

So far, Muizzu’s foreign policy aims to reduce the Maldives’ dependency on India, amplify relations with China, and diversify relations with other countries.

India

Factors such as nationalism, the upcoming parliamentary elections, appeasing Islamists, and the turn towards China are motivating the government to distance itself from India. But Muizzu has not yet wholly distanced from India. For Muizzu, the withdrawal of Indian troops seems to be a precondition for any working relationship with India.^{k,83} Some politicians not affiliated with the government stressed that despite the ‘India Out’ campaign being a political gimmick, Muizzu will have to ask Indian troops in the Maldives to leave to save face.⁸⁴

Since the early days of his presidency, Muizzu has repeatedly asked India to withdraw its troops stationed in the country. Following his electoral victory, he conveyed the issue to the Indian High Commissioner, reiterated his demands to the Indian Minister of Earth Sciences during his swearing-in ceremony, and raised the same demand with Modi on the sidelines of the COP28 Summit in the UAE. This resulted in both countries establishing a high-level committee to discuss the withdrawal of troops and explore further areas of cooperation.⁸⁵

In January, following his state visit to China, Muizzu told India it must withdraw its troops by 15 March 2024 but agreed to let Indian civilian experts continue operating the Dornier aircraft and two helicopters. The Muizzu administration also reportedly stopped permitting Indian aircraft to conduct evacuation and emergency response missions, which even led to the death of two civilians.⁸⁶

India, keen on exploring mutually workable solutions to continue operating the Dornier and helicopters, has agreed to replace its troops with civilian experts. In the first two committee meetings, the deadline to

^k The Muizzu administration is asking India to withdraw its 88 military personnel deployed in the Maldives to operate the helicopters and the Dornier aircraft that were gifted to the Maldives. These military personnel are now being replaced by Indian civilian experts.

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withdraw troops was scheduled in phases between 10 March and 10 May 2024. The first batch of military personnel operating a helicopter in Addu left the country on 10 March, handing it over to Indian civilian experts.⁸⁷ Following the third committee meeting, held on 17 March, the second batch of troop withdrawals is expected to occur by 10 April.⁸⁸

Concurrent with these discussions, the government is promoting a nationalistic image by reducing its engagements with India and diversifying its relations with others across various sectors. In terms of defence cooperation, the government is focusing on capacity-building initiatives with other countries. India's role in humanitarian assistance and disaster response operations and patrolling exclusive economic zones (EEZs) has decreased with Muizzu not permitting the Indian aircraft to operate.

In December, the government decided not to renew the hydrography agreement, which expires in June 2024.⁸⁹ This issue was a prime concern of the PPM-PNC during the 'India Out' campaign.⁹⁰ The Maldives was absent from the Sixth National Security Advisor meeting of the Colombo Security Conclave held in Mauritius, while Vice President Hussain Latheef attended China's Indian Ocean Region Forum on the exact dates. Notably, the country was present in the 'Dosti' maritime exercise alongside India and Sri Lanka, demonstrating that Muizzu is not entirely ruling out defence cooperation with India.⁹¹ Muizzu has also introduced an air ambulance system for search and rescue missions and air evacuation to reduce the dependence on India.⁹²

Muizzu was the first Maldivian president to break the tradition of visiting India for his maiden foreign trip. His first official visit was to Türkiye in December 2023, and his first state visit was to China in January 2024. Muizzu's visit to China coincided with tensions escalating between India and the Maldives when three Maldivian ministers made derogatory remarks against India and Modi, with Indians, in turn, urging a boycott of the Maldives.⁹³ Muizzu refused to criticise his ministers for their remarks, calling India a "bully", and stressed the need to diversify away from India in multiple sectors,⁹⁴ including health insurance coverages and importing drugs and food staples.⁹⁵

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India's role in development assistance to the Maldives is also being minimised. The Maldivian government has not offered any updates about the Indian government-funded Addu Police Academy and the UTF Coast Guard Harbour, which were subject to disinformation about Indian troops being based at these facilities during the 'India Out' campaign.⁹⁶ There is also ambiguity concerning the land reclamation and port project in Gulhifalhu funded by the Exim Bank of India. While the Exim Bank maintains that only Indian firms can bid to build the port, the Maldivian government has, in keeping with Muizzu's previous demands, proposed to shift the project to the neighbouring Thilafushi island; the administration is also asking for fresh investments for the port.⁹⁷ Nonetheless, the government is proceeding with some crucial projects like the Greater Malé Connectivity Project and Hulhumale housing projects.⁹⁸ India has also finished a new runway at the Hanimaadhoo Airport, and the government has hinted at extending the runway further through Indian assistance.⁹⁹

China

Four factors are likely contributing to the Muizzu administration's closer relations with Beijing: diversification from India for domestic reasons; ties between China and the PPM-PNC's senior leadership, specifically with Muizzu since his days as a housing minister;¹⁰⁰ the perception of China being "pro-efficient" for their timely completion of projects;¹⁰¹ China's deep pockets and ability to invest in infrastructure projects (as promised by Muizzu), and further improve his political prospects.

Even before Muizzu was sworn in, Maldivian politicians expected that ties between Beijing and Malé would improve over his term, especially in terms of investments and economic cooperation.¹⁰² Conversations with a former PPM leader indicated that China has been discussing the need to push for BRI projects from the Muizzu administration's earlier days.¹⁰³ In December, Foreign Minister Moosa Zameer held discussions with the China-dominated Asian Infrastructure Investment Bank to seek funding opportunities for the development of infrastructure, airports, and solar

¹ As a housing minister and mayor of Malé before being elected president, Muizzu was crucial in implementing several Chinese projects, including the Sinamale bridge that connects Malé to Hulhumale and the Velana International Airport.

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energy,¹⁰⁴ and Latheef and Trade Minister Mohamed Saeed visited China, returning with assurances of more developmental projects, direct flights, and investments.¹⁰⁵

However, in its initial days, China hesitated to engage with the new government overtly. A former PPM leader noted that China was upset by the Yameen-Muizzu split and was waiting for the parliamentary elections to see if the new government would be more stable. However, this equation seems to have changed, with 14 new MPs joining PPM-PNC in late December.

Muizzu's state visit to China in January will likely set the stage for the Maldives' relations with China over the next five years. During the visit, Muizzu resolved China's two biggest irritants with the previous Maldivian government by agreeing to revive BRI projects and the FTA. The Maldives also supported China's Global Development Initiative, Global Security Initiative, and Global Civilization Initiative, indicating a turn towards deeper economic, defence, people-to-people, and cultural relations between the two countries.¹⁰⁶ During the visit, the countries signed 20 memoranda of understanding (MoUs) to promote cooperation in the blue, digital, and green economy, economic development, human resource development, disaster reduction, media collaboration, BRI projects, fisheries processing factories, tourism, health, and agriculture.¹⁰⁷

Agreements, such as building 30,000 housing units in Ras Malé island, the expansion of the VIA, the redevelopment of roads in the Greater Malé' region, the China-Maldives Strategic Comprehensive Partnership (2024-2028) action plan, and grant in aid worth US\$130 million,¹⁰⁸ are likely to increase Chinese influence in the country. Muizzu also urged China to reclaim and sustain its spot as the Maldives' top tourist source and to increase direct flights.¹⁰⁹

During Muizzu's visit, China also agreed to offer a five-year grace period for existing loans. Given the economic situation, Muizzu's government was expected to restructure debt with China; the Maldives owes China an estimated US\$1.5 billion.¹¹⁰ Data indicates that, by June 2023, the Export-Import Bank of China held the largest share of external debts in the Maldives (25 percent), followed by bondholders (22 percent) and the Exim

Bank of India (13 percent).¹¹¹ The slow decline of Chinese Exim loans (see Table 5) and the increase in Indian loans indicate that the Maldives has been servicing Chinese loans in recent years, even as Indian loans have continued to increase. Nearly 63 percent of India’s committed loans remain undisbursed, meaning the Chinese loans have continued to mature in recent years and are contributing to a decline in Maldives’ foreign reserves.

Table 5: Outstanding External Debts (as of June 2023)

	2020 (July-December)	2021 (January-June)	2021 (July-December)	2022 (January-June)	2022 (July-December)	2023 (January-June)
Export-Import Bank of China	MVR 9.4 bn (US\$608 mn)	MVR 9.4 bn (US\$608 mn)	MVR 10.2 bn (US\$660 mn)	MVR 9.6 bn (US\$621 mn)	MVR 9.1 bn (US\$588 mn)	MVR 8.5 bn (US\$550 mn)
External bondholders	MVR 3.9 bn (US\$252 mn)	MVR 5.5 bn (US\$355 mn)	MVR 8.6 bn (US\$556 mn)	MVR 7.7 bn (US\$498 mn)	MVR 7.7 bn (US\$498 mn)	MVR 7.7 bn (US\$498 mn)
Exim Bank of India	MVR 100 mn (US\$6 mn)	MVR 200 mn (US\$12.9 mn)	MVR 1.4 bn (US\$90 mn)	MVR 2.0 bn (US\$129 mn)	MVR 3.3 bn (US\$213 mn)	MVR 4.4 bn (US\$284 mn)

Note: US\$ values are estimates.

Source: Ministry of Finance¹¹²

Notably, during his visit to China, Muizzu distanced himself from India, and his government permitted the Chinese spy ship Xiang Yang Hong 3 to dock in Malé for the “rotation of personnel and replenishment.” The ship arrived in the Maldives on 22 February and researched around the country’s EEZ before and after the docking.¹¹³ On 5 March, the Muizzu government finalised a MoU with China that would provide non-lethal weaponry and training to the Maldives at no cost.¹¹⁴ On the same day, Muizzu met the president of the Export-Import Bank of China, the

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Maldives' largest external lender.¹¹⁵ Recently, the Maldives also signed an agreement with China to develop an agricultural zone in the UTF, which is close to India's coastguard harbour project.¹¹⁶ This indicates the possibility of more cooperation on bilateral issues and debt restructuring between China and the Maldives.

Beyond India and China

Muizzu is also looking to diversify the country's relations with other countries. This is to reduce dependence on India, promote economic and national interests, and avoid, to some extent, a total reliance on China and completely antagonise India.

Muizzu met the UK High Commissioner after winning the election, even before the Chinese and Indian envoys.¹¹⁷ This meeting likely indicates his willingness to continue negotiations on the FTA, promote tourism, and further enhance the bilateral relationship with the UK. Some also saw this move as an initiative to shun the anti-Western image that his party had during Yameen's rule.¹¹⁸ This development comes at a time when like-minded democratic countries such as Australia, the US, and the UK are marking their presence in the country and assisting in sectors such as disaster preparedness, capacity building, and governance, where India and China are not extensively involved.^{m,119} Muizzu has also requested increased US aid and security and defence cooperation. The US has also pledged four patrol boats for the Maldivian navy and is discussing handing over an aircraft.¹²⁰

Muizzu has also leveraged religion to diversify relations with Islamic countries. Before his swearing-in, Muizzu flew to Singapore and the UAE on unofficial visits, securing a US\$80 million fund for the VIA from the UAE.¹²¹ Muizzu also held discussions with Saudi Arabia's economy and planning minister, who attended his swearing-in ceremony. Following this, the Saudi Council of Ministers decided to sign a trade agreement to ease trade regulations and promote the fishing and tourism industries in both

m Australia and the US opened their embassies in the Maldives in 2023. In 2020, the US signed a defence agreement with the Maldives under the Solih administration.

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countries.¹²² However, Muizzu's planned visit to Saudi Arabia as his maiden foreign destination¹²³ was called off at the last minute for unknown reasons.

Muizzu's maiden foreign visit as president of the Maldives was to Türkiye, where the two sides signed an agreement to enhance trade, investments, and cooperation while also discussing reducing tariffs on fish exports.¹²⁴ Muizzu also signed an agreement to purchase an undisclosed number of Bayraktar TB2 drones worth US\$37 million. Three of these drones were inaugurated in March 2024 and were part of the first-ever Air Corps of the Maldives. The Corps will conduct aerial surveillance, secure infrastructure, and launch search and rescue operations and attack operations. Türkiye has also trained Maldivian soldiers to operate these drones. The country will increase the capacity of the Maldives' coast guard.¹²⁵

The Maldives also plans to import more food staples from Türkiye to reduce its dependence on India. He has also stated that he will diversify health insurance coverage to Thailand and UAE and import drugs from Europe and the US.¹²⁶ The Maldives has also introduced an air ambulance system with Sri Lanka, enabling medical evacuation and admission of Maldivian patients in the country.¹²⁷

The Maldives also seeks to diversify development partners and avoid vulnerability to great power politics. For instance, the US\$400-600 million Thinadhoo International Airport project is being contracted to a Thai company, with the government proposing to offer islands to be developed into resorts.¹²⁸ The airport project in Villingili, worth US\$500-750 million, is also being offered to a Belgian company.¹²⁹ Media reports also suggest that Muizzu preferred Egyptian firms over Chinese firms when constructing the Addu city bridge.¹³⁰ Muizzu's willingness to allocate these projects to non-Chinese firms is likely due to two reasons: he wants to avoid complete reliance on China, and since some of these projects include the possibility of leasing islands, he wants to prevent completely antagonising India.

Foreign Policy Challenges

The Maldives' evolving foreign policy of curtailing relations with India will depend upon New Delhi's ability to tolerate the former's agency. India's policy towards the Maldives has so far been accommodative.¹³¹ Unlike during Yameen's tenure, India has now agreed to withdraw its troops from the country and has even offered a grant of US\$93 million.¹³² However, as Muizzu seeks to cooperate with other countries, such as China and Türkiye, particularly in defence, India may see this as an infringement on its security calculations. This will likely compel New Delhi to opt for a harsher stance. Multiple episodes of Indian Coast Guard personnel boarding Maldivian fishing vessels within its EEZ indicate this is a real possibility.¹³³ It would also be challenging to push non-regional powers to cooperate on trafficking, emergencies, and protecting the EEZs. Further, with the growing risks of extremism, piracy, maritime accidents, and emergencies in the Indian Ocean Region, India will be the first responder due to its naval capacity and geographical proximity. Notably, India's geographic proximity to the Maldives makes goods, drugs, and healthcare from the country cheaper for Maldivians than from other countries.

Exim loans from China increased during the Yameen years, while Exim loans from India increased during Solih's tenure. However, India has been more generous in offering grants and budget assistance, and China has primarily focused on commercial lending. Recently, while China offered US\$130 million in grants, India has also offered a grant of US\$93 million despite recent strained relations. Given the Maldives' economic difficulties, this nature of grant assistance from India will be challenging to ignore.

Table 6: Indian and Chinese grants and loans to the Maldives

Year	Grants (China)	Grants (India)	Loans (China Exim)	Loans (India Exim)
2012	-	MVR 37.2 mn (US\$2.4 mn)	MVR 471.9 mn (US\$30.5 mn)	MVR 102 mn (US\$6.6 mn)
2013	-	MVR 17.1 mn (US\$1.1 mn)	MVR 816.5 mn (US\$52 mn)	-
2014	MVR 1.5 mn (US\$0.09 mn)	MVR 24.4 mn (US\$1.5 mn)	-	MVR 18.7 mn (US\$1.2 mn)
2015	MVR 17.5 mn (US\$1.13 mn)	-	MVR 408.2 mn (US\$26 mn)	MVR 99.1 mn (US\$6.4 mn)
2016	MVR 24.5 mn (US\$1.58 mn)	MVR 3.7 mn (US\$0.23 mn)	MVR 2,682 mn (US\$173 mn)	-
2017	MVR 2.6 mn (US\$0.16 mn)	-	MVR 1,059.8 mn (US\$68 mn)	-
2018	-	MVR 383.8 mn (US\$24.7 mn)	-	-
2019	MVR 6.2 mn (US\$0.4 mn)	MVR 876.4 mn (US\$56.7 mn)	MVR 968.1 mn (US\$62 mn)	-
2020	-	MVR 22.0 mn (US\$1.4 mn)	-	MVR 1.6 mn (US\$0.1 mn)
2021	-	MVR 75 mn (US\$4.8 mn)	-	MVR 982 mn (US\$63 mn)
2022	-	MVR 120.4 mn (US\$ 7.7 mn)	-	MVR 1,252 mn (US\$81 mn)

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Year	Grants (China)	Grants (India)	Loans (China Exim)	Loans (India Exim)
2023	-	MVR 2,502 mn (US\$ 161 mn)	-	MVR 1,129 mn (US\$73 mn)
2024	-	MVR 200 mn (US\$12.9 mn)	-	MVR 1,779 mn (US\$115 mn)

Note: US\$ values are estimates. The table does not include China and India's recent pledges of US\$130 million and US\$93 million, respectively.

Source: Ministry of Finance¹³⁴

By the end of 2023, it was estimated that the Maldives owed MVR 6.2 billion (about US\$400 million) to India.¹³⁵ Commercial borrowings make up most of the Maldives' borrowings. The previous government had borrowed bonds from the State Bank of India (SBI) with India's help on multiple occasions. The loans could be rolled over till 2030. However, the government recently repaid a bond of US\$50 million to SBI rather than rolling over due to the compounding interest of 4-4.5 percent. Prospects of such repayments appear bleak for the future, as the government faces a shortage of foreign reserves. The Maldives will need India's assistance to repay or restructure bilateral and commercial borrowings.¹³⁶ Muizzu has already requested that India assist in debt restructuring.¹³⁷

While there is ambiguity with certain Indian projects, Muizzu will also not be able to cancel Indian projects that are primarily on grants when its economy is already weak. The Maldives' history of cancelling projects by India's GMR Group and the associated litigation costs have proven to be expensive.¹³⁸ On the other hand, China's track record of prolonged negotiations over debt restructuring, as seen in Sri Lanka's experience, poorly performing economy, and recent preference for soft power over mega infrastructure projects through the BRI in South Asia,ⁿ poses questions about China's commitments to deliver on Muizzu's expectations.¹³⁹

ⁿ With BRI projects reaching a standstill in South Asia for political and economic reasons, China has started pushing for more soft power-based cooperation over mega infrastructure projects as they are less prone to risks and uncertainties in the region. The Silk Roadster programme in Nepal is an example of this push for soft power under the BRI banner.

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Extensive economic engagement with China might be counterproductive. For instance, implementing the FTA with China could create a more significant trade deficit and reduce import revenues; about 80 percent of goods will be subject to an exemption, impacting revenue by almost US\$41 million.¹⁴⁰ This will exacerbate economic distress, deplete the foreign reserves, and impact revenue generation.

The Maldives' ability to exercise agency with other countries is also limited. The Gulf's commitment and capacity to invest in the Indian Ocean Region are limited, and the West's strategic priorities in the region are overshadowed by concerns in the Pacific and Eastern Indian Ocean. Furthermore, the West continues to see the Maldives as part of the Indian sphere of influence. The West remains sceptical of Chinese engagements in the country and considers India a "bigger force" in the region.¹⁴¹ Closer relations with China might also distance the West and impede the Maldives' agency.

This diversification and sidelining of India will have both political and economic costs for Muizzu. The Democrats and the MDP have already criticised Muizzu's foreign policy, urging him to maintain close relations with the country's traditional partner (India). Muizzu's foreign policy and proximity to China will also be assessed closely. His opaque agreements with China and the decision to dock the spy ship have already generated significant interest in Maldivian social media and news media.¹⁴²

Implications for the Maldives

The Maldives' current economic, political, social, and strategic challenges will have lasting implications for the country.

Political: The country's political fate and stability depend on the upcoming parliamentary elections. For now, it seems that Muizzu's administration will have difficulty securing a supermajority of 62 seats in parliament. Muizzu has consolidated power within the ruling party by grooming his loyalists and making political appointments. This has limited the prospects of accommodating Yameen and loyalists, activists, and cadres. Moreover, Muizzu's appointments also contribute to a weaker and inexperienced administration and, to some extent, factionalism.

After alienating Yameen and antagonising The Democrats and the MDP, the PPM-PNC will face difficulties in the upcoming elections. Yameen's PNF remains keen on splintering the PPM-PNC vote base, and the MDP and The Democrats remain largely opposed to Muizzu. This means that parliament will likely have more opposition parties, and the government will be prone to politicisation and challenges in parliament. The calls for impeachment and the enduring parliament-presidency struggle will likely intensify if the ruling party fails to secure a supermajority.

Nationalism and the upcoming parliamentary elections are key factors contributing to Muizzu's India policy. While this stance will likely undergo some changes following the parliamentary polls, the direction of the policy remains unknown. Muizzu's weak hold over parliament could lead to more nationalist rhetoric against India and weaker relations with China due to parliamentary pressures. On the other hand, his stronger hold over the parliament could lead to a less nationalistic policy and a more confident pro-China policy. Indeed, Muizzu's ability to balance relations with India and China after the elections will test the flexibility of New Delhi's accommodative policy.

Economic: Declining foreign reserves, budget and revenue deficits, and extensive borrowing from the capital market have continued to put the Maldives' economy under severe stress. Debt restructuring from India or China will not offer a long-term solution. The Maldives will have to invest

Implications for the Maldives

the next five years in expanding its exports and revenue sources. However, the administration continues pushing for mega infrastructure projects, which will increase its expenditure and borrowings. Without quick action and political consensus on economic recovery, there is a likelihood that the Maldives could go the Sri Lanka way.

Extensive reliance on China's opaque assistance for the next five years, the FTA, and high-interest loans could only exacerbate the Maldives' economic issues. It might also alienate India and other Western powers from offering more financial assistance through bilateral means or even international institutions. This might also lead to more politicisation from the opposition, who have criticised China in the past for "debt trapping" the Maldives. The Muizzu administration must begin considering a balanced foreign policy to trade with India and attract its investments, assistance, and debt relief.

Social: Economic hardships and political instability might increase crimes, gang activities, and the influence of hardliners. This will exacerbate the new government's challenges, as it enjoys good relations with hardliners and gangs. A lack of balance between these entities and the country's democratic values might also affect the Maldives' foreign policy with India and the West.

Housing projects built with assistance from China and India could help reduce these social issues to some extent. The government will also need India to coordinate and cooperate on drug trafficking and maritime crimes. Cooperation with the Colombo Security Conclave will be crucial to secure the Maldives' waters and EEZs. The country will also need the West, especially the US, to continue cooperating on counterterrorism and capacity building.

Foreign policy: The country's economic, political, and social climate makes balancing between India and China the most reasonable option. However, Muizzu's preference for China as a reliable partner for ideological, personal, and strategic reasons will fuel domestic, ideological, and economic uncertainty. Additionally, new agreements and China's use of the Maldives to subvert Indian interests might reduce Malé's flexibility to reconcile with New Delhi when needed.

Implications for the Maldives

New Delhi is also unlikely to view in any positive way the Maldives' deepening ties with China and other countries to end India's strategic leverages. Indeed, India may opt to take a harsh stance if the Maldives continues to harm its interests. What is certain is that the partisanship nature of the Maldives' foreign policy will persist or even worsen in the future, with subsequent governments preferring a partnership with India or China based on the party in power, if the Muizzu government continues to maintain the same policy.

“The country's economic, political, and social climate makes balancing between India and China the most reasonable option. However, Muizzu's preference for China as a reliable partner for ideological, personal, and strategic reasons will fuel domestic and economic uncertainty.”

This paper has highlighted crucial challenges confronting the Muizzu-led Maldives. The economy continues to run on budget and import deficits. Furthermore, the country continues to face severe foreign reserve depletion as its loans mature. Politically, Muizzu has managed to gain control of the PPM-PNC, but a crucial test will be to secure a parliamentary majority in the April 2024 polls. Muizzu will also have to confront broader social challenges such as drug trafficking, increasing crime, and extremism. Strategically, the Maldives is keen to move away from India and boost relations with China and other countries. Even if Muizzu's ruling coalition secures a parliamentary majority, the next five years will be no cakewalk for his government.

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