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MALDIVES



# Maldives Indian Ocean paradise

Picture-perfect archipelago opens up to Chinese investors.

**T**he Indian Ocean Maldives islands have for many years been the picture-postcard image of paradise. As well as this, they have an economy that has grown at an impressive average of 9% over the last 15 years. The tsunami of 2004 temporarily damaged tourism and other industries, but now the government of President Maumoon Abdul Gayoom is keen to emphasize that the 1,190-island republic is almost back to its former self, and has embarked on major political reforms, including the introduction of a multi-party system and a revised business-friendly constitution. The nation is simultaneously opening up to Chinese tourists and investors now as never before.

In September, President Gayoom made a state visit to China, where he pledged to establish an embassy in China and appointed an Honorary Consul in Shanghai. Gayoom noted that Chinese tourist arrivals had registered a sustained increase since the Maldives was placed on China's list of approved tourist destinations in 2001. He says: "We get many tourists from China, 11-12,000 last year, and this year 15-16,000, and will now reach out further to the Chinese tourism market through the Chinese media. We will also improve air connectivity between major Chinese cities and the Maldives."

"Maldives-China relations set a good example of big and small countries existing harmoniously and forging equal relations," Chinese President Hu Jintao commented during the visit, praising the progressive policies of the Maldives' government, the high importance that it attaches to independence, peace and non-alignment, as well as the country's substantial increase in standards of living under



President Gayoom during his state visit to China

tourism, culture, education and youth development.

The archipelago has ambitious long-term socio-economic goals, pledged in its Vision 20/20 plan and given credence by adherence to its Millennium Development Goals (MDG). "The country is fully committed to achieving the MDG targets across all the atolls by 2015," says Minister of Planning & National Development Hamdun

**"By 2020 the Maldives will have become the hub of regional free trade."** President of the Republic of Maldives, Maumoon Abdul Gayoom

Gayoom's leadership. President Hu also noted that Gayoom's government has greatly strengthened bilateral ties and development cooperation and said that China was keen to extend further development assistance to the Maldives, and explore further economic and trade ties. He said he welcomed discussions on areas where China has technical expertise, such as infrastructure, agriculture, fisheries and construction. China also wishes to strengthen exchanges in the areas of

Hameed. "We have already achieved the MDG of halving extreme poverty and providing primary education and are on track to achieving the targets on reducing child mortality and improving maternal health.

"I think the key statement in Vision 20/20 is that we aim to be at the top-rank of middle-income countries by 2020 which is quite a big step from our current status—we are now at the stage of graduation to the UN's list of middle-ranking countries," Hameed says.

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One of the cornerstones in the strategy involves “concentrating people on the larger islands to facilitate social and economic development by having more access to education and infrastructure. At present, some 200 islands are inhabited, some with populations of less than 100.”

Other major pledges include the entire population having at least ten years of formal schooling, gender equality, environmentally-friendly lifestyles by 2020, and quality medical care. On the economic front, President Gayoom envisages that “by 2020 the Maldives will have established the most conducive conditions for brisk commerce and economic activity and will have become the hub of regional free trade. The country will also have a more diversified economy with export-orientated trade in services and industrial development.”

The government is pinning its hopes on the private sector to diversify and further grow the economy and has many incentives to bring investors to Maldivian shores. “The present government’s economic strategy is to build the necessary environment for enhancing private investments,” says Minister of Economic Development and Trade Mohamed Jaleel. “We have already done the necessary groundwork to allow a sufficient economy of scale for private investors to be profitable, with larger population pockets and regional development. In the past, our investments were not commercially viable as social considerations had to be taken into account.”

With World Bank collaboration, new legislation to promote public-private partnerships, investment guarantees and financial liability is under development. The Ministry of Trade and Industries became the Ministry of Economic Development and Trade to reflect its wider mandate, while the ministry’s one-stop shop for investors, the FISB—Foreign Investment Services Bureau—will be restructured by the end of the year.

“We have no income, corporate or property tax and, actually, foreign investors can repatriate their benefits without any taxation, as well as have the right to 100% foreign ownership,” says Jaleel. “We want to keep these tax incentives and regulations for priority areas. Two problem areas are under reform: the lease of land regulation, which at present only allows up to 35 years for resorts, because a long-term lease of land is crucial for investments. We are also making it easier for foreigners to come and work in this country, as we need both foreign workers and managers.”

Investment opportunities are considerable at present and were part of the motive for the recent Chinese state visit. “Certainly there is still a lot of demand for tourism products, from new resorts to all related services,” says Jaleel. “Another area of interest is the shipping and transport industry, as we plan to build marinas, container ports and a cargo transport network. We are planning the construction of a



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transshipment port in the north of the country. Also, many economists are viewing the Maldives as a potential trade hub in South Asia, because of our strategic location and the fact that we have a lot of developing countries around us.”

Investment opportunities also lie in ICT, high-tech agriculture and value-added fish and marine-based products, health sector development and banking and finance.

Minister of Finance Qasim Ibrahim, himself a major private investor in tourism, describes the sector as “the best opportunity for investment” and the Maldives as “the best place to enjoy the wonders of nature, as well as the results of a profitable business.” He points out that unlike other regional destinations, the islands have no monsoons or typhoons and that 2004’s tsunami was the first in history. Although 2005 saw a U.S.\$95 million budget deficit due to this calamity, 2006 is seeing positive growth. “This year, we are seeing tourist arrivals at pre-tsunami levels or even higher,” he says. “The fishing industry is progressing well, thanks to the private sector and is now allowed to export. Our objectives now are to get more foreign investments and to give more responsibilities to the local people, with a new democratic, multi-party system.”

The touristic appeal of these thousand ‘Robinson Crusoe’ islands surrounded by transparent lagoons and coral gardens cannot be overstated, and the reason why the sector accounts for two-thirds of national GDP. Mass tourism has been deliberately avoided and each of the current 88 low-rise resorts is uniquely set on its own island. “Our pristine environment and peaceful and secure nation and one resort-

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per-island policy simply has no other competition,” says Minister of Tourism & Civil Aviation Mahamood Shougee. With the Chinese market responding accordingly, the government is catering to that market’s needs: “We will have about 50 new resort islands opening up in 3-5 years’ time and 35 new resorts opening from next year, meaning 8,000 more beds to compensate the current bed shortage experienced, more especially in December and January. This means there will be enough capacity here to justify direct flights from China—at present you have to fly via Malaysia or Singapore. We are already in discussions with a Macau airline and we expect other scheduled and charter companies to come on board.”

Another area of interest for Chinese tourists is the possible development of a cruise tourism industry, and with that in mind, the government will be tendering for the construction of two or more marinas in the next two to three years. “The Chinese are starting to become sophisticated as tourists and we hope they will come here individually to be able to stay in our mainly boutique resorts,” says the Minister. Anticipating demand, the government will also build four new airports in the next three to five years and expand the existing international airport, which will include the addition of a second runway. A second international airport in the south of the archipelago will begin operating in early 2008. “At the moment, we are conceptualizing on opening up the airport sector for foreign investments,” says Shougee. “One part of our strategy is where foreigners may form joint ventures on a truly equal footing with the Maldives Tourism Development Corporation. We already have huge demand from investors though—the 35 new resorts tendered went like hot cakes, with 700 bids for one single resort!”


Meanwhile, Villa Hotels, founded by Minister of Finance Qasim Ibrahim, is the largest hotel company in the Maldives, with 1,700 beds in some of the country’s finest resorts. “Mine is a really humble beginning,” says Qasim. “I came to the Maldives as a servant and 29


years ago started trading with only U.S.\$2,000, trading in various products and then oil. I then went into shipping, founding Villa, which became one of the largest companies here. My interest in tourism started in 1986 when I decided to buy an island for U.S.\$1.5 million. I was turned down at the time for a bank loan as I was considered to not have enough experience in the tourism industry, so I spent U.S.\$4 million of my own money. That island became ‘Fun Island’, opening in 1988, and was the only resort with fresh water, private telephones and hot water showers. The island became very popular and, from then on, I never had problems securing bank loans and am even the first Maldivian to secure a loan from the IMF!”

‘Fun Island’ was damaged in the tsunami, rebuilt and then sold to the Hilton Group, and now Villa has five hotels, ranging from 3-5 stars, all self-contained, with the widest choice of facilities in the Maldives. All-inclusive and wedding facilities are also available. After establishing offices in Europe, Qasim opened Villa Hotels, Tokyo and Villa Hotels, Hong Kong in 2001 and 2002 respectively to increase Asia Pacific tourism and also began in aviation, buying a 50% share of domestic carrier Trans Maldivian Airways.

Qasim is also winner of three national awards for his outstanding contributions to trade and tourism development and is the nation’s philanthropist. “Since I started my business, I have established the Villa Foundation which is mainly focused on health and education. I give U.S.\$7-8 million a year to my foundation, the largest in the Maldives, which supports 400 students and also helps the government in educational and health efforts. We help students that are not able to finish their studies and get a degree, because we think it is fair they get a reward for the invested time on studying and teach them that hard work and honesty are the secrets of success.”

Another self-made Maldivian entrepreneur is Ahmed Siyam Mohamed, chairman and managing director of Sun Travels & Tours, who established a travel agency after beginning with capital of only

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U.S.\$900 in 1990. The group now has two hotels of its own, with a 78% occupancy rate. "We are special because of the very natural beauty here," he says. "You feel as if you are on your own

Qasim Ibrahim, Minister of Finance & Founder of Villa Group



private island and that is the uniqueness of our resorts. You don't have that kind of service in other countries where hawkers come and disturb you on the beach. We offer privacy. Tourists don't come here to party, they come here to relax and enjoy activities like diving, water-skiing and snorkeling. Every island has its own unique concept.

"In Vilu Reef Beach and Spa Resort, for example, you get an overriding feeling of being close to nature, with simple bungalows built amongst the greenery," says Siyam. "There are many green spaces as we do not cut them back and guests come for the natural feel here. We even have sand in the restaurant and lobby!" Vilu Reef is situated in South Nilandhe Atoll, 128km by seaplane transfer from Male' International Airport. There are a total of 101 rooms and suites, with 60 Beach Villas featuring four-poster king-size beds, open-air bathtubs, large timber decks overlooking the lagoon and beach, and custom-made teak furniture. The 35 Jacuzzi Water Villas, covering 78m<sup>2</sup>, are set above the water and have an extended sun deck with views of the lagoon and private stairs into it, as well as private jacuzzis.

Guests can choose between beachside buffets, a la carte restaurants, or they may dine privately by candlelight. A myriad of water and dry sports are on offer, as well as other activities like night fishing, big game fishing and island-hopping. Maldivian weddings and other celebrations are also available, involving ethnic dress and the bride being carried to her groom. A stylishly designed spa offers the best massage and wellness treatments in the region.

"The 129-room Olhuveli Beach and Spa Resort appeals to two market segments, both European and Eastern, with the inclusion of a swimming pool, albeit a completely natural one, which is so important to certain nationalities," says Siyam. The resort is located in South Male' Atoll, only 34km from the airport and reached via a 45-minute speed boat connection. There are 63 Deluxe rooms with four-poster beds, all facing the beach and with a terrace or balcony with beautiful views. Other accommodation types include Jacuzzi Water Villas and Deluxe Water Villas, both with a deck overlooking the lagoon and a swim-up platform, the former also having a private jacuzzi. Dining is also a speciality at the Olhuveli with six restaurants and bars on offer and numerous sports and other activities. There is also a large spa based on Chinese medicine concepts, which has six double massage pavilions.

**"You feel as if you are on your own  
private island."**

Ahmed Siyam Mohamed, Chairman & MD, Sun Travels & Tours

Sun Travels also has ambitious expansion plans, having won a bid for new resort islands. The two new 4-star properties and one boutique 5-star hotel will also make the most of their natural surroundings and will open next winter.

Both the Maldives government and private companies are eager to attract foreign investors for new infrastructure projects, which present unique opportunities for those who can meet the challenges presented in a nation of tiny islands with virtually no road network.

The public Maldives Airports Company (MACL) manages and operates Male' International Airport, currently serving 700,000 passengers a year, as well as providing services at all governmental domestic airports. "At the moment we have 13 charter airlines and 12 scheduled carriers flying into Male'," says managing director Ahmed Ali Maniku. "There are an average of 35 ad hoc flights a week. We



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would like to welcome any new airline that wishes to operate into the Maldives, especially from China, where there are currently no direct flights. The 3,200m long runway can easily handle Boeing 747s."

Three new departure gates and a new control tower have just been constructed and a new radar system is to be installed. A second runway will be constructed in the near future. The airport already boasts the largest water aerodrome, with the world's largest seaplane fleet operating from it. Safety and navigational systems meet the world's most stringent standards, and the airport has ISO 9000 certification.

**"We would welcome any new airline that wishes to operate into the Maldives."** Ahmed Ali Maniku, MD, MACL

Baggage handling, quality and service level also supersede regional levels and the airport has received successive awards for its punctual departure times from Emirates and Singapore Airlines.

The sole national scheduled carrier is Island Aviation Services Ltd. It has 420 staff and operates 16 weekly flights between the four regional airports of Gan, Hanimadhoo, Kadhdhoo and Kaadedhdhoo and Male' International Airport, where it is also in charge of ground handling and the VIP lounge. The company has a vital role in linking the islands. "We are supporting the industry in the north and south and facilitating the transfer from international incoming and outgoing connections," says managing director Bandhu Saleem. "Our schedules are designed so that tourists don't have to wait too long."



Ahmed Siyam Mohamed, Chairman & MD, Sun Travels & Tours Pvt. Ltd.

Island Aviation has major expansion plans for which it welcomes partnerships with overseas investors. "Apart from acquiring two new aircraft, we have started Madivaru Holdings to develop

this airport which will be completed by March 2008 and there are another four airports ready for private sector participation, and though we might take a small stake in them, Madivaru

Holdings is very open to discuss different options concerning their management," says Saleem. "We are also planning a 1,200m runway, with terminal building and related infrastructure at the new airport in Maamigili."

The airline has plans to be a regional carrier by November 2007, serving Colombo and Madras and wants to expand to other regions eventually, including China.

"Our core values are Customers, Excellence, Safety & Teamwork," says Saleem. "Customers come first, company comes second. It is our



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mission to support the public by giving more frequency and punctual flights so businessmen and tourists can get an easy, efficient and safe connection and we invest heavily in human resources.”

A spectacular flight is promised by managing director of private airline Trans Maldivian Airways, Bram Steller, who says: “From our Twin Otter seaplanes you will see the country in all its colors and we fly quite low to maximize the experience for passengers.” The airline is contracted by the resorts meaning that “our passengers are also treated as our guests.” Comfort and efficiency are second to none, with two-thirds of passengers waiting in the terminal for less than 13 minutes and the number of individual lounges at the terminal has been doubled so that every resort has its own lounge.

Danish-owned Maldivian Air Taxi is the largest seaplane operator in the world, with 22 aircraft and 3,000 passengers per day. It will be increasing its fleet to incorporate standard planes with wheels and promises customers “a unique experience”. “Maldivian Air Taxi serves the Hilton, the One & Only and many other international hotel brands here,” says GM A. Fawzy. “We always provide a special experience and the best service possible to our clients, who include Kofi Annan.”

Another vital transport and logistical artery for the Maldives is the port at Male’. “We started in 1986 with a small port but today cannot meet demand so are focused on both modernization and expansion,” says Ports Authority managing director, Mahdi Imad.

“Although Male’ has constraints because of limited land, being the capital island, we are working to identify any area where we could extend and improve the existing facilities and where we could build a new transshipment port. We are trying to modernize our facilities by first maximizing utilization of space, then by reducing the waiting time for ships and containers and finally to boost computerization to give a better service to the cargo companies.”

Foreign investment will also be needed to finance the new port and partnerships, with other ports or foreign companies required for technical assistance. “The Maldives is located in the middle of important shipping lines, so Male’ port could become then a logistical platform for South Asian countries, even as far away as Dubai, for example in distributing Chinese products, and the perfect place to build a logistic park,” says Imad.

The Maldives Transport & Contracting Company (MTCC) is vital to



**Male' International Airport, ready to welcome tourists from all over the world**

the development of marine transport and harbors, and therefore the development of the country. As managing director Ibrahim Athif Shakoor points out, “harbors in the Maldivian context are the highways and they are what allow commerce and services.”

MTCC, the premier contracting company for harbor development concerns, having constructed 80% of those built today, is working with the government on an ambitious pledge to build some 60 new harbors, 40 of them access harbors and the rest larger ones, in the near future. Another major imminent construction area is the construction of ‘safe islands’, raised above sea level. “Despite our reputation, these numerous projects which need to be completed in the short term, require us to seek an international partnership to deliver these results and MTCC is searching for an alliance with a Chinese company,” Shakoor says.

The company has also invested in a U.S.\$6 million expansion of ferry services during the next two years. It already operates the ferry service to Hulhumale’ and Villingili, but, as tourism grows and more islands are built on, and the economy develops, a comprehensive transport provider will be required. “We will finally offer scheduled ferry services by introducing connections to 16 atolls,” explains Shakoor. “I believe it will change the way Maldivians do business and travel, as at present, when people need to travel to any island they have to charter a boat, taking time and effort. With guaranteed services, the economy will be able to move faster.”

The shipping company with the strongest network in the Maldives is the Maldives National Shipping Limited, which provided a lifeline to the tourism industry in its advent as the only distributor of imported quality goods to the country. Managing director Aimon Jameel wants to increase the number of Chinese goods into the country and is

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looking for strategic partners for Non Vessel Operating Common Carrier services to import more from China. "Our customers can order cargo to be delivered to a remote location in the Maldives, which before meant coming to Male' first and offloading to small boats," he says. "Now we can directly serve all different points in the Maldives." The company also serves Southeast Asia with its own vessels and is expanding into the Persian Gulf and India.

The State Electric Company Limited (STELCO) is the only generator supplying electricity to Male' and 25 other inhabited islands, while resorts have their own generators. A major achievement was to restore supplies to all the islands affected by the tsunami within 48-72 hours. "Our main challenge is to be able to provide the extra electricity needed for the growing demand, especially on Male'" says managing director Abdul Shakoor. "We wish to install more generators but we have not been able to find the necessary funds yet. One solution would be a joint venture for generation with the government while we could then perform the distribution and transmission." STELCO has also studied the possibility of using solar and wind power, the latter which would be generated from turbines placed in the ocean.

Fishing is the second economic activity of the Maldives, enjoying centuries of tradition and environmentally friendly fishing techniques. Maldives Industrial Fisheries Company Ltd. (MIFCO) is the nation's largest company in the sector, with operations on three islands and is partly responsible for fish-related products being the Maldives' chief export. The company buys fish from local fishermen and sells them for export, and, by concentrating its activities in certain zones, has seen a 20-30% annual rise in catches. This year it expects to buy 80,000 tons of fish at government-fixed prices, though supply levels could be far higher still. "Our main challenge is to find a strong foreign partner that will enable us to be able to invest in expansion," says managing director Mohamed Adil Saleem. "Though fishermen have greatly increased catches, the processing companies do not have the necessary



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accumulated profits to reinvest in increasing their capacity, so we need foreign investment to bring processing levels in line with the supply.

"The catches our industry offers are enviable," adds chairman Abdulla Jabir. "Chinese business should be interested in setting up processing plants on islands like Addu Atoll, or enhancing plants like Khuddu's. We have a potentially lucrative business for a possible Chinese partner to locate here and export to other countries." The governmental MIFCO will also be listed, possibly in 2007.

The State Trading Organization (STO) is another example of a government entity established to assist the local population, which has also become competitive. The 42-year old company imports and distributes products locally either by direct procurement or by forming joint ventures to trade and guarantees to supply Maldivians with

## Growing with the Maldives, brick by brick

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The ongoing growth of the company has led to further and more ambitious projects, for which we are seeking knowledgeable investors interested in establishing joint ventures. These include a partnership to build a hotel in the popular tourist destination of Malé, and experienced investors to develop a fishery business on an island only 15 minutes away from the city, the lease of which was awarded to Amin Construction.

We are also looking for partners to invest in the construction of harbors throughout the country, and, as part of our international expansion directive, we are searching for a partner to act as a trade intermediary for the Chinese market.



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foodstuffs and petroleum products, while also handling construction materials, electronic goods and medical supplies, amongst others. STO's commitment to the local population has meant reduced profit levels in recent years, due to increased petroleum prices, which account for 56% of sales. The company has voluntarily absorbed price increases without passing them onto the customer while simultaneously competing with the private sector. "We are the key product suppliers into the Maldives, but have a limited market of 300,000 inhabitants, so we have also become an international trading company," says managing director Mohamed Hussain Maniku. "For this reason we established a trading office in Singapore to enable us to both source goods in this part of the world and also to act as the coordinating office for foreign investors interested in forming a partnership with the STO for joint ventures in the Maldives." China is naturally high on STO's list of potential clients. "We would be interested in trading with goods manufactured in China, such as steel, construction materials and manufactured products like domestic appliances and tools. Because established international brand items might pose problems, we are looking for Chinese products which can be sourced from China far more cheaply." STO also has the largest network of retail outlets in the Maldives with six stores and a showroom in the capital to promote its distributed brands. It has 11 stores spread across other islands and a fuel and lubricants division on an island near Male'.

Regionally, the Maldives has exemplary telecommunications services and an open market, though the main service provider, with 80% of mobile services and 90% for the internet, is Dhiraagu. The company, jointly owned by the government and Cable & Wireless, is profitable and has excelled with extra competition. "We have a very loyal customer base because we segmented the market and dealt with the requirements of each market segment over the last four years as if we had been in competition even though we were not," explains CEO Ismail Waheed. Besides working with over 170 international operators

and having roaming arrangements with CMC & China Unicom in China, Dhiraagu provides and maintains almost all telecom systems in the tourism industry.

"As resorts are self-contained units on their own island, we offer them complete, one-stop solutions and spend U.S.\$ 1million annually just training our staff on the execution of such work and, therefore, also have a very strong and loyal workforce," says Waheed. Following the tsunami which damaged 70% of the telecommunications system, dedicated Dhiraagu staff restored 50% of services the same day and completed all repairs within three days. Waheed's strategy is "through investment we get the returns" and has been continuously investing for the last 10 years nationwide. "We have doubled our annual investments to expand mobile coverage from 95-100% next year."

**"We have doubled our annual investments to expand mobile coverage."** Ismail Waheed, CEO, Dhiraagu

The most ambitious project is a U.S.\$28 million submarine fiber-optic cable network with an international connection via Sri Lanka, developed by Japan's NEC and to be in service in January 2007. As part of the same project, Dhiraagu is connecting the remote but inhabited areas of the south, which are presently reached via satellite due to the distance between atolls. Next year will also witness the expansion of broadband services nationwide which were previously restricted by bureaucracy.

Bank of Maldives is the only local bank and is market leader in terms of lending to the tourism and public sectors. With more than 20 branches spread throughout the atolls, the bank also plays a vital role in development and, following the tsunami, facilitated loans for the immediate reconstruction of businesses and houses nationwide before insurance monies became available. "Because we are a Maldivian-owned bank, serving the nation, we are completely customer-focused," says CEO Serene Ho Oi Khuen. "We are also the bank for business, with a huge range of corporate services, and we are fully-computerized. Our extensive network also allows business to be conducted nationwide and we have over 250 correspondent banks worldwide."

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