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# THE WAR IN UKRAINE AND ITS **IMPACT**

The Maldives Perspective

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ANALYSIS

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# Abstract

The impact of Russia's war on Ukraine is being felt acutely across several countries, particularly in the Maldives because of its strong economic ties with Russia and Ukraine, the conflict having reduced the inflow of tourists from these two nations. Beginning on 24 February 2022, the conflict created more challenges for a global economy already struggling to recover from the COVID-19 pandemic, the war-induced economic disruption occurring for two reasons. The first of these was the slew of economic sanctions imposed on Russia by western powers such as the United States, EU, UK, Canada, Japan and other countries. The other was the blockade of Ukrainian ports and supply routes by Russia.

Tourism is the main industry of the Maldives, contributing 76% of the country's GDP. Before the war began, Russia was the top origin of tourists to the Maldives with 16.8% of total arrivals to the country, and Ukraine occupied eighth place with 2.3%. The war caused most Russian-based airlines (including Aeroflot, Russia's flag carrier) to cease all international flights to the Maldives.

While the Maldives has managed to attract tourists from other countries thanks to a vigorous marketing campaign by the Maldives Marketing and Public Relations Corporation (MMPRC), it has been unable to replace Russia as a tourist source with its population of 142 million people.

Russia's aggressive war on Ukraine has triggered the biggest energy price shock since the 1970s, with market analysts predicting prices will remain high over the course of the next few years. Even though the Maldives is a high middle-income economy, it is import-dependent especially for oil and gas, making it vulnerable to fluctuations in fuel prices. Setting a new tourist arrival target of 2 million for 2023, the Maldivian government is still wary of the fallout from the Ukraine war, anticipating turmoil in oil and gas prices as well as fewer tourists from the two warring nations, which in turn may impact tourist arrivals from west European countries to the Maldives.

# 1 The Immediate Impact of War

The impact of the war waged by Russia on Ukraine has been widespread across the globe. The Maldives has been no exception in that regard. The impact of the war was felt in the Maldives immediately, because of the economic link between the Maldives and both Ukraine and Russia. War in Ukraine disrupted tourist flows from those two countries.

When the war in Ukraine started in February 2022, the world was still struggling to recover from the Covid-19 pandemic. This war disrupted the global economy mainly because of the sanctions on Russia by the United States, EU, UK, Canada, Japan and other countries<sup>1</sup>. These sanctions contributed to the disruption of global supply chains, higher global commodity prices, and a slowdown in global economic growth. The Russian blockade of Ukrainian ports further contributed to disruptions of exports from Ukraine. Many countries suffered due to the widespread impact of the war as both Russia and Ukraine are major exporters of energy and food supplies to many countries in the world.

## 1.1 Impact on the Maldives Tourism Sector

Tourism is the main industry of the Maldives contributing 76 per cent to the gross domestic product (GDP) of the country. As the Maldives heavily relies on the tourism sector, the prolonged war between Russia and Ukraine has come as a huge blow to the tourism sector of the Maldives. It should be noted that both Russia and Ukraine have been major suppliers of tourists to the Maldives.

When the war started on 24 Feb 2022, Russia was the leading tourist arrival country to the Maldives (see Figure 1) contributing 16.8 per

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<sup>1</sup> Congressional Research Service, 2022. The Economic Impact of Russia Sanctions, 13 December. Available at: <https://crsreports.congress.gov/product/pdf/IF/IF12092>, accessed on 23 February 2023.

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cent of total arrivals followed by the United Kingdom with 11.4 per cent<sup>2</sup>. Ukraine, on the other hand, was also a significant contributor to tourism and remains in eighth place with 2.3 per cent arrivals<sup>3</sup>. On 25 February 2022, just after the Russian invasion began, there were as many as 8,000 Russians and 750 Ukrainians in the archipelago. While the Maldives welcomed 350,721 tourists within the first quarter of 2022, Russia held the highest market share in that quarter. However, due to the war and sanctions on Russia, most Russian-based airlines had to shut down all international flights including those to the Maldives. This included the national airline of Russia, Aeroflot. Russia was the second top tourist market in 2021 with 208,072 tourist arrivals. This figure improved largely because of a slowdown from India due to Covid-19 restrictions and also due to the complete halt to the arrival of Chinese tourists due to Covid-19 restrictions by the Chinese government to their citizens, which is traditionally the biggest source market for the Maldivian tourism sector.

As the year passed by, while most people might have not realised the difference as the arrival target for tourists has been met due to the strong performance of the emerging suppliers of tourists such as India and Saudi Arabia as well as some traditional European markets such as the United Kingdom, Italy, Germany and Spain. Nevertheless, it can be argued that if Russia had not invaded Ukraine, there would have been a steady supply of tourists from both Russia and Ukraine; therefore, the total arrival could have been much higher than the current figure. Hence, because of the war in Ukraine, Maldives would have already potentially lost thousands or even hundreds of thousands of tourists from these two countries, affecting not only the economy but also the loss of jobs. This is a major blow to the growth of the tourism market in the Maldives.

Due to a series of harsh sanctions on Russia, the value of the Russian Ruble has dropped. In addition, Russian airlines have been banned

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<sup>2</sup> International Maldives Travel Market, 2022. Maldives tourism statistics and how the Russia-Ukraine conflict could affect these numbers. Available at: <https://imtmonline.com/2022/03/02/maldives-tourism-statistics-and-how-the-russia-ukraine-conflict-could-affect-these-numbers/>, accessed on 23 February 2023.

<sup>3</sup> Maldives Financial Review, 2022. War in Ukraine and the impact on Maldives tourism. Maldives Financial Review, 24 March.

from entering the airspace of many European countries, thus limiting their travel. Both of these factors have contributed to less flow of tourists because travelling becoming a much more expensive endeavour for potential tourists travelling to the Maldives<sup>4</sup>. It is safe to assume with these sanctions in place and the slump in the value of the Ruble is likely that the middle-class Russian and Ukrainian tourists who used to flock to the Maldives, both have limited dispensable income are no longer be able to afford to travel to the Maldives.

Though the Maldives Marketing and Public Relations Corporation (MMPRC) is reported to be working on getting other markets to counteract the shortage of the Russian market<sup>5</sup>, it is unlikely that they will be able to replace such a big market in a short period of time.

When we compare the statistics of tourist arrivals to the Maldives before the start of the war in Ukraine, and after that, a big difference is noted. For instance, just by the end of February 2022, 251,339 tourists arrived in Maldives, which is a 46.9% growth compared to the same period in 2021. That figure includes a record 7,666 tourist arrivals on 12 February (travel market), which is a shockingly high number, especially after a steep drop in tourist arrivals during the Covid-19 Pandemic. However, this trend did not continue since the start of the war.

Soon after the Russian invasion of Ukraine, the President of the Maldives Mr Ibrahim Mohamed Salih announced that his administration was taking necessary steps to mitigate the negative effects and the impact on the economy of the Maldives due to Russia's war on Ukraine<sup>6</sup>.

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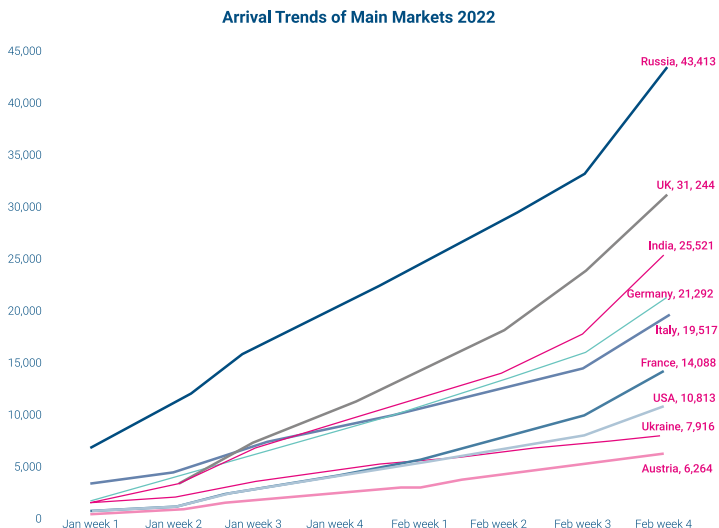
4 Ibid.

5 Ibid.

6 The President's Office, 2022. Steps are being taken to mitigate the economic impacts of the Russia-Ukraine conflict, says the President. 13 March. Available at: <https://presidency.gov.mv/Press/Article/26382>.

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Figure 1: Tourist arrivals to the Maldives in 2022 before the Ukraine war



Source: [www.hoteliermaldives.com](http://www.hoteliermaldives.com), 2022

It is commendable how the government of the Maldives handled the economic situation after the sudden drop in the arrivals from Russia and Ukraine due to the war. At the beginning of the year 2022, Maldives set the target of 1.6 million tourists to the country in 2022. The President of the country Ibrahim Mohamed Salih announced this target in his presidential address he gave on 3 February 2022<sup>7</sup>. However, with the war in Ukraine continuing, many doubt if that target could be reached, as Russia was the biggest source market in 2022 until that time. Tourism Minister of the Maldives Dr Mausoom expressed his concern after the war erupted between the two host markets to the Maldives by saying that it is inevitable that the war will adversely affect the Maldivian tourism<sup>8</sup> sector.

<sup>7</sup> Asia Property Award, 2022. President of Maldives expects 1.6 million tourists in 2022. Available at: <https://www.asiapropertyawards.com/en/president-of-maldives-expects-1-6-million-tourists-in-2022/>, assessed on 22 November 2022.

<sup>8</sup> Mohamed, N., 2022. Tourism Minister: Russia-Ukraine war will significantly impact Maldivian tourism. Available at: <https://en.sun.mv/72921>, assessed on 22 November 2022.



Maldives, like the rest of the world, has been impacted by Covid-19. As a Small Island Developing State (SIDS), the decline in GDP of the Maldives has been very severe with a 16% drop because of the sudden drop in tourist arrivals due to Covid-19 (Gu, et al., 2022). The Maldives fared well compared to many other countries, in surviving the onslaught of the Covid-19 pandemic by taking critical decisions that proved to have made a difference, such as opening the border for international tourists with some attractive incentives such as border miles. It is worth noting that not all countries such as Sri Lanka were that effective in combating Covid-19 as well as the war in Ukraine. Sri Lanka was already reeling from the Covid-19 setbacks when the war in Ukraine war started.

Sri Lanka's economic crisis predates the unparalleled western economic sanctions on Russia over its war on Ukraine. However, fuel and food prices that spiralled because of those sanctions hastened the fall of the Sri Lankan economy from a serious balance-of-payments crisis to bankruptcy<sup>9</sup>. The Maldives has been a different story. As Russia was the leading exporter of gas and 2nd largest exporter of global oil supply, the price of fuel skyrocketed and Sri Lanka could not afford it. Also, because of the blockade of Ukrainian ports by Russia, exports of wheat, corn, barley, and edible oil among other food items, were disrupted as well as a result countries like Sri Lanka suffered badly but the Maldives suffered a setback but managed the situation.

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<sup>9</sup> Chellaney, B., 2022. Ukraine war hastens Sri Lanka's economic meltdown. Nikkei Asia, 13 July. Available at: <https://asia.nikkei.com/Opinion/Ukraine-war-hastens-Sri-Lanka-s-economic-meltdown>, accessed on 23 February 2023.

## 2 Current and Future Scenario Energy Security in the Maldives

Russia's aggressive war on Ukraine has triggered the biggest energy price shock since the 1970s<sup>10</sup>. Hence, the high oil price is most likely to persist over the medium term of a few years<sup>11</sup>, especially with sanctions getting even tighter on the supply of Russian oil, gas, coal and other petroleum products.

The majority of low- and middle-income countries depend on the import of fossil fuels. Though the Maldives is a high middle-income economy, it is an import-dependent country, especially in energy products such as oil and gas. It is worth noting that the Maldives does not have factories that use coal, thus, do not import coal, which is regarded as the biggest source of carbon dioxide emissions in the world<sup>12</sup>.

As a SIDS, the Maldives is even more vulnerable than other countries in the region because of small scale, remote location, limited resources, and the risk of facing exposure to global environmental challenges and external economic shock (Gu, et al., 2022).

During the height of the Covid-19 pandemic, oil prices plummeted to as low as \$16.34 per barrel in April 2020 as the oil demand dropped due to the disruption in economic and industrial activity in many European and Asian countries<sup>13</sup>. So, oil and gas-producing countries suffered during the Covid-19 pandemic. However, the table

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10 OECD, 2022. Editorial: Confronting the Crisis. 22 November, Available at: <https://www.oecd-ilibrary.org/sites/f6da2159-en/index.html?itemId=/content/publication/f6da2159-en>, accessed on 23 February 2023.

11 Rahman, S., 2022. Energy and Food Insecurity Will Outlive the Ukraine War. Global Geopolitical Monitor, 8 August. Available at: <https://www.geopoliticalmonitor.com/energy-and-food-insecurity-will-outlive-the-ukraine-war/>, accessed on 23 February 2023.

12 Hong, B. & Slatick, E. R., 1994. Carbon Dioxide Emission Factors for Coal. Energy Information Administration Quarterly Coal Report, Independent Statistics and Analysis, January-April, pp. 1-8. Available at: [https://www.eia.gov/coal/production/quarterly/co2\\_article/co2.html](https://www.eia.gov/coal/production/quarterly/co2_article/co2.html), accessed on 23 February 2023.

13 Rahman, S., 2022. Energy and Food Insecurity Will Outlive the Ukraine War. Global Geopolitical Monitor, 8 August. Available at: <https://www.geopoliticalmonitor.com/energy-and-food-insecurity-will-outlive-the-ukraine-war/>, accessed on 23 February 2023.

has turned and it is a different scenario now after Russia launched the invasion of Ukraine in the name of a “Special Military Operation”, which many regards as an all-out war against Ukraine.

Oil and gas-producing countries are dictating terms now unlike the times of Covid-19 restrictions across the globe. Such countries are flying on huge profits from oil and gas, which are the main energy products in the world. While there was low demand for oil and gas during the Covid-19 pandemic, the opposite happened after this European war, i.e., a surge in demand for oil and gas<sup>14</sup>. Meantime, countries such as the Maldives that import oil and gas, are at the receiving end of high oil and gas prices. Indeed, the war in Ukraine and the subsequent high price of oil and gas was like the final nail in the coffin when Sri Lanka announced bankruptcy<sup>15</sup> after going through the hardships of the Easter bombing and Covid-19 along with other issues including corruption and mismanagement.

Alarmingly for SIDSs such as the Maldives, the forecast of oil prices does not look good for oil-importing countries such as the Maldives. The Economic Forecast Agency (EFA) predicts that the average oil price would reach \$146 per barrel in 2023; \$185.94 per barrel in 2024; \$193.31 per barrel in 2025; and \$191.43 per barrel in 2026<sup>16</sup>. Such high oil prices will be a very big challenge for countries like the Maldives, because of the implications for budget management.

It is important to note that the Maldives is a highly subsidised country and fuel subsidy is one major subsidy given by the government. Hence, fluctuations in fuel prices, usually impact government budget spending and high oil prices will increase the burden on the government in managing the budget and government spending. Hence, at times such as the ongoing war in Ukraine, the main concern is the unpredictability of fuel prices. When fuel prices go high, the budget figures in countries like the Maldives become inflated and spending goes higher than the predictions. That, in turn, causes an increase in

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14 Ibid.

15 Athas, I., Liakos, C., Mogul, R. & Gonzalez-Roman, D., 2022. Sri Lanka is 'bankrupt,' Prime Minister says. 6 July, Available at: <https://edition.cnn.com/2022/07/05/asia/sri-lanka-bankrupt-fuel-crisis-intl-hnk/index.html>, accessed on 23 February 2023.

16 Ibid

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the budget deficit. In the Maldives, the deficit-to-GDP ratio was 13.8 per cent in 2021 and 14.3 per cent in 2022. The debt-to-GDP ratio for 2023 is estimated to be 108 per cent, going up to 111 per cent by the end of the year<sup>17</sup>.

### 2.1 Future Scenario

After targeting 1.6 million tourist arrivals for 2022 with 13 million bed nights, the government of the Maldives has set a target of 2 million tourist arrivals for the coming 2023 with 14.5 million bed nights<sup>18</sup>.

Even with the higher target for tourist arrivals in the coming year, Maldivian officials seem wary of the fallout from the Ukraine war, in terms of oil and gas prices as well as fewer tourists from the two warring nations. The conflict may also impact tourist arrival from Western European countries to the Maldives due to the increasing cost of living in their country.

Due to the increasing budget deficit, some claim that the Maldives is also heading towards bankruptcy like neighbouring Sri Lanka. However, the Finance Minister of the Maldives Ibrahim Ameer refuted this claim. He further reiterates that the country faced more challenges during the Covid-19 Pandemic and made a good recovery from that; much better than many countries. However, the negative impact of the European war is acknowledged as well, saying that necessary measures are taken by the Maldivian government to mitigate the impact of such challenges<sup>19</sup>.

The Maldivian government has been proactive in preparing for possible future scenarios and current challenges. For instance, Maldives held the sixth Annual Policy Dialogue between the European Union (EU) and discussed several thematic areas. Though the areas discussed between the Maldives and the EU did not include the war

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17 Moorthy, N. S., 2022. Maldives: Achieving debt sustainability might prove difficult. Observer Research Foundation, 17 November. Available at: <https://www.orfonline.org/expert-speak/maldives-achieving-debt-sustainability-might-prove-difficult/>, accessed on 23 February 2023.

18 Avas, 2022. 2023: Maldives sets target for 2 mln tourists. Avas, 29 September. Available at: <https://avas.mv/en/122904>, accessed on 23 February 2023.

19 blic Service Media, 2022. Claims that Maldives is facing bankruptcy are political: Finance Minister. 21 November. Available at: <https://psmnews.mv/en/112517>, accessed on 23 November 2022.

in Ukraine or energy security itself, related topics such as maritime safety and security were discussed among other topics such as democracy, governance, economic cooperation, environment and climate change<sup>20</sup>.

## 2.2 Mitigation Options

As discussed above, the tourism industry has been hit hard by the effects of the war in Ukraine. It is worth noting that the government of the Maldives already took steps to mitigate the impact of this war. The following mitigation options can be taken to minimise the impact on the economy.

- Diversifying the economy by reducing reliance on the tourism industry. Given the lack of natural resources, this may be a very challenging task. However, there are many ways the other industries, especially, the fisheries industry can be strengthened.
- Expanding source markets. It is worth noting that the Maldivian government has already launched a vigorous marketing campaign to attract tourists from other markets, including relatively new markets such as the USA. It should be noted that while this sudden halt of the Russian market occurred, the traditional biggest two markets of China and India were already impacted by the Covid-19 restrictions.
- Explore ways how to re-think fuel subsidies, so the burden on the state budget can be minimised.

## 2.3 Conclusions

Even though there was an immediate impact of the war in Ukraine on the Maldives in terms of the sudden drop in the arrival of tourists from Russia and Ukraine, it was not reflected in the statistics, especially over time. This could be because of the successful experience of the Maldivian government in managing tourism at times

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<sup>20</sup> Corporate Maldives, 2022. Maldives and the EU Hold 6th Annual Policy Dialogue. 24 November. Available at: <https://corporatemaldives.com/maldives-and-the-eu-hold-6th-annual-policy-dialogue/>, accessed on 24 November 2022.

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of hardship, especially recent Covid-19 pandemic. Observers regard the Maldives as the biggest international success story of Covid-19 recovery, because of the way the tourism industry was managed by choosing to fully reopen the border during the Covid-19 pandemic while many other destinations slammed their borders closed<sup>21</sup>.

Even with the increasing tourist arrivals in 2022 on track to reach the initially set target of 1.6 million tourists, there are factors such as fuel price – if it goes as high as some experts predict – might still pose problems for the Maldives.

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<sup>21</sup> Marcus, L., 2021. How the Maldives became the biggest 2020 international tourism success story. 17 February. Available at: <https://edition.cnn.com/travel/article/maldives-tourism-arrivals-coronavirus-intl-hnk/index.html>, accessed on 24 November 2022.

# About the Author

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Dr Abdul Hannan Waheed has established himself as a current affairs analyst in the Maldives and appears on a weekly live TV program called World on the local channel VTV, providing analysis of pressing world affairs issues. Hannan has been involved in journalism as a freelancer since around 2000, writing in magazines and newspapers; he has also been on the editorial boards of several local magazines (such as Adduvas

weekly and Galan weekly). Currently, he is an editor and writer for the Maldives Business Standard, which is the only online business newspaper in the Maldives, published in both Dhivehi and English.

