



***SMALL-STATE HEDGING IN THE
INDO-PACIFIC: THE MALDIVES-INDIA
RESET AND US STRATEGY***

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The Maldives celebrated its 60th independence anniversary this July. For nearly all of those decades, Maldivian foreign policy warranted little attention. Neighbors and distant powers alike could count on the Maldives' predictability. Small states were seen as bystanders, passive players in great power competition.

But this is changing. As the geopolitical theater grows more complex, small states across the Indo-Pacific have geolocations they can leverage. Nowhere more so than the Maldives, which now proves a compelling case of post-Cold War small-state diplomacy.

Compare the Maldives to the titans it navigates between: minuscule GDP, tiny landmass, small population, yet outsized geostrategic importance. It is this asymmetry and location that the Maldives now leverages with remarkable dexterity. Dexterity, yes—but also hedging, pragmatism, opportunism, and even volatility.

The Maldives' partnership landscape today shows clear layers: India, the enduring constant; China, whose role deepened after the Maldives joined the Belt and Road Initiative in 2014; the US, UK, EU, Japan, Saudi Arabia, and South Korea maintain quieter partnerships; the newest entrants Turkey and the Gulf States enter with surprising vigor and potentially [game-changing impact](#).

What drives these choices?

Three pressures shape every foreign policy decision. First, debt. The Maldives' fiscal crisis overshadows all else. When the current administration took office in 2023, it inherited a [huge debt burden](#). Debts mature next year, leaving the government without funds to deliver domestic pledges. Unable to deliver and with the political clock perpetually ticking, debt has become a fiscal straitjacket that determines everything else.

Delivery imperatives are the second constraint. With over a thousand islands—nearly 200 of which are inhabited—logistics are nightmarish. Despite having the highest per capita GDP in South Asia, the archipelagic landscape makes service delivery exponentially costlier. Delivering housing, transport, schools, and health facilities across this geography is herculean. Yet these needs are urgent.

Third, a dangerously [narrow economic base](#). Tourism represents about 21% of GDP and generates over 60% of foreign currency earnings. Yet even tourism cannot always be the goose that lays the golden egg; tourism will hit a ceiling. Seychelles, Bali, and Thailand now compete aggressively, threatening both the budget and the luxury segment. Another reckoning approaches: Maldivians will reject development that destroys their environment, and tourists will abandon destinations that have done so. Endless land reclamation for resorts is therefore also unviable. Other sectors, including fishing, remain [insufficient](#).

These pressures drive the Maldives to engage both traditional partners and newer ones willing to operate on different terms.

China's deepened role illustrates this. China [brought massive capital](#) and construction capabilities, delivering key BRI projects including the \$300 million bridge, housing, roadworks, airport, alongside a free trade agreement. The Maldives embraced this assistance regardless of terms, especially when it came with no questions asked about issues such as governance, corruption, or human rights. Speed and scale trumped conditionality: These projects gave governments tangible proof of delivery.

The Gulf States represent diversification. The newly announced financial hub backed by Qatar and the UAE, at \$8.8 billion exceeding the Maldives' entire GDP, would be a massive boost whilst securing capital from beyond not just the Maldives' traditional partners but the region's as well.

Risks and reactions

Such bold maneuvers, and a venture this size, however, will warrant scrutiny.

Should things go belly-up, there are clear risks in terms of escalating debt, [financial overexposure](#), and damage to the Maldives' standing in the very international markets the project aims to attract. The Maldives, dependent as it is on foreign investment and tourism, simply cannot afford further reputational fallout in global financial circles.

An offshore financial hub could complicate maritime security, facilitate money laundering, and provide opportunities for trafficking. These vulnerabilities will alarm others.

Beijing sees the Maldives as a key node in its Silk Road and will understand these new partnerships will dilute Chinese economic influence.

Other partners like the US will also watch these Gulf investments and Turkey's expanding military partnership very closely.

The India-Maldives reset

As the regional hegemon with the deepest ties, no one will scrutinize these developments more closely than India. Indeed, the India-Maldives relationship has warranted the closest scrutiny of Maldivian foreign relations, and it is largely the twists and turns of this partnership that have labelled Maldivian foreign policy as deft, shrewd, pragmatic, and indeed volatile. Practically unquestioned for centuries, this relationship has seen a remarkable decade. Anti-India sentiment emerged for the first time in Maldivian politics. Presidential campaigns polarized around India, and anti-India sloganeering became politically expedient. The very closeness had bred

vulnerabilities: infrastructure delays provided ammunition for critics, perceptions of political interference and [military presence](#) provided fodder for opposition claims of overreach.

When a new president took office in 2023, Delhi had good reason for alarm. Here was a leader whose very battle cry had been "India-Out." Few anticipated the rapprochement to come.

But reality intervened. With mounting debt, underwhelming Chinese support, and lessons from Sri Lanka fresh at hand, the government had to make hard choices. With the \$7.5 billion economy struggling, the reality was brutal: the new government desperately needed external financial assistance to avoid collapse. Pragmatism [overtook politics](#), and all the anti-India rhetoric collapsed: The pivot away from "India-Out" was swift and calculated, if not enthusiastic.

India stood ready, and the response was equally swift. By July, India had pledged an extra \$565 million credit line, agreed to reduce annual debt repayment, and signed new agreements. The package was substantial, and the approach was calibrated. India addressed core Maldivian concerns directly. First, the BJP engaged directly with the ruling PNC party, addressing concerns about political favoritism. Second, India focused on completing existing projects rather than announcing new ones. Third, setting itself apart from other partners, India offered immediate [financial relief](#), directly addressing the looming 2026 debt obligations.

The relationship weathered what looked to be its nadir. For the Maldives, this captures hedging's reality: aggressive diversification may be politically expedient, but fiscal reality imposes hard limits.

Implications for US strategy

What becomes clear about Maldivian foreign policy is that hedging is about addressing own vulnerabilities, not ideological alignment. It's about leveraging strategic position and maintaining multiple partnerships simultaneously, with the flexibility to pivot as circumstances shift. Political rhetoric may

matter for domestic legitimacy, but pragmatism ultimately drives calculations.

Multi-alignment has become the norm, and small states will hedge, not from fickleness but from [structural necessity](#). Even close allies deepen economic integration with China while maintaining security partnerships with Washington. India is unrelentingly engaged across every dimension spanning security, the economy, fiscal conditions, governance, infrastructure, health, education, trade, and development, sustained over decades regardless of domestic political volatility. This reveals what sustained positioning delivers and underscores that consistent, multidimensional engagement proves indispensable. When domestic pressures mount, security partnerships alone offer limited leverage.

Understanding these drivers, rather than viewing multi-alignment as problematic, determines influence in a region where transactional approaches alone risk undermining strategic presence. The United States maintains distinct advantages. Geographic distance positions it as a lower-risk partner. Yet the current approach reveals a fundamental imbalance. Security engagement has intensified while other engagement has atrophied, creating precisely the vacuum other powers exploit.

As the Maldives transitioned to middle income status and democracy, US engagement on development and good governance helped shape these transformations. Today, as the Maldives grapples with challenges including gender disparities, vast inequalities between Malé and the islands, endemic corruption, eroding press freedom, shrinking civic space, and climate change, soft power remains indispensable.

The recent US announcement of plans to establish an American Chamber of Commerce is welcome and exactly what the necessary soft power looks like. Equally necessary is sustained engagement on good governance, climate resilience, gender equality programming, and capacity building beyond military and police training, such as in fiscal oversight, decentralization, judicial development, and independent media and civil society strengthening.

Soft power cultivates influence extending beyond government-to-government relations to build lasting relationships. Its retreat is shortsighted. Hard security arrangements and transactional politics alone cannot generate the sustained influence an increasingly multi-aligned region requires.

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