



HOUSE COMMITTEE ON
NATURAL RESOURCES
CHAIRMAN BRUCE WESTERMAN

To: House Committee on Natural Resources Republican Members
From: Indian and Insular Affairs Subcommittee, Ken Degenfelder
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(Justin.Rhee@mail.house.gov); ext. 6-9725
Date: Tuesday, May 16, 2023
Subject: Oversight hearing: “*Preserving U.S. Interests in the Indo-Pacific: Examining How U.S. Engagement Counters Chinese Influence in the Region*”

The Subcommittee on Indian and Insular Affairs will hold an oversight hearing on “*Preserving U.S. Interests in the Indo-Pacific: Examining How U.S. Engagement Counters Chinese Influence in the Region*” on **Tuesday, May 16, 2023, at 2:15 p.m. in Room 1334 Longworth House Office Building.**

Member offices are requested to notify Ransom Fox (Ransom.Fox@mail.house.gov) by 4:30 PM on Monday, May 15, 2023, if their member intends to participate in the hearing.

I. KEY MESSAGES

- There are three U.S. territories in the Pacific: American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI). The U.S. has international agreements or Compacts of Free Association (COFAs or “Compacts”) with three Pacific Island countries, the Republic of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia, referred to as Freely Associated States (FAS).
- The U.S. has vital security and economic interests throughout Indo-Pacific region, particularly amid rising competition with the People’s Republic of China (PRC). More closely, the importance of the Freely Associated States for the United States cannot be overstated given the proximity to the U.S. homeland areas and the broader geopolitical context.
- While the U.S. has historically enjoyed good relations and ties in the Indo-Pacific region, Beijing has increasingly sought to reshape regional political, economic, and strategic alignments. This has especially been the case with the U.S. Pacific territories and the FAS.
- Beijing has sought to take advantage of the relatively weak economies and governance structure of island nations. Through offerings of economic aid and infrastructure development, China has leveraged its resources to shape political outcomes and perceptions of the U.S. in the region while waging political warfare to gain undue influence and/or destabilize island nations.
- In order to deter Chinese influence and to maintain the United States’ capacity to secure its interests, the U.S. must remain engaged with the FAS region and respond to malign Chinese coercive activity.

- This hearing will explore U.S. interests in the Indo-Pacific region and the impacts of PRC activity on the islands. Furthermore, it will explore how renewed and continued U.S. engagement helps to deter Chinese influence.

II. WITNESSES

- **Mr. Alexander Gray**, Managing Partner, American Global Strategies, LLC, Oklahoma City, OK
- **Mr. Derek Grossman**, Senior Defense Analyst, The RAND Corporation, Santa Monica, CA
- **Ms. Cleo Paskal**, Non-Resident Senior Fellow, Foundation for Defense of Democracies, Washington, DC
- **Mr. Peter Watson**, President & CEO, The Dwight Group, LLC, Washington, DC
- **Mr. Emil Friberg**, former Assistant Director and Senior Economist, International Affairs and Trade, Government Accounting Office, Washington DC [*Minority Witness*]

III. BACKGROUND

U.S. Interests in the Pacific

The U.S. has historical regional presence as well as current and future commitments and interests that are paramount to preservation of a free and open Indo-Pacific. Those American geopolitical equities are being challenged through malign tactics by the People’s Republic of China. In the southwest area of the Indo-Pacific, the U.S. has three territories—American Samoa, the CNMI, and Guam—and maintains Compacts of Free Association with three sovereign Pacific Island countries known as the Freely Associated States — the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI), and the Republic of Palau (Palau)—that have special economic and security ties with the U.S. through individual Compact agreements. The U.S. Department of the Interior (DOI), through the Office of Insular Affairs (OIA), administers, monitors, and manages federal relations with the U.S. territories in accordance with applicable law.¹ It has the same responsibility for the economic assistance and federal programs related to the FAS under the COFAs.²

U.S. Territories in the Pacific

American Samoa: American Samoa is an unincorporated territory of the United States comprising islands of the eastern Samoan archipelago. American Samoa is located in the Polynesian region of the south-central Pacific Ocean, and includes the six eastern Samoan islands, Tutuila, Tau, Olosega, Ofu, and Aunuu, as well as the Swains Island and the uninhabited Rose Atoll. The capital is Pago Pago on Tutuila, the main port and commercial center. The elected and traditional leaders seek to preserve a customary way of life as “nationals but not

¹ Public Law 90-497, Sec.12(a), September 11, 1968 (82 Stat. 847; 48 U.S.C. 1421a) and Executive Order 10264 of June 29, 1951, appear at 16 FR 6417, 3 CFR, 1949-1953 Comp., p. 765 and Executive Order 12572 of Nov. 3, 1986, appear at 51 FR 40401, 3 CFR, 1986 Comp., p. 239.

² Executive Order 12569 of Oct. 16, 1986, appear at 51 FR 37171, 3 CFR, 1986 Comp., p. 234.

citizens,” based on allegiance to the U.S. reflected in strong patriotism and a high rate of U.S. military service.³

Commonwealth of the Northern Mariana Islands: CNMI is an unincorporated territory of the United States composed of 14 islands and islets in the western Pacific Ocean 100 miles north of Guam. The Mariana Islands are a chain of volcanic mountain peaks and uplifted coral reefs. The principal inhabited islands in the CNMI are Saipan, Guguan, Tinian, and Rota. The northern, largely uninhabited islands are Farallon de Medinilla, Anatahan, Sariguan, Gudgeon, Alamagan, Pagan, Agrihan, Asuncion, Maug Islands, and Farallon de Pajaro..⁴

Guam: Guam is a United States Territory in the northwest Pacific, the largest, most populous, and southernmost island of the Mariana Archipelago. It is governed under the Organic Act of Guam, passed by the U.S. Congress, and approved by the President on August 1, 1950. The development of Guam into an important home for U.S. military bases brought about profound changes in the island’s agricultural patterns after World War II, and Guam now imports most of its food. Guam has a vibrant mostly Asian tourism sector and a robust local and regionally interconnected economy with commerce ties to the Philippines, South Korea, and Japan. Most of Guam’s population of 170,000 are of Chamorro heritage. Guam has been a part of the United States since the close of the Spanish-American War, and today resembles the mainland United States in terms of language, business practices, and patriotic sentiments.⁵

Freely Associated States

In 1986 the FAS emerged from the U.S. administered United Nations (UN) Trust Territory of the Pacific Islands in Micronesia that had been established after World War II. The Marshall Islands group became the RMI, and the western Caroline Island group became the Republic of Palau and the Federated States of Micronesia. The three Compact countries cover a maritime area comparable in size to the continental United States, govern over 1,000 islands and atolls, and have a combined population of approximately 200,000. The FAS economies face structural challenges similar to many other Pacific Island counties, including lack of economies of scale, small land areas, limited natural and human resources, remote locations, and poor infrastructure.⁶

Federated States of Micronesia: The FSM comprises the central island chains among the FAS. It has a federal constitutional system comprising the states of Pohnpei, Chuuk, Yap and Kosrae.⁷ The capital is located at Pohnpei. The FSM is a full member of the UN and the Pacific Islands Forum. It derives revenues from licensed international fishing in its vast territorial waters and hosts a small but thriving tourism sector.

³ For more information on American Samoa see “American Samoa.” Encyclopedia Britannica. Accessed May 10, 2023. <https://www.britannica.com/place/American-Samoa>.

⁴ For more information on the Commonwealth of the Northern Mariana Islands (CNMI). Accessed May 14, 2023.

<https://www.coris.noaa.gov/portals/cnmi.html#:~:text=The%20principal%20inhabited%20islands%20are,Islands%2C%20and%20Farallon%20e%20Pajaro>

⁵ For more information on Guam see “Guam.” Encyclopedia Britannica. Accessed May 10, 2023. <https://www.britannica.com/place/Guam>.

⁶ For more information on the FAS see “The Freely Associated States and Issues for Congress.” Congressional Research Service, October 7, 2020. <https://crsreports.congress.gov/product/pdf/R/R46573/2>.

⁷ “Micronesia.” Encyclopedia Britannica. Accessed May 12, 2023. <https://www.britannica.com/place/Micronesia-republic-Pacific-Ocean>.

Republic of the Marshall Islands: The RMI consists of more than 1,200 islands and islets in two parallel chains of coral atolls—the Ratak, or Sunrise, island chain to the east and the Ralik, or Sunset, island chain to the west—in the central Pacific Ocean.⁸ The chains lie about 125 miles (200 km) apart and extend some 800 miles northwest to southeast. From 1986 to 1947, the islands were administered by the United States as part of the Trust Territory of the Pacific Islands, when the Trust Territory was dissolved by the U.S. government and the Compact of Free Association came into effect.

Republic of Palau: Palau is the western-most of the FAS, with its capital at Koror.⁹ It’s internationally renowned “Rock Islands” are a strong tourist draw driving a thriving tourism industry. Palau is also host to a growing U.S. military presence that includes high sophisticated radar and surveillance capabilities crucial to U.S. regional strategy. Palau also derives income from licensed international fishing and subsistence agriculture.¹⁰

Strategic Value of the U.S. Pacific Territories and FAS

The strategic value of the U.S. Pacific territories and FAS has been a national security priority for the U.S. since WWII. Several of these islands, Guam, Palau, and FSM, and American Samoa, are along the Second Island Chain and the Third Island Chain. These island chains informally represent the lines of access and egress for economic and defense purposes between the PRC and the Indo-Pacific, and thereby the world, including the continental U.S. In World War II, the Empire of Japan used the islands as vital basing and anchorage for its air and naval forces when launching attacks against the U.S.¹¹ Given the historical context, the U.S. has particular interest in the security of the region to prevent the FAS from ever being used again as a platform or controlled region from which to attack the U.S. or its allies.

Furthermore, the U.S. holds military bases and installations in its territories and the FAS that are in proximity to PRC. In Guam, Andersen Air Force Base and its annexes are concentrated at the northern end of the island. U.S. Navy facilities, located around the island, include a naval air station, a naval base with a ship repair yard, communications centers, and a military hospital. Compact agreements with these nations. Under Title III of the COFAs, the U.S. secures unprecedented and unmatched security and defense rights based in these nations, in exchange for vital U.S. economic assistance and defense guarantees. These rights allow the U.S. to establish military facilities in the FAS in accordance with COFA terms to exercise the right of strategic denial. The right of strategic denial allows the U.S. to deny any foreign military, including the PRC, access to an FAS territory.

The Compact agreements have provided approximately \$3 billion to the FSM and RMI from Fiscal Year (FY) 2004 to FY 2019 and \$560 million to Palau from 1994 to 2009.¹² In light of the Compacts with RMI and FSM due to expire in FY 2023 and the expiration of the COFA with Palau in FY 2024, the Biden administration is conducting COFA renewal negotiations with all

⁸ “Marshall Islands.” Encyclopedia Britannica, April 28, 2023. <https://www.britannica.com/place/Marshall-Islands>.

⁹ “Palau.” Encyclopedia Britannica, May 9, 2023. <https://www.britannica.com/place/Palau>.

¹⁰ <https://2009-2017.state.gov/documents/organization/228600.pdf>.

¹¹ Myers, Lucas. Legacy of the Pacific War, August 2020. https://www.wilsoncenter.org/sites/default/files/media/uploads/documents/AP_2020-08%20Legacy%20of%20the%20Pacific%20War%20-%20Introduction_Revised.pdf.

¹² Statement of Douglas Domenech before S. Energy & Natural Resource Cmte. July 2019 at 3. https://www.energy.senate.gov/public/index.cfm/files/serve?File_id=78F4BB31-C41F-4A48-9200-4FD10B6EB7E9

three FAS countries and is expected to submit a new 20-year COFA legislative proposal before the end of fiscal year 2023. This proposal is expected to amount to a total of approximately \$7.1 billion, of which \$6.5 billion will be for economic assistance and \$634 million will be for services provided by the U.S. Postal Service to the FAS from FY 2024 to FY 2043.¹³

Additionally, the U.S. Coast Guard (USCG) holds an active presence in the region as its cutters and patrol boats tend to be better suited than U.S. Navy vessels for the waterways surrounding the U.S. Pacific Territories and FAS.¹⁴ The USCG 14th District regularly performs maritime safety and security missions, prevention of illegal unlicensed fishing, protection of natural resources, and emergency response in the region.

In recognition of the importance of the Pacific Islands, the White House unveiled in September 2022 its Pacific Partnership Strategy (PPS), which supports the broader U.S. Indo-Pacific Strategy.¹⁵ As noted in the PPS, the impacts of Chinese pressure and economic coercion in the region and other challenges “demand renewed U.S. engagement across the full Pacific Islands region.”¹⁶ Furthermore, the strategy outlined in the PPS recognizes the need for enhancing relationships with the FAS countries and that doing so will require substantial increase in overall U.S. engagement and diplomatic presence in the region, including enhanced Coast Guard and defense engagements.¹⁷

Rising Chinese Influence

The PRC has adopted a strategy to dominate the Pacific Islands as a platform for projection of power and to undermine the United States’ ability to secure its strategic and economic interests. It has sought to reshape narratives and political decisions to align with Beijing’s interests, particularly on the question of Taiwan and U.S. engagement.¹⁸

In furtherance of their strategy, the PRC is aggressively threatening political stability of the FAS and using malign tactics to challenge U.S. influence, interests, and values in the region. Instead of open and robust competition, the Chinese Communist Party (CCP) and People’s Liberation Army (PLA) are now waging what has been described by national leadership in the region as “political warfare” tactics in derogation of democracy and rule of law.¹⁹

¹³ Lee, Matthew, “Biden budget aims at China with billions for Pacific islands,” AP News, March 9, 2023, <https://apnews.com/article/biden-budget-us-china-marshall-islands-micronesia-palau-9a3dd6c94b1287bdb015449af00cd654>.

¹⁴ <https://dkiapcss.edu/wp-content/uploads/2022/09/Blue-Pacific-Security-11-Long-Turvold-McCann-MaritimeChallenges-1.pdf>

¹⁵ “Fact Sheet: President Biden Unveils First-Ever Pacific Partnership Strategy.” The White House, September 29, 2022. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/29/fact-sheet-president-biden-unveils-first-ever-pacific-partnership-strategy/>.

¹⁶ “Pacific Partnership Strategy.” White House, September 2022. <https://www.whitehouse.gov/wp-content/uploads/2022/09/Pacific-Partnership-Strategy.pdf>.

¹⁷ Ibid.

¹⁸ “China’s Influence on the Freely Associated States of the Northern Pacific.” United States Institute of Peace, September 20, 2022. <https://www.usip.org/publications/2022/09/chinas-influence-freely-associated-states-northern-pacific>.

¹⁹ Gershaneck, Kerry K. “Political Warfare: The People’s Republic of China’s Strategy ‘to Win without Fighting.’” Project Muse. Accessed May 10, 2023. <https://muse.jhu.edu/article/796239/pdf> and Paskal, Cleo, and Grant Newsham. “Beijing’s Subversive Political Warfare in the Pacific and the Need for Greater Engagement by the United States and Taiwan.” Foundation for Defense of Democracies, March 23, 2023. <https://www.fdd.org/analysis/2023/03/22/beijings-subversive-political-warfare-in-the-pacific-and-the-need-for-greater-engagement-by-the-united-states-and-taiwan/>.

Furthermore, Beijing has sought to take advantage of the relatively weak economies and governance structures of Island nations. Through offerings of economic aid and infrastructure development, China has leveraged its resources to shape political outcomes and perceptions of the U.S. in the region. The PRC is an important market for the FAS when it comes to natural resource exports and tourism even as the PRC's fishing fleets contribute significantly to illegal, unreported, and unregulated (IUU) fishing.²⁰

Beijing has looked to expand its influence over the Indo-Pacific region through its Belt and Road Initiative—a massive global infrastructure development strategy adopted by the Chinese government in 2013 to invest in more than 150 countries and international organizations, and expand CCP influence.²¹ This is especially concerning as the PRC's economic assistance and engagement in the Pacific region could translate into an expansion of its military reach.²²

The FAS and U.S. territories are not immune from being targeted by this strategy.

Freely Associated States: The Congressional Research Service has reported that while China's influence in the Pacific Islands is growing, its engagement is relatively limited in the FAS as a whole, due to the U.S. security and economic presence in the FAS and to the PRC's lack of diplomatic relations with the RMI and Palau.²³ Among the FAS, China's engagement is greatest in Micronesia, where it is a major provider of economic assistance and investment, worth roughly \$40 million between 2009 and 2018, and with which it has a “comprehensive strategic partnership.” Twenty-five PRC entities have financed and constructed government buildings, a sports facility, a bridge, and other infrastructure, and upgraded Chuuk International Airport in the FSM.²⁴ A recent letter in March 2023 by outgoing FSM President David Panuelo highlights the increasing Chinese influence within the country and China's use of political warfare.²⁵ In the letter, President Panuelo points out that Chinese political warfare is successful because the FSM government is “bribed to be complicity, and bribed to be silent.”²⁶

While the PRC's engagement is limited in RMI and Palau, Beijing has leveraged their dominance in the tourism market to exert pressure on these countries. As countries like Palau rely economically on tourism, the PRC's ban on Chinese tourist travel to Palau places significant strain on the local economy.

U.S. Territories: The PRC has increased its economic activity within the U.S. territories. In American Samoa, Guam, and CNMI, Chinese IUU fishing have continued to impact the local economies as Chinese fishing fleets illegally overfish within U.S. territorial waters.²⁷

²⁰ “In Focus: Pacific Islands.” Congressional Research Service, November 28, 2022. <https://crsreports.congress.gov/product/pdf/IF/IF11208>.

²¹ “Cooperation Between China and Pacific Island Countries.” Ministry of Foreign Affairs of the People's Republic of China, May 24, 2022. https://www.fmprc.gov.cn/eng/wjdt_665385/2649_665393/202205/t20220524_10691917.html.

²² Edward Wong, “Military Competition in Pacific Endures as Biggest Flash Point Between U.S. and China,” *New York Times*, November 14, 2018; “Soft Power Goes Hard: China's Economic Interest in the Pacific Comes with Strings Attached,” *Multimedia Investments, Ltd.*, October 16, 2018.

²³ Joint House Foreign Affairs and Natural Resources Hearing, Sustaining U.S. Pacific Insular Relationships, (Sept. 26, 2019), <https://www.govinfo.gov/content/pkg/CHRG-116hrg37848/pdf/CHRG-116hrg37848.pdf>.

²⁴ *Ibid.*

²⁵ Paskal, Cleo. “Micronesia's President Writes Bombshell Letter on China's 'Political Warfare.'” *The Diplomat*, March 21, 2023. <https://thediplomat.com/2023/03/micronesias-president-writes-bombshell-letter-on-chinas-political-warfare/>.

²⁶ Perry, Nick. Micronesia's president accuses China of “political warfare,” March 13, 2023. <https://apnews.com/article/micronesia-china-political-warfare-taiwan-55ea0ebc5e6580f14e7331acd878e907>.

²⁷ Southerland, Dan. “Chinese Overfishing in the South Pacific Devastates Some Islands' Livelihoods.” *Radio Free Asia*, April 7, 2021. <https://www.rfa.org/english/commentaries/china-pacific-fishing-04062021143253.html>, and “Three Vessels Caught Fishing Illegally in NMI's EEZ.” *Saipan Tribune*, August 20, 2008. <https://www.saipantribune.com/>.

Furthermore, China holds significant leverage over the tourism industry in the region. Prior to the COVID-19 pandemic, Chinese tourists made up approximately 41% of the CNMI tourism industry.²⁸ Chinese tourists in CNMI have also raised concerns about “birth tourism” as PRC nationals take advantage of loopholes in U.S. visa and citizenship laws, having their children automatically become U.S. citizens by giving birth to them in CNMI.²⁹

Importance of U.S. Engagement

The FAS are members of the UN and of the global international community.³⁰ These countries each represent a vote in the UN General Assembly, thus playing a role in shaping UN norms and standards. While the FAS, have historically had a strong record of voting with the U.S. at the UN General Assembly, the U.S. should take note of the fact that there has been a decline in voting coincidence in recent years from several Pacific Island countries.³¹ As these countries have small economies and few resources, they are particularly vulnerable to coercion and leverage.

Recent actions by the PRC underscore the need for continued attention to Compact renewal with the FAS before the Compacts expire in 2023 and 2024, as their expiration could have wide ranging impacts on the U.S. influence and control in the region. The Compacts serve to preserve and renew U.S. relationships with the FAS and deter Chinese influence.

Renewed and sustained U.S. engagement with the FAS is critical in deterring Chinese influence in the region. While the U.S. has historically enjoyed strong relations with the FAS, it must not underestimate the efforts by the PRC to dismantle these relationships. Strong U.S. diplomatic and economic engagement will be necessary to preserve existing partnerships and renew positive perceptions of the U.S. in the region.

Engagement serves as the primary line of defense against PRC influence operations in several ways. First, it serves as a reminder to the FAS that the U.S. is committed to a free and open Indo-Pacific and is a reliable partner in the region. Second, engagement serves to counter the PRC’s attempts to undermine democracy through economic coercion.³² U.S. diplomatic and economic presence in the region provides tools and stability for local governments to prevent democratic erosion. This is especially the case for the (FAS).

The future of the U.S. relationship with the FAS countries will be determined by U.S. commitments and engagement. The U.S. must ensure that it is diplomatically engaging with the governments of these countries in a way that underscores the importance of these relationships. It is equally as important to ensure that Compact spending is fiscally responsible and reflective of U.S. security interests.

²⁸ Esmores, Kimberly Bautista. “China Tourists Could Return by May.” Saipan Tribune, March 15, 2023.

<https://www.saipantribune.com/index.php/china-tourists-could-return-by-may/>.

²⁹ Emont, Jon. “Saipan: The Island Where Chinese Mothers Deliver American Babies.” The Wall Street Journal, December 22, 2017.

<https://www.wsj.com/articles/the-island-where-chinese-mothers-deliver-american-babies-1513852203>.

³⁰ “Member States.” United Nations. Accessed May 10, 2023. <https://www.un.org/en/about-us/member-states>.

³¹ Voting practices in the United Nations. Accessed May 10, 2023. <https://www.state.gov/voting-practices-in-the-united-nations/>.

³² Shullman, David, ed. “Chinese Malign Influence and the Corrosion of Democracy.” International Republican Institute. Accessed May 10, 2023. https://www.iri.org/wp-content/uploads/legacy/iri.org/china_malign_influence_executive_summary_booklet.pdf.