



HOUSE COMMITTEE ON
NATURAL RESOURCES
CHAIRMAN BRUCE WESTERMAN

To: House Committee on Natural Resources Republican Members
From: House Committee on Natural Resources Indo-Pacific Task Force Republican Staff: Ken Degenfelder (Ken.Degenfelder@mail.house.gov), Justin Rhee (Justin.Rhee@mail.house.gov), and Howard Hills (Howard.Hills@mail.house.gov); ext. 6-9725
Date: Wednesday, June 14, 2023
Subject: Indo-Pacific Task Force Oversight hearing: “*How the Compacts of Free Association Support U.S. Interests and Counter the PRC’s Influence*”

The House Committee on Natural Resources will hold an Indo-Pacific Task Force oversight hearing on “*How the Compacts of Free Association Support U.S. Interests and Counter the PRC’s Influence*” on **Wednesday, June 14, 2023, at 10:00 a.m. in Room 1324 Longworth House Office Building.**

Member offices are requested to notify Ransom Fox (Ransom.Fox@mail.house.gov) by 4:30 p.m. on Tuesday, June 13, 2023, if their member intends to participate in the hearing.

I. KEY MESSAGES

- The U.S. has international agreements known as Compacts of Free Association (COFA) with three Pacific Island countries: the Republic of Palau (Palau), the Republic of the Marshall Islands (RMI), and the Federated States of Micronesia (FSM), collectively referred to as the 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). The importance of the Freely Associated States (FAS) for the U.S. cannot be overstated given the proximity to the U.S. homeland areas and the broader geopolitical context.
- Beijing has sought to take advantage of the relatively weak economies and governance structure of island nations in the region. Through offerings of economic aid and infrastructure development, the People’s Republic of China (PRC) 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 the FAS.
- In order to deter PRC influence and to maintain the United States’ capacity to secure its interests, the U.S. must remain engaged with the FAS Indo-Pacific region and respond to malign PRC coercive activity. The COFA is critical to the U.S. relationship with the

FAS and for U.S. foreign policy in the Indo-Pacific.

II. WITNESSES

- **Mr. Albert V. Short**, Colonel, U.S. Army (ret.); former Chief Negotiator for 2004 Compact of Free Association, Lorton, VA
- **Ms. Cleo Paskal**, Non-Resident Senior Fellow, Foundation for Defense of Democracies, Washington, DC
- **Dr. Thomas Lum**, Specialist in Asian Affairs, Congressional Research Service, Washington, DC
- **Mr. Grant Newsham**, Colonel, U.S. Marine Corps (ret.), Honolulu, HI

III. BACKGROUND

Freely Associated States

In 1986, the Freely Associated States (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.¹ The Marshall Island group became the Republic of the Marshall Islands, and the Caroline Island group became the Republic of Palau and the Federated States of Micronesia.² The FAS cover a maritime area comparable in size to the continental United States, govern over 1,000 islands, and have a combined population of approximately 100,000 people.³ The FAS economies face structural challenges similar to many other Pacific Island counties, including a lack of economies of scale, small land areas, limited natural and human resources, remote locations, and poor infrastructure.⁴ Each FAS is an independent nation with full membership in the UN and the Pacific Islands Forum.⁵

Federated States of Micronesia: The FSM comprises of island chains and is located between the RMI and Palau. It has a federal constitutional system comprising the states of Pohnpei, Chuuk, Yap and Kosrae.⁶ The capital is located at Pohnpei.⁷ It derives revenues from licensed international fishing in its vast territorial waters and hosts a small but thriving tourism sector.⁸

¹ The Freely Associated States and Issues for Congress.” Congressional Research Service, October 7, 2020.

<https://crsreports.congress.gov/product/pdf/R/R46705>

² “Marshall Islands.” Encyclopedia Britannica, July 7, 2023. <https://www.britannica.com/place/Marshall-Islands> and “Caroline Islands.” Encyclopedia Britannica. Accessed July 7, 2023. <https://www.britannica.com/place/Caroline-Islands>

³ The Freely Associated States and Issues for Congress.” Congressional Research Service and “Freely Associated States 2023.” World Population Review. Accessed June 7, 2023. <https://worldpopulationreview.com/country-rankings/freely-associated-states>.

⁴ 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>.

⁵ The Pacific Islands Forum. Accessed June 7, 2023. <https://www.forumsec.org/who-we-arepacific-islands-forum/> and “Member States.” United Nations. Accessed June 7, 2023. <https://www.un.org/en/about-us/member-states#gotoF>.

⁶ “Micronesia.” Encyclopedia Britannica. Accessed May 12, 2023. <https://www.britannica.com/place/Micronesia-republic-Pacific-Ocean>.

⁷ Id.

⁸ Id.

Republic of the Marshall Islands: The RMI consists of hundreds of islands 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.⁹ The chains lie about 125 miles (200 km) apart and extend some 800 miles northwest to southeast.¹⁰

Republic of Palau: Palau is the western-most of the FAS, with its capital at Koror.¹¹ It’s internationally renowned “Rock Islands” are a strong tourist draw driving a thriving tourism industry.¹² Palau is also host to a growing U.S. military presence that includes highly advanced radar and surveillance capabilities vital to U.S. regional strategic interests.¹³ Palau also derives income from licensed international fishing and subsistence agriculture.¹⁴

The FAS are diplomatically, militarily, and economically connected to the United States through the COFAs, mutually beneficial agreements that serve as the primary line of defense against PRC influence operations in the Indo-Pacific region in several ways. First, it serves as a reminder to the FAS that the U.S. is committed and values the special relationship formed under free association. Second, the Compacts enable the U.S. and the FAS to counter the PRC’s attempts to undermine democracy through economic coercion.¹⁵ U.S. economic assistance to the FAS provides tools and stability for local governments to prevent democratic erosion.

The future of the U.S. relationship with the FAS countries will be determined by U.S. commitments and engagement. As the Administration continues to conduct compact renewal negotiations, these compacts are critical to preserving U.S. relationships with the FSM, the RMI, and Palau. It is equally as important to ensure that compact spending must be fiscally responsible and reflective of U.S. security interests. Furthermore, 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.

History of the Compacts of Free Association

Framework for Trusteeship

The core principles and values embodied in the COFAs were first adopted as U.S. foreign policy and strategic priorities from the self-determination principles of the Atlantic Charter during WWII, signed by President Franklin D. Roosevelt and British Prime Minister Winston Churchill

⁹ “Marshall Islands.” Encyclopedia Britannica, April 28, 2023. <https://www.britannica.com/place/Marshall-Islands>.

¹⁰ Id.

¹¹ “Palau.” Encyclopedia Britannica, May 9, 2023. <https://www.britannica.com/place/Palau>.

¹² “Rock Islands Southern Lagoon.” UNESCO World Heritage Centre. Accessed June 7, 2023. <https://whc.unesco.org/en/list/1386/>.

¹³ Wright, Stephen. “US Plans Over-the-Horizon Radar Facility in Palau.” Radio Free Asia, March 27, 2023. <https://www.rfa.org/english/news/pacific/palau-radar-01112023015016.html>.

¹⁴ “Department of State: 2014 Investment Climate Statement.” U.S. Department of State. Accessed June 7, 2023. <https://2009-2017.state.gov/documents/organization/228600.pdf>.

¹⁵ 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.

on August 14, 1941.¹⁶ The joint declaration called for renunciation of “territorial aggrandizement” and annexation by conquest, thereby setting the stage for establishment of the UN, including the UN trusteeship system from which the COFA political status model under U.S. law evolved.¹⁷

Under the Truman administration, Congressman Mike Mansfield was assigned to inspect the islands occupied by the U.S. in the Pacific. Mansfield’s mission was to report to the President and Congress recommendations for disposition of islands that Japan had administered under the League of Nations between WWI and WWII.¹⁸ Mansfield returned and recommended the U.S. administer the islands under the UN trusteeship system established under Article 75-85 of the UN Charter.¹⁹ Furthermore, he emphasized that the proposed trusteeship for the Pacific islands would be under an agreement with the UN Security Council.

This contrasted with ten other General Assembly trusteeships that were established in the same period. Because the agreement proposed by President Truman would be classified as “strategic” under Articles 82-83 of the UN Charter, the U.S. could exercise the great power veto over any UN action that interfered with U.S. strategic priorities.²⁰

UN Trusteeship Agreement

The strategic powers of the U.S. under the 1947 trusteeship agreement between the U.S. and the UN Security Council, *Trusteeship of Strategic Areas*,²¹ were critical because the U.S. military had already begun nuclear weapons proving tests at Bikini Atoll in the Marshall Islands in 1946. The U.S. authority to continue and preserve its strategic operations and interests were confirmed in the trusteeship agreement.²²

The trusteeship agreement recognized the authority of the U.S. to foreclose access to the Trust Territory of the Pacific Islands (TTPI) or any part thereof for security purposes, including access by military forces of any third country. Furthermore, it provided that its terms could not be amended, modified, or terminated without U.S. consent. The strategic imperatives of the U.S. were secured without expiration or terms of the duration for as long as the U.S. determined.

In 1951, powers of government over civilian affairs were transferred from the U.S. Navy to the U.S. Department of the Interior through the Office of Insular Affairs, which became the basis for

¹⁶ “The Atlantic Conference & Charter, 1941.” U.S. Department of State. Accessed June 7, 2023.

<https://history.state.gov/milestones/1937-1945/atlantic-conf>.

¹⁷ Hills, Howard. “Free Association for Micronesia and the Marshall Islands: A Transitional Political Status Model.”

¹⁸ Howard Loomis Hills, Compact of Free Association for Micronesia: Constitutional and International Law Issues, 18 INT’L L. 583 (1984).

<https://scholar.smu.edu/til/vol18/iss3/10>

¹⁹ 93 Cong. Rec. 8733 (1947). For more on the UN Charter, see: “UN Charter.” United Nations. Accessed June 7, 2023. <https://www.un.org/en/about-us/un-charter>.

²⁰ Id.

²¹ “Trusteeship of Strategic Areas.” United Nations. Accessed June 7, 2023.

<https://www.un.org/en/delegate/page/un-official-documents>.

²² For more on the Trusteeship, see “Executive Order 9875-Providing an Interim Administration for the Trust Territory of the Pacific Islands.” The American Presidency Project. Accessed June 7, 2023.

<https://www.presidency.ucsb.edu/documents/executive-order-9875-providing-interim-administration-for-the-trust-territory-the-pacific>.

the Secretary of the Interior's responsibilities in administering, managing, and overseeing economic provisions within the Compacts of Free Association.²³

1986 Compacts of Free Association

Beginning in the mid-1970, local governments in the TTPI and their representatives from Palau, Yap, Truk (now officially Chuuk), Ponape (now officially Pohnpei), and Marshall Islands petitioned instead for "free association" as a distinct political status that had been most fully conceptualized in UN Resolution 2625.²⁴

In 1978, the Carter Administration met with representatives of the FSM, Palau, and the RMI in Hawaii, and all four parties signed the Hilo Principles that set forth the general terms for the Compact of Free Association.²⁵

After a policy review in 1982, President Reagan determined the draft COFA was the best option for preserving the balance of benefits and burdens to the U.S. and the FAS, and that termination of the trusteeship agreement would best serve both U.S. strategic interests and the relationship between the U.S. and the new democracies emerging from the post-WWII trusteeship.²⁶

Legislation to approve the COFA was transmitted in a Message to Congress from President Reagan on March 30, 1984.²⁷ The first international agreement defining free association under American law would create the closest alliance between the U.S. and any foreign nations in American history.²⁸

The COFA for the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) were approved in 1985 with bipartisan support in the House.²⁹ The FSM and the RMI COFA were then approved with bipartisan support in the U.S. Senate and signed into law on January 14, 1986.³⁰

In the same manner, the COFA for Palau was proposed on April 9, 1986, approved in a bipartisan manner in both chambers of Congress and were subsequently signed into law on November 14, 1986.³¹

The 1986 COFA agreements with the RMI, the FSM, and Palau all included economic assistance provisions that would expire after 15 years.³²

²³ Howard Loomis Hills, Compact of Free Association for Micronesia.

²⁴ G.A. Res., 2625, 25 UN GAOR Supp. (No. 28) 121 UN Doc. A/8028 (1970); see, also G.A. Res. 1541, 15 UN GAOR Supp. (No. 16) 29, UN Doc. A/4684 (1960).

²⁵ "Statement of Agreed Principles for Free Association, signed by the United States and Representatives of the peoples of the Trust Territory, April 9, 1978, at Hilo, Hawaii.

²⁶ Hills, Howard. "Free Association for Micronesia and the Marshall Islands."

²⁷ "Message to the Congress Transmitting Proposed Legislation to Approve the Compact of Free Association between the United States and the Trust Territory of the Pacific Islands." Ronald Reagan Library. Accessed June 7, 2023. <https://www.reaganlibrary.gov/archives/speech/message-congress-transmitting-proposed-legislation-approve-compact-free-1> and "Executive Order 12569." National Archives and Records Administration. Accessed June 7, 2023. <https://www.archives.gov/federal-register/codification/executive-order/12569.html>.

²⁸ Hills, Howard. "Free Association for Micronesia and the Marshall Islands."

²⁹ H.J. Res. 187, Jan. 14, 1986.

³⁰ P.L. 99-239, 48 U.S.C. 1681 note, 59 Stat. 1031.

³¹ H.J. Res. 626, Nov. 14, 1986, P.L. 99-658, 61 Stat. 3301.

³² "The Freely Associated States and Issues for Congress." Congressional Research Service.

2003 Compact Renewal and 2010 Palau Compact Review Agreement

In 2003, the U.S. negotiated amendments to the expiring economic assistance and federal programs provisions in Title II of the FSM and the RMI COFA, as well as some non-expiring provisions of Title I (Government Relations) and Title III (Security and Defense). The mutually agreed amendments were approved by the FAS and U.S. in accordance with their respective constitutional processes.³³ The COFA between the U.S. and the RMI and the FSM were amended and approved by Congress to extend economic assistance for another 20 years.³⁴

In 2010, the U.S. and Palau concluded a Compact Review Agreement (CRA) pursuant to Section 432 that amended and augmented expiring and non-expiring provisions of the U.S.-Palau COFA, extending economic assistance for 15 years.³⁵ In 2010, the United States and Palau concluded the U.S.-Palau Compact Review Agreement, to extend economic assistance and trust fund contributions through 2024. Although the U.S. government continued to provide annual grant assistance to Palau after 2009, Congress did not authorize full funding pursuant to the agreement until 2018.³⁶

This breakdown of stability and continuity in U.S.-Palau bilateral relations resulted in eight years of stop-gap discretionary funding and fiscal disruption, until the original mandatory funding was restored in 2017 and the CRA was amended by mutual agreement of the parties in 2018 with an understanding that it would be fully funded from 2018 until its expiration 2024.³⁷

Features of the COFA

The COFA for Palau, the FSM and the RMI have many features in common and some features that must be differentiated, as well as features that are defined by COFA approval and implementing statutes. As outlined below, except for Title Two Economic Assistance provisions which expire after a prescribed period of years (currently 20-year intervals), the COFA and the free association relationship it defines are not subject to any terms of limitation, duration or expiration, including the Governmental Relations Provisions of Title One, the Security and Defense provisions of Title Three and the Title Four General Provisions.³⁸

It should be noted that the COFA Trust Funds enacted in the Title Two Economic Assistance provision of the 2003 COFA for the FSM and the RMI are intended to provide a source of funding and sources of revenue in the form of return on investment.³⁹ These growth funds for the FSM and the RMI are in addition to annual grant assistance under provisions which do not expire with the other grant assistance and federal programs and services provisions of Title Two.

³³ Compact of Free Association Amendments Act of 2003, U.S. Public Law 108-188.

³⁴ The Freely Associated States and Issues for Congress.” Congressional Research Service.

³⁵ Agreement signed at Honolulu September 3, 2010.

³⁶ “The Compacts of Free Association.” Congressional Research Service, March 17, 2023.

<https://crsreports.congress.gov/product/pdf/IF/IF121940>.

³⁷ Agreement signed at Koror and entered into force, September 19, 2018, implemented in accordance with U.S. Public Law 115-91, 131 Stat. 1687, December 12, 2017.

³⁸ COFA Amendments Act of 2003 (PL 108-118) and 2010 Palau Compact Review Agreement (PL 115-91, 131 Stat 1687).

³⁹ Howard Loomis Hills, Compact of Fee Association for Micronesia.

Palau's Title Two COFA Trust Fund is a "sinking fund" intended to allow managed fiscal strategies until funds are expended.⁴⁰

All three COFAs contain provisions recognizing that U.S. security defense rights under Title Three are sustained in tandem with U.S. commitments to support the economic development and well-being of the FAS people, including utilization of the COFA trust funds in the case of the FSM and the RMI.

Critical Importance of COFA for U.S. Interests

The COFAs represent continuity in the developing and evolving relationship between the U.S. and the FAS nations, including benefits as well as the burdens of those relationships that began under the UN trusteeship.

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 the COFA terms and 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.⁴¹ This right is secured in a separate agreement that survives termination of the COFA and does not terminate except by mutual consent of the parties.⁴²

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.⁴³ 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.⁴⁴

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.⁴⁵ 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."⁴⁶ 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

⁴⁰ 2010 Palau Compact Review Agreement (PL 115-91, 131 Stat 1687).

⁴¹ Hills, Howard. Free Association for Micronesia and the Marshall Islands: A Transitional Political Status Model. University of Hawaii Law Review, Vol. 27/1. Winter 2004.

⁴² Section 453 Palau COFA, Section 101(d)(1)(B).

⁴³ Maritime challenges and opportunities - Daniel K. Inouye Asia-Pacific ... Accessed June 7, 2023. <https://dkiapcss.edu/wp-content/uploads/2022/09/Blue-Pacific-Security-11-Long-Turvold-McCann-MaritimeChallenges-1.pdf>.

⁴⁴ "United States Coast Guard Pacific Area: Strategic Intent." United States Coast Guard, January 2016. <https://www.pacificarea.uscg.mil/Portals/8/Documents/PACAREA%20Strategic%20Intent%20-%202016%20-%20final%20for%20release.pdf>.

⁴⁵ "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/>.

⁴⁶ "Pacific Partnership Strategy." White House, September 2022. <https://www.whitehouse.gov/wp-content/uploads/2022/09/Pacific-Partnership-Strategy.pdf>.

U.S. engagement and diplomatic presence in the region, including enhanced Coast Guard and defense engagements.⁴⁷

The Compact agreements have provided approximately \$3 billion to the FSM and the RMI from Fiscal Year (FY) 2004 to FY 2019 and \$560 million to Palau from 1994 to 2009.⁴⁸ In light of the economic provisions in the Compacts with RMI and FSM due to expire in Fiscal Year (FY) 2023, and the expiration of the COFA economic provisions with Palau in FY 2024, the Biden administration is conducting COFA renewal negotiations with all three FAS countries and is expected to submit a new 20-year COFA legislative proposal before the end of fiscal year 2023.

People’s Republic of China’s Growing Reach

The PRC has adopted a strategy to dominate the Pacific Islands as a platform for projection of power and to undermine the U.S.’ 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.⁴⁹

In furtherance of their strategy, the PRC is aggressively threatening the 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.⁵⁰

Furthermore, the PRC 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.⁵¹ 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 in FAS waters.⁵²

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

⁴⁷ Id.

⁴⁸ 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

⁴⁹ “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>.

⁵⁰ 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/>.

⁵¹ “Testimony before the House Committee on Natural Resources Subcommittee on Indian and Insular Affairs,” 2023.

⁵² “In Focus: Pacific Islands.” Congressional Research Service, November 28, 2022. <https://crsreports.congress.gov/product/pdf/IF/IF11208>.

government in 2013 to invest in more than 150 countries and international organizations and expand Chinese Communist Party (CCP) influence.⁵³ 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.⁵⁴

The FAS are no exceptions to this strategy. The Congressional Research Service (CRS) has reported that while PRC'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.⁵⁵ Among the FAS, China's engagement is greatest in the FSM, 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.⁵⁶ A recent letter by former FSM President David Panuelo highlights the increasing Chinese influence within the country and China's use of political warfare.⁵⁷

While the PRC's engagement is limited in the 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.⁵⁸

Furthermore, the FAS are members of the UN and the global international community.⁵⁹ These countries each represent a vote in the UN General Assembly, thus playing a role in shaping global norms and standards. While the FAS, have historically had a strong record of voting with the U.S. at the 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.⁶⁰ 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 on compact renewal with the FAS before they expire in 2023 and 2024, as they could have wide ranging impacts on the

⁵³ "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.

⁵⁴ 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.

⁵⁵ Joint House Foreign Affairs and Natural Resources Hearing, Sustaining U.S. Pacific Insular Relationships, (Sept. 26, 2019), <https://www.govinfo.gov/content/pkg/CHRG-116hhrg37848/pdf/CHRG-116hhrg37848.pdf>.

⁵⁶ *Ibid.*

⁵⁷ 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/>.

⁵⁸ Master, Farah. "Empty Hotels, Idle Boats: What Happens When a Pacific Island Upsets China." Reuters, August 19, 2018. <https://www.reuters.com/article/us-pacific-china-palau-insight-idUSKBN1L4036>.

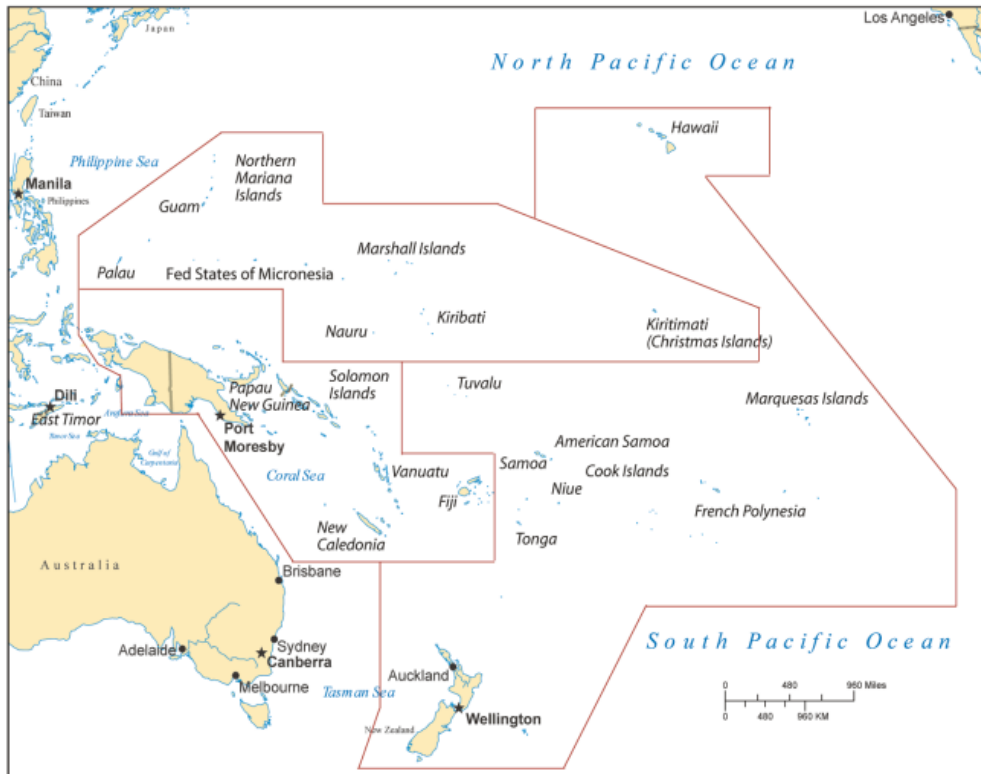
⁵⁹ "Member States." United Nations. Accessed May 10, 2023. <https://www.un.org/en/about-us/member-states>.

⁶⁰ Voting practices in the United Nations. Accessed May 10, 2023. <https://www.state.gov/voting-practices-in-the-united-nations/>.

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.

While the U.S. has historically enjoyed good relations and ties with the FAS, Beijing has increasingly sought to alter the relationship in the PRC's favor. In recent years, China has continued using military and economic coercion to bully its neighbors in the Indo-Pacific region, advance unlawful maritime claims, threaten maritime shipping lanes, and destabilize territory along the periphery of the PRC.⁶¹

Figure A-1. Map of the Southwest Pacific: Pacific Island Countries and Cultural Areas



Source: Congressional Research Service, Map of the Southwest Pacific: Pacific Island Countries and Cultural Areas.⁶²

⁶¹ U.S. Department of State, China's Military Aggression in the Indo-Pacific Region, [https://2017-2021.state.gov/chinas-military-aggression-in-the-indo-pacific-region/index.html#:~:text=Across%20much%20of%20the%20Indo,Republic%20of%20China%20\(PRC\).](https://2017-2021.state.gov/chinas-military-aggression-in-the-indo-pacific-region/index.html#:~:text=Across%20much%20of%20the%20Indo,Republic%20of%20China%20(PRC).)

⁶² CRS. July 2007, <https://crsreports.congress.gov/product/pdf/RL/RL34086>.