



Commonwealth of the Northern Mariana Islands

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**Written Testimony of Governor Arnold I. Palacios
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Oversight Hearing of the U.S. House Committee on Natural Resources

*“Peace Through Strength: The Strategic Importance of the Pacific Islands
to U.S.-led Global Security”*

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Hafa Adai and Tiroow, Chairman Westerman and distinguished members of the House Committee on Natural Resources. To my fellow islanders on the committee, Congressman Sablan, Congressman Moylan, and Congresswoman Radewagen - welcome back to the Marianas.

Thank you for inviting me to speak with you on some of the critical issues that are impacting our region. Today’s hearing is a testament to the significance and urgency of the role of the Pacific Islands in global geopolitics. That you have traveled thousands of miles to conduct this oversight hearing indicates that you indeed recognize the strategic value of the Pacific islands to securing peace and freedom in our nation and the world.

And I am here to ask Congress to do more.

It is in the interests of national and global security for the United States government to protect and fortify its Pacific territories and allies of the Freely Associated States of Micronesia (FAS) against the growing threat of the Chinese Communist Party (CCP). America’s security architecture in the Pacific is not only founded upon military defense; it is also built on and inseparable from the pillars of economic, social, and political stability in the region. It is based upon the rule of law and the resilience of democratic institutions. It is rooted in economic prosperity and the health of people and ecosystems. It hinges upon genuine, trustworthy relationships and shared commitments, backed by action, to a free and open Indo-Pacific.

Interwoven, historic connections

In the Marianas, we are Americans. We are also Micronesians. The social, cultural, political, and economic ties that weave together the islands of Micronesia, from Palau to the

Marshalls, date back to ancient times. These connections survived colonization from different nations, natural disasters, and war. For centuries, the peoples of Micronesia have traveled back and forth across the broad expanse of the Pacific, stopping in the islands to live, work, trade, study, marry, and raise families.

Since the beginning of the 20th century, the islands of Micronesia have been strategically important on the global stage, particularly in the midst of conflict and competition between superpowers. Our relationship with the United States was forged in war, in the bloody battles of World War II, and refined in peace, when the islands of Micronesia were administered by the U.S. under the United Nations Trust Territory of the Pacific, from 1947 through 1994.

It was during the Trust Territory era that each of the jurisdictions would freely determine their political status and their paths to self-sufficiency and the economic and social advancement of their citizens. The island of Saipan in the Northern Marianas was the center of many political negotiations, and served as the seat for the Trust Territory administration's headquarters. It was also the birthplace of the Congress of Micronesia.

Ultimately, each of our jurisdictions chose democratic forms of government, and a close relationship with the United States. In the Northern Marianas, we decided against becoming a sovereign nation to become American citizens, members of the American family. We chose to become a commonwealth in political union with the United States, and we negotiated the terms of this special relationship in a document we know today as the Covenant¹.

The Covenant was approved by the people of the Northern Marianas in 1975, and ratified by the United States Congress and signed into law in 1976. It guarantees the right of local self-government for the people of the Northern Marianas, and provides the United States with complete authority and responsibility over foreign affairs and defense. The Covenant also requires the United States government to assist the government of the Northern Marianas in its efforts to achieve a higher standard of living for its people and to develop the economic resources needed to meet the responsibilities of local self-government.

Our brothers and sisters in Micronesia opted for independence - Palau and the Marshall Islands became republics, and the jurisdictions of Kosrae, Pohnpei, Chuuk, and Yap formed the Federated States of Micronesia. They retained their national sovereignty and control over foreign and domestic affairs, and negotiated special relationships with the United States defined in each of the Compacts of Free Association. The Compacts provide significant economic assistance for the island nations, as well as the right of FAS citizens to reside and work in the United States as lawful non-immigrants. The Compacts also grant the United States full authority and responsibility over national security and defense, including the right to deny military access for other countries to the land, sea, and airspace of the Compact nations.

¹ U.S. Public Law 94-241, 48 U.S.C. §§ 1801-1805, The Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America.

America's corridor of peace and security in the Pacific

There is no agreement between the United States and any other nation that is quite like the Compacts of Free Association. The Freely Associated States of Micronesia are among America's closest allies on earth, and our nation's most strategically important partners in the Indo-Pacific. The U.S. territories of the Pacific firmly anchor America's position in the region, and together with the Freely Associated States create a vast corridor of peace and security that spans nearly three million square miles and connects to the seas of other allied nations.

The Pacific territories and the Freely Associated States form a critical line of defense against America's adversaries in the region. It is in America's national security interests to fortify this line of defense by expanding engagement in the region and support for the territories and Compact nations.

The United States is more than a nation with borders on the North American continent. It is also a Pacific nation, and on U.S. soil everywhere in the Pacific we experience CCP aggression on multiple fronts. We see it in massive investments in infrastructure and economic development. We see it in land grabs and fisheries expansions. We see it in unauthorized research vessels and divers lurking around our undersea fiber optic cables. We see it in organized crime, public corruption, and political interference. There is a strategic edge in all of the CCP's activities, and it destabilizes island communities and cuts against America's influence and security in the region.

Rising influence of the CCP in Micronesia

Across the Pacific and over the course of decades, the CCP's influence has grown, particularly through economic aid, commerce, and infrastructure. There are signs seemingly everywhere of "friendship projects" sponsored by the People's Republic of China (PRC) in the islands. The CCP moves both quickly and methodically to fill perceived voids in American assistance and to capitalize on the social and economic vulnerabilities of Pacific Island communities.

In the Northern Marianas, during times of economic hardship and vulnerability, we have also turned to Chinese investment for solutions. Chinese investors were always conveniently there when we needed them, offering almost irresistible opportunities for new industries and revenue sources that also directly or indirectly advanced the interests of the PRC in the Marianas.

From the 1980s through the early 2000s, we opened our doors to the garment industry. More than 30 factories, predominantly Chinese-owned, set up operations throughout the 47-square mile island of Saipan to assemble garments for export to the continental United States. Tens of thousands of people were brought in, many from the PRC, to work in these factories. The factories began to close after global trade rules changed in 2005, stripping the commonwealth of competitive advantages it had through tariff-free and quota-free access to U.S. markets. In 2008, with the passage of U.S. Public Law 110-229, the commonwealth lost local control over

immigration after years of well-documented human rights and labor violations. Many of these abuses were associated with the garment industry. The last factory shut down in 2009.

With the closure of the garment industry, the commonwealth lost a major source of revenue.² Drastic austerity measures followed, and had a deeply destabilizing effect on the people and economy of the Marianas. To make up for the loss, we turned once again to Chinese investment. We turned to Chinese tourism, capitalizing on the commonwealth's approved destination status with China and special visa-free access to Chinese tourists that was granted during the transition to federal immigration control.³ We turned to Chinese gambling, legalizing casino gaming on Saipan even after the venture previously failed on Tinian. An exclusive license was nevertheless awarded to a Chinese casino operation that has been mired in litigation and criminal investigation practically from the start.

Prior to the covid-19 pandemic, tourists from the PRC comprised approximately 40 percent of all visitor arrivals in the Northern Marianas.⁴ The Chinese casino on Saipan at its peak raked in billions of U.S. dollars in monthly rolling chip volumes from just 16 VIP tables, outdoing even the glitziest casinos in Macau. The casino also provided jobs and contracts for U.S. residents and substantial revenues for public services. For a brief period, Chinese tourism and gambling revenues unsustainably propped up the commonwealth's government and economy. But this short-lived recovery was fraught with controversy - from human trafficking to birth tourism, labor abuse, money laundering, and public corruption.

Since the pandemic, Chinese tourism to the Marianas has all but dried up, and the Saipan casino has closed. The commonwealth was fortunate to have received over a billion dollars in federal assistance during the pandemic years to shore up our economy and sustain essential public services. This aid was a lifeline, but unfortunately, to our shame and dismay, much of it was squandered by my predecessor. My administration continues to work with our federal partners to track where those funds may have been illegally or improperly spent, and how much can be recovered.

The Northern Marianas economy continues to struggle, and the government remains in deep fiscal distress. These are conditions that make the commonwealth acutely vulnerable to CCP exploitation. When I came into this office, I announced the position of my administration that we would pivot away from the commonwealth's overreliance on Chinese investment, and seek to strengthen our relationships with our federal partners and allies in the region. I worried about the instability of the Chinese markets in light of shifting geopolitical currents. I also worried about the commonwealth's potential exposure to national security concerns.

Not everyone was pleased with this position. We are taking the hits for it, both economically and politically. To this day, certain influential business interests in the community

² In 1998, the garment industry contributed approximately \$52 million, or 22 percent, of the Northern Marianas government's \$234 million budget. "Northern Mariana Islands: Garment and Tourist Industries Play a Dominant Role in the Commonwealth's Economy." U.S. General Accounting Office, Report to Congressional Committees. February 2000.

³ Since November 2009, PRC nationals have been allowed to enter the Northern Marianas as tourists visa-free, under the discretionary parole authority of the Secretary of Homeland Security.

⁴ Marianas Visitors Authority, Annual Reports for Fiscal Year 2018 and Fiscal Year 2019.

continue to ask me as well as members of the commonwealth legislature to open up to Chinese investment once again. That same kind of pressure ripples across the Pacific in various ways - to sell fishing rights or accept Chinese investment in public infrastructure, for example, or enter partnerships with PRC law enforcement, or lower visa requirements for Chinese tourists and workers. Whatever form this pressure takes, it is always erosive to America's influence and security in the region.

Supporting the Compacts, and strengthening America's engagement in the Pacific

I am happy to see that the United States is at last close to completing negotiations to renew all of the Compacts of Free Association. But I urge Congress and all of our federal partners in the region to exercise more timeliness and a sense of urgency in negotiating such critical agreements with the Freely Associated States. The appearance of reluctance or foot-dragging by the United States directly undermines national security interests, and reinforces the perception of the PRC as a more reliable partner and a bigger economic player in the region. These perceptions only become more pronounced with heightened economic, social, and political vulnerabilities in the islands.

The U.S. can strengthen its security architecture in the Pacific by expanding engagement with all of the island jurisdictions, both the territories and the Compact nations, and increasing support for the economic and social development of these communities. Safety, security, and prosperity should not be mere aspirations but tangible realities for all in the Pacific. Stable, democratic island communities are able to meet the obligations of self-government and provide for the wellbeing of their citizens. And they make stronger partners with the United States in advancing the goals of national security and ensuring a free and peaceful Indo-Pacific region.

In the Northern Marianas, we support the Compacts, and we welcome our brothers and sisters from the Freely Associated States. We extend to them the same hospitality and respect when they come to our islands as they do when we go to theirs. We are, after all, members of the Micronesian family.

We know there are costs associated with the broad array of public services that are afforded to citizens of the Freely Associated States who migrate to the United States to live, work, study, or seek healthcare. For the U.S. territories and Hawaii, Congress has appropriated what is known as "Compact Impact Funds" to help defray these costs and at least partially reimburse local governments for the health, educational, social, or public safety services provided to FAS citizens and their families. Since 2004, through Public Law 108-188, Congress has authorized \$30 million in annual Compact Impact grants distributed to the Northern Marianas, Guam, American Samoa, and Hawaii. That authorization expires in Fiscal Year 2023.

The Northern Marianas share of those funds has always been considerably small at approximately \$1.7 million a year, and almost certainly far short of actual expenditures for services rendered. Fully and accurately accounting for FAS residents and associated public expenditures is challenging, however. The American Community Survey does not cover the territories, and so we rely on the decennial census and population estimates drawn from that data.

Moreover, in the Northern Marianas, our agencies and social service organizations do not use a consistent definition to capture the FAS populations they serve. They also do not use a consistent methodology for determining expenditures that can be attributed to services provided to FAS residents.

I think that part of our difficulty in tracking such data lies in our discomfort with putting a number on costs associated with the presence of our Micronesian brothers and sisters in the Marianas. To be frank, I dislike the term, “Compact Impact.” The connotation is negative, and it understandably makes people bristle. It brushes over the reciprocal nature of the relationship between the United States and the Compact nations. It also erases the close ties that bind island communities across the Pacific. And it fails to adequately acknowledge the shared contributions of all of the island jurisdictions to the defense of our nation and freedom and security in the Indo-Pacific region.

I suggest that we stop calling it Compact Impact. Let’s call it “Compact Support.” And let’s not only rename it, but reframe its purpose beyond merely “defraying costs” and “mitigating impacts.” The economic aid provided in the Compacts of Free Association is a crucial element in America’s security architecture in the Pacific. Compact Support funds are also key to enabling America’s Pacific Islands to build up and expand our defenses against CCP ambitions. Compact Support funds can help fortify vulnerable island communities by providing the means to achieve economic, social, and political stability and shore up financially distressed governments.

The Northern Marianas should be America’s diplomatic center in Micronesia

Reciprocity and mutual aid are bedrock Pacific values, and islanders place great stock in cultivating long-term, mutually beneficial relationships. With our deeply rooted cultural and historical ties and close friendships in the region, the Northern Marianas can and should be America’s bridge to strengthen relationships with our Pacific neighbors, and facilitate multifaceted defenses to counter CCP aggression, from economic development and law enforcement capacity building, to learning exchanges, national security networks, and think tanks.

The Department of Defense maintains a strong presence in Micronesia, particularly through Guam. So, too, should the State Department, and I propose that the U.S. base for diplomatic engagement with the nations of Micronesia and all of Oceania should be headquartered in the Northern Marianas. Formally establishing the Northern Marianas as the U.S. center for diplomacy in Micronesia can open pathways for enduring relationships and deeper engagement with our brothers and sisters in the Pacific.

I urge Congress to support initiatives that reinforce America’s position as a strong and trusted partner in the Pacific. To bolster our defenses against CCP threats in our region, we need a robust network of national security advisors across the territories and Freely Associated States. These networks can play a critical support role for territorial governors and Micronesian heads of state, and deliver capacity building to help island communities effectively respond to difficult and destabilizing problems, from illegal, unreported, and unregulated (IUU) fishing to organized

crime and money laundering. Complementary to this effort is the bipartisan H.R. 5001, which I support, and which would place special advisors for insular areas in every executive department of the federal government, and help ensure that the needs and concerns of island communities are carefully considered in federal decision-making.

Stability in the Pacific is key to national and global security

The social, economic, and political stability of America's territories and allies in the Pacific cannot be separated from national security interests and peace in the region. As the commonwealth pivots to closer relationships with our federal partners and allies in the Pacific, I see many ways that Congress can support territorial stability and therefore national security.

In previous forums, I have called upon Congress and the Biden administration to help us build our law enforcement capacity with federal partners, strengthen our financial accountability systems, and secure parity in key federal programs that serve our most vulnerable citizens, like Medicaid and Nutrition Assistance. These asks are still very much relevant and remain ongoing endeavors.

We also need Congress to recognize the unique challenges we face in the islands, and to make changes to federal policies that hinder our economic and social development. In the Northern Marianas, our recovery from several major typhoon disasters and the pandemic has been slowed by federal policies that have created roadblocks in procurement and instability in the workforce. With respect to our procurement challenges, we understand and appreciate the goals of the Build America, Buy America (BABA) Act to strengthen American industries and national security, and deliver good-paying jobs. In the Pacific Islands, however, this policy becomes untenable when it makes the sourcing of equipment and supplies extremely cost-prohibitive and when it is exceedingly difficult for small island territories to compete with bigger states in procurement.

Thankfully, several federal agencies have recognized the extraordinary hardship that BABA requirements impose on small island communities, and have moved to grant BABA waivers for the Pacific territories. Each federal agency must go through a rather lengthy process to grant these waivers, however, and every day of delay in an important infrastructure project costs us dearly. A blanket BABA waiver from Congress across the federal family would efficiently resolve the issue, and allow the territories to access closer markets with allied nations so that our projects can move forward.

With respect to our workforce challenges, nearly all of our infrastructure and recovery projects are slowed by worker shortages, and the Northern Marianas has seen significant population declines over the past twenty years.⁵ To shore up the commonwealth's eroding population and workforce, I urge Congress to pass Representative Gregorio Kilili Sablan's H.R. 560, the Northern Mariana Islands Population Stabilization Act, which would provide stability and permanent residency in the Marianas for an estimated 1,600 long-term foreign workers. I

⁵ U.S. Census data show that the Northern Marianas population has declined by nearly 32 percent from 69,221 in 2000 to 47,329 in 2020.

also ask for congressional support to repeal or at the very least delay implementation of the touchback provision in the Commonwealth-Only Transitional Worker (CW) program, which requires a significant portion of our workforce to exit the commonwealth for an indefinite period while they wait for permit renewals to be processed.

The touchback provision goes into effect for many CW workers next month, and the disruption that would be created by a mass exodus of workers could not come at a worse time. Businesses large and small, and workers across the commonwealth, are deeply anxious. The touchback requirement will only cause further instability in already-uncertain times, and we need Congress to urgently and expeditiously change this federal policy.

American engagement ensures a free and peaceful Indo-Pacific

America's national security interests are interwoven with the needs of the territories and the Freely Associated States for support and stability, just as the island communities of Micronesia are interwoven with each other. American engagement and assistance to the region are vital for both national and global security, strengthening partnerships of mutual benefit and supporting the advancement of Pacific Island communities.

Again and again, the CCP has demonstrated its capacity to exploit the vulnerabilities of the islands in order to amplify the presence and power of the PRC and undercut American influence and security in our region. The CCP fully recognizes the strategic importance of America's territories and allies in Micronesia. To counter CCP aggression, America must stand as a beacon of shared commitment and respect, and deliver on its promises to take care of its citizens and friends. Congress can do more to support the Pacific Islands and protect national security by recognizing our unique challenges, expanding engagement and direct assistance, and making changes in federal policies that impair our development.

I have emphasized many of these points before in testimonies before the U.S. Senate Committee on Energy and Natural Resources and the Interagency Group on Insular Areas in February, and in conversations I have had with military and political leaders. Help us help ourselves, so we are stronger partners in bolstering national security and ensuring that the Pacific remains a haven of peace, prosperity, and freedom.

Si Yu'us Ma'ase, Ghilisow, and Thank You for inviting me to testify before you today, and for coming all this way for this important field hearing. I invite the members of this committee to visit us in the Northern Marianas as well, so you can enjoy our hospitality and beautiful islands and see for yourselves the unique opportunities and challenges that we face.

May God bless the Northern Marianas and all the Pacific Islands. May God bless the United States of America.