

**Statement**  
**The Honorable Kaleb Udoi, Jr.**  
**Minister of Finance of Palau on behalf of President Surangel S. Whipps, Jr.**  
to the  
**United States House of Representatives Committee on Natural Resources**  
**Hearing in Guam, August 24, 2023 on the**  
**Importance of the U.S. territories in the Pacific and the states freely associated with the**  
**U.S. to the U.S.' ability to counter the People's Republic of China's malign influence**  
**and maintain the U.S.' strategic interests in the region**

Mr. Chairman and Distinguished Members,

I am pleased to represent President Whipps. He would be here himself – as he was for the Committee's Indo-Pacific Task Force hearing last month – but he has a longstanding commitment to host more than 20 Members of the national legislatures of Japan and Taiwan today. So, he has asked me to say that he looks forward to meeting you in Palau tomorrow.

To understand Palau's role in the ability of the United States to counter China and maintain U.S. strategic interests in the region, one must understand the relationship between the U.S. and Palau, including its background; Palau's economic and budgetary situation; and China's recent actions.

The relationship began after bloody battles with the Pacific enemy in World War Two that decimated Palau but were the final step to retaking the then U.S. territory of the Philippines.

Later, the United Nations entrusted Palau and the other Pacific islands that Japan had governed to the U.S. as one of 11 territories to develop into a self-governing status.

This "trust territory" was the only one designated as a "Strategic" territory. The designation enabled the U.S. to deny other nations access to a region larger than the 48 contiguous States of the U.S., including the region's seas and airspace.

In Palau's case, the area is the size of Texas, borders the Philippines and Indonesia, and includes critical shipping lanes. It the jurisdiction closest to Asia over which the U.S. has strategic control.

The U.S. sought to preserve this with financial and domestic programs assistance and a U.S. territorial status.

Palauans wanted a level of self-government not possible under such a status, but had grown to admire and feel a deep kinship with the U.S.

The solution was national sovereignty but in free association with the U.S. The U.S. has no closer relationship with any other nation. President Reagan, in urging acceptance, said, "You will always be family to us."

The Compact of Free Association continued the ability of the U.S. to deny forces of other nations access and granted the U.S. land it needs for defense and Palau agreement to refrain from interactions with other nations that the U.S. says would compromise security. These factors prompted a top U.S. military commander to call Palau part of "the homeland."

The arrangement is vital to a free and open Indo-Pacific.

The U.S. is now putting its closest-to-Asia earliest-warning radars and extending a runway in Palau. It is also considering other air and sea port facilities.

We are committed to having the facilities that the U.S. military needs in Palau, but the runway on the island of Peleliu and the radars, one of which is on the island of Angaur, have caused concern in Palau, and there may have been a Chinese effort to derail the Angaur radar.

Peleliu and Angaur were the sites of major World War Two battles that devastated those islands. The concern is that these new military facilities, especially the radars, would make Palau a first ‘bullseye’ for a missile attack. When the plans for the Angaur radar were announced, there was opposition asserting that there were already plans for a Chinese hotel and casino next door, a much more attractive development for the community,

The Compact also provided financial assistance for 15 years, primarily through a Trust Fund that was to last for 50 years – but which your government and mine now agree was inadequate; a number of domestic programs; and free access to the U.S. for our small population.

It also, however, recognized that adjustments and further assistance would be needed over time. So, it required periodic joint reviews of the relationship as well as Palau’s needs, with a U.S. commitment to act on the conclusions. I serve as Palau’s Chief Negotiator for the second review, the 30<sup>th</sup> Anniversary Review.

An Agreement has been reached with the U.S. Executive branch, which has submitted a legislative package for it to the U.S. Congress for enactment. It was negotiated to take effect October 1<sup>st</sup>.

President Whipps strongly supports it, and it has been approved by Palau’s Congress.

The legislation would not only improve the relationship for the next 20 years; it would enable the relationship to continue afterwards for as long as both governments want. It would do this by providing a basis for financial and programs assistance continuing after 20 years if both governments agree. It would repurpose the Trust Fund for needs that would otherwise not be met.

Palau and the U.S. are ‘joined at the hip.’ Palau also recognizes Taiwan’s right to exist and stands firmly behind Taiwan.

Continuation of the relationship, however, be taken for granted. The majority of Palauans want to maintain our current alliances, but China has worked to change this and has made inroads with some people.

The 15<sup>th</sup> Anniversary Review reached agreement in 2010, but its legislation was not enacted for eight years, solely due to an impasse between the U.S. Executive and Congress on how to pay for it.

China took advantage of the impasse. Palau continues to be subjected to China’s substantial economic ‘carrots and sticks’ to shift Palau’s alliances.

Tourism is our largest industry. During the U.S. impasse, China quickly ramped up tourist visits from a handful to two-thirds of 160,000 a year. It bought hotel rooms far in advance, crowding out visitors from other nations. Then it said it would cut off the flow if we did not shift. We didn’t, and it carried through on its threat.

Just before COVID, China offered to send as many tourists as we could accommodate and establish a huge new industry in Palau, but again only if we shift alliances.

The pandemic hit right after the Chinese body blow to our economy. The combination shrank the economy 30% in just five years, causing real pain for our people and eliminating budget surpluses.

Palau then became the only U.S.-affiliated jurisdiction to not receive COVID revenue loss grants. The Federal government gave grants to States, territories, Tribes, and municipalities. The Asian Development Bank gave grants to the other two freely associated states.

The ADB only offered us loans because of the previous level of our economy. We have had to cut our budget, improve revenues, and borrow more than is desirable to continue basic government operations.

Tourism is coming back, but more slowly than the ADB and other economists projected.

We are working to open other markets and get more flights but are limited by a runway so short that only narrow body jets can use it – and use it at a maximum of 70% passenger loads.

We are also working to develop other industries.

Meanwhile, most of the private sector investment in Palau is from China. Palau is only five hours away from Beijing.

Some of our people, including some of our most important leaders, are tempted by Chinese offers. They see China as the best opportunity for the private sector growth we want.

The U.S. does not have a command economy, but it has the Compact and the 30<sup>th</sup> Anniversary Review package. Enacting it by September 30<sup>th</sup> or as soon as possible thereafter is the most effective way to counter China and maintain U.S. strategic interests in the region.

After the experience of the 2010 Agreement not being approved by the U.S. Congress until 2018, a significant delay in the approval of the current agreement will give those in Palau who see a future with China and those with Chinese connections an opportunity to sow doubt about the U.S.' interest in our islands. Obviously, if the delay is long enough, there will be another opportunity for China to affect our economy and people.

The Agreement's funding is also essential for keeping Palauans in Palau instead of moving to the U.S., where they can earn more. When they leave, they often have to be replaced by people from other nations who do not feel the same identification with the U.S. that most Palauans feel.

Putting the Agreement's provisions into effect and letting the State Department bureaucracy take the lead from there, however, will not be sufficient over time. Some at State have wanted to treat us like nations that exercise all of their sovereignty and do not have Federal domestic programs, etc. We have a different status and a uniquely closer relationship with the U.S.

When the Compact was initially approved by the U.S. Congress, your Committee insisted on a separate Office of Freely Associated State Affairs at State and a meaningfully functioning Interagency Group. The Office was established administratively but closed some years later.

This time, your Committee should lead the Congress in re-establishing the Office – but by law – with coordinators appointed by the Secretaries of Defense and the Interior and reporting to the NSC through a senior-level Interagency Group.