

House Natural Resources Committee, Indo-Pacific Task Force

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# How the Compacts of Free Association Support U.S. Interests and Counter the PRC's Influence

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## Introduction

Chair Radewagen, Co-Chair Sablan, and distinguished members of this task force, thank you for the privilege and honor of being invited to testify today. The creation of this bipartisan Indo-Pacific Task Force, under the auspices of the Committee on Natural Resources, is innovative, timely, and important — and heartening.

By its very composition, this task force shows how much the United States is not just a Pacific country but a Pacific Islands country, with its chair from American Samoa, its co-chair from the Commonwealth of Northern Mariana Islands (CNMI), and distinguished members from Guam and Hawaii. There is an enormous depth of knowledge in this room. That combined with the truly bipartisan nature of the task force gives hope that real solutions can be found for some of the critical threats facing region.

The threats are real — and urgent. The Pacific Islands of America (PIA) and U.S. Freely Associated States (FAS) are at the receiving end of a long running, well-funded, focused, and multifaceted attack by the People’s Republic of China (PRC). Beijing’s goal is to undermine these entities’ relationships with the United States, weaken their state institutions, and ultimately to create the conditions in which, as one senior Chinese official told Admiral Timothy Keating: “You take Hawaii east. We’ll take Hawaii west.”<sup>1</sup>

This testimony will describe some of the ways in which China is trying to accomplish that goal, with examples from each of the FAS. It will also describe how, in each of the FAS, what the United States, in partnership with the people of the PIA and FAS, can do to fight back, including adopting a “Block and Build” strategy in which malign influence is blocked while concurrently domestic security (including economic security) is built.

## Block and Build

Fundamentally what’s needed is a “Block and Build” approach in which vulnerable entities, with the support of allies if needed, block malign Chinese influence while simultaneously building domestic security (including economic security).

Given the advanced state of PRC influence operations in the region (described in more detail below), one has to assume that any major project designed to give the FAS economic or political independence (build), especially ones that will make them less reliant on China, will be targeted by PRC agents and slowed down through a range of grey zone tactics, from bureaucratic stalling to unfair competition, from information warfare to lawfare. Unless that targeting is blocked, it will be very hard to build.

At the same time, blocking PRC malign influence alone won’t work. The region is still hurting from Covid-linked economic collapse and, if there is no building, just blocking, social disruptions caused by increasing desperation could become destabilizing and open up new pathways for the PRC that are extremely difficult to block.

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<sup>1</sup> Donna Miles, “China Requires Close Eye as It Expands Influence, Capability,” *American Forces Press Service*, March 12, 2008. (<https://www.dvidshub.net/news/17315/china-requires-close-eye-expands-influence-capability>)

The title of this hearing asks “How the Compacts of Free Association Support U.S. Interests and Counter the PRC’s Influence.” They do it in part by giving the United States the tools necessary to Block and Build in the FAS.

As Chair Radewagen put it at the launch of this task force, the Compacts are: “One of most important tools that the United States has in supporting democracy and good governance while denying China the ability to project strategic power throughout the vast Pacific region.”<sup>2</sup>

That tool, however, is underutilized in some cases and even mis-utilized at times. With financial and service renewal sections of the Compact coming to Congress soon, this task force couldn’t be timelier. The stakes are high. If a block and build strategy that dovetails with the Compacts isn’t adopted, there is a real risk that not only will the long-standing familial relationship with the people of the FAS be betrayed, but the United States’ Pacific military strategy could collapse.

### **Geographic Importance of the Region (Map at End)**

As others in this hearing will describe in more detail, the core American Pacific military strategy for decades has been to reinforce the First Island Chain off the coast of Asia (the string of islands broadly running north-south from Japan, through Taiwan, Philippines, and on past Malaysia). This is reinforced by another broadly north-south chain just to the east, the Second Island Chain (definitions vary, but it roughly runs from Japan, onward to the Commonwealth of Northern Marianas, Guam, the Federated States of Micronesia, Palau, Indonesia, Papua New Guinea, and then Australia).

The Pacific Islands of America and the U.S. Freely Associated States have made the island chain strategy to be possible.

The Pacific Islands of America include the unincorporated United States insular areas (also known as territories) of American Samoa, Baker Island, Guam, Howland Island, Jarvis Island, Johnston Atoll, Kingman Reef, Midway Atoll, the Commonwealth of the Northern Mariana Islands (CNMI), and Wake Island. Palmyra Atoll, which includes about 50 small islands a thousand miles or so south of Honolulu, is America’s only incorporated insular territory.<sup>3</sup> The Exclusive Economic Zones (EEZ) of the PIA combine to cover over 750,000 square miles, or roughly the surface area of Turkey.<sup>4</sup>

The United States also has Compacts of Free Association (COFAs) with three independent countries: the Republic of Palau, the Republic of the Marshall Islands (RMI), and the Federated States of Micronesia (FSM) — together known as the Freely Associated States (FAS).

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<sup>2</sup> House Committee on Natural Resources GOP, “Indo-Pacific Task Force Announcement,” *YouTube*, June 7, 2023. (<https://www.youtube.com/watch?v=XxTa3eLxgfg>)

<sup>3</sup> “Definitions of Insular Area Political Organizations,” *U.S. Department of the Interior, Office of Insular Affairs*, accessed 12 June 2023. (<https://www.doi.gov/oia/islands/politicatypes>)

<sup>4</sup> Alexander B. Gray and Douglas W. Domenech, “U.S. Territories: The Frontlines of Global Competition With China,” *RealClearDefense*, March 11, 2021. ([https://www.realcleardefense.com/articles/2021/03/11/us\\_territories\\_the\\_frontlines\\_of\\_global\\_competition\\_with\\_china\\_767683.html](https://www.realcleardefense.com/articles/2021/03/11/us_territories_the_frontlines_of_global_competition_with_china_767683.html))

Combined, their EEZs cover a vast area of the Pacific comparable in size to the continental United States.

Through the COFAs, the three FAS have voluntarily granted the United States uniquely extensive defense and security access in their sovereign territories. In the words of the Compacts: “The Government of the United States has full authority and responsibility for security and defense matters in or relating to the Marshall Islands and the Federated States of Micronesia [and Palau].”<sup>5</sup>

This includes control over key aspects of strategic decision-making, such as the prerogative for the United States to set up and operate U.S. military bases in the countries<sup>6</sup> and a veto over other countries’ military access to the region.<sup>7</sup>

Combined, the PIA and the FAS extend the defensive perimeter of the United States to the waters of America’s treaty allies, the Philippines and Japan, and through them to Taiwan. This ‘corridor of freedom’ (including freedom of movement) underpins American strategic planning in the Pacific and makes the island chain defenses possible.

It is one of the many reasons Ranking Member Raúl M. Grijalva’s comment at the launch of this Task Force about “how grateful we are for the role these insular areas have played for this country”<sup>8</sup> was so apt.

### **Targeting the FAS**

No other countries on the planet have such a deep defense relationship with the United States as do the FAS. The privileges and access granted to the United States by the FAS are unique. However, they are rarely discussed or examined and seem to have just become a ‘given’ in American strategic planning.

At the same time, those ties are a direct threat to China’s ambitions, including its desire to push the United States back to Hawaii. And Beijing has been doing something about it. Others at this hearing will be covering the military aspects of China’s attempts to infiltrate, coopt, and control the land, sea, and airspace of the FAS. While China is in the process of setting up those kinetic warfare capabilities in the region, it is also already well advanced on the political warfare front, which is what this testimony will focus on.

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<sup>5</sup> Compact of Free Association Act of 1985, Pub. L. 99-239, 99 Stat. 1770, codified as amended at 48 USC §1681. (<https://www.congress.gov/99/statute/STATUTE-99/STATUTE-99-Pg1770.pdf>); Trust Territory of the Pacific Islands, Pub. L. 99-658, 100 Stat. 3672, codified as amended at 48 USC §1681. (<https://www.congress.gov/99/statute/STATUTE-100/STATUTE-100-Pg3672.pdf>)

<sup>6</sup> Thomas Lum, “The Compacts of Free Association,” *Congressional Research Service*, August 15, 2022. (<https://crsreports.congress.gov/product/pdf/IF/IF12194/1>)

<sup>7</sup> In broad terms, apart from defense and security provisions, the COFAs also give citizens of the FAS the right to work in the United States and to serve in the U.S. military and they provide financial support and services (such as the postal service) to the government and people of the FAS. The financial and service provisions are renegotiated every twenty years and are currently up for renewal, expiring in FSM/RMI in 2023 and Palau in 2024.

<sup>8</sup> House Committee on Natural Resources GOP, “Indo-Pacific Task Force Announcement,” *YouTube*, June 7, 2023. (<https://www.youtube.com/watch?v=XxTa3eLxgfg>)

China has put enormous effort into understanding the social, political, and economic dynamics of the Pacific islands. In any country with which China has diplomatic relations, Beijing has a large embassy with staffers who speak the local language and have seemingly limitless funds to spend on influence and entertainment. In countries like the Marshall Islands and Palau, which recognize Taiwan, Beijing maintains unofficial operating nodes. The one in Marshall is considered locally as an unofficial embassy.

Since 2012, at least six Oceania-specific research centers have been set up in China, including Liaocheng University's Research Centre on Pacific Island Countries, which has a full-time staff of close to 40 researchers.<sup>9</sup>

This official research is augmented by inputs from Chinese businesses in the region that are, as per China's 2017 National Intelligence Law, legally obligated to support the government's intelligence operations.<sup>10</sup>

They are also supplemented by Chinese organized crime. This deployment (or at the very least sufferance) of criminal elements to advance CCP objectives is something that is becoming more prevalent or at least more visible, and it was overt during the crackdown in Hong Kong.<sup>11</sup>

According to the Organized Crime and Corruption Reporting Project's December 2022 report on the Chinese Communist Party and triads in Palau:

“In 2019 and 2020, Palauan law enforcement detained and deported hundreds of mostly Chinese citizens working in illegal online gambling operations based in the country. The operations are just the latest in a string of questionable ventures by ethnic Chinese business people in the country, including U.S.-sanctioned senior triad figure Wan Kuok Koi, also known as ‘Broken Tooth’. Palauan authorities believe the plans are interlinked, and tied to influence efforts by the Chinese Communist Party (CCP). The Chinese push into Palau has been facilitated by long-time Chinese expatriates in the country, as well as members of the local elite. Among these prominent locals have been two former presidents”.<sup>12</sup>

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<sup>9</sup> Denghua Zhang, “Growing Academic Interest in the Pacific — Pacific Research Centres in China,” *Australian National University Department of Pacific Affairs*, February 2020.

([http://dpa.bellschool.anu.edu.au/sites/default/files/publications/attachments/2020-02/dpa\\_in\\_brief\\_2020\\_2\\_zhang\\_final.pdf](http://dpa.bellschool.anu.edu.au/sites/default/files/publications/attachments/2020-02/dpa_in_brief_2020_2_zhang_final.pdf))

<sup>10</sup> National Intelligence Law of the People's Republic,

(Adopted at the 28th meeting of the Standing Committee of the 12th National People's Congress on June 27, 2017), (China). ([https://cs.brown.edu/courses/csci1800/sources/2017\\_PRC\\_NationalIntelligenceLaw.pdf](https://cs.brown.edu/courses/csci1800/sources/2017_PRC_NationalIntelligenceLaw.pdf))

<sup>11</sup> Gerry Shih, “China's backers and ‘triad’ gangs have a history of common foes. Hong Kong protesters fear they are next.” *The Washington Post*, July 23, 2019. ([https://www.washingtonpost.com/world/asia\\_pacific/chinas-backers-and-triad-gangs-have-history-of-common-foes-hong-kong-protesters-fear-they-are-next/2019/07/23/41445b88-ac68-11e9-9411-a608f9d0c2d3\\_story.html](https://www.washingtonpost.com/world/asia_pacific/chinas-backers-and-triad-gangs-have-history-of-common-foes-hong-kong-protesters-fear-they-are-next/2019/07/23/41445b88-ac68-11e9-9411-a608f9d0c2d3_story.html))

<sup>12</sup> Bernadette Carreon, Aubrey Belford, and Martin Young, “Pacific Gambit: Inside the Chinese Communist Party and Triad Push into Palau,” *Organized Crime and Corruption Reporting Project*, December 12, 2022. (<https://www.occrp.org/en/investigations/pacific-gambit-inside-the-chinese-communist-party-and-triad-push-into-palau>)

Across the region, the PRC strategy seems to entail the use of unrestricted warfare tactics, including bribery and blackmail, to undermine sovereignty and increase PRC influence. This can be described as entropic warfare, as China actively seeks to destabilize and weaken target countries to make them easier to dominate and control.<sup>13</sup> The definition of entropy is: “a process of degradation or running down or a trend to disorder.” Entropic warfare paralyzes a target country’s (political, legal, economic, social [and ultimately, if they have one, military]) ability to respond or defend itself, allowing Beijing to win without fighting.

### **Federated States of Micronesia (Missed Opportunity to Block and Build)**

This is what then President of FSM David Panuelo was describing in his March 9, 2023, letter,<sup>14</sup> in which he writes not only how PRC bribery affect national security but that the PRC is actually working to create the conditions to break up the country itself by supporting separatist movements:

“Senior officials and elected officials across the whole of our National and State Governments receive offers of gifts as a means to curry favor. The practical impact of this is that some senior officials and elected officials take actions that are contrary to the FSM’s national interest, but are consistent with the PRC’s national interests ... So, what does it really look like when so [many] of our Government’s senior officials and elected officials choose to advance their own personal interest in lieu of the national interest? After all, it is not a coincidence that the common thread behind the Chuuk State secession movement, the Pohnpei Political Status Commission and, to a lesser extent, Yap independence movement, include money from the PRC and whispers of PRC support.”

In his letter, Panuelo outlined what would be required for the FSM to recognize Taiwan, in effect offering the United States a rare opportunity to transform the region and support Block and Build. Doing so would have, over time, blocked the sort of PRC-instigated economic and social disruptions (entropic warfare) he described and would give FSM the space to build its economy and society in a resilient and sustainable manner.

It also would have led to all three FAS recognizing Taiwan, reinforcing each other politically, and creating opportunities for cooperation that increase strategic depth, such as illegal fisheries patrols throughout FAS waters that include Taiwanese representatives.

Additionally, it would have been a major psychological boost to those trying to fight PRC influence — a counter to the PRC’s inevitability narrative, which tries to inculcate the idea that resistance is futile.

Yet Washington failed to seize this critical opportunity. As part of putting together a future strategy, it is important to understand why neither the State Department nor any other arm of the federal government actively followed up on Panuelo’s offer.

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<sup>13</sup> Cleo Paskal, “China Winning Entropic Warfare in Pacific Islands,” *Sunday Guardian* (India), June 4, 2022. (<https://www.sundayguardianlive.com/news/china-winning-entropic-warfare-pacific-islands>)

<sup>14</sup> Cleo Paskal, *LinkedIn*, March 10, 2023. ([https://www.linkedin.com/posts/cleopaskal\\_panuelo-letter-on-switch-to-taiwan-prc-activity-7039672476045340672-8RmJ](https://www.linkedin.com/posts/cleopaskal_panuelo-letter-on-switch-to-taiwan-prc-activity-7039672476045340672-8RmJ))

## **Marshall Islands — The Department of Justice Inadvertently Undermines Block and Build**

A recent case involving two Chinese-origin individuals who tried to bring down the government of the Marshall Islands — and what the Department of Justice (DoJ) did about it — is just as worthy of inquiry.

The Republic of the Marshall Islands recognizes Taiwan and is home to an important U.S. military base at Kwajalein. RMI will hold elections in November 2023, and, unlike Palau and FSM, it has yet to sign in the current round of Compact negotiations.

The Marshallese sacrificed dearly, including through 67 nuclear tests conducted by the United States,<sup>15</sup> to contribute to America’s defense. But, as we’ve seen, the PRC’s preferred battlefield today is political — with the goal of obviating the need for kinetic warfare (i.e., to win without fighting) — or to ease the way for a kinetic win if required.

As seen in FSM, the United States’ focus on kinetic defense has not been matched by a concern for defense against China’s political warfare. In fact, in some cases, the United States takes misguided and short-sighted actions that only make things easier for the PRC.

An example is the case of PRC-origin Cary Yan and Gina Zhou. Yan and Zhou obtained Marshall Islands passports and then set about trying to undermine the sovereignty and integrity of the Marshall Islands. The incident details below comes from Department of Justice documents.

By December 2016, Yan and Zhou were meeting with RMI officials in both New York City and the RMI itself, proposing the development of a semi-autonomous region within the RMI.

Around April 2018, an NGO controlled by Yan and Zhou hosted a conference in Hong Kong attended by, among others, members of the RMI legislature. The NGO paid for the travel, accommodations, and entertainment of the RMI officials. There, the NGO, with the support of the legislators, publicly launched an initiative to establish the so-called Rongelap Atoll Special Administrative Region (the “RASAR”).

RASAR was to be created by legislation (the “RASAR Bill”) that, if enacted by the RMI legislature, would significantly change the laws on the Rongelap Atoll, including relaxing immigration regulations.

U.S. Immigration and Customs Enforcement described RASAR as: “a multi-year scheme that included establishing a nongovernmental organization and allegedly bribing officials in the Republic of the Marshall Islands with the intention of establishing a semi-autonomous region, akin to Hong Kong, in the U.S.-defended Marshall Islands.”

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<sup>15</sup> Hart Rapaport and Ivana Nikolić Hughes, “The U.S. Must Take Responsibility for Nuclear Fallout in the Marshall Islands,” *Scientific American*, April 4, 2022. (<https://www.scientificamerican.com/article/the-u-s-must-take-responsibility-for-nuclear-fallout-in-the-marshall-islands>)

According to the DoJ’s sentencing submission, Yan: “played a long game. He acquired a[n] unaffiliated NGO, in order to position himself to bribe numerous RMI officials. When those initial bribes failed to accomplish Yan’s goal of establishing the RASAR, he sought to boot the RMI’s then-President from office. And although that attempt failed, when there was a change in administrations, Yan worked with the officials he had bribed to try again. It was only the combination of the pandemic and the charges in this case that ultimately foiled Yan’s efforts.”<sup>16</sup>

On November 16, 2020, Yan and Zhou were arrested in Thailand. On September 2, 2022, they were extradited to the United States and arrived in New York and charged with conspiring to violate the Foreign Corrupt Practices Act (FCPA), violating the FCPA, conspiring to commit money laundering, and committing money laundering.

At the unsealing of the indictment against Yan and Zhou, Assistant Attorney General Kenneth A. Polite, Jr. said: “Yan and Zhou allegedly engaged in a multi-year scheme to bribe elected officials in the Marshall Islands and to corrupt the legislative process.”<sup>17</sup>

U.S. Attorney Damian Williams added: “Yan and Zhou’s bribes blatantly flouted the sovereignty of the Republic of the Marshall Islands and its legislature.”<sup>18</sup>

The maximum penalties for these charges are five years in prison for conspiring to violate the FCPA; five years in prison for each violation of the FCPA; 20 years in prison for conspiring to commit money laundering; and 20 years in prison for committing money laundering.

Yan and Zhou each pled guilty to one count of conspiracy to violate the anti-bribery provisions of the Foreign Corrupt Practice Act, with Yan getting 42 months<sup>19</sup> and Zhou 31 months.<sup>20</sup>

This might seem like a win for ‘blocking,’ yet due to the pleas, and consideration for time served, their actual sentences were light considering they tried to take over a country — one that is a key component of America’s defense architecture and one of Taiwan’s few official friends.

DOJ also surrendered the opportunity to take the case to trial, which could have served as a powerful deterrent to future political warfare and would have made public the names of the Marshallese who were bribed.

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<sup>16</sup> “Yan Sentenced To 3.5 Years For Marshall Islands Bribery Scheme,” *FCPA Professor*, accessed June 11, 2023. (<https://fcpaprofessor.com/yan-sentenced-3-5-years-marshall-islands-bribery-scheme>)

<sup>17</sup> United States Attorney’s Office Southern District of New York, Press Release, “U.S. Attorney Announces Extradition Of Two Defendants Charged With Bribing High-Level Officials Of The Republic Of The Marshall Islands,” September 2, 2022. (<https://www.justice.gov/usao-sdny/pr/us-attorney-announces-extradition-two-defendants-charged-bribing-high-level-officials>)

<sup>18</sup> *Ibid.*

<sup>19</sup> United States Attorney’s Office Southern District of New York, Press Release, “Defendant Sentenced To 42 Months In Prison For Conspiring To Bribe High-Level Officials Of The Republic Of The Marshall Islands,” May 16, 2023. (<https://www.justice.gov/usao-sdny/pr/defendant-sentenced-42-months-prison-conspiring-bribe-high-level-officials-republic>)

<sup>20</sup> Department of Justice, Press Release, “Former Head of Non-Governmental Organization Sentenced for Bribing Officials of Republic of Marshall Islands,” May 16, 2023. (<https://www.justice.gov/opa/pr/former-head-non-governmental-organization-sentenced-bribing-officials-republic-marshall>)



As in the case of Panuelo's Taiwan offer being made and then ignored, Washington turned what could have been a major 'blocking' win into a loss that was worse than if there had been no opportunity at all.

Nor, according to RMI officials, have case details been passed to RMI authorities so Yan and Zhou, and the officials they bribed, can be prosecuted in Marshall Islands. This potentially leaves some of those corrupt officials free to run in the upcoming November 2023 elections.

More concerning, Zhou's sentence was so light that she had finished serving her time soon after the case was closed, and the United States deported her back to the Marshall Islands.

She is currently there, walking free, able to re-establish her linkages with local elites, and showing by her mere presence that there is little downside to taking or giving Chinese bribes. She is expected to be joined soon by her co-conspirator who is also likely to be deported back to the Marshalls by the United States once he has served his time. He may even get there in time to vote in the elections.

This isn't an unusual occurrence. Across the FAS, there are Chinese-deemed 'undesirables' that the FAS government can't themselves deport. In some cases, the PRC refuses to admit the undesirables are PRC citizens (because keeping them in country aids PRC entropic warfare). In other cases, the FAS simply doesn't have the money or political weight to deport them. And so they stay, undermining the countries from within. Sometimes, as in this case, because of the United States Department of Justice.

### **Palau — A President's Ideas on How to Block and Build**

There are leaders across the FAS who, though beleaguered, are still fighting to block malign influence and build their countries. One is President Surangel Whipps, Jr. of Palau. Palau recognizes Taiwan and was the target of an elaborate political warfare operation by China to try to change that.

Beijing first worked to build up Palau's dependence on Chinese tourism. In 2008, there were 634 Chinese tourists in Palau, less than 1 percent of all tourists. By 2015, it was more than 91,000, or around 54%.<sup>21</sup> Then, in 2017, China pulled the plug, making it clear that, unless Palau switched from Taiwan to China, the tourists wouldn't come back. This devastated the economy and left empty and crumbling Chinese-leased real estate and developments across the country — a formidable display of entropic warfare.

Palau, however stood firm. But it was not easy, especially after Covid added a second hit. President Whipps, in preparation for this hearing, was kind enough to give concrete examples of what he thinks his country needs to block and build economically.

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<sup>21</sup> Kate Lyons, "Palau against China!: the tiny island standing up to a giant," *The Guardian* (UK), September 7, 2018. (<https://www.theguardian.com/global-development/2018/sep/08/palau-against-china-the-tiny-island-defying-the-worlds-biggest-country>)

He said:<sup>22</sup>

Our biggest challenges are trying to build a diversified, resilient economy, combat[ing] climate change, and combat[ing] the influence of [the] Chinese in Palau.

Our economy was devastated by Covid. Tourism isn't back. We are at 30 percent of pre-Covid numbers. Palau's GDP fell, so we were accessible for [GDP-level linked] DFC [U.S. International Development Finance Corporation]. But why were we even taken off DFC? We shouldn't need measures like that to keep us out.

One of our main challenges is direct investment. The largest direct investor in Palau is still China. It's a challenge to try to not open up direct flights from China back to Palau. I'm going to Japan next week to talk about direct flights, but they might not be back until next year. Right now, there are two flights a week from Taiwan, they are full. They can't increase.

I've just been to Korea trying to get Koreans to start direct flights because Korea is about five hours away. Korean tourists are among the top tourists going to Guam. One airline was interested in Palau but they said the runway wasn't quite long enough for the large aircraft. It means a 30 percent penalty in cost – it'll cost 30 percent more than flying to Guam. That makes Palau less interesting.

Meanwhile, for several years, the U.S. government said our runway wasn't quite long enough for F-35s.

We proposed a solution to the United States, and to Australia, Taiwan, Japan, Korea — help us extend the runway to 3,000m from 2,100m. It would help in deterrence. We believe peace comes through strength, but a strong a resilient economy also provides deterrence.

That's the sort of area where there is a synergy, where we can do what's good for defense and for the economy. It's an opportunity where maybe we can encourage investment from others in the region, other investment instead of China. We really need to work with others in the region to encourage investment. We need partnerships. This year finally for [the] first time Japanese investment in tourism will surpass everyone else — there is a new Japanese hotel being built. We want to see U.S. investment here — a U.S. hotel. We are really trying to bring others here.

We have pressure to open up direct flights to Macau and Hong Kong from Cambodian carriers. Japan is slow, Korea is slow, Taiwan is slow — China is saying 'give us more flights.' It's hard to say we won't accept them because hotels are empty, boats are empty.

Another concern is that, if not handled by others, environmental crises could be opportunities for China to act. We've seen the PRC use humanitarian assistance and disaster relief as a reason to deploy and embed, as seen in Tonga following the devastating volcano eruption. According to Whipps:

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<sup>22</sup> Interview with President Surengel Whipps, Jr., June 8, 2023.

FEMA accessibility is really important to Palau. It's Russian roulette out here. Look at what just happened to Guam. Those systems move up to Guam, down to Yap, down to Palau.

If something happens, it [is] a matter of who's closest to our door. Who's fastest to respond? When that disaster happens, who will jump out to say 'here we are to help you?' The last typhoon, we got more assistance from the Federated States of Micronesia than the United States.

One way to block and build on this front is to support the development of local capacity to handle crises and also to be better coordinated with the United States. Palau has tried to lead the way on this by setting up a National Security Coordinator office, but in spite of it proving its worth over and over again to the United States, it gets little support.

Similarly, there is an enormous untapped resource in the FAS — the large number of FAS citizens who are American military veterans. Properly organized, perhaps as a variation on reserves but answerable to the FAS governments, they could be invaluable in crises and serve as bridges to U.S. responders. According to Whipps:

There has been some traction on addressing the needs of veterans, but they really need it to be enacted. Why [do] veterans ... in Philippines and Canada receive more benefits than ... ones in the FAS?

We want them to retire back in the islands — wouldn't it be wonderful if they return to Palau and receive full benefits in Palau? Then they can be comfortable while contributing to the economy and security of Palau.

It [is] an economically small thing for the U.S. but huge when it comes to improving the lives and security in Palau. Something like 5 percent of graduating high school students join the U.S. military. We are happy to let them come and recruit, but when they are done, please take care of them. Please don't forget them.

That means being able to see a local doctor here and get the care they need. There are rules that make it difficult, like to get counselling online you need to be on U.S. soil. Also, many have to pay for [their] own tickets to get to Guam for assessment. The United [Airlines] flight to Guam is, per mile, among [the] most expensive in world. In the last years, two veterans have taken their lives in Palau.

## **Conclusion and recommendations**

Under the Compacts, the United States has an “obligation to defend the Marshall Islands and the Federated States of Micronesia [and Palau] and their peoples from attack or threats.”<sup>23</sup>

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<sup>23</sup> Compact of Free Association Act of 1985, Pub. L. 99-239, 99 Stat. 1770, codified as amended at 48 USC §1681. (<https://www.congress.gov/99/statute/STATUTE-99/STATUTE-99-Pg1770.pdf>)

China is managing to stay below the ‘triggering’ threshold of the tools in the Compact that could help the FAS block and build because of Washington’s self-imposed limits on defining what a threat or attack looks like — which, at this stage, given what is being ignored, seems to involve something as overt as a World War Two-style amphibious storming of the beaches. This needs to change.

At its most basic, this means that rather than sending Chinese who have been found guilty of trying to “corrupt the legislative process” of the Marshall Islands back to the Marshalls (and then not sharing case information with the relevant authorities in Marshall so they can at least prosecute the cases themselves), the United States could help set up special investigative units to uncover and prosecute corruption in the FAS.

Currently, given the degree of involvement of Chinese organized crime and the tight knit nature of FAS societies, there is concern about going after the big fish. The 2019 murder of an American lawyer who was Acting Attorney General of FSM created fear across the region.<sup>24</sup>

If welcomed by the FAS, it might make sense for the U.S. military to assist on some of the investigations. The Department of Defense has the largest American presence on the ground in the FAS and knows and possibly values the region the best.

The most fundamental aspect of blocking is that there needs to be a cost for taking Chinese money. Currently, there rarely is a downside to accepting that brown envelope after the banquet. At the very least, Magnitsky Act charges or something similar could be explored. Just a few high-profile cases could hearten honest officials and make others recalculate their cost/benefit analysis of selling out their country — and by extension, U.S. security. (That can also mean not being shy about ensuring transparency and accountability in the Compact funding spending. The people of the FAS need to know their money is being spent for their benefit.)

Similarly, given the dual-use nature of the Chinese fishing fleet, illegal fishing in the FAS should be seen as a national security issue for the United States. The U.S. military should be defending FAS EEZs aggressively. But that blocking is not enough. Simultaneously, there should be efforts to help the FAS build their fisheries in a way that, as President Whipps said in reference to tourism, is diversified and resilient. That is the only way to truly keep out the malign influence.

When the pieces combine, the overall goal would be to create a Micronesian Zone of Security, Prosperity, and Freedom that would knit the PIA and FAS (and maybe eventually Nauru and Kiribati) together, letting the countries and territories reinforce each other socially and economically, supported by the exceptional tools made available by the Compacts.

Doing that means actively blocking PRC political warfare in the region while, just as actively, helping the PIA and FAS build their economies, thus creating the foundation for an enduring and resilient free and open Indo-Pacific.

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<sup>24</sup> Bernadette Carreon and Lauren Aratani, “Murder in Yap: sleepy Pacific island rocked by shooting of American lawyer,” *The Guardian* (UK), November 20, 2019. (<https://www.theguardian.com/world/2019/nov/21/in-yap-sleepy-pacific-island-rocked-by-shooting-of-american-lawyer>)

In that context, it's worth understanding what happens if the financial and services components of the Compacts aren't passed. According to the U.S. Integrated Country Strategy for the FSM:

The future of many of the 50 plus USG components operating in the FSM also appears uncertain. Absent action from Congress, several will end their operations in 2024, including [the Federal Aviation Administration], [the Federal Deposit Insurance Corporation], the Post Office, and the hybrid COFA disaster response mechanism that is funded by [Federal Emergency Management Agency] and implemented by [the U.S. Agency for International Development]. The presence in the FSM of the remaining 45 plus agencies after 2023 is also in question... Absent other countervailing factors, the reduction in US foreign assistance portends likely greater economic and political instability in the FSM after 2023.<sup>25</sup>

As Whipps said: "It's very important that the Compact agreement on economic assistance be passed this year. Last time, we started in 2010, but it wasn't signed until 2018. That sends a bad signal to Palau and the Pacific about U.S. commitments. Economic stability provides security for all of us."

This is why this task force is so important and, frankly, inspiring. What's needed to block and build is a broad and deep understanding of the Compact, region and issues, and a willingness to find innovative, effective solutions. Combined, the fourteen members of this task force have what it takes. Thank you for stepping up to the challenge. It is one of the most important of the century.

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<sup>25</sup> U.S. Department of State, "Integrated Country Strategy: Federated States of Micronesia," August 16, 2018. (Archived version available at: <https://www.state.gov/wp-content/uploads/2019/01/Micronesia.pdf>)

