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Subcommittee on Indian and Insular Affairs
Hearing on

“Preserving U.S. Interests in the Indo-Pacific: Examining How U.S. Engagement Helps
Deter Chinese Influence”
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Statement of Dr. Peter S. Watson

Chairman Hageman, Ranking Member Leger Fernandez, and distinguished members of this Subcommittee, thank you for the privilege and honor of inviting me to testify today.

Introduction

“The Witness appreciates the invitation to appear before this distinguished Subcommittee. The subject matter of the Subcommittee’s hearing is both a timely and an important one.”

That I place the above in italicized quotation marks is an affectation, as I am actually quoting myself, not high manners -- but I do so to reference the same was from my testimony some thirty-seven years ago -- September 10, 1986 -- on the subject of “*Developments in the South Pacific Region*,” before Chairman Solarz’s Asian and Pacific Subcommittee of the House Committee on Foreign Affairs.

And as we look back on all the testimony presented that day -- available at https://books.google.com/books?id=yxuBCg7XnUgC&pg=PP3&source=gbs_selected_pages&cad=2#v=onepage&q&f=false -- it’s not unfair to observe that, in the intervening years, while the U.S. has had important regional successes ~ notably the conclusion of the Compacts of Free Association ~ it also had vital engagement opportunities lost or squandered, notwithstanding China therein identified as a burgeoning threat in the Solarz hearing -- high hubris on open display in the interim.

As described below, some engagement gaps in U.S. attention have more recently been addressed -- but Pacific Island leaders are no doubt wondering whether their nations are simply of more priority now due to the pervasive Chinese presence which my fellow panelists compellingly describe.

Meanwhile, reading the news releases, many would be forgiven for believing the U.S. Pacific Island Leaders’ Summit recently convened by President Biden in September last year (the Summit) was a historic first. Indeed, that credit goes to President H.W. Bush, who on October 27, 1990, convened the initial U.S. Pacific Islands Summit in Honolulu, when meeting with the Heads of State of the Solomon Islands, Tonga, Tuvalu, the Cook Islands, Papua New Guinea, Western Samoa, Fiji, Nauru, Micronesia,

the Marshall Islands, and Kiribati:

<https://www.presidency.ucsb.edu/documents/remarks-the-conclusion-the-pacific-island-nations-united-states-summit-honolulu-hawaii>

However, the principal deliverable of that first summit, the ‘Joint Commercial Commission’ never came into sufficiently funded fruition to meet the original expectations, thus left many Island leaders feeling, rightly or otherwise, the U.S. was unwilling or unable to fulfill its commitments.

The gaps in U.S. engagement in the Pacific Islands in recent years belies its history there. The United States had some of the earliest western commercial and diplomatic contacts across the span of the Islands. In the first decades of the nineteenth century, American sealers, whalers and explorers traversed the Pacific. Many of the South Pacific Islands became ports of call. Indeed, the United States was involved in South Pacific trade well before it acquired itself a Pacific Coast in 1846.

The U.S. had, for example, full consular representation with New Zealand in 1838 – a full year before Great Britain had such representation in 1839. And yet, in recent times, the U.S. had allowed such subtle, yet profound, engagement modalities as the Peace Corps to atrophy and dissipate in the Pacific Islands, just as China was quietly yet pervasively inserting itself there in the profoundly disturbing ways we see.

The Pacific U.S. Territories of American Samoa, Commonwealth of the Northern Mariana Islands (CNMI) and Guam, together with the Freely Associated States of Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau all have embedded important levels of federal government economic engagement; however, as detailed by other panel members, this has not prevented the near-catastrophic Chinese intrusions seen in Rongelap (RMI), in the FSM, and with Palau not free from related challenges.

Why Dollar Diplomacy is Not Enough:

As further described below, out-competing China requires an intelligent increase in the level of US direct economic assistance to the Pacific region, and to individual Pacific Island nations. More proof is not needed regarding the relentless implementation and expansion of the “Belt and Road Initiative” wherever it gains a foothold of access to provide grant or loan-funded infrastructure projects.

Projects funded by China tend to be highly visible. Countless diplomats from the U.S. and like-minded nations have commented on the high visibility of China-backed projects. Those same diplomats bemoan the struggle to achieve a higher level of visibility of the economic assistance provided by their nations “in the trenches,” so to speak, of health, education, environment and other sectoral projects and programs.

Pacific Islanders can't help but be impressed by the scale and visibility of China-backed projects. Notably, the quality of those projects is often sub-par, and in some cases the projects fail with the same visibility that China enjoyed at the ribbon-cutting stage. We could look at Pohnpei, the host island of the Capitol of the Federated States of Micronesia (FSM), for a highly visible failure. The state's government administration building was built on a prominent Kolonia-town location with aid and labor from China. The large building allowed for the co-location of the Governor's office with much of the state's administration.

Unfortunately for the people of Pohnpei, the building's poor design, poor quality, and foreign electrical and plumbing systems led to regret on the part of the state and embarrassment—one must presume—on the part of the donor. At this moment China is re-building the Pohnpei Administration building and they have redressed quality problem at other venues on the island of Pohnpei.

So, counting on China to fail to learn lessons and improve the quality of its funded projects in the future would be unwise on the part of the U.S.

The U.S. seeks to enhance the level of effective economic assistance it provides to Pacific Island nations, and we would do well to try to elevate the visibility and promote the high-quality of our targeted economic assistance projects and programs. We must expand collaboration and seek deeper opportunities to partner synergistically with like-minded donor partners in the Pacific.

But we clearly must also be prepared for the response to be greater and greater spending by China in the Pacific. So, it unlikely we can fully counter the influence of China through enhanced spending alone. What's needed is a three-part strategy that goes beyond enhanced spending alone.

Expanding Engagement to Improve Stability and Security in the Pacific:

The U.S. needs to do more to maintain our desired outcome of a "Free and Open Indo-Pacific." In addition to increasing the effective level and visibility of our economic assistance, secondly, we need to significantly enhance our economic-related engagement throughout the Pacific; and third, we need to enhance people-to-people engagement throughout the Pacific.

As detailed below, enhanced economic assistance will achieve better and less volatile regional economic growth outcomes, and allow Pacific Island nations to sharpen their fiscal and economic policies to improve resilience in the face of periodic shocks to which each nation must adjust and broaden its economic base. Palau, for example, must avoid returning to the excessive reliance it had for several years on tourists from China.

This paper will identify important new economic engagement initiatives that Washington is introducing into the Pacific Island region. Due to its early catalytic role, particular emphasis is given to the activities of the U.S. Trade Development Agency: <https://ustda.gov/> (TDA), with important mention to its partnering with the Japanese Bank for International Cooperation: <https://www.jbic.go.jp/en/index.html> (JBIC). Likewise important is JBIC's teaming with the U.S. Development Finance Corporation: <https://www.dfc.gov/> (DFC) with its critically-expanded finance facilities, and their joint teaming with Australia's Department of Foreign Affairs and Trade (DFAT).

Enhanced economic engagement should, at a minimum, involve greater commercial interaction throughout the Pacific. We need to find direct and indirect ways to achieve increased trade and direct investment from the U.S. and from investors from like-minded nations including, of course, Japan and Australia. The US has long declared its desire to promote the objective of increased trade and investment; however, we need to undertake a serious review of the quality, quantity, and consistency of our efforts to achieve such an objective. A restart of some initiatives together with initiation of more and better programs would be a good start.

Important economic engagement focus will be placed here on the activities of the Palau Economic Advisory Group (EAG). In particular, the EAG brings a comprehensive approach to assisting Palau to: (i) achieve better results with the economic assistance it receives, (ii) benefit from additional programs and partnerships to increase trade and investment from the US and like-minded nations, and (iii) to restore, enhance, and introduce programs that promote enhanced people-to-people engagements in Palau and in the U.S. However, allow me an immediate caveat here: I appear here today strictly in my private capacity, not as a U.S. delegate of the Palau EAG, nor as a member of the EAG itself. Accordingly, all EAG-related comments here are strictly and exclusively my own, and not in any way to be attributed to the EAG, or either of its bi-national founders.

Of great concern to broader U.S. economic and national security interests is the degradation of the U.S. Tuna Fleet, with a review of the same, with specific reference to the need to enhance and secure the economy of American Samoa. And, as we consider the further regional engagement of American Samoa, the CNMI and Guam, the reference to French Polynesia's Forum Associate Membership in the Pacific Island Forum (PIF) suggests consideration of a similar membership for our Pacific jurisdictions.

Modalities of Expanded U.S. Economic Engagement in the Pacific Islands:

i. The Role of TDA.

One of the many positive outcomes of the Summit was the release of very useful new U.S. economic engagement programs. In this regard, a central outcome of the Summit

was the White House's designation of TDA as the lead implementing agency of its newly created Pacific Island Strategic Infrastructure Initiative (PISII) and co-lead of the Transportation Partnership with the Pacific Islands (TPPI). These economic engagement initiatives aim to catalyze sustainable, climate-smart infrastructure investment throughout the Pacific Islands using TDA's project preparation and partnership-building toolkit in sectors including clean energy, transportation, digital and healthcare infrastructure.

To help fulfill these commitments, in late February 2022 and early March 2023, TDA engaged in scoping missions to the Pacific Islands, with stops in Federated States of Micronesia, Fiji, Palau, the Republic of Marshall Islands, Samoa, and Tonga. These scoping missions served as opportune visits to establish new engagement partnerships and directly solicit infrastructure proposals from key Pacific Island markets.

As known, these island countries face unique challenges, including pronounced climate change impacts, severe weather events, limited digital and transport connectivity, supply chain disruptions, and food security issues, among others. Discussing these challenges firsthand enabled TDA to assess current infrastructure needs and discuss potential ways to partner with local public and private sector entities to advance sustainable infrastructure solutions.

TDA participated in the U.S.-Pacific Islands Trade and Investment Dialogue Senior Officials Meeting, led by the Office of the U.S. Trade Representative, and met with ministries and private sector partners across the Pacific Islands to discuss potential areas of cooperation. They are now evaluating potential project leads for the modernization and buildout of ports and airports, cold storage facilities, digital infrastructure, telemedicine and healthcare solutions, electrical grids and clean energy.

During the scoping missions, TDA announced the expansion of its signature regional aviation initiative, which is now called the U.S.-Southeast Asia and Pacific Islands Aviation Cooperation Program. The initiative will now undertake dedicated programming across the Pacific Islands. Looking forward, USTDA will also host a Pacific Island Country delegation to the United States for a Ports Modernization Reverse Trade Mission, scheduled for fall 2023.

TDA bookended its scoping missions with visits to New Zealand and Australia, with whom the Agency has partnered to jointly support quality infrastructure and human capacity building to advance the resilience and prosperity of the Pacific Islands. TDA is also supporting an open **Call for Proposals for the Pacific Islands**: Through the Pacific Islands Strategic Infrastructure Initiative, TDA issued this call for proposals to utilize the full breadth of its toolkit to match the infrastructure priorities of Pacific Island countries with the technical innovation of U.S. companies.

In a short amount of time, TDA has catalyzed new partnerships, to importantly include JBIC, concurrent with deepening its existing relationships in the Pacific Islands. Their

efforts will soon lead to an expanded portfolio of project preparation and partnership-building activities that will promote sustainable infrastructure and greater economic resilience across the region, while introducing high-quality U.S. solutions. In short, TDA is on the front lines of Washington's engagement efforts to strengthen the U.S.-Pacific Partnership.

ii. The Role of Regional Engagement between TDA -- DFC -- JBIC -- DFAT

As China's intrusion in the region was more fully internalized in Washington, it was recognized that the U.S. needed to expand the mandate and funding of TDA's sister agency, the Overseas Private Investment Corporation (OPIC). As a consequence, OPIC was morphed into DFC, its role in assisting regional alliance engagement to contest the China threat is well-described here by DFC's CEO Scott Nathan:

<https://www.dfc.gov/media/speeches-testimony/testimony-dfc-ceo-scott-nathan-house-committee-foreign-affairs-0>.

TDA, for its part, not only provided catalytic support for DFC's regional project developers, but also expanded its reach there in May 2022 by concluding a teaming arrangement with JBIC, which, in turn, was able to pivot off JBIC's equity and debt facilities, a significant capital multiplier outcome: <https://ustda.gov/ustda-jbic-formalize-global-partnership-on-infrastructure/>

The TDA tie-in with JBIC was preceded by JBIC's November 8, 2017 teaming with OPIC, which was subsequently converted into an agreement with the new DFC on December 14, 2021: <https://www.jbic.go.jp/en/information/press/press-2020/0114-014177.html>

An even further expansion of regional finance capability took place on October 16, 2022 when DFC, JBIC, DFAT and Export Finance Australia (EFA) enhanced their collective collaboration: <https://www.dfc.gov/media/press-releases/joint-statement-united-states-japan-and-australia-renewal-trilateral>

The benefit of this collective finance engagement took place in November 2022 at the Partnership for Global Infrastructure and Investment (PGII) event at the G20 Summit, where it was announced that DFC, JBIC and EFA would provide USD \$50 million each provided to support Telstra's acquisition of Digicel Pacific. Digicel Pacific is the leading telecommunications operator in the Pacific, with over 2.5 million subscribers in Papua New Guinea, Fiji, Vanuatu, Samoa, Tonga, and Nauru, with Telstra's acquisition of the same precluding a threatened Chinese acquisition of the same:

<https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/15/united-states-australia-japan-joint-statement-on-cooperation-on-telecommunications-financing/>

iii. The Role of a Significant American Tuna Fleet:

Maintaining an active and viable U.S. tuna purse seine fleet operating in the strategically important central Pacific Ocean is vital for a number of reasons. First the fleet is based in American Samoa and supports the local economy by delivering tuna to the StarKist facility there, the largest private sector employer in the territory and by utilizing a range of goods and services provided by local businesses.

The economy of American Samoa is overwhelmingly dependent on the tuna industry and the related service industries that support both the StarKist facility and vessels based there. The future of the U.S. purse seine fleet and the future of American Samoa are inextricably and undeniably linked.

The activities of the fleet provide a critical counterbalance to China's growing influence across the region. As known, China has focused strategically on developing direct commercial ties with several Pacific Island States through investments in the fisheries sector, both through the activities of its vessels as well as shoreside investments. China understands that building commercial and industry ties is a the single most important vector for political and economic engagement.

As a result, maintaining a viable American Samoa-based purse seine fleet operating in the Pacific Ocean contributes not only to the United States and American Samoan economy, but to regional food security, national security, and other vital national interests. The fleet also operates as numerous additional sets of "eyes and ears" across vast reaches of the Western and Central Pacific Ocean.

And yet, the American Samoa-based fleet faces a number of challenges that risk further significant reductions in the number of vessels operating in the region. Frankly speaking, the fleet operates on an increasingly uneven playing field with respect to its international competitors, in particular China. China and other flag states are able to exempt their vessels from a range of international regulatory requirements by reflagging or entering into charter arrangements with Pacific Island States who themselves are exempt from these requirements.

Moreover, although the underlying Convention requires that "Participating Territories" such as American Samoa be afforded the same treatment as the Pacific Island States, the American Samoa-based fleet is not afforded these same exemptions creating a vastly disproportionate burden on the American Samoa economy.

Finally, the fleet faces a number of regulatory challenges on the domestic front as well. Current initiatives being considered by the Administration would further limit access by the fleet to fish on the high seas, and potentially close remaining U.S. waters, that are not already closed to fishing, under an expanded Pacific Remote Islands National Marine Sanctuary.

It is often said, because it is undeniably true, that fisheries are as central to the politics of the Pacific as oil is to the Middle East. Unless the United States is prepared to withdraw completely from engagement with the Pacific Island States on these strategically important fisheries issues, these trends affecting the American Samoa-based fleet must be addressed and reversed, and soon. (In parallel, another burden to American Samoa's economy needs to be early addressed, that is raising the hourly wage there to the federal level.)

Finally, another approach to adding fisheries value to American Samoa is to benefit from such as the Marshall Islands relationship with Taiwan and U.S. One innovative approach here is to have Taiwanese Bumblebee send fish it catches in Marshallese waters to American Samoa for processing, then export them from there – this simultaneously bringing RMI closer to controlling their fisheries.

Enhanced people-to-people Engagement:

While certain US policy initiatives are already underway to enhance regional people-to-people engagement, an additional/intentional focus will be required to achieve lasting results. Plans for the return of the Peace Corps to many Pacific Island countries are well advanced, but final arrangements are still awaited for in Palau, the FSM and the Marshall Islands – the same being warmly welcomed and a strong signal of U.S. commitment.

Similarly, continuation and even enhancement of the resident Civic Action Team in Palau, and a return to FSM and RMI, would bring very positive, mutually beneficial results.

The US Department of Veterans Affairs should be encouraged to expand ways to improve access to VA health benefits for the substantial and growing number of veterans in the FAS.

Another set of programs to consider were highlighted during the COVID-19 response in which US resources from HHS, CDC and other agencies, were deeply appreciated and highly effective. Making some such interactions more frequent or even permanent on the ground could yield equally admirable and long-lasting benefits.

Programs to improve education in the FAS and to make US higher education affordable for FAS citizens would continue to enhance our linkages. Finally, the U.S. must improve its focus upon the rights and benefits FAS citizens enjoy while legally and productively residing in the U.S. and in U.S. territories. Fixing the mistakenly excluded Medicaid benefit was a good step.

Addressing the Real ID problems faced for a period of years was another step. But too often Compact citizens living in the US face challenges green-card holders so not face. A pathway to citizenship afforded to immigrants from non-Compact nations is not

afforded to Compact immigrants. The U.S. can and should address and redress inequities when possible, to further bolster US-FAS people-to-people engagement outcomes.

In present close in this section relating to the importance of personal relationships, it useful to note the coincidence that, at this moment, the two most important women leaders in the Pacific are, respectively, the Prime Minister of Samoa, Fiamē Naomi Mata'afa, and the Congresswoman from American Samoa, Aumua Amata Coleman Radewagen, who naturally graces this body.

Expanded Engagement in the Pacific Island Forum:

Regarding expanded U.S. engagement in the region, it is noted that the Governor of Guam was the only U.S. territory Chief Executive to participate in the proceedings of the 2002 U.S. Pacific Islands Summit in Washington D.C., and after its conclusion the Governor announced that her local government administration would unilaterally seek Associate Membership in the Pacific Islands Forum (PIF).

The U.S. historically has advised Guam and the PIF Secretariat that Observer status in that international organization is the only appropriate participation for Guam, American Samoa and the Northern Mariana Islands. That is, given the requirements of the American system of constitutional federalism, under which the President is the sole national voice in foreign affairs, with the result that neither states nor territories can go beyond participation as civil society observers in international proceedings in which foreign policy matters are deliberated.

One wonders if this is not a constitutional cage of our own making.

It is noted that the U.S. and France are among 19 nations that are not PIF members but allowed to participate as countries “engaged” in the region in the capacity of Forum Dialogue Partners. Yet, two French territories that had Observer status became Associate Members as a springboard to Full Member status. That includes New Caledonia, which like Guam is not fully self-governing, and French Polynesia, classified as an “overseas country.”

Meanwhile, Wallis and Fotuna is still a French possession in Observer status, demonstrating that one size does not fit all for France and PIF, just as it need not for U.S. and its other territories, especially if there are good domestic and/or international law reasons for differentiation.

Similarly, Cook Islands and Niue are territorial dependencies of New Zealand, given the “Free Associated State” designation and PIF full membership, while Tokelau, New Zealand’s small territory (population 1,383), is an Associate Member of PIF.

While Australia and New Zealand have managed to expand beyond their colonial past and the French territories have been accepted by PIF despite France's nuclear testing legacy, the U.S. Pacific seems to be having an identity crisis about being a Pacific nation, and thereby precluding its small Pacific territories from regional roles that seem natural.

If U.S. territories are not fully integrated into the U.S. constitutional system as are states, why should they not exercise some degree of international personality and integration in the regional community? Or, what if the U.S. applied for PIF membership and made Guam, American Samoa and Northern Mariana permanent members of the U.S. delegation? The people of the Pacific who remember that 100,000 Americans died freeing them from brutal tyranny know the U.S. is a Pacific nation, but has the U.S. fully considered the benefits of either itself, or its Pacific Island Territories, in a far closer engagement with the PIF?

Palau: A Case-study in Enhanced U.S. Engagement:

The Compacts of Free Association with the FSM, the RMI, and Palau present unique opportunities and unique challenges resulting from our history during the Post-World War II period.

In particular, reference to Palau can show the Biden administration recognizing its importance by launching the Palau Economic Advisory Group on September 15th 2022: <https://www.doi.gov/oia/press/Compact-Mandated-Palau-Economic-Advisory-Group-Launched>

In proceeding with the EAG launch, the administration reversed twelve years of earlier inaction, with the EAG being (notionally) established on September 3, 2010, under the Agreement reached during the 15th Anniversary Review of the Compact of Free Association between the U.S. and Palau. In so launching the EAG, the administration has demonstrated its ability to move past periods of relative neglect.

For its part, Palau appreciates the focus and attention on military relations as evidence by the consistent, twice-yearly meetings that provide a conducive environment and an opportunity to ensure mutually beneficial interactions. Palau appreciates the high-level visits it has received, including, among others, from the Secretary of Veteran's Affairs. The Secretary acknowledged the sacrifices—and the ongoing sacrifice—of Palauan citizens in the US military serving at a rate in proportion to population unmatched by any state of the United States ~ likewise true of the FSM and Marshall Islands.

So, what are my (again, strictly personal) observations as a member of the EAG? I see a nation that is a proud partner of the U.S. I see a nation that has broad and deep linkages with the U.S. as evidenced by the many Palauans alive today are resident in the U.S. mainland or a U.S. territory. I see a country that has been economically

damaged by China's intentional ban on visitors from China to Palau, from a peak of over 90,000 visitors or 54 percent of the total in FY2015 to virtually none in a few years.

I see a country which has been further damaged by the impact of COVID-19 on its tourism industry, causing economic activity to decline by nearly 30 percent from its peak. I see a country forced to borrow, albeit on concessional terms, to manage its way through the COVID-19 pandemic while keeping its tourism industry on life support to survive until now. I see a country with inadequate and declining quality of its infrastructure – however the same is beginning to attract the attention of TDA/DFC/JBIC/DFAT- EFA.

Accordingly, for the relevant reasons, I see a country poised to recover and prepared to deliver improved livelihoods to its current population, and to do its best to attract Palauans to return home with the education, skills and experience they have developed abroad ~ mostly in the U.S.

I welcome those with an interest in the comprehensive activities of the EAG since its launch to take a moment to review its First Annual Report, to appear when released on its web-site: <https://pitiviti.org/eag-meetings-reports>

Conclusion:

The United States has recently emerged from a period where it took its place and engagement in the Pacific Islands largely for granted. Many negative interests have taken full advantage of this period of hubris, clearly not least China. Armed with the knowledge of the profound negative effect of this *laissez-faire*, the U.S. has recently demonstrated it has a comprehensive range of economic engagement tools to bring to bear, not least that of TDA and DFC.

And while this Hearing is not focused on the Compacts under 'present hoped-for closure', the same when concluded will clearly be the signal to all parties how seriously the U.S. has reengaged. The administration's launching of the Palau Economic Advisory Group is a further strong positive signal the U.S. is fully committed in its regional role and status.