



USIP SENIOR STUDY GROUP FINAL REPORT

China's Influence on the Freely Associated States of the Northern Pacific



UNITED STATES
INSTITUTE OF PEACE
Making Peace Possible

SEPTEMBER 2022 | NO. 5

USIP Senior Study Group Report

This report is the fifth in USIP's Senior Study Group series on China's influence on conflict dynamics around the world. It examines how Beijing's growing presence is affecting political, economic, and security trends in the Freely Associated States (FAS) of the northern Pacific—the Federated States of Micronesia, the Republic of Palau, and the Republic of the Marshall Islands. The bipartisan group comprised senior experts, former policymakers, and retired diplomats. They met five times by videoconference over the course of 2022. These meetings included US and FAS officials and nongovernment experts from these and other countries. The group also met in person in Honolulu to share their initial findings with key stakeholders and experts from the region. The group members drew from their deep individual experiences working in and advising the US government to generate a set of top-level findings and actionable policy recommendations. Unless otherwise sourced, all observations and conclusions are those of the study group members.

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The views expressed in this report are those of the members of the Senior Study Group alone. They do not necessarily reflect the views of the United States Institute of Peace. An online edition of this and related reports can be found on our website (www.usip.org), together with additional information on the subject.

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First published September 2022.

ISBN: 978-1-60127-889-0



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CONTENTS

Preface.....	3
Findings and Recommendations.....	4
US Interests.....	20
China's Interests.....	24
Freely Associated States' Priorities.....	30
The US-FAS Relationship.....	32
China's Vectors of Influence.....	40
Constraints on China.....	43
Conclusion.....	46

Preface

The Republic of the Marshall Islands, the Federated States of Micronesia (FSM), and the Republic of Palau—collectively known as the Freely Associated States (FAS)—achieved full sovereignty in the late 1980s and early 1990s when they signed Compacts of Free Association with the United States. Since that time, the FAS have considered the United States their most important partner on economic and security issues. However, in the last decade, and especially the last five years, China’s role in the region has grown.

Amid heightened strategic competition between China and the United States, we are concerned that China’s engagement in these countries threatens US interests both locally and in the broader Pacific region. As the United States and the FAS negotiate changes to grant funding under the Compacts in the coming months, it is especially important to study and understand the dynamics at play.

To address this challenge, we assembled a group of experts with wide-ranging knowledge of the Freely Associated States and the broader strategic environment in the Pacific. We met five times by videoconference and once in person in Hawaii. In our meetings we engaged extensively with officials and nongovernment experts from the Freely Associated States and with US and partner nation officials and nongovernment experts.

Our group has diverse expertise, including what we have learned from our own personal experiences as a former US Indo-Pacific Command commander, a former assistant secretary of state, and a former delegate to the US House of Representatives. Drawing on this experience, we have endeavored to provide a nuanced perspective on the importance of the Freely Associated States and make practical recommendations for policymakers in Washington.

— Philip Davidson, David Stilwell, and Robert Underwood

Findings and Recommendations

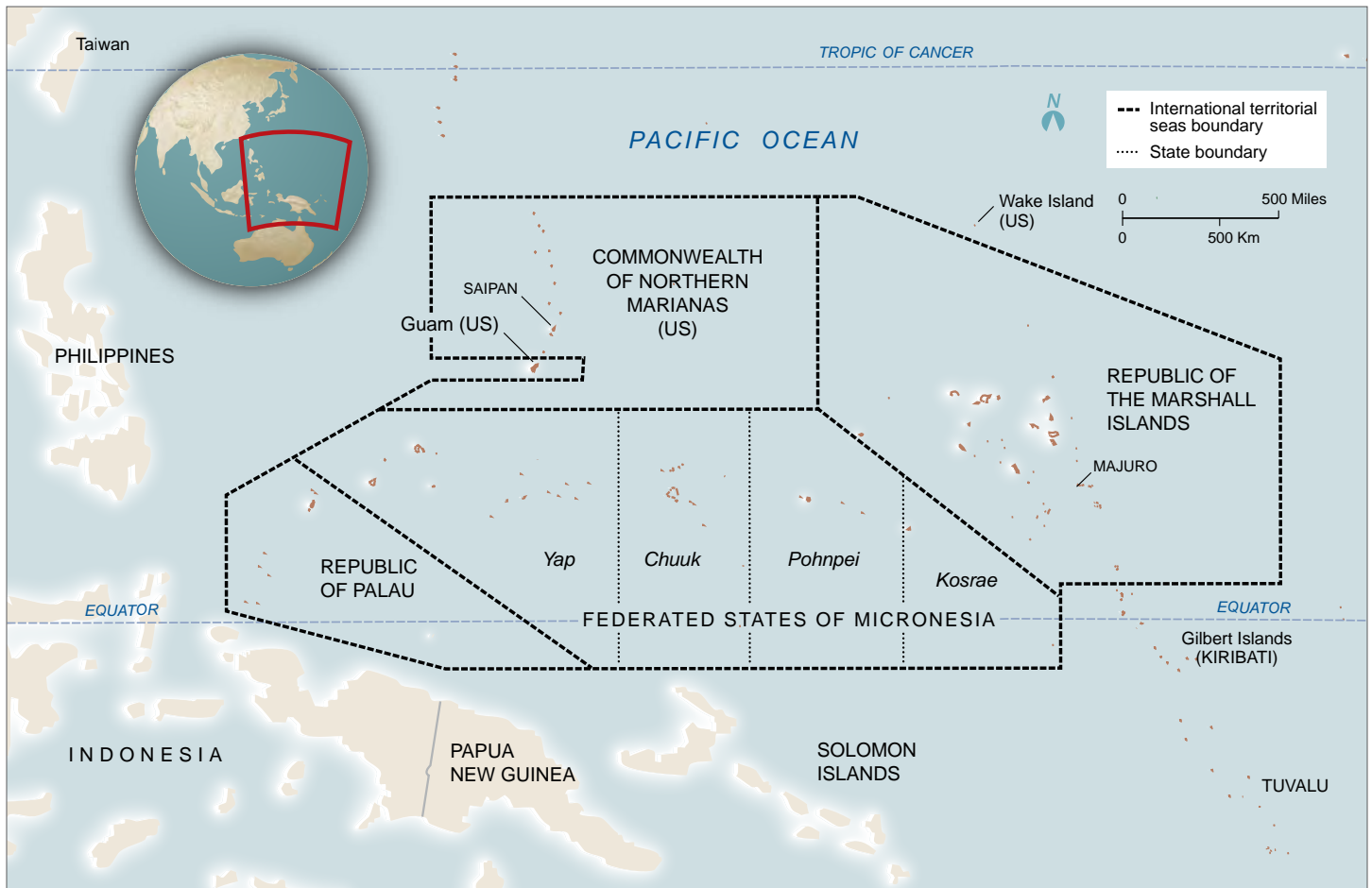
Around the world, Beijing is investing heavily in diplomatic, security, cultural, and economic ties in a bid to increase its global influence, strengthen its ability to protect and advance its national interests, attract support in multilateral fora and international institutions, and fracture the global consensus on key issues it views as unfavorable to its geopolitical ambitions. The Pacific Islands region—defined as the vast stretch of Pacific Ocean between Asian littoral waters in the west, Guam in the north and Hawaii in the northeast, and Australia and New Zealand in the south and southwest—has been no exception.

An Emerging Arena of Strategic Competition

Over the past decade, the People’s Republic of China has become the leading trade and investment partner of the Pacific Island nations and a major provider of foreign assistance and loans, including through the Belt and Road Initiative, China’s global infrastructure development strategy, which now has projects in 10 countries in the region. On the diplomatic front, China has increased its footprint in regional organizations, stepped up high-level visits, increased the professional diplomatic staff at its embassies, and deepened law enforcement and security partnerships. The COVID-19 pandemic provided China an opportunity to build additional goodwill by donating vaccines and personal protective equipment and financing economic recovery efforts.

Chinese officials have not stated publicly that the Pacific Islands region is an area of heightened strategic interest, but the benefits for Beijing of increased engagement with the region are clear. Perhaps to a greater extent than any other geographic area, the Pacific Islands offer China a low-investment, high-reward opportunity to score symbolic, strategic, and tactical victories in pursuit of its global agenda. The generally low levels of economic development among Pacific nations and the limited engagement, often perceived in local capitals as neglect, that they have received from other regional powers—including Australia, Japan, New Zealand, and the United States—have created

Freely Associated States of the Northern Pacific



Artwork by Lucidity Information Design. Names and boundaries (which are approximate) shown on this map do not imply official endorsement or acceptance on the part of the United States Institute of Peace or members of the Senior Study Group.

a geostrategic void that China has sought to fill using the playbook it has honed elsewhere in the world: foreign assistance, private-sector investment and loans, sustained and high-level diplomacy, and in some cases tools of elite capture such as corruption and economic coercion. These tools have allowed China to make progress on key lines of geostrategic effort in the Pacific that have proven more difficult to pursue in other, more contested regions.

China's growing influence in the Pacific Islands poses a challenge to US interests, one that should be viewed with concern but not alarm. The United States enjoys a strategically advantageous position in the region thanks to its forward presence and long history of engagement with local partners. In addition to the state of Hawaii and territories of American Samoa, Guam, and the Northern Mariana Islands, the United States also maintains special relationships with three sovereign countries in the northern Pacific—the Federated States of Micronesia (FSM), the Republic of Palau, and the Republic of the Marshall Islands (RMI).

In the 1980s, the United States negotiated Compacts of Free Association (COFA) with each of these countries, now called the Freely Associated States (FAS). The Compacts established each FAS as a

sovereign state with the right to self-determination and self-governance. All three assign the United States full responsibility for the security and defense of the FAS, which includes strategic denial over land, airspace, and territorial seas; this is the right to deny third countries access to or use of the FAS territories for military purposes and the right to establish US bases and defense facilities in the FAS. In exchange for the substantial strategic security and military value that the security provisions afford, the FAS receive key benefits, such as the right to move freely and work in the United States and its territories, as well as economic assistance and access to some US federal program services.

This mutually beneficial set of obligations and responsibilities anchors US-FAS ties and has created an interdependence, but that does not mean the Compact relationships are purely transactional. To the contrary, FAS societies have become deeply entwined with US society through decades of economic, educational, and interpersonal linkages, which include a high proportion of FAS citizens serving in the US military. These close connections help explain the durability and reinforcing nature of the free association model at the heart of the Compacts, the economic portions of which are in the process of being renegotiated and renewed before their expirations in 2023 and 2024.

Today, the US-FAS relationship provides substantial benefits to the United States and has the potential to deliver far more. Despite their small landmass, the FAS play an important role in US defense planning, force posture, maritime operations, and power projection in the Indo-Pacific region and beyond. The vast FAS territorial seas, which span much of the northern Pacific, are an important strategic buffer between US defense assets in Guam and Hawaii and East Asian littoral waters. The US right of strategic denial in the FAS territorial seas knits together US forward presence in the region and functions as a beachhead for US engagement with other Pacific nations. In addition, the US missile-defense test range at Kwajalein Atoll in the Marshall Islands is critical to US space and missile-defense capabilities. As the US military expands its force posture in the region, US defense rights in the FAS present unique opportunities for new facilities and dual-use ports and airfields development. Strong US-FAS connections mean that a deterioration in FAS economic or security conditions would have spillover effects into US states and territories. Finally, two of the three FAS, Palau and the Marshall Islands, maintain diplomatic ties with Taipei, fortifying Taiwan's international space at a time when it is under relentless pressure from Beijing.

The unique relationship between the United States and the FAS, grounded in the Compacts, gives Washington a valuable strategic advantage in the Pacific Islands region. As China seeks to expand its influence into the Indo-Pacific and develop into a great maritime power capable of force projection far beyond Asian littoral waters, the United States should seek to leverage its relationships with the FAS to meet rising Chinese assertiveness. To that end, Washington has an important opportunity in the ongoing Compact negotiations to strengthen its bilateral ties with the FAS and demonstrate a commitment to addressing their core interests to further US national interests and peace and security across the region.

» THE COMPACTS OF FREE ASSOCIATION

Under the Compacts of Free Association (COFA), the Freely Associated States (FAS) of the northern Pacific—the Federated States of Micronesia (FSM), the Republic of Palau, and the Republic of the Marshall Islands (RMI)—receive grant aid and security guarantees from the US government; FAS citizens can live and work in the United States without a visa; and the FAS have access to many US programs and services. In exchange, the United States has the right to build military bases in the FAS and to deny foreign military use and access, the right of strategic denial.

TITLE I. Government Relations

The FAS are self-governing and conduct their own foreign affairs, except as otherwise provided for in the Compacts, such as Title III. Title I also includes provisions on communications, immigration, representation, environmental protection, and other areas.

TITLE II. Economic Relations

The United States provides the FAS grant assistance of an agreed-upon amount with an expiration date, after which time grant assistance can be renegotiated and renewed. The FAS report annually to Washington on their use of US funds. The United States provides the FAS federal services and programs, including the National Weather Service, US Postal Service, Federal Emergency Management Agency (for the FSM and RMI), and Federal Aviation Administration. Title II also includes provisions on trade, finance, and taxation.

TITLE III. Security and Defense Provisions

The United States is responsible for the security of the FAS, including the obligation to defend FAS territories and citizens as it defends its own. It has the right to deny other countries military access to or military use of the FAS territories, airspace, and territorial seas. It has the option to establish and use military facilities in the FAS, subject to the terms of separate agreements. FAS citizens are eligible to volunteer for service in the US military. Title III also includes provisions on defense facilities and operating rights, defense treaties and international security agreements, and other provisions.

TITLE IV. General Provisions

Title IV includes provisions on the approval process of the COFA, conflict resolution, termination, amendment, definition of terms, and other provisions.

Findings

Beijing sees Pacific Island nations as a low-investment, high-reward opportunity for China

to score both symbolic and tactical victories in its global agenda. Over the past several years, evidence has accumulated that China views the Pacific Islands as an area of significant strategic interest. Beijing has increased its diplomatic and economic engagement and demonstrated more ambitious efforts to play a more meaningful security role in the region. In April 2022, China and Solomon Islands signed a secret agreement—which was leaked to regional press—establishing a security partnership that could open the door to a Chinese military presence in the South Pacific country. Foreign Minister Wang Yi traveled to the Pacific Islands in May and June. In addition to strengthening China's bilateral ties in the region, he proposed a sweeping security and economic pact that affirmed China's regional ambitions. The proposal was withdrawn because most Pacific Island countries did not sign it, but China's desire to play a more central role is clear.



An overhead view of Arno, a coral atoll in the Republic of the Marshall Islands, on October 27, 2015. (Photo by Josh Haner/New York Times)

In deepening its engagement and influence with the Pacific Islands, Beijing is positioning itself to advance a number of its foreign policy objectives, many of which are counter to US interests:

- enhancing power projection in the Indo-Pacific through strategic access to ports and Exclusive Economic Zones;¹
- cultivating supporters with voting rights in international institutions and increasing the number of voices sympathetic to its position in international disputes;
- constraining Taiwan's international space and reducing the number of Taipei's formal diplomatic partners;
- building soft power and promoting the Chinese model of political and economic development;
- enhancing access to export markets and diversifying supply chains in key commodities;
- advancing the Belt and Road Initiative and protecting Chinese workers and assets in the region;
- deepening trade relations;
- frustrating efforts by the United States and its allies to project military power in the Western Pacific; and
- increasing its intelligence gathering and surveillance capabilities across a wider geographic range, with a particular eye on the US military.

As Beijing seeks to expand its influence among Pacific nations, strengthening the US-FAS relationship will be essential to securing US interests in the region. Chinese strategists have asserted that the deployment of new People’s Liberation Army Navy aircraft carriers means that the first island chain—referring to the first line of major archipelagos out from the continental mainland coast, which includes Japan, Taiwan, and the northern Philippines—is no longer a meaningful constraint on China’s maritime power, signaling China’s ambition to project force beyond Asian littoral waters. As Beijing seeks to develop a true blue water navy (one capable of operating globally), the US right of strategic denial in FAS territorial seas and the forward presence enabled by US defense facilities in and adjacent to FAS territories will grow more important in constraining China’s force projection and maintaining free and open maritime corridors in the Indo-Pacific. Furthermore, although the three Freely Associated States have different outlooks on China, they share with Washington a desire to avoid excessive Chinese influence in the region in a way that supplants the role of traditional international partners, and they represent an important check against Beijing’s efforts to create an alternative regional architecture favorable to its geopolitical agenda.

The Compact relationships are rooted not only in shared respect and deep cultural and economic ties between the FAS and United States but also in mutually recognized benefits and obligations. The ties are multifaceted and complex. Through the Compacts and the long history preceding them, the United States and FAS have developed societal connections that are a key reason for the durability of the free association model at the heart of the Compacts, which should not be viewed as purely transactional arrangements but instead as expressions of shared democratic values and decades of history. Today, many FAS citizens have close personal and economic ties to the United States, including family members who live and work in US states and territories. FAS citizens enlist in the US armed forces at a higher rate than US citizens and are more likely to pursue educational opportunities in the United States than in any other country. FAS citizens also overwhelmingly consume American media and buy American brands.

These considerations notwithstanding, the Compacts are also grounded in a mutually cognizable strategic logic in which the United States provides economic assistance and access to domestic programs in exchange for the right to use FAS territories for defense activities and deny competitors access to FAS territorial seas, land, and airspace for military purposes. Acknowledging this strategic logic does not demean the US-FAS relationship but instead reinforces the interdependence between the United States and the FAS. This interdependence has provided tangible and lasting benefits to both sides and offers a compelling rationale for renewing Compact funding on terms seen as fair and reasonable to all parties.

The health of the US-FAS relationship is a crucial barometer of the durability of US alliances and partnerships and regional democratic norms. The range of services and privileges the United States provides FAS citizens has no parallel elsewhere in the world; no other sovereign countries grant Washington as much control and oversight of their defense as the FAS. This interdependence means that the strength of US-FAS ties and the well-being of FAS societies

»» Beijing sees US security architecture in the Pacific as a barrier to its development into a major maritime power and would likely seek to exploit a deterioration in US-FAS relations.

carry outsize significance in foreign assessments of the value and credibility of US commitments. For US treaty allies, especially those in East Asia, a deterioration in US-FAS ties could be seen as an indicator of a lack of US commitment to the region. Island nations in the South Pacific also see the strength of the US-FAS relationship as a bellwether of Washington's commitment to the Pacific Islands region as a whole.

The US-FAS relationship is strong, but a failure to reach a mutually satisfactory resolution to Compact negotiations would be a major setback for US interests and regional security.

In virtually every domain—from diplomatic relations to economic links to cultural and educational connections—the United States is far and away the most important international partner to the FAS. But the strength of the bond should not be taken as a given. Key provisions of the Compacts are set to expire over the next two years. Were negotiations to stall or yield

outcomes that FAS governments consider unfair or disrespectful, the basic logic of the Compact relationship would come into question. FAS governments might be prompted to look to other states, such as China, to make up for the shortfall in funding. A failed negotiation could also lead to the fragmenting of the Federated States of Micronesia—which comprises Chuuk, Kosrae, Pohnpei, and Yap (see map on page 5)—into several smaller states, which would increase opportunities for foreign influence in the region and undermine US efforts to promote peace, security, and stability in the wider Pacific.

China has not focused on the FAS in its influence-building efforts in the Pacific to the degree it has focused on South Pacific nations, but nonetheless is positioning itself to take advantage of any deterioration in US-FAS relations.

Over the past decade, China has mounted an aggressive effort to increase its influence in the Pacific Islands region through diplomatic engagement, humanitarian assistance, overseas investment, people-to-people connections, and increased trade. The FAS has not been as great a focus for these efforts as the remainder of the region in large part because Palau and the Marshall Islands continue to recognize Taiwan and because of the close US military and defense relationship, which has helped prevent a significant incursion of Chinese influence. This situation, however, could easily change. Beijing sees US security architecture in the Pacific as a barrier to its development into a major maritime power and would likely seek to exploit a deterioration in US-FAS relations. The risk of Beijing's securing such a strategic windfall is a key reason Washington should invest in its relationships with FAS governments.

FAS leaders want the United States to put greater emphasis on the issues most important to FAS citizens.

They prioritize personal relationships, building consensus through sustained engagement, and gestures of mutual respect. Fairly or not, they worry about US abandonment and neglect and that the United States does not take their concerns seriously. The appointment

of a Special Presidential Envoy for Compact Negotiations has been warmly received as a positive step in keeping the US-FAS relationship on track and demonstrating that Washington does indeed take the negotiations seriously. A joint statement by the United States and the Marshall Islands following the special envoy's first trip to Majuro in June 2022 expressed optimism about a quick conclusion to Compact funding renegotiations, suggesting that this gesture has helped jump-start dialogue. FAS leaders are also seeking affirmation that Washington understands and supports the FAS's policy priorities, such as climate resilience, addressing the perceived micromanagement of Compact economic assistance, increased foreign direct investment (FDI), and strengthened oversight and economic development of key sectors such as fisheries. The Marshall Islands are also strongly focused on seeking resolution of the legacy of US nuclear testing in Enewetak and Bikini Atolls. The renegotiations of the economic provisions provide an opportunity for Washington to demonstrate its commitment by engaging in conversations about issues of importance to the FAS.

Climate change is among the top security concerns for the FAS. China's status as the world's largest emitter of greenhouse gases undermines its engagement in the region, but Washington should not be complacent about its own role. As the FAS face rising sea levels, out-migration, particularly to US communities, is likely to increase and exacerbate security, economic, and social issues. China has positioned itself as a responsible global actor in the fight against climate change in its engagement with Pacific Island nations. This strategy, coupled with foreign assistance aimed at building climate resilience, has earned goodwill with regional governments and buoyed Beijing's efforts to attract Taiwan's few remaining diplomatic partners in the region. In practice, however, China's commitments to reducing emissions to meet targets set by the 2015 Paris Agreement on climate change remain insufficient.² In addition, China's global energy and infrastructure investment footprint is heavily weighted toward fossil fuels and carbon-intensive industrial activity. To date, the United States and its partners have largely declined to call out Beijing on its hypocrisy or offer a counternarrative that highlights their climate ambitions.

US engagement with the FAS is currently defined by a sprawling and decentralized set of bureaucratic activities that undermine US national security interests and weaken the bilateral relationships. This situation is in part a result of the scope and complexity of the Compacts, which implicate the operations and responsibilities of numerous US federal agencies. The diffusion of responsibilities and channels of communication has meant that FAS governments often see a lack of any clear or consistent mechanism for engaging the United States on the many issues that affect them. This dynamic places unnecessary strain on bilateral ties at a time when Washington should be seeking to strengthen and elevate the relationships and to work constructively with the FAS to shape the regional security environment in the Pacific Islands.

Recommendations

Elevate US engagement with the FAS and other Pacific Island nations to better reflect the region's heightened importance while being sensitive to regional concerns about being caught up in great power rivalry. China has made clear its intention to fill what it perceives as a strategic void in the Pacific Islands region. Beijing's ambition has been facilitated in part by the perceptions of Pacific Island governments that regional actors have deprioritized and neglected them. Such perceptions have some basis in fact: the United States has historically assigned only limited diplomatic resources to the FAS and even less to other Pacific Island nations. By contrast, China has consular staff for and frequent working and senior-level engagement with every Pacific Island nation with which it has diplomatic relations.

Even a modest increase in diplomatic resources is likely to meet with an enthusiastic reception from regional officials. Further, ongoing travel restrictions for Chinese citizens and onerous quarantine requirements for inbound travelers to China have significantly constrained the scope of Chinese engagement with Pacific Island actors. Washington should take advantage of this opportunity to elevate its profile in the region.

- The United States should establish a recurring strategic dialogue with the FAS (and potentially other Pacific partners) at a level of seniority that clearly communicates to FAS officials that Washington views them as important partners. The remoteness of the FAS means that extremely high-level engagement is probably not feasible on a recurring basis; at the same time, working-level meetings are likely not enough to counter concerns about deprioritization. To that end, a US-FAS dialogue may be most appropriately staffed at the assistant secretary level (or equivalent) and be conducted virtually, on occasion, if needed.
- The National Security Council's new US national strategy on the Pacific Islands should identify US interests in the Pacific Islands region and develop a plan to use diplomatic, defense, and economic tools to secure those interests in conjunction with regional partners and frameworks.
- The White House should commission a National Intelligence Estimate on China's interests in the Pacific Islands region to inform this effort. The analysis could guide collaboration with other regional and international actors, such as Australia, New Zealand, Japan, and France, to anticipate and take proactive steps to counter Beijing's efforts to capitalize on regional perceptions of neglect and abandonment. Additional resources should be allocated to ensure close monitoring of China's increasing activity in the FAS, with a view to ensuring that US and FAS policymakers are apprised of opportunities to invoke rights of strategic denial.
- The United States should not reflexively oppose China's efforts to help Pacific Island nations grow their economies, control the spread of COVID-19, or meet the challenges of climate change; nor should it provide Pacific Island governments with unsolicited warnings about the dangers of Chinese investment, as such warnings are perceived as condescending. Instead, Washington should work constructively toward providing a meaningful alternative to China's



Palau's President Surangel Whipps walks with US Secretary of State Antony Blinken to speak with members of the media at the State Department in Washington, DC, on Wednesday, August 4, 2021. (Photo by Kevin Lamarque/AP)

economic and security assistance that acknowledges the priority concerns of Pacific Islands peoples and emphasizes shared values such as democracy, transparency, and pluralism.

- As the United States takes steps to elevate engagement, it should be cognizant that small investments in time and resources will yield significant dividends. Therefore, it should be understood that increased attention to the Freely Associated States and the Pacific Islands region will not have to come at the cost of engagement with other regions.

Coordinate with FAS governments to push back against China's efforts to enhance its influence in the Pacific Islands region.

The message to Beijing should be that the region does not welcome efforts to displace existing diplomatic and security relationships or escalate rivalry with the United States. These efforts should be carefully calibrated to ensure the FAS do not feel that they are being asked to oppose all Chinese engagement in the Pacific Islands region. Instead, the goal should be framed as preventing a level of Chinese influence that would destabilize regional institutions and exacerbate divisions among Pacific Island states.

➤➤ **Deepened security cooperation should not be framed as anti-China, but rather as furthering the broader US strategic goal of a free and open Indo-Pacific.**

- The United States should work with the FAS to make them a central part of a broadened force posture and forward presence in the Indo-Pacific. Building off the Marshall Islands' already important role in US defense operations, the Federated States of Micronesia recently agreed to develop new military facilities on its territory. Additionally, Palau has formally requested that the United States establish airstrips, ports, and bases on its islands, a request Washington should consider seriously to the extent that it aligns with defense needs. Such deepened security cooperation should not be framed as anti-China, but rather as furthering the broader US strategic goal of a free and open Indo-Pacific.
- The Federated States of Micronesia, as the only member of the FAS that recognizes Beijing, will be watched closely by the other actors and should be prioritized in efforts to fortify regional architecture against excessive Chinese influence. Washington should seek to amplify Micronesian President David Panuelo's March 2022 statement that Beijing's proposed regional security pact would destabilize the Pacific Islands security environment.
- Washington should develop a convincing counternarrative to China's posturing on climate and economic development that draws attention to China's disproportionate contribution to global greenhouse gas emissions, its refusal to adhere to 2050 net neutrality targets, and its history of using foreign lending as a tool to undermine local sovereignty over national resources. This narrative can be amplified by FAS representatives in regional fora and in bilateral exchanges with other Pacific Island officials.
- US officials should take an active role in promoting and facilitating official, economic, and educational exchanges involving Taiwan, the Marshall Islands, Palau, and other Pacific Island nations, including Kiribati and Nauru. The US ambassador to Palau's official visit to Taipei in April 2021 under a special pandemic-related travel arrangement between Taiwan and Palau offers a model for how Washington can elevate and strengthen Taiwan's bilateral relationships in the Pacific Islands in the face of relentless pressure from Beijing.

Help the FAS defend against Chinese vectors of elite capture while working constructively with FAS governments to build rule of law and resilience. Beijing has a well-honed playbook for using tools of economic sharp power, such as debt dependency and corruption, to enhance its leverage over and influence in emerging economies that lack strong accountability and oversight mechanisms. The United States should help build the FAS's capacity to safeguard the integrity and transparency of their markets and political institutions and close governance gaps. At the same time, it should invest in its own ability to investigate and prosecute violations of US law that occur in the FAS or have a nexus with FAS territories and persons.

- The Department of Justice, the Federal Bureau of Investigation, and the Department of the Treasury should strengthen US law enforcement presence in the FAS and enhance cooperation with FAS authorities to combat Chinese-linked organized criminal activities, identify and prosecute corrupt practices involving FAS officials, strengthen anti-money laundering measures, and provide intelligence and analysis of illicit financial activities in FAS markets and institutions.
- US officials should champion and offer technical assistance in support of reforms to FAS public procurement rules and procedures aimed at fighting fraud and ensuring a level playing field for private-sector bidders and state-owned enterprises.
- Washington should identify ways to work with other regional partners to insulate the FAS from Chinese economic coercion, which Beijing has already demonstrated it is willing to deploy against Palau and the Marshall Islands in connection with their recognition of Taiwan. Promoting tourism, foreign assistance, and FDI can help buffer the FAS against such pressure campaigns.

Streamline and rationalize US engagement with the FAS. The complexity and substantive breadth of the Compacts has resulted in management of US-FAS relationships that involves multiple agencies and touches on a broader set of equities than those in other bilateral relationships. The multifaceted nature of the ties should be a source of strength in the relationship rather than a liability. To that end, the United States should endeavor to speak with one voice—or at a minimum in a well-coordinated fashion—in its engagement with FAS governments.

- The White House, through the National Security Council, and as encouraged by Section 105(b)(6) of the Compact of Free Association Amendments Act (Public Law 108-188), should reestablish the Interagency Working Group on the Freely Associated States, to be co-chaired by the Departments of State and Interior, which would together be responsible for managing the uniquely complex set of foreign and domestic laws and programs under the Compacts.
- Washington should ensure that forward-deployed US personnel and consular staff have a complete picture of US assistance to the FAS that accounts for all US government operations involving the FAS. At present, many US officials based in the FAS are not fully versed on programs, grants, and other forms of assistance that benefit the FAS, contributing to poor coordination and siloed lines of engagement. An increasing tendency in Congress to make the FAS eligible for domestic programs requires closer monitoring of domestically focused legislation by relationship managers.
- The unique nature of the US security relationship with the FAS means that the Department of Defense will by necessity engage with FAS governments through different channels than other agencies do, but this engagement should not be pursued in a way that conflicts with or undermines overall management of the US-FAS relationship.



The Palau capital building in Melekeok, Palau, on June 20, 2009. (Photo by Itsuo Inouye/AP)

Use all available tools to ensure fiscal stability and accountability while promoting economic development in the FAS, starting with terms of the newly funded Compacts but extending to foreign assistance, promotion of FDI by regional partners, and strengthening oversight of key sectors. Washington needs to be clear-eyed about the FAS governments' pathways to economic development and treat the economic assistance elements of the Compacts as part of a broader strategic partnership rather than a means to FAS self-sufficiency. A significant increase in funding would also be important for both symbolic and practical reasons. At the same time, Washington should encourage and support the FAS governments' efforts to meet their economic development goals and help build international partnerships in support of those goals. To do so, the FAS governments should maintain and update development plans and be open to mutually agreeable auditing and reporting.

- The US Agency for International Development (USAID), the Department of the Interior, and other US government stakeholders should work collaboratively with the FAS governments (and potentially international stakeholders such as the World Bank, Asian Development Bank, Green Climate Fund, and national departments of financial institutions) to develop an action plan to

mitigate and adapt to the effects of climate change and protect marine resources from exploitation and degradation.

- Washington and the FAS should regard the Compact trust funds—funds from which the FAS governments can withdraw a certain amount every year—as a shared commitment to long-term fiscal and economic stability for the FAS. US officials should consider encouraging the FAS governments to allocate a share of their respective funds to support national priorities, such as climate resilience and adaptation projects or health infrastructure. Such expenditures could be paired with matching funds from USAID and potentially foreign development agencies.
- The Development Finance Corporation should conduct feasibility studies and consider targeted investments aimed at attracting private-sector FDI to the FAS and overcoming perceptions that the FAS economies do not offer worthwhile development opportunities. Such efforts should be realistic and focus on existing FAS strengths, such as fisheries, while working constructively with FAS partners to reduce bureaucratic and regulatory obstacles to investment.
- Washington should pursue continual and systematic coordination with regional partners such as Australia, France, Japan, New Zealand, and Taiwan to better promote multi-sector planning and implementation. Japan in particular has demonstrated a strong capacity in developing infrastructure in the Pacific Islands that Washington should seek to leverage in the FAS. One possibility could be helping increase internet connectivity in the FAS.
- The United States should promote greater intraregional cooperation among the Freely Associated States and their relationship with Guam and the Northern Mariana Islands. Their historical and cultural interconnections are amplified through economic, transportation, and educational links that have stabilized over the past 50 years. The United States should also support the Pacific Islands Forum, which recently reintegrated the Federated States of Micronesia, the Marshall Islands, and Nauru (but not Kiribati), and which bolsters regional support and solidarity for the FAS as the three countries manage their relationships with China.

Invest in the Compact relationships. The United States' unique relationships with the FAS should be viewed as the cornerstone of its broader strategy in the Pacific Islands region. The healthier the ties, the more effective the United States will be in securing its regional objectives. To that end, the United States should seek to continue building trust and goodwill with FAS officials and deepen connections with FAS communities even when such efforts are not linked to an immediate strategic payoff. As China's ambitions in the Indo-Pacific theater grow, durable Compact relationships will only appreciate in value and are likely to carry benefits in ways that are not obvious today.

Following the conclusion of negotiations between the US Special Presidential Envoy and the FAS governments, the US Congress should seek expeditious ratification of the third set of Compact economic assistance provisions. US officials, including legislators, should not hesitate to offer constructive, workable, mutually beneficial suggestions for strengthening the agreements, and

➤➤ **Washington should seek to deliver reliably and visibly on all of its obligations under the Compacts but especially on those commitments that carry outsize symbolic value, such as providing medical care to FAS military veterans.**

they should encourage their counterparts to do the same. US messaging and actions should reflect the enduring and inherent importance of the US-FAS relationship independent of the current geopolitical environment.

Washington should continue to prioritize improving the health and education of FAS citizens through a grants-based system. Healthy and well-educated populations are vital to the economic success of the FAS, and these programs benefit the United States when FAS citizens choose to relocate to the United States.

Washington should seek to deliver reliably and visibly on all of its obligations under the Compacts but especially on those commitments that carry outsize symbolic value, such as providing medical care to FAS military veterans through the Veterans Affairs system and to impoverished and vulnerable communities under Medicaid. The United States should seek to increase the understanding in the FAS that their economic and programmatic assistance stems from the Compact, funded by the US Congress, to prevent China (or other foreign investors) from distorting local perceptions of who is contributing to the overall well-being of FAS societies.

Federal and state officials as well as representatives of institutions of higher learning should seek to expand the availability of educational opportunities for FAS citizens. People-to-people connections of the kind fostered through study abroad are critical in shaping elite networks that link business and political leaders across national lines. At present, the United States funds scholarships for FAS citizens who are eligible for Pell Grants. However, FAS citizens are not eligible for work-study programs at US colleges and universities. Going forward, US institutions should invest in developing more opportunities for FAS citizens by funding more scholarships and expanding their access to US programs.

The legacy of US nuclear testing in the Marshall Islands remains a fraught and challenging topic for both US and Marshallese officials that, more than any other issue, threatens to sour US relations with one of the Freely Associated States. The US official position has been that the legal question of compensation is settled and access to US courts is closed, whereas Marshall Islands leaders feel strongly that the compensation provided under Section 177 of the current US-RMI Compact was inadequate. Negotiation may offer an opportunity to bring the two sides closer to a common position on this difficult topic. To maintain a cordial and productive bilateral relationship with Majuro, US officials should acknowledge that a conversation about nuclear testing will need to take place.

Washington should attempt to mitigate the adverse impact of Compact programs on US territories in the region and on US states. Between 2004 and 2018, Hawaii, Guam, and the Northern Mariana Islands estimated \$3.2 billion in costs for providing services to COFA migrants but received \$509 million in federal grants. Hawaii's and Guam's reported Compact impact costs have risen, with the majority of funds being spent on educational, social, and health services in Hawaii. Micronesians living

in Guam and Hawaii face high rates of homelessness and poverty. The failure to adequately address these impacts undermines positive US-FAS personal connections and could contribute to negative perceptions about the United States and its ability to live up to its commitments.

Dissenting Opinion

Despite coming to consensus within the group on the relevant issues and necessary actions for US officials, one study group member questioned whether relations between the United States and the Freely Associated States were sufficiently amicable and mutually beneficial to justify the appropriation of diplomatic and economic resources recommended in this report. That dissenting view held that the Compacts of Free Association relationships had created economic dependency and outsize expectations on the part of the FAS governments, which in turn has contributed to the difficulty in negotiating renewed economic provisions during the last two years. From this perspective, it would have been preferable to assess the importance of the Compact relationships by comparing them with other US relationships in the Indo-Pacific in terms of their strategic costs and benefits and to use that lens to make resourcing recommendations. Using such a lens would have meant recommending against the use of superlatives to describe US-FAS ties.

The dissenting view felt that the FAS governments' approach to Compact negotiations over the last two years sometimes lacked sincerity and that the recent appeal to replace the US negotiating team with a special presidential envoy was aimed at securing a more favorable outcome than would otherwise have been reasonable or justified. The dissenting view contended that, as with any negotiation, both sides of the Compact relationships have bottom lines. The dissenting view regrets that this basic message has been absent from the negotiations to date and from this final report.

US Interests

For much of the last 75 years, the Pacific region and in particular the Freely Associated States of the northern Pacific—the Federated States of Micronesia, the Republic of Palau, and the Republic of the Marshall Islands—were not regarded as US national security priorities. On some level, this deprioritization is not surprising: the region’s total population is around 2 million scattered across a vast expanse of ocean; its economies are small and, with the exception of fisheries and (historically) the garment industry, largely peripheral to global supply chains; many of the smaller Pacific nations are at high risk of natural disasters and perceived to have limited pathways to economic development.³ In part because of these factors, as well as the immense distances that separate Pacific nations from both the US and Eurasian mainlands, the Pacific was not a site of significant geopolitical competition during the Cold War or in the years after it. Until recently, Chinese engagement in the region was not viewed as carrying any obvious implications for US defense operations in the Pacific theater or threatening any significant US economic interests.

Intensifying competition with China has led US policymakers to reappraise the strategic significance of the Pacific and the FAS. But US interests in the FAS predate the current era of great power rivalry and were always greater than many in Washington acknowledged. The unique security relationships established by the Compacts of Free Association have magnified the US power projection in the Indo-Pacific region, structured US defense planning and force posture, and contributed to essential defense capabilities. In particular, the US right of strategic denial over the vast FAS territorial seas, which span much of the northern Pacific Ocean, knits together US forward presence and creates a key buffer between military bases in Guam and Hawaii and Asian littoral waters. In addition, US military installations on Kwajalein Atoll in the Republic of the Marshall Islands function as a key component of US space and ballistic missile-defense capabilities, one that even two decades ago the Department of Defense characterized as “an important asset that would be costly and difficult to replicate.”⁴



Majuro Atoll in the Marshall Islands on November 8, 2015. (Photo by Rob Griffith/AP)

Just as important, the economic and political linkages between the FAS and the United States, as well as the geographic proximity of FAS territorial seas to Hawaii and Guam, directly protect the US homeland. In addition, the right of FAS citizens to freely travel to and work in the United States means that an intensification of migratory pressures would be felt first and foremost in US municipalities. Compact migrants are disproportionately homeless, unemployed, and lacking health care, in significant part because of the inconsistent nature of access to federal services.⁵ Accordingly, a surge in Compact migrants is likely to strain local administrative resources and potentially contribute to existing social problems such as homelessness and human trafficking.

On a less tangible level, the prosperity and stability of the FAS creates a positive legacy for the United States as a benevolent regional power and sends a strong signal about the durability and resolve of US commitments. The US-FAS relationship is unique: although the FAS are not the most powerful or wealthy of the United States' international partners, they are its closest partners. The range of services the United States provides within FAS territories and the privileges it grants to FAS citizens are greater than in any other country; likewise, no other sovereign countries grant Washington as much control and oversight of their defense and foreign policy. FAS societies are deeply interlinked with that of the United States, including in regard to military service.

»» **Although the Freely Associated States have different outlooks on Beijing, they share with Washington an interest in avoiding excessive Chinese influence in the regional architecture of the Pacific Islands.**

The interdependence at the heart of the US-FAS relationship is a double-edged sword. Thriving FAS societies and robust, mutually valued US-FAS relations deliver a message that the United States and the security order it backstops can help build prosperous, democratic societies. By contrast, if FAS societies fall victim to social ills or poverty, or if US-FAS relations grow strained, the value and credibility of other US partnerships and relationships are called into question. For US treaty allies in East Asia and other Pacific Island countries, downgrading or neglecting US Compact responsibilities could be seen as a sign of diminishing US commitment. If Washington cannot meet its commitments to its closest allies given their low cost and strategic relevance, how can it be trusted to guarantee the security of far larger countries at far greater expense?

China's economic and geopolitical rise and its expanding influence in the Pacific reinforce some of these US interests and create new ones. The value of the buffer created by US strategic denial over FAS territorial seas is poised to increase as China seeks to make good on its blue water navy

ambitions and to deepen its security relationships with Pacific nations.⁶ In addition, as Washington seeks to limit the scope of Beijing's influence in the Indo-Pacific in concert with regional partners, the US-FAS relationship functions as a key vehicle for reinforcing regional norms and democratic values. Although the Freely Associated States have different outlooks on Beijing, they share with Washington an interest in avoiding excessive Chinese influence in the regional architecture of the Pacific Islands. This was seen most recently in March 2022, in FSM President David Panuelo's public objection to a regional security pact proposed by Chinese Foreign Minister Wang Yi, which Panuelo argued would threaten regional stability and increase the likelihood of military conflict between the United States and China.⁷

China's success in attracting some Pacific Island governments, such as Kiribati and Solomon Islands, to recognize Beijing, has rested on its ostensible commitments to helping them meet the threat of climate change and promises of economic development, which Beijing claims are superior to the benefits offered by relationships with Taiwan, as well as with traditional regional powers such as Australia, Japan, France, New Zealand, and the United States.⁸ Were the FAS to pivot to dependence on China for their economic growth and climate resilience goals, the shift would not only likely lead to greater Chinese influence in the FAS—including the potential for China to persuade Palau and the Marshall Islands to switch recognition from Taipei to Beijing—but also substantially undermine the US ability to credibly defend the broader network of democratic partnerships that have historically defined the Pacific's regional architecture.

One especially troubling scenario for the United States would be the fragmenting of one or more of the Freely Associated States. The Federated States of Micronesia, the Marshall Islands, and Palau encompass hundreds of islands and atolls, many of which have distinct cultures and political traditions. Some local political leaders in the FSM states (Chuuk, Kosrae, Pohnpei, and Yap) have expressed dissatisfaction with the FSM federal government's funding arrangements, which

has helped fuel ongoing discussion about secession. A referendum on Chuukese independence was initially scheduled for 2015 and has been postponed several times.⁹ Some Yapese secessionists believe that it was a mistake for Yap to join the Federated States of Micronesia when the FSM became independent and that Yap should instead have joined Palau on the basis of cultural similarities and geographic proximity. The FSM's relative lack of political cohesion dates back to its founding: in the late 1970s, when the islands were part of the Trust Territory of the Pacific Islands, Palau and the Marshall Islands were the first to become political entities, leaving the remaining Trust Territory districts to form the Federated States of Micronesia. (For further discussion of the Trust Territory of the Pacific Islands and the formation of the Freely Associated States, see pages 32–34.)

The existence of secessionist movements in the Federated States of Micronesia going back decades—even as efforts to hold independence votes have stalled—probably heightens the risk that economic destabilization could bolster support for independence among the states. Many well-informed observers of FAS domestic politics have speculated that the Compact relationship is a critical bulwark against regional balkanization and that the failure of Compact negotiations could, at a minimum, strain the cohesion of the Marshall Islands and Palau and could potentially be a catalyst for states seceding from the FSM.¹⁰ Local dissatisfaction with Chuuk's poor economy has been a key driver of Chuukese support for secession, suggesting that robust refunding of the Compact could address some of Chuuk's economic grievances and help preserve the FSM's territorial integrity.

The potential secession of Chuuk from Micronesia, or the secession of any territory in the FAS, would have significant security risks for the United States, the FAS, and the broader Pacific. As an independent state, Chuuk would no longer be subject to the Compact of Free Association, causing the United States to lose its right of strategic denial over Chuuk's land, airspace, and territorial seas. The secession of Chuuk, or any part of the FAS, and the accompanying termination of US strategic denial to the seceding area, would also allow China to establish formal security relationships with the newly independent islands at a time when Beijing is seeking a greater military footprint in the region.

The Pacific also carries outsized importance in preserving Taiwan's international space, which has emerged as an important US interest at a time when Washington is actively seeking ways to express solidarity with Taiwan's government and the Taiwanese people. Of the 14 countries that still have formal diplomatic ties with Taipei, four—the Marshall Islands, Nauru, Palau, and Tuvalu—are Pacific nations, and two of those are Freely Associated States. Taiwan's relationships with these countries, in part because of their geographic proximity, are arguably its most vibrant and have presented Taipei with valuable opportunities to elevate its regional and international profile and enhance its soft power. The 2021 announcement of a pandemic-related special travel arrangement between the Republic of Palau and Taiwan, the launch of which involved a visit by the US ambassador in Palau to Taipei, is a recent example of the unique value of Taiwan's Pacific partnerships.¹¹ Taipei's strong connections in the Pacific have the added benefit of functioning as a barrier to Chinese influence efforts. For example, the four Pacific Island nations that maintain formal diplomatic relations with Taipei are also members of the Pacific Islands Forum and have sought on occasion to limit Chinese engagement with the body; in 2018, Nauru, during its term as the Pacific Islands Forum (PIF) president, refused to allow Chinese observers to attend the forum on their official passports.¹²

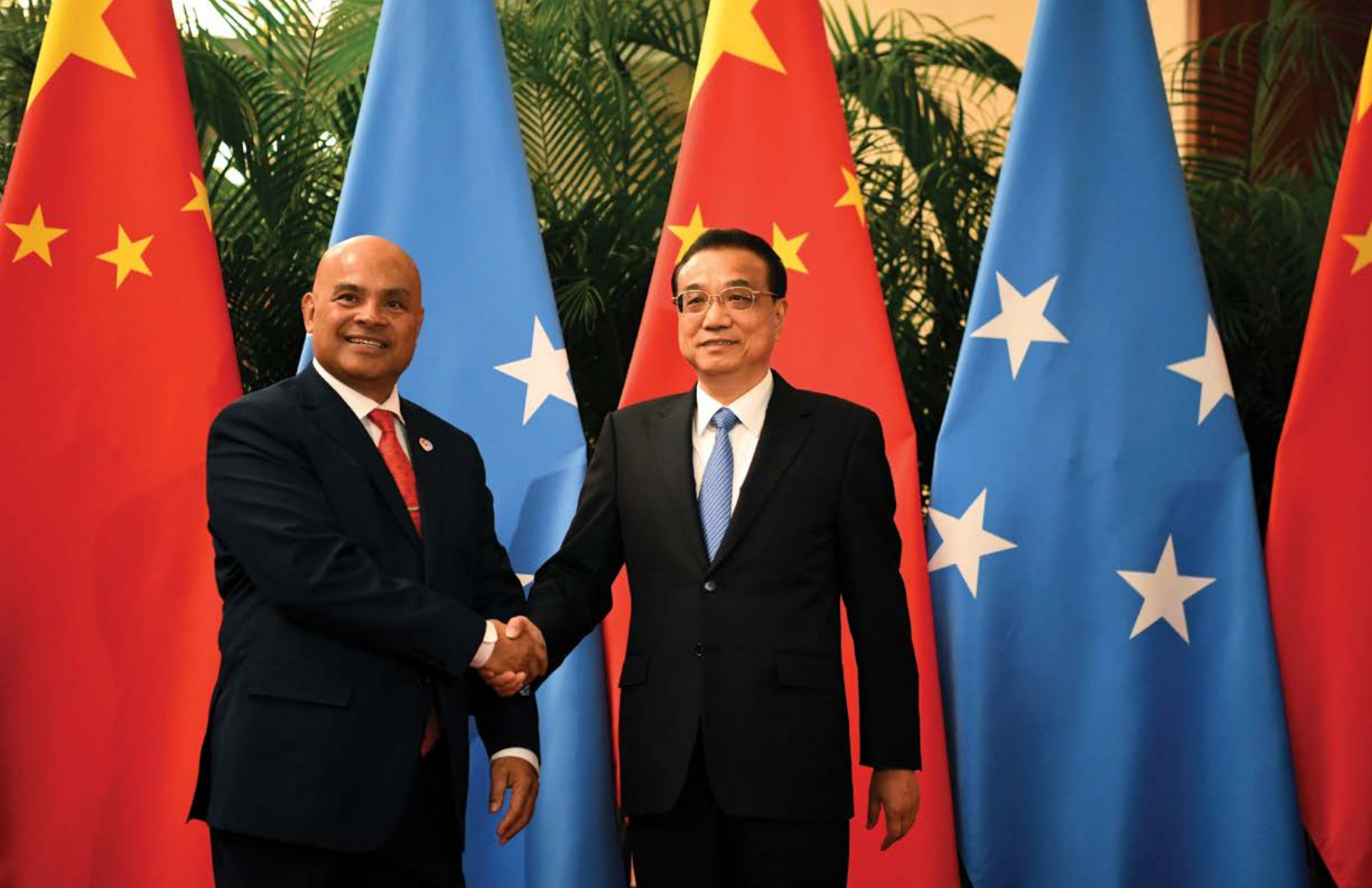
China's Interests

China's interests in the FAS derive from its interests in the broader Pacific. Although Beijing has not publicly identified the Pacific as a strategic priority, its stepped-up engagement in the region over the past decade reflects an assessment that Pacific nations present a compelling opportunity to advance China's broader foreign policy objectives. These include, most significantly, reshaping the Asia-Pacific security environment in a manner that enhances China's power projection, lays a foundation for a more interventionist Chinese foreign policy, and facilitates China's ambition to become a "great maritime power."¹³ In addition, the Pacific Islands present Beijing with promising opportunities to cultivate allies in multilateral fora, constrain Taiwan's international space, build Chinese soft power, promote the Chinese model of political and economic development, and secure access to export markets and natural resources.

China's Interests in the Pacific Islands Region

Until recently, scant evidence existed that China viewed Pacific Island nations as significant to its broader foreign policy aims. A 2014 RAND report held that the Pacific Islands were "China's least important region in the Asia-Pacific" but noted that Beijing's interest was growing.¹⁴ Similarly, a 2018 staff research report from the US-China Economic Security Review Commission found that the Pacific Islands were "less important than most other regions."¹⁵ Such an analysis was supported by both the modest scale of Chinese diplomatic and military activity and investment in the region and the few mentions the Pacific Islands received in China's public statements about its foreign policy and security goals. Under such analysis, Beijing viewed the Pacific Islands as an outlying region of what Chinese strategists refer to as China's "greater periphery."¹⁶

The Pacific Islands region does not, at first glance, seem a likely focus of China's strategic and economic interests. Chinese trade with Pacific nations is still a tiny percentage of China's overall



China's Premier Li Keqiang, right, shakes hands with Federated States of Micronesia President David Panuelo at the Great Hall of the People in Beijing on December 13, 2019. (Photo by Noel Celis/Pool via AP)

trade activity, and the major maritime shipping corridors that have fueled China's meteoric economic rise do not transit Pacific Exclusive Economic Zones (EEZs). With the exception of Papua New Guinea, Pacific nations do not present significant opportunities for natural resource extraction of the kind that has driven Chinese overseas investment elsewhere, though fisheries are an exception. The EEZs of Pacific nations are remote from China, meaning that China's forward presence in the region would be of limited value to China's anti-access, area-denial capabilities. Finally, Pacific nations have an overall low international profile, and the deepening of China's diplomatic and strategic partnerships in the region is unlikely to have the same impact on Chinese soft power as would be the case with more populous and influential countries.

But if it is not obvious that the Pacific Islands are necessary for advancing China's major economic and security interests, recent events nonetheless suggest that the region has grown in importance to Beijing. In 2018, President Xi Jinping met with the leaders of the eight Pacific Island nations that then had ties to Beijing on the sidelines of the Asia-Pacific Economic Cooperation ministerial meeting in Port Moresby, during which the leaders agreed to elevate their relations with Beijing to a "comprehensive strategic partnership."¹⁷ The following year, a Chinese national defense white paper

noted Chinese military exchanges and trainings with South Pacific countries, the first such allusion to Pacific Island nations in a Chinese defense strategy document.¹⁸ In 2021, Chinese Foreign Minister Wang Yi held, virtually, his first meeting with foreign ministers from nine Pacific Island states and the secretary general of the Pacific Islands Forum in the newly established China-Pacific Island Countries Foreign Ministers' Meeting.¹⁹ In May and June 2022, Wang visited seven South Pacific Island countries in person (and conducted three virtual visits), with the ambition of strengthening China's bilateral ties while realizing a regional security and economic development pact that would build off the bilateral pact with Solomon Islands that came to light in April.²⁰ Although Wang failed to secure a regional agreement with Pacific Island nations, his visit garnered 52 bilateral agreements.²¹

The benefits for China of increased engagement with the region are clear: perhaps to a greater extent than any other geographic area, the Pacific Islands offer a low-investment, high-reward opportunity for China to score symbolic, strategic, and tactical victories in furtherance of its global agenda. The generally low levels of economic development among Pacific nations and the limited engagement they have with other regional powers—often perceived as neglect in local capitals—has created a geostrategic void that China has sought to fill using the playbook it has honed elsewhere in the world: foreign assistance, private-sector investment and loans, sustained and high-level diplomacy, and in some cases tools of elite capture such as corruption and economic coercion.

These tools have allowed China to make progress on key lines of geostrategic effort in the Pacific that have proven more difficult to pursue in other, more contested regions. China's trade and investment links with Solomon Islands, for example, were a crucial precursor to the April 2022 security agreement between Beijing and Honiara. In 2019, China was the destination for about 90 percent of the raw materials exported from Solomon Islands, a lopsided relationship that helps explain the country's willingness to risk the ire of its traditional geopolitical partners such as Australia.²² The agreement, which grants China a broad mandate to intervene to protect its assets and personnel in Solomon Islands, illustrates how China's growing economic footprint in the Pacific can serve as a justification for its expanded military activities in the region.²³

The relative isolation of the Pacific Islands and their limited defense and security capabilities means that they could function as a testing ground for a more interventionist Chinese foreign policy that uses economic development and capacity building to justify deployment of police and paramilitary forces and involvement in sensitive areas of state function.²⁴ In May, a leaked draft communiqué—which Beijing was reportedly seeking to issue jointly with Pacific Island partners during Wang's regional tour—called for “exchanges and cooperation in the fields of traditional and nontraditional security,” including police training, cybersecurity cooperation, provision of customs systems, assistance in ocean mapping, and the creation of a free trade area.²⁵ Although Wang's trip did not result in such an arrangement, the ambition reflected in the communiqué is unmistakable and suggests that Beijing sees in the Pacific Islands an opportunity to supplant the dominant influence of traditional foreign partners such as Australia, Japan, New Zealand, and the United States.

➤➤ **China's relationship building in the Pacific has allowed it to expand its coalitions in multilateral fora, particularly those operating on a "one country, one vote" principle.**

From a longer-term perspective, China's deepening engagement in the Pacific positions it to enhance its power projection and expand its maritime capabilities. Chinese official sources have asserted that the People's Liberation Army Navy's three existing aircraft carriers (with more to follow in coming years) mean the so-called first island chain, which includes Japan, the Philippines, and Taiwan, is no longer a meaningful constraint on China's military operations. As China's confidence in the operational range of its maritime forces grows, so likely will its assessment of the strategic value of access to Pacific nations' EEZs and ports. It will also create demand for enhanced signals intelligence and monitoring, which China reportedly conducts through its fishing fleets in the region. The ocean mapping and law enforcement assistance activities proposed in the draft joint communiqué with Pacific Island nations would also enhance China's maritime domain awareness and intelligence capabilities.

In addition to regional power projection, the Pacific Islands present China with potential avenues to advance other foreign policy priorities. Chief among these has been Beijing's relentless efforts to curb Taiwan's international influence and attract Taipei's diplomatic partners, which Chinese officials view as a priority element of their campaign to defend and restore China's territorial integrity. Diplomatic rivalry between Beijing and Taipei in the Pacific has existed since the 1970s, but the last decade has witnessed an intensification of Chinese efforts and a growing sophistication in Beijing's approach. Rather than engaging in rudimentary "checkbook diplomacy"—that is, using economic aid and investment to curry diplomatic favor—China has learned to appear responsive to the interests and sensitivities of Pacific governments, such as by seeking to work with Pacific partners on meeting the climate crisis and investing in personal connections with local stakeholders. This approach yielded two high-profile decisions in 2021, when Kiribati and Solomon Islands ended diplomatic relations with Taipei and formally recognized Beijing.²⁶

Beyond Taiwan, China's relationship building in the Pacific has allowed it to expand its coalitions in multilateral fora, particularly those operating on a "one country, one vote" principle, such as the UN General Assembly, International Labour Organization, World Health Organization, and World Trade Organization. (China has also opposed any Taiwanese participation, even in an observer status, in all of these organizations.) Beijing also sees in the Pacific an opportunity to increase the number of international voices supporting its position in international disputes. All of Beijing's diplomatic partners in the region, including the Federated States of Micronesia, have adopted "One China" policies.²⁷ In addition, at China's request, Vanuatu and Papua New Guinea have both supported Beijing's claims in the South China Sea.²⁸

Although China's economic interests in the Pacific region are small relative to other emerging economic regions, they are not trivial. They have also provided important opportunities for economic growth and supply-chain diversification in some sectors, particularly resource extraction, fisheries being the most prominent example. Chinese longline fishing fleets have established a range of bases



Tour buses sit idle in Koror, Palau, on August 8, 2018, months after China banned group tours originating from China. (Photo by Farah Master/Reuters)

throughout the Pacific and fish extensively in and adjacent to the EEZs of Pacific nations.²⁹ Likewise, Chinese purse seine vessels engage in fishing in the EEZ of Pacific Island nations. In recent years, China's strategy for securing access and strengthening ties in the region has been to reflag its vessels under the flags of Pacific nations or enter into joint ventures with local firms.³⁰ In other areas, such as the South China Sea, China has clearly illustrated its ability to challenge maritime boundaries as a tool for further exerting its presence and expanding its geopolitical and territorial reach. In Papua New Guinea, meanwhile, China is engaged in several large-scale, multibillion-dollar mining projects that provide Chinese manufacturers with key inputs such as nickel and copper.³¹

China's Interests in the Freely Associated States

China's engagement in the Freely Associated States is more limited than in other Pacific nations. The strength of US-FAS ties, anchored in the Compacts, and the absence of formal diplomatic relations between Beijing and the Marshall Islands and Palau have constrained opportunities for China's engagement. The FAS do not have debts to China or China-linked actors, and the absence of FAS militaries mean no prospects for security cooperation with the People's Liberation Army

of the kind seen in Fiji and Papua New Guinea. The FAS are generally poor in natural resources outside the fisheries sector, and therefore have presented Chinese firms with few opportunities for economically significant extractive operations. China also has not sought to extend the Belt and Road Initiative (BRI) to the Marshall Islands and Palau given their recognition of Taipei.

But if China's economic and diplomatic activities are more circumscribed in the FAS than elsewhere in the Pacific, they are by no means negligible. In the Federated States of Micronesia as in the Marshall Islands, Chinese firms and Chinese investment play a role in domestic fisheries operations and are a source of local employment.³² Before 2017, Chinese tourism was an important source of revenue to Palau, but that has ceased to be the case following a Chinese ban on group tours originating in China and, since 2020, pandemic-related travel restrictions.³³ All three FAS have a small Chinese diaspora population and a small number of Chinese-owned small and medium-sized enterprises. China's diplomatic ties with Micronesia have facilitated a robust foreign assistance relationship and led to the country's inclusion in the BRI. Beijing has provided around \$100 million in aid to the FSM since 1990 (versus \$130 million per year from Washington) and has funded the construction of government buildings and transportation infrastructure.³⁴

The scale and complexity of the Compacts, which touch virtually every aspect of economic and political life in the Freely Associated States, mean that China's potential vectors of influence are more limited in the FAS than in other Pacific states. At the same time, Beijing sees US force posture and security relationships in the Pacific as a barrier to its development into a major maritime power and is likely to seek to capitalize on a deterioration in US-FAS relations. Were Beijing to succeed in bringing one or more of the Freely Associated States—or a breakaway FAS territory—into its sphere of influence, it would imperil US military capabilities in a strategically vital geographic command area and open the door to a broader reordering of regional architecture with implications well beyond the Pacific region. Moreover, Micronesia is the only one of the Freely Associated States that recognizes China and thus receives most of China's economic engagement. Although FSM President Panuelo has promised to take Chinese grants but not Chinese loans—a policy that Washington welcomes—Micronesia may not always maintain that approach. Destabilizing Chinese economic activity in places such as Cambodia, Solomon Islands, and Sri Lanka should be cautionary tales.

For these reasons, the United States should view China's activities in the FAS with concern but not alarm. The US-FAS relationship is strong, but China is probing at the edges of US influence in the FAS, providing one of many reasons for the United States to invest in its FAS relationships. China has a contingent but nonetheless tangible interest in positioning itself as a potential hedge for FAS governments should they begin to doubt the credibility of US commitments or question the fundamental logic of their Compact relationships. Although China has yet to take overt steps in this direction, there is every reason to believe that Beijing would welcome the opportunity to create obstacles to the renewal of Compact funding or support the fragmenting of the FAS into smaller states.

Freely Associated States' Priorities

The Freely Associated States have only partial autonomy in their foreign policy. All three Compacts of Free Association oblige the United States to provide for the defense of the FAS; they also grant Washington the right to block any policies inconsistent with its defense obligations. Within these limitations, FAS governments can pursue international partnerships and advocate for their interests in multilateral and international settings. In terms of influence, the FAS governments' pursuit of independent foreign policy has been most consequential in their engagement with other Pacific nations and in the premier regional organization, the Pacific Islands Forum. But the FAS have also been influential voices on the global stage in drawing attention to the urgency of the climate crisis and in addressing the challenge of illegal, unreported, and unregulated (IUU) fishing.

The FAS governments' foreign policy priorities and strategic outlook overlap significantly with those of Washington, but the alignment is not perfect. This is not surprising: although the United States and FAS share many values and have a long history of person-to-person connections and cultural and economic linkages, the FAS are small island nations confronting a very different set of threats and challenges than the world's preeminent military and economic power. Their top concerns, in brief, are climate, fisheries, and development. To build the strongest possible relationship with the FAS and insulate them from China's influence, the United States should prioritize FAS capacity building and technical economic assistance in these areas.

Climate change. Chief among the threats the FAS face is their extreme exposure to natural disasters and the effects of climate change. The FAS are among the nations most susceptible to rising sea levels, coral bleaching, and increasing storm and drought intensities, which in turn disrupt the subsistence fishing activities on which many FAS residents depend and increase the risk of contamination of precious freshwater resources on many FAS atolls.³⁵ Like other Pacific nations, the FAS have made climate adaptation and resilience a central plank of their development strategy and use

their membership in international institutions such as the United Nations to spur more ambitious climate change policies on the part of advanced economies.³⁶ The FAS have worked constructively with foreign donors to include climate-related programming in the economic and technical assistance they receive—for example, a \$40 million World Bank project to strengthen the climate resilience of the FSM’s secondary road network.³⁷

Fisheries. Management of fisheries and combating the depletion and exploitation of fish stocks is another priority in FAS foreign policy. Fishing is central to the cultural heritage of all three FAS and an important source of foreign revenue, jobs, and livelihood in FAS economies.³⁸ The RMI has even been called a “fisheries superpower” because of its centrality to global fishing operations.³⁹ FAS governments have voiced interest in increasing their capacities to address IUU fishing in their vast EEZs and have sought innovative partnerships and arrangements to prevent abuse and degradation of their ecologically and environmentally important marine resources.⁴⁰ They have also been clear that building greater maritime domain awareness is an area in which they seek international support.

All three of the Freely Associated States are party to the South Pacific Tuna Treaty with the United States, which sets out the terms and conditions of access for US fishing vessels to fish in Pacific Island Forum Fisheries Agency (FFA) country waters. The treaty, which includes a foreign assistance package from the Department of State that is divided among all FFA member countries, has been an important geopolitical relationship between Pacific Island countries and the United States since the 1980s, though its future is presently uncertain as a result of changing conditions of access in the Pacific and a recent contraction in the size of the US fleet.⁴¹ Treaty negotiations were in progress at the time of writing and being conducted separately from Compact negotiations.

Economic development. Beyond climate and fisheries, the FAS are all actively pursuing foreign direct investment, but the broad perception in FAS political circles is that the countries’ lack of resources and geographic isolation limit their pathways to economic development. This is less so in Palau, which before the pandemic was seeing significant growth in its tourism sector and is not classed as a low-income country by development institutions.⁴² By contrast, in Micronesia and the Marshall Islands, fisheries and agriculture are likely to remain the dominant industries for the foreseeable future. To that end, securing foreign assistance has been a key feature of FAS engagement with foreign partners, including Taiwan in the case of the Marshall Islands and Palau, and China in the case of Micronesia.⁴³

The three Freely Associated States have divergent outlooks on China, but all are generally wary of suffering collateral damage from US-China competition in the Pacific. FSM officials have pushed back at the suggestion that cultivating diplomatic and foreign assistance ties with Beijing is in tension with their Compact relationship with the United States, stating that they seek peaceful relations with all nations.⁴⁴ In recent years, Palau has been the victim of Chinese economic coercion on account of its close relationship with Taipei but in the past has sought Chinese overseas investment and tourism revenues.⁴⁵ The RMI likewise has only informal relations with Beijing but is an export market for Chinese passenger and cargo ships.⁴⁶ Beijing has recently sought to pressure Majuro by imposing extra taxes on Marshall Islands vessels entering its ports.⁴⁷

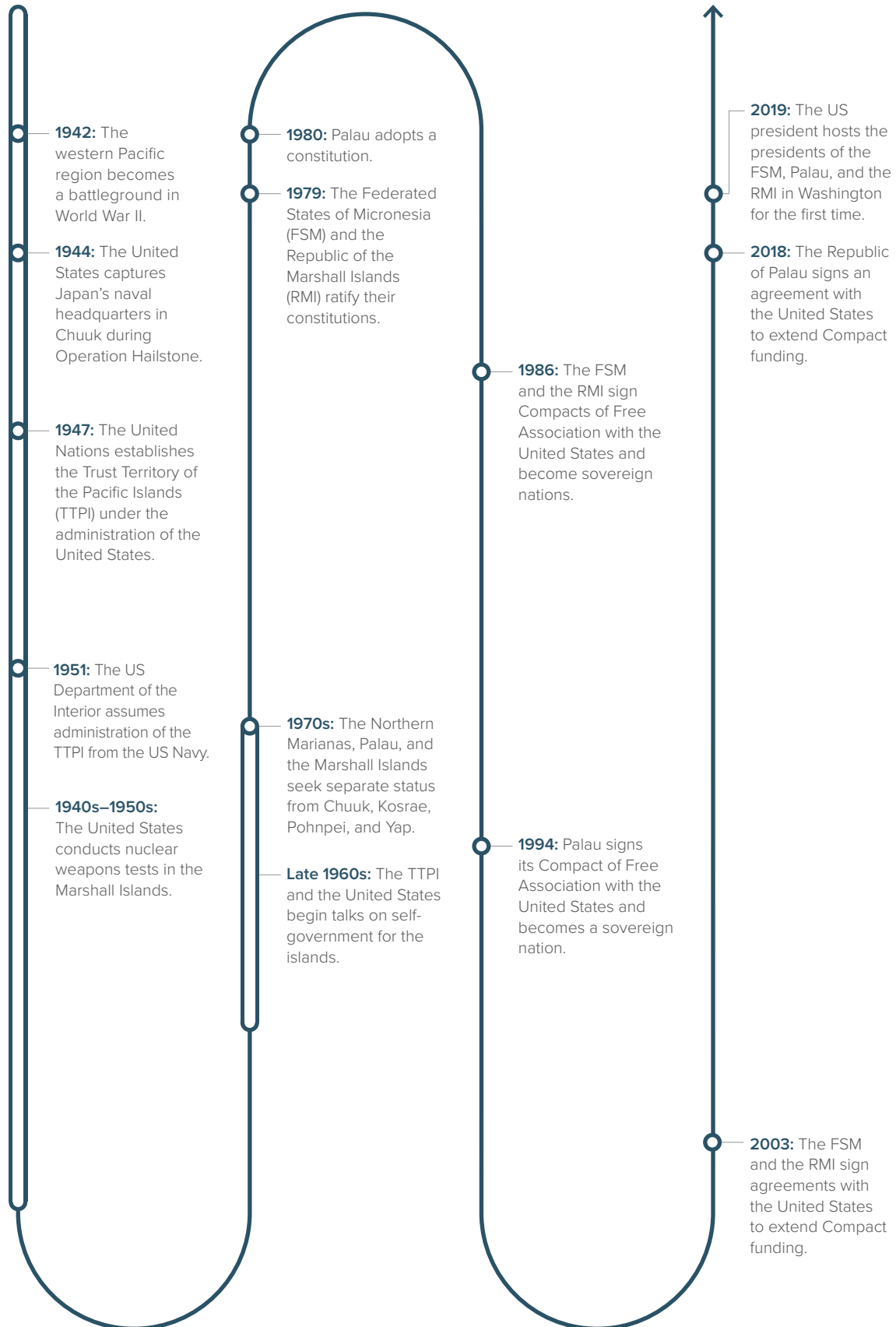
The US-FAS Relationship

The ties that bind the societies of the Freely Associated States with the United States are multifaceted and complex. Many FAS citizens have close personal and economic ties to the United States, including relatives who live and work in US states and territories. FAS citizens enlist in the US armed forces at a higher rate than US citizens and are more likely to pursue foreign employment and educational opportunities in the United States than in any other country.⁴⁸ These and other deeply embedded interpersonal and structural connections between the United States and the FAS are a key reason for the durability of the free association model at the heart of the Compacts, which reflects shared democratic values and decades of history.

The islands and atolls that now constitute the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands are believed to have been inhabited for between 2,000 and 3,000 years. Written history of the islands begins with European contact, specifically the records of Spanish explorers in the sixteenth century. In the 1880s, Germany established a protectorate over the Marshalls, and Spain asserted its administration over the islands that are now Palau and the Federated States of Micronesia. In 1899, following its loss in the Spanish-American War, Spain sold the islands to Germany. The islands changed hands again when Japan seized them from Germany during World War I and was later granted an administrative protectorate over the islands by the League of Nations.⁴⁹

Following its loss to the Allied powers in World War II, Japan was divested of its colonies, including the Carolines and Marshalls. Members of the US Congress and the Department of the Interior advocated for complete American annexation of the islands.⁵⁰ Instead, the United Nations established the Trust Territory of the Pacific Islands (TTPI) and granted the United States administrative authority in 1947. Of the 11 territories that were to become trust territories in the aftermath of World War II, only the TTPI was characterized as a strategic trust and placed under the supervision of the UN Security Council, which provided the United States significant control with limited oversight.⁵¹

Timeline of Relevant Events in US-FAS History



➤ **Renewed US interest in the [Freely Associated States] linked to intensifying rivalry between the United States and China has been greeted with ambivalence by the Pacific Islands.**

The Trusteeship Agreement, authorized by Article 76 of the UN Charter, entitled the United States to establish military bases and station armed forces on the islands. At the same time, it obligated the United States to foster the islands' political, economic, and social development with the objective of advancing toward self-determination and self-sufficiency.⁵² In 1961, the Kennedy administration commissioned a report investigating the social and economic conditions within the Trust Territory, which found that infrastructure was worse than when the United States assumed administration and warned that continued neglect could negatively affect global opinion.⁵³ This prompted increased US spending on the islands. That same year, President Kennedy released National Security Memorandum 145, establishing a new policy regarding the relationship between the United States and the Trust Territory, the goal of which was "developing the Trust Territory as a viable territory."⁵⁴ Administration of the islands was transferred to the Department of the Interior.

In 1969, President Nixon "ordered his Interior Secretary to annex Micronesia, with the same unincorporated status as Guam."⁵⁵ The following year, Micronesia's negotiators issued four demands: sovereignty, self-government, a constitution, and a revocable Compact of Free Association, to which the United States responded with an offer of commonwealth status that was substantially similar to annexation.

In 1972, the western Pacific region began to break into the discrete components known today. The Northern Mariana Islands accepted the US offer of commonwealth status. Palau chose to pursue individual negotiations. The Marshall Islands, the site of a US military installation, voted to become a republic. This left Chuuk, Kosrae, Pohnpei, and Yap, which went on to form the Federated States of Micronesia. Micronesia and the Marshall Islands obtained independence from the TTPI in 1979 and achieved full sovereignty in 1986 when their Compacts with the United States became effective. Palau's Compact was signed in 1986 but not ratified until 1993.

The Compacts of Free Association

In the 1980s, the Compacts of Free Association between the United States and the Federated States of Micronesia, the Republic of Palau, and the Republic of the Marshall Islands established each of the now Freely Associated States as sovereign nations with the rights to self-determination and self-governance. They also, along with several subsidiary agreements, established a complex set of both enduring and temporary benefits and responsibilities that are broadly similar in scope across the agreements. These benefits and responsibilities were reinforced when the economic assistance provisions, or Title II, of the Compacts expired and were renegotiated with each of the Freely Associated States between 2003 and 2004. The current economic assistance provisions of these "second Compacts" are set to expire in 2023 (FSM and RMI) and 2024 (Palau) and are in the process of being renegotiated.

All three of the Compacts assign the United States full responsibility for the security and defense of the FAS.⁵⁶ This allocation of responsibility comprises several elements: first, the United States will defend the FAS from foreign aggression; second, the United States is entitled to deny third countries access to or use of the FAS territories, airspace, and territorial seas for military purposes; and, third, the US military retains the option to establish military areas and facilities on the islands and has the right to use FAS territory as necessary. Similarly, under the Compacts, the FAS are required to refrain from actions that the United States deems incompatible with its responsibility to defend the FAS. Additionally, citizens of the FAS are permitted to serve in the US armed forces and in fact have done so, as noted earlier, in large numbers.

In exchange for the substantial strategic security and military value afforded by the security provisions, the FAS receive key benefits.⁵⁷ First, citizens of the FAS are permitted to move freely to the United States and its territories and have the right to live and work indefinitely under a unique immigration status and without a visa. Second, the Compacts provide economic assistance in the form of grant assistance and access to US programs. Additionally, the services of the National Weather Service, US Postal Service, and Federal Aviation Administration are provided to all FAS nations under the Compacts, with the FSM and RMI also receiving Federal Emergency Management Agency assistance. The agreement with the Marshall Islands also provides for payment for land leased for the Kwajalein missile installation. In addition, both the original and current RMI Compacts seek to grapple with the legacy of the US nuclear testing program in the country (see page 36).

The current economic assistance provisions of the Compacts, unlike those in the original agreements, promote accountability through the use of oversight mechanisms designed to prevent misuse of economic assistance. Grants are targeted at key priority areas such as health, infrastructure, public-sector capacity, and private-sector development. These grants must comply with the Common Grant Rule that applies to all US domestic grants, such as maintaining an auditable set of financial records and following generally accepted accounting and procurement practices. To the FAS, these requirements are experienced as heavy-handed micromanagement. In addition, the renegotiated economic provisions of the Compacts sought to move FAS economies toward greater self-sufficiency through the establishment of trust funds administered by FAS governments. The trust funds were intended to be built up over a 20-year period through annual joint contributions and thereby provide continuing government revenue following the termination of grant assistance.

Tensions

Friendly relations between the United States and the FAS are vital to maintaining the shared commitment to mutual security and democracy. Although the relationship remains strong, inadequate attention and lack of respect for the FAS as a strategic partner risk undermining its strength. Renewed US interest in the FAS linked to intensifying rivalry between the United States and China has been greeted with ambivalence by the Pacific Islands: although the FAS governments welcome increased engagement from Washington, they view their special relationship with the United States as important on its own terms and are wary of being caught up in a struggle for strategic primacy in the Indo-Pacific.

»» LEGACY OF US NUCLEAR WEAPONS TESTING

From 1946 to 1958, the United States conducted 67 nuclear weapons tests at Enewetak and Bikini Atolls within the Marshall Islands District of the United Nations Trust Territory of the Pacific Islands, then administered by the United States. The inhabitants of Bikini and Enewetak were relocated before the testing program, which resulted in extensive damage and radioactive contamination that included the obliteration of several islets. In 1954, Castle Bravo, a hydrogen bomb test at Bikini Atoll, greatly expanded the contamination, damage, and injuries from the testing program. The yield of this explosion was greater than expected, and a shift in wind direction carried radioactive fallout onto the atolls of Rongelap and Utrik. The inhabitants of these atolls had not been warned or evacuated before the test and received dangerously high doses of radiation. They were subsequently evacuated for medical treatment, which continues under the Department of Energy's Special Medical Program.

The US nuclear tests in the Marshall Islands continued for more than four years after the Castle Bravo blast. In the aftermath of the tests, the United States began efforts to provide medical treatment and food to those affected, to restore lands to habitability and agricultural use, and to compensate those affected for their injuries and the

damage to their lands. Among the issues complicating these efforts have been differing views on US treatment of the victims and their lands; the geographic extent of radiological contamination; the effectiveness of radiological cleanup and remediation efforts; the safety risks posed by the Runit Dome nuclear waste facility, which was left on Enewetak Atoll after a US radiological cleanup there; determining the extent to which residents were and continue to be exposed to radiation (the total external and internal dose); the health risks of radiation exposure; how to handle claims and compensation; and what constitutes fair and just compensation.

Efforts to address the nuclear legacy have rarely achieved satisfactory results because, in large part, no common understanding between the United States, the Marshall Islands, and the affected communities has been reached on important questions, including the geographic extent and level of radiological contamination; the number of people who were, and are, likely to be injured from that radiation; the monetary value of personal injury and property damages caused by the nuclear testing program; and who, between the United States and the Marshall Islands, should bear the cost of nuclear claims whose values are disputed.

In addition to the divergent view on competition with China are several other, longer-standing irritants in the US-FAS relationship: Compact negotiations, US nuclear testing in the Marshall Islands, and US institutional capacity.

COMPACT NEGOTIATIONS

The Compacts and their subsidiary agreements are highly complex and interconnected, and economic assistance holds the arrangement together. The current funding arrangement, advocated for and created by the US Office of Management and Budget in 2000 and incorporated into the second Compacts, is to phase out annual US assistance and replace it with trust funds that would provide financial support after the second assistance terms expire in 2023 and 2024. The unique historic relationship and the FAS economies' prospects for development indicate that the economic independence envisioned by this funding scheme is unrealistic. The extensive grant and

program assistance is a central pillar of the FAS governments' position, making renegotiation of the economic provisions of the Compacts necessary to continue the positive relationship between the FAS and United States.

Yet initial efforts to negotiate the Compacts were characterized by delays and frustrations. Economic assistance involves several US agencies, from the Department of the Interior to the Postal Service and the Federal Aviation Administration. From 2020, when the negotiations began, to April 2022, US negotiators lacked broad enough authority to negotiate on behalf of the various agencies implicated in the agreements. It took two years and a refusal on the part of the FAS to return to the negotiating table for the White House to appoint a presidential negotiator with authority established under a National Security Council Directive, which is necessary to engage across multiple agencies. The appointment of a Special Presidential Envoy on Compact Negotiations in response to FAS demands was an important step toward furthering negotiations, but several substantive issues, including restoration of economic benefits and resolving disagreements over the legacy of the US nuclear testing program in the Marshall Islands, remain to be addressed.

NUCLEAR TESTING

The disconnect between US and Marshall Islands perceptions of the legacy of the nuclear testing program is significant and stands in the way of successfully renegotiating funding for the Compacts of Free Association. The original Compact provided for compensation of \$150 million based on a radiological survey of 11 atolls and two islands in the Northern Marshalls in 1978. It also authorized a comprehensive, independent radiological survey to determine the level of contamination and health effects from the testing program across the Marshall Islands and preserved the possibility of future compensation for related claims if the RMI could show “changed circumstances” in the assessment of injuries and damage that would render the payment of \$150 million under Section 177 of the current US-RMI Compact “manifestly inadequate.” This question of whether the original payment was manifestly inadequate—and how the answer to that question should be determined—is one area of disagreement.⁵⁸

The US position regarding this legacy is informed by an independent Nationwide Radiological Study conducted between 1990 and 1994. The survey found that damage and injuries caused by the nuclear testing program were mostly limited to the four northern atolls of Bikini, Enewetak, Rongelap, and Utrik and their populations of approximately 1,000 people. The RMI, on the other hand, cites other scientific authorities, including a peer-reviewed study by two medical doctors, who concluded that the survey estimates seem “excessively low.”⁵⁹ The RMI also points to the claims adjudicated by the Marshall Islands Nuclear Claims Tribunal (NCT) that was established pursuant to Section 177 to administer the Nuclear Claims Trust Fund. The NCT was established by the Marshall Islands Nuclear Claims Tribunal Act of 1987 to adjudicate claims and provide awards for full compensation for personal injuries and property damage suffered because of the program. Although the original funding provided for such claims under the Compact amounted to \$150 million, the NCT awarded more than \$2.1 billion in compensation.



The Ronald Reagan Ballistic Missile Defense Test Site on Kwajalein Atoll in the Republic of the Marshall Islands on October 31, 2015. (Photo by Josh Haner/ New York Times)

In September 2000, the Republic of the Marshall Islands submitted a changed circumstances petition to the US Congress based on additional unfunded claims awarded by the NCT and Congress, then requested the views of the executive branch on the petition. Washington disputed the methodology and independence of the NCT. In 2004, although the executive branch did not expressly take a position on the claim that previous compensation was “manifestly inadequate,” it did find that the request did not qualify as a changed circumstance within the meaning of Section 177. As a result, it took the position that the RMI is not legally entitled to additional compensation under that provision. However, Section 105(c)(2) of the Compact includes an open-ended authorization for additional ex gratia compensation through which the United States has provided more than \$200 million of additional nuclear test compensation and related assistance. Although perspectives on the nuclear legacy and its impacts vary, this provision may create an avenue for future reconciliation and compensation.

INSTITUTIONAL CAPACITY

The unique history of the FAS as a former trust territory—when it was treated for all intents and purposes as a dependent and insular US territory—and the current nature of the nations’ relationships to the United States as sovereign states with domestic privileges involves several areas of the

US government in managing this relationship. The secretary of state is responsible for government-to-government relationships with the Freely Associated States as sovereign nations. The secretary of the interior is also a critical stakeholder. The Department of the Interior is responsible for administering economic and financial assistance appropriated under Article 1 of Title II of the Compact; the grant, service, and program assistance appropriated under Article 2 of Title II; and all other assistance under the agreements (see page 7). In other words, the Department of the Interior administers, coordinates, and monitors 80 percent of Compact assistance. Education assistance and the military relationship between the FAS and the United States also invoke the Departments of Education and Defense.

The complex nature of the arrangement requires substantial coordination, but the US government's institutional capacity to effectively manage its relationship with the FAS has eroded over decades. Previously, an Office of Freely Associated States Affairs existed to provide guidance and oversight regarding the establishment and implementation of US policy concerning relations with the FAS. This office was terminated in the 1990s. Additionally, the Interagency Working Group on the Freely Associated States—which coordinated across the Departments of State, Interior, Defense, Commerce, and Justice, as well as the Joint Chiefs of Staff, Office of Management and Budget, and National Security Council—was disbanded in the early 2000s. The elimination of these key institutions deeply damaged US capacity to oversee and coordinate its relationship with the FAS. They need to be restored.

China's Vectors of Influence

China's influence in the Freely Associated States, as in the wider Pacific, is anchored in its already significant economic engagement with the region and the financial flows between Chinese entities and local actors. China has also exerted influence in the region by increasing its diplomatic presence in and strengthening its security relationships with the Pacific Island nations.

Economic Engagement

China's export-driven economic model and its growing demand for raw materials has vaulted it into a dominant position in the external trade and investment relationships of most Pacific nations. In 2018, China surpassed Australia as the largest trading partner of Pacific Island Forum countries, and it is also by far the largest destination for exports from the region of raw materials such as fish, timber, and minerals.⁶⁰ China's foreign assistance in the Pacific has trended generally upward in the last decade, though it contracted by a third in 2019 and is still substantially less than that of Australia, New Zealand, and Japan.⁶¹

In 2019, Beijing was the second-largest lender to Pacific economies.⁶² Chinese firms are engaged in extractive activities across the region, including several major mining operations in Papua New Guinea, and have financed infrastructure projects under the BRI in all 10 of Beijing's regional diplomatic partners.⁶³ Despite concerns of so-called debt trap diplomacy, evidence is scant that China has intentionally engaged in predatory lending in order to seize control of key assets or increase its influence over local political institutions.⁶⁴ At the same time, the scale of its lending raises concerns for the fiscal stability of Pacific economies.

China's deepening economic links with the Pacific have been accompanied by a corresponding growth in Chinese nationals working in and engaging in professional and recreational travel to the



Homes on Ejit, an islet in the Majuro Atoll, Marshall Islands, pictured on October 29, 2015. (Photo by Josh Haner/New York Times)

region.⁶⁵ This has in turn created demand for service providers such as tour agencies, branches of Chinese banks, and interpreters. Such growth in secondary services has amplified China's influence in Pacific economies and created opportunities for economic coercion. Beijing's restriction of group travel to Palau, for example, dealt the Palauan tourism industry a heavy blow and was widely understood as retaliation for Palau's strong commitment to deepening ties with Taipei.⁶⁶

Some observers have expressed concerns that China's expanding economic footprint in the Pacific has brought with it Chinese-linked organized crime and corruption.⁶⁷ Although organized crime and corruption are by their nature clandestine and hard to measure, such concerns likely have some basis in fact: Pacific nations routinely receive poor scores on corruption indices, and around one-third of Pacific Islanders reported having paid a bribe in the previous year.⁶⁸ Chinese foreign investment has been linked to both petty and high-level corruption across the world, and there is little reason to believe that Pacific nations, which generally have weak institutional capacity and poor rule of law, would be an exception to this rule. In Solomon Islands, which has emerged as China's closest partner in the region, many senior officials are believed to have links to logging concessions.⁶⁹ Such potential investment-linked corruption is made all the more likely given that

both Beijing and Taipei are alleged to have offered bribes to Solomon Islands officials related to their diplomatic allegiance.⁷⁰

Diplomatic Presence

Outside the economic realm, China has steadily increased its diplomatic presence in the Pacific. President Xi's visit to Fiji for the Pacific Islands Forum in 2014 was the first visit by a Chinese head of state to a Pacific Island nation and heralded a new era of Chinese engagement in the region. During his visit, Xi set out his vision for China-PIF relations, organized around five themes: building a partnership based on mutual respect and development, establishing high-level exchanges, deepening economic cooperation, expanding people-to-people and cultural exchanges, and increased multilateral coordination through the PIF.⁷¹ Furthermore, as discussed above, Foreign Minister Wang Yi has engaged in both virtual and in-person diplomacy across the region aimed at advancing a China-centric model of regional integration and cooperation.⁷²

China now has embassies in every Pacific nation where it has diplomatic relations except Niue and the Cook Islands, which fall under the remit of China's ambassador to New Zealand. This includes embassies in Kiribati and Solomon Islands, which were established following their recognition of Beijing in 2019. China has established a Confucius Institute (a public cultural and educational promotion program) in Fiji and before the pandemic provided around 160 annual scholarships as well as numerous cultural exchange opportunities to residents of Pacific Island nations.⁷³ Beijing has been a PIF dialogue partner since 1990—not without occasional friction, such as when Nauru sought to prevent Chinese officials from entering its territory on official passports—and has donated funds to the PIF secretariat. China also participates in regional fisheries management organizations, including the Western and Central Pacific Fisheries Commission, an intergovernmental body aiming to conserve and manage highly migratory fish stocks, including tuna.

Security Ties

China's security ties in the Pacific have been more limited: only four Pacific nations—Fiji, Papua New Guinea, Tonga, and Vanuatu—have military or paramilitary forces. China provides some combination of training, arms, vehicles, and vessels to these four countries and to the police forces of Solomon Islands and Vanuatu.⁷⁴ The People's Liberation Army conducts military diplomacy activities across the region and during the COVID-19 pandemic provided vaccines and personal protective equipment to a number of Pacific Islands using military aircraft and ships.⁷⁵ Furthermore, as the China–Solomon Islands security pact signed in April 2022 illustrates, China's assistance to domestic police forces can also lay the foundation for broader security relationships; in fact, the absence of a domestic military force may serve as a pretext for a frequent or even permanent Chinese military presence in the territories of Beijing's Pacific partners.

Constraints on China

China's vectors of influence in the Freely Associated States are narrower than in most other Pacific nations. Beijing does not have formal diplomatic ties with Palau or the Marshall Islands, and thus its diplomatic presence in both countries is effectively zero. FAS governments have not taken on any loans from China. Although the US-FAS security relationship precludes any Chinese military engagement or support to FAS police forces, it has not stopped China from offering such support.⁷⁶ None of the FAS have significant natural resources outside the fisheries sector, meaning that opportunities for Chinese investment in FAS economies are limited. Neither the Marshall Islands nor the Federated States of Micronesia are currently significant tourist destinations, and Palau has been mostly cut off from Chinese tourism. Only the FSM participates in the BRI or receives Chinese foreign assistance. At a general level, the economic assistance and broad provision of basic services under the Compacts of Free Association effectively precludes China from matching US influence in most areas of FAS economic and political life.

The Federated States of Micronesia

Although China cannot pursue direct military engagement with the Federated States of Micronesia because of the Compact, some Chinese activities may be testing the bounds of Title III (see page 7) in other ways. In the past few years, Chinese research vessels have occasionally been spotted operating within the territorial seas of the FAS without US or FAS permission. The research findings of these vessels probably have military utility, which would violate Title III's provision that only the United States can use FAS territorial seas for military purposes. In addition, the FAS generally lack the capacity to identify the number and frequency of incursions by Chinese research vessels, indicating that some or many of these incursions may happen wholly without the knowledge of the FAS or the United States.

➤➤ Pohnpei, as much as it seeks Chinese investment, remains committed to its security relationship with the United States, with all the strategic benefits that relationship provides for US defense capabilities.

The constraints on Chinese activities should not prompt complacency. This is especially true regarding the Federated States of Micronesia. China and Micronesia have developed robust diplomatic and economic ties comparable to those Beijing has with other small Pacific nations, such as Niue and Kiribati, where Beijing has effectively pursued influence campaigns. In a speech to the UN General Assembly in 2020, Micronesian President Panuelo lauded his country's "Great Friendship" with China and expressed concern that "competition for access and influence" in the Pacific could "potentially threaten to fracture long standing alliances within our Pacific Family, and could become counterproductive to our collective desire for regional solidarity, security, and stability."⁷⁷

The great friendship Panuelo alluded to has been anchored in China's foreign assistance, particularly in the realm of infrastructure, where Chinese financing has been substantial and high profile. Last year, Micronesia announced completion of a Chinese-funded \$14 million road project around Pohnpei, a major infrastructure project by Micronesian standards.⁷⁸ In a statement about the project, Panuelo said that "we share the same values as China."⁷⁹ China has funded, in addition to roads, a broad array of building construction projects, including the Pohnpei State Administrative Building (FSM's largest structure), the Chuuk State Government Complex, and a major sports facility in Pohnpei.⁸⁰ As recently as 2018, a Chinese firm was in negotiations to build a massive tourism resort on Yap, although the project appears to have stalled.⁸¹ Beyond construction, Beijing provides dozens of annual scholarships to FAS citizens.⁸² President Panuelo is also seeking to make FSM a hub for transshipment of Chinese goods to the South Pacific.⁸³

This appetite for Chinese assistance and Chinese engagement should not be interpreted as a pivot away from the United States. Last year's agreement between the Federated States of Micronesia and the US Indo-Pacific Command on establishing a new military base is a reminder that Pohnpei, as much as it seeks Chinese investment, remains committed to its security relationship with the United States, with all the strategic benefits that relationship provides for US defense capabilities. Furthermore, President Panuelo's objection to China's proposed regional security pact in the Pacific Islands, which the president said would draw signatories "very close into Beijing's orbit, intrinsically tying the whole of our economies and societies to them," appears to have been an important factor in the regional decision to demur on moving forward with the proposal.⁸⁴

The Republic of Palau and the Republic of the Marshall Islands

The Republic of Palau and the Republic of the Marshall Islands are far less solicitous of Chinese investment and person-to-person connections than the Federated States of Micronesia. China's economic footprint in both countries' economies is not negligible, however. As in Micronesia, Chinese-owned firms are a part of the Marshall Islands' fishing industry, though not significantly more so than

Japanese, Korean, or Taiwanese firms.⁸⁵ The head of Pan Pacific Foods, a Chinese-owned fishing company, has been described as China's unofficial ambassador to the Marshall Islands.⁸⁶ In 2018, a Chinese businessman proposed establishing a special administrative region on Rongelap Atoll, but the idea was rejected by Marshallese officials.⁸⁷ Palau's economic ties to China are mostly through trade and in the fisheries sector and, until 2017, tourism. At the height of Palau's mainland Chinese tourist boom, investors were reportedly seeking to buy or lease large swaths of Palauan land.⁸⁸

These economic links to the FAS provide a basis for Chinese economic coercion. Beijing has already proven willing to flex its economic muscle against Palau by curtailing Chinese group travel to the country in retaliation against its ties with Taiwan.⁸⁹ It has also imposed extra taxes on Marshall Islands–flagged vessels entering Chinese ports, a significant penalty given the importance of the shipping industry to the Marshall Islands' economy.⁹⁰ To date, neither of these measures appears to have caused either government to reconsider its relationship with Taipei, but Beijing has been persistent in seeking to entice Palau and the Marshall Islands with BRI membership should they switch diplomatic allegiance.

Organized crime and corruption offer another potential avenue for China's influence in the FAS. To date no cases of corrupt payments or favor-trading involving Chinese firms or individuals and FAS officials have been publicly reported, but the prevalence of corruption in Chinese-funded infrastructure projects globally and Beijing's documented use of strategic corruption in other parts of the world justify vigilance against such corrosive capital flows. Chinese organized crime syndicates are believed to be present in all three Freely Associated States, often preying on Chinese nationals or tourists but also affecting FAS citizens. In addition, FAS financial institutions (particularly those in Palau) are believed to play a role in Chinese money-laundering operations.

Conclusion

After decades of relative inattention from policymakers in both Washington and Beijing, the Pacific Islands region is emerging as an arena of strategic competition, which has significant implications for US security interests. China's efforts to reshape regional architecture and supplant traditional economic and security partnerships are likely to intensify in the coming years as Chinese officials seek to replicate their success in Solomon Islands with other governments. Although Pacific Island leaders would prefer not to choose between two rival powers, the United States should not assume that business as usual will be enough to prevent China from establishing a sphere of influence in the region.

The most important action the United States can take to limit China's influence in the Pacific Islands region is to invest more in its Pacific relationships, starting with its closest partners, the Freely Associated States. This requires, at a minimum, prioritizing the update and extension of the three Compacts of Free Association, but should also include enhanced diplomatic engagement, deepened security partnerships, and increased capacity building and development assistance. At a more general level, the United States and its regional partners such as Australia, Japan, Taiwan, and others must demonstrate that they understand and can respond to the concerns and hopes of Pacific peoples, especially on issues that pose an existential threat to the Pacific way of life, such as climate change and destruction of fisheries.

By fostering strong connections anchored in shared values such as democracy, transparency, and respect for the natural environment, the United States can ensure that the Pacific Islands region remains free and open for decades to come.

Notes

1. Defined under the 1982 UN Convention on the Law of the Sea, an exclusive economic zone is an area of the sea extending 200 miles from the coastline of a country. For the full text of the convention, see www.un.org/Depts/los/convention_agreements/texts/unclos/closindx.htm.
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