



HOUSE COMMITTEE ON
NATURAL RESOURCES
CHAIRMAN BRUCE WESTERMAN

To: House Committee on Natural Resources Republican Members
From: House Committee on Natural Resources Indo-Pacific Task Force Republican Staff: Ken Degenfelder (Ken.Degenfelder@mail.house.gov), Justin Rhee (Justin.Rhee@mail.house.gov), and Howard Hills (Howard.Hills@mail.house.gov); x6-9725
Date: Thursday, August 24, 2023
Subject: Field Oversight Hearing on “*Peace Through Strength: The Strategic Importance of the Pacific Islands to U.S.-led Global Security*”

The House Committee on Natural Resources will hold a field oversight hearing on “*Peace Through Strength: The Strategic Importance of the Pacific Islands to U.S.-led Global Security*” on **Thursday, August 24, 2023, at 10:00 a.m. (ChST) at the Hilton Hotel, 202 Hilton Road Tumon Bay, Tamuning, Guam.**

Member offices are requested to notify Ransom Fox (Ransom.Fox@mail.house.gov) by 4:30 p.m. (EST) on Monday, August 21, 2023, if their member intends to participate in the hearing.

I. KEY MESSAGES

- There are three U.S. territories in the Indo-Pacific region: American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI). The U.S. has international agreements or Compacts of Free Association (COFA or “Compacts”) with three Pacific Island countries, the Republic of Palau (Palau), the Republic of the Marshall Islands (RMI), and the Federated States of Micronesia (FSM), referred to as the Freely Associated States (FAS).
- The U.S. Pacific territories and the FAS are the lynchpin of U.S. strategy in the Pacific. As part of the Second and Third Island chains, these islands are home to U.S. military bases and enable the U.S. to protect its interests in the Indo-Pacific. Furthermore, the COFA agreements with the FAS provide the U.S. with the right to strategically deny foreign militaries from operating within the FAS and its territorial waters.
- While the U.S. has historically enjoyed good relations and ties in the Indo-Pacific region, Beijing has increasingly sought to reshape regional political, economic, and strategic alignments. This has especially been the case with the U.S. Pacific territories and the FAS.
- The People’s Republic of China (PRC) has sought to take advantage of the relatively weak economies and governance structure of island nations. Through offerings of economic aid and infrastructure development, the PRC has leveraged its resources to affect political outcomes and perceptions of the U.S. in the region while waging political warfare to gain undue influence and/or destabilize island nations.

- To counter PRC influence and to maintain the U.S.s’ capacity to secure its interests, the U.S. must remain engaged with the FAS region and respond to malign PRC coercive activity.

II. WITNESSES

Panel I:

- **The Hon. Lourdes “Lou” Leon Guerrero**, Governor of Guam, Hagåtña, GU
- **The Hon. Arnold I. Palacios**, Governor of the Commonwealth of Northern Mariana Islands, Saipan, MP
- **The Hon. Kaleb Udui, Jr.**, Minister of Finance, Republic of Palau, Koror, Palau
- **The Hon. Ricky Cantero**, Acting Secretary, Department of Foreign Affairs, Federated States of Micronesia, Pohnpei State, FM
- **The Hon. Jack Ading**, Minister of Foreign Affairs and Trade, Republic of the Marshall Islands, Majuro, MH

Panel II:

- **Brigadier General Michael W. Cruz**, Adjutant General, Guam National Guard, Barrigada, GU
- **Brigadier General Roderick R. Leon Guerrero**, United States Army (Retired), Mangilao, GU
- **The Hon. Tina Barnes**, Vice Speaker, Guam Legislature, Hagåtña, GU [*Minority witness*]
- **Ms. Irene Sgambelluri**, World War II Survivor, Talofofo, GU

III. BACKGROUND

U.S. Interests in the Pacific

The U.S. has historical regional presence as well as current and future commitments and interests that are paramount to the preservation of a free and open Indo-Pacific. Those American geopolitical equities are being challenged through malign tactics by the PRC. In the Pacific, the U.S. has three territories, American Samoa, the CNMI, and Guam. The U.S. also maintains Compacts of Free Association with three sovereign Pacific Island countries, known as the FAS, the FSM, the RMI, and Palau. The FAS have special economic and security ties with the U.S. through individual Compact agreements. The U.S. Department of the Interior (DOI), through the Office of Insular Affairs (OIA), administers, monitors, and manages federal relations with the U.S. territories in accordance with applicable law.¹ It has the same responsibility for the

¹ P.L. 90-497, Sec.12(a), September 11, 1968 (82 Stat. 847; 48 U.S.C. 1421a) and Executive Order 10264 of June 29, 1951, appear at 16 FR 6417, 3 CFR, 1949-1953 Comp., p. 765 and Executive Order 12572 of Nov. 3, 1986, appear at 51 FR 40401, 3 CFR, 1986 Comp., p. 239.

economic assistance and federal programs related to the FAS under the COFAs.²

U.S. Territories in the Pacific

American Samoa: American Samoa is an unincorporated territory of the United States comprising islands of the eastern Samoan archipelago. American Samoa is in the Polynesian region of the south-central Pacific Ocean and includes the six eastern Samoan islands of Tutuila, Tau, Olosega, Ofu, and Aunu'u, as well as the Swains Island and the uninhabited Rose Atoll. The capital is Pago Pago, on Tutuila, which is the main port and commercial center of American Samoa. The elected and traditional leaders seek to preserve a customary way of life as “nationals but not citizens,” based on allegiance to the U.S. reflected in strong patriotism and a high rate of U.S. military service.³

Commonwealth of the Northern Mariana Islands: The CNMI is an unincorporated territory of the United States composed of 14 islands and islets in the western Pacific Ocean, 100 miles north of Guam. The Mariana Islands are a chain of volcanic mountain peaks and uplifted coral reefs. The principal inhabited islands in the CNMI are Saipan, Guguan, Tinian, and Rota. The northern, largely uninhabited islands include Farallon de Medinilla, Anatahan, Sariguan, Gudgeon, Alamagan, Pagan, Agrihan, Asuncion, Maug Islands, and Farallon de Pajaro.⁴

Guam: Guam is a U.S. Territory in the northwest Pacific, which is the largest, most populous, and southernmost island of the Mariana Archipelago. It is governed under the Organic Act of Guam, passed by the U.S. Congress, and approved by President Truman on August 1, 1950.⁵ The development of Guam into an important home for U.S. military bases has brought about profound changes in the island's agricultural patterns after World War II, and Guam now imports most of



Figure A: Map of American Samoa. Source: PEACESAT

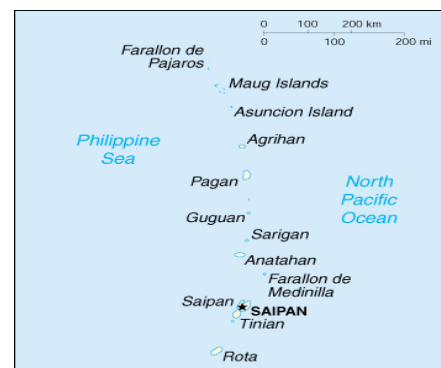


Figure B: Map of CNMI. Source: PEACESAT



Figure C: Map of Guam. Source: PEACESAT

² Executive Order 12569 of Oct. 16, 1986, appear at 51 FR 37171, 3 CFR, 1986 Comp., p. 234.

³ For more information on American Samoa see “American Samoa.” Encyclopedia Britannica. Accessed May 10, 2023. <https://www.britannica.com/place/American-Samoa>.

⁴ For more information on the Commonwealth of the Northern Mariana Islands (CNMI). Accessed May 14, 2023. <https://www.coris.noaa.gov/portals/cnmi.html#:~:text=The%20principal%20inhabited%20islands%20are,Islands%20C%20and%20Farallon%20de%20Pajaro>

⁵ P.L. 117-286.

its food.⁶ Guam has a vibrant tourism sector, drawing visitors from many Asian nations, and a robust local and regionally interconnected economy, with commerce ties to the Philippines, South Korea, and Japan. Most of Guam's population of 170,000 are of native Chamorro heritage. Guam has been a part of the United States since the close of the Spanish-American War, and today resembles the mainland United States in terms of language, business practices, and patriotic sentiments.⁷

Freely Associated States

In 1986, the FAS emerged from the U.S. administered United Nations (UN) Trust Territory of the Pacific Islands in Micronesia that had been established after World War II.⁸ The Marshall Island group became the Republic of the Marshall Islands, and the Caroline Island group became the Republic of Palau and the Federated States of Micronesia.⁹ The FAS covers a maritime area comparable in size to the continental United States, encompasses over 1,000 islands, and has a combined population of approximately 100,000 people.¹⁰ The FAS economies face structural challenges similar to many other Pacific Island counties, including a lack of economies of scale, small land areas, limited natural and human resources, remote locations, and poor infrastructure.¹¹ Each FAS is an independent nation with full membership in the UN and the Pacific Islands Forum.¹²



Figure D: Map of FSM.

Source: PEACESAT

Federated States of Micronesia: The FSM is comprised of island chains located between the RMI and Palau. It has a federal constitutional system comprising the states of Pohnpei, Chuuk, Yap and Kosrae.¹³ The capital is located at Pohnpei.¹⁴ It derives revenues from licensed international fishing in its vast territorial waters and hosts a small but thriving tourism sector.¹⁵

⁶ “Challenging Residents to Grow Produced, Reduce Imported Foods.” The Guam Daily Post, January 5, 2022. https://www.postguam.com/news/local/challenging-residents-to-grow-produced-reduce-imported-foods/article_b75ea9aa-6c63-11ec-89b4-e78919e1742d.html.

⁷ For more information on Guam see “Guam.” Encyclopedia Britannica. Accessed May 10, 2023. <https://www.britannica.com/place/Guam>.

⁸ The Freely Associated States and Issues for Congress.” Congressional Research Service, October 7, 2020. <https://crsreports.congress.gov/product/pdf/R/R46705>

⁹ “Marshall Islands.” Encyclopedia Britannica, July 7, 2023. <https://www.britannica.com/place/Marshall-Islands> and “Caroline Islands.” Encyclopedia Britannica. Accessed July 7, 2023. <https://www.britannica.com/place/Caroline-Islands>

¹⁰ The Freely Associated States and Issues for Congress.” Congressional Research Service and “Freely Associated States 2023.” World Population Review. Accessed June 7, 2023. <https://worldpopulationreview.com/country-rankings/freely-associated-states>.

¹¹ For more information on the FAS see “The Freely Associated States and Issues for Congress.” Congressional Research Service, October 7, 2020. <https://crsreports.congress.gov/product/pdf/R/R46573/2>.

¹² The Pacific Islands Forum. Accessed June 7, 2023. <https://www.forumsec.org/who-we-are-pacific-islands-forum/> and “Member States.” United Nations. Accessed June 7, 2023. <https://www.un.org/en/about-us/member-states#gotoF>.

¹³ “Micronesia.” Encyclopedia Britannica. Accessed May 12, 2023. <https://www.britannica.com/place/Micronesia-republic-Pacific-Ocean>.

¹⁴ Id.

¹⁵ Id.

Republic of the Marshall Islands: The RMI consists of hundreds of islands in two parallel chains of coral atolls—the Ratak, or Sunrise, island chain to the east and the Ralik, or Sunset, island chain to the west—in the central Pacific Ocean.¹⁶ The chains lie about 125 miles (200 km) apart and extend some 800 miles northwest to southeast. The capital of the RMI is Majuro.¹⁷

Republic of Palau: Palau is the furthest west of the FAS, with its capital at Koror.¹⁸ It's internationally renowned “Rock Islands” are a strong tourist draw, driving a thriving tourism industry.¹⁹ Palau derives revenues from licensed international fishing and subsistence agriculture.²⁰

Strategic Value of the U.S. Pacific Territories and FAS

The strategic value of the U.S. Pacific territories and the FAS has been a national security priority for the U.S. since WWII. Several of these islands, Guam, Palau, FSM, and American Samoa, are along the Second Island Chain and the Third Island Chain. These island chains informally represent the lines of access and egress for economic and defense purposes between the PRC and the Indo-Pacific, and thereby the world, including the continental U.S.

In World War II, the Empire of Japan used the islands as vital basing and anchorage for its air and naval forces when launching attacks against the U.S.²¹ Given the historical context, the U.S. has particular interest in the security of the region to prevent the FAS from ever being used again as a platform or controlled region from which to attack the U.S. or its allies.

The U.S. holds military bases and installations in its territories and the FAS that are in proximity to the PRC.

In Guam, Andersen Air Force Base (AAFB) and its annexes are concentrated at the northern end of the island. Naval Base Guam has facilities located around the island that include a naval air station, a naval base with a ship repair yard, communication centers, and a military hospital. The

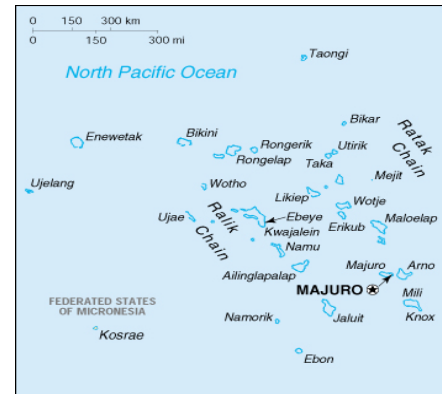


Figure E: Map of RMI.
Source: PEACESAT

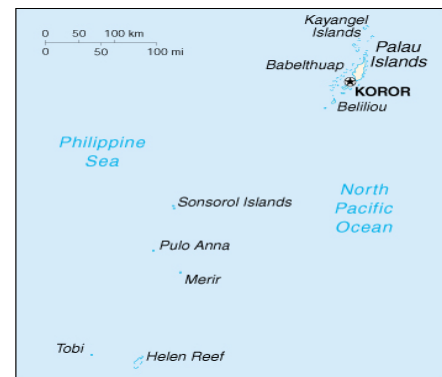


Figure F: Map of Palau.
Source: PEACESAT

¹⁶ “Marshall Islands.” Encyclopedia Britannica, April 28, 2023. <https://www.britannica.com/place/Marshall-Islands>.

¹⁷ Id.

¹⁸ “Palau.” Encyclopedia Britannica, May 9, 2023. <https://www.britannica.com/place/Palau>.

¹⁹ “Rock Islands Southern Lagoon.” UNESCO World Heritage Centre. Accessed June 7, 2023. <https://whc.unesco.org/en/list/1386/>.

²⁰ “Department of State: 2014 Investment Climate Statement.” U.S. Department of State. Accessed June 7, 2023. <https://2009-2017.state.gov/documents/organization/228600.pdf>.

²¹ Myers, Lucas. Legacy of the Pacific War, August 2020. https://www.wilsoncenter.org/sites/default/files/media/uploads/documents/AP_2020-08%20Legacy%20of%20the%20Pacific%20War%20-%20Introduction_Revised.pdf.

U.S. officially opened Marine Corps Base Camp Blaz (MCBCB) on January 25, 2023, located directly south of AAFB.²² Naval Base Guam, AAFB, and MCBCB operate under the command and support of Joint Region Marianas.

Within the RMI, the U.S. has an army garrison located in Kwajelein Atoll that features the Ronald Reagan Ballistic Missile Defense Test Site (RTS). The RTS is a vital strategic asset as it supports U.S. missile and missile defense testing, space launch, and space surveillance activities.²³ In the FSM, the U.S. Department of Defense (DoD) is seeking to use Micronesia as a location for U.S. Air Force Agile Combat Employment operations.²⁴ Palau is also host to a growing U.S. military presence that includes highly advanced radar and surveillance capabilities vital to U.S. regional strategic interests.²⁵

Additionally, the U.S. Coast Guard (USCG) holds an active presence in the region as its cutters and patrol boats tend to be better suited than U.S. Navy vessels for the waterways surrounding the U.S. Pacific Territories and FAS.²⁶ The USCG 14th District regularly performs maritime safety and security missions, prevention of illegal unlicensed fishing, protection of natural resources, and emergency response in the region.²⁷

Growing PRC Aggression and Influence

The PRC has adopted a strategy to dominate the Pacific Islands as a platform for projection of power and to undermine the U.S.' ability to secure its strategic and economic interests. It has sought to reshape narratives and political decisions to align with the PRC's interests, particularly on the question of Taiwan and U.S. engagement.²⁸

In furtherance of their strategy, the PRC is aggressively threatening political stability of the FAS and using malign tactics to challenge U.S. influence, interests, and values in the region. Instead of open and robust competition, the PRC and People's Liberation Army (PLA) are now waging what has been described by national leadership in the region as "political warfare" tactics in derogation of democracy and the rule of law.²⁹

²² Rosenfeld, Maj. Diann. "Marine Corps Base Camp Blaz Holds Ribbon Cutting Ceremony for Sabānan Fadang Memorial." United States Marine Corps Flagship, January 25, 2023. <https://www.marines.mil/News/News-Display/Article/3277036/marine-corps-base-camp-blaz-holds-ribbon-cutting-ceremony-for-sabnan-fadang-mem/>.

²³ "In Focus: The Compacts of Free Association." Congressional Research Service, August 15, 2022. <https://crsreports.congress.gov/product/pdf/IF/IF12194/1>.

²⁴ Id.

²⁵ Wright, Stephen. "US Plans Over-the-Horizon Radar Facility in Palau." Radio Free Asia, March 27, 2023. <https://www.rfa.org/english/news/pacific/palau-radar-01112023015016.html>.

²⁶ Maritime challenges and opportunities - Daniel K. Inouye Asia-Pacific ... Accessed June 7, 2023. <https://dkiapcss.edu/wp-content/uploads/2022/09/Blue-Pacific-Security-11-Long-Turvold-McCann-MaritimeChallenges-1.pdf>.

²⁷ "United States Coast Guard Pacific Area: Strategic Intent." United States Coast Guard, January 2016. <https://www.pacificarea.uscg.mil/Portals/8/Documents/PACAREA%20Strategic%20Intent%20-%202016%20-%20final%20for%20release.pdf>.

²⁸ "China's Influence on the Freely Associated States of the Northern Pacific." United States Institute of Peace, September 20, 2022. <https://www.usip.org/publications/2022/09/chinas-influence-freely-associated-states-northern-pacific>.

²⁹ Gershaneck, Kerry K. "Political Warfare: The People's Republic of China's Strategy 'to Win without Fighting.'" Project Muse. Accessed May 10, 2023. <https://muse.jhu.edu/article/796239/pdf> and Paskal, Cleo, and Grant

Furthermore, Beijing has sought to take advantage of the relatively weak economies and governance structures of Island nations. Through offerings of economic aid and infrastructure development, the PRC has leveraged its resources to shape political outcomes and perceptions of the U.S. in the region. The PRC is an important market for the FAS when it comes to natural resource exports and tourism, even as the PRC's fishing fleets contribute significantly to illegal, unreported, and unregulated (IUU) fishing in the region.³⁰

Beijing has looked to expand its influence over the Indo-Pacific region through its Belt and Road Initiative, which is a massive global infrastructure development strategy adopted by the PRC in 2013 to invest in more than 150 countries and international organizations, and expand CCP influence.³¹ This is especially concerning as the PRC's economic assistance and engagement in the Pacific region could translate into an expansion of its military reach.³²

The FAS and U.S. territories are not immune from being targeted by the PRC.

U.S. Territories: The PRC has increased its economic activity within the U.S. territories. In American Samoa, Guam, and CNMI, Chinese IUU fishing has continued to impact the local economies as Chinese fishing fleets illegally overfish within U.S. territorial waters.³³ Furthermore, the PRC holds significant leverage over the tourism industry in the region. Prior to the COVID-19 pandemic, Chinese tourists made up approximately 41% of the CNMI tourism industry.³⁴ Chinese tourists in CNMI have also raised concerns about "birth tourism" as PRC nationals take advantage of loopholes in U.S. visa and citizenship laws, having their children automatically become U.S. citizens by giving birth to them in CNMI.³⁵

PRC Hacks on U.S. Military Bases in Guam

In May 2023, the United States National Security Agency (NSA), the Cybersecurity and

Newsham. "Beijing's Subversive Political Warfare in the Pacific-and the Need for Greater Engagement by the United States and Taiwan." Foundation for Defense of Democracies, March 23, 2023. <https://www.fdd.org/analysis/2023/03/22/beijings-subversive-political-warfare-in-the-pacific-and-the-need-for-greater-engagement-by-the-united-states-and-taiwan/>.

³⁰ "In Focus: Pacific Islands." Congressional Research Service, November 28, 2022.

<https://crsreports.congress.gov/product/pdf/IF/IF11208>.

³¹ "Cooperation Between China and Pacific Island Countries." Ministry of Foreign Affairs of the People's Republic of China, May 24, 2022.

https://www.fmprc.gov.cn/eng/wjdt_665385/2649_665393/202205/t20220524_10691917.html.

³² Edward Wong, "Military Competition in Pacific Endures as Biggest Flash Point Between U.S. and China," New York Times, November 14, 2018; "Soft Power Goes Hard: China's Economic Interest in the Pacific Comes with Strings Attached," Multimedia Investments, Ltd., October 16, 2018.

³³ Southerland, Dan. "Chinese Overfishing in the South Pacific Devastates Some Islands' Livelihoods." Radio Free Asia, April 7, 2021. <https://www.rfa.org/english/commentaries/china-pacific-fishing-04062021143253.html>, and "Three Vessels Caught Fishing Illegally in NMI's EEZ." Saipan Tribune, August 20, 2008. <https://www.saipantribune.com/>.

³⁴ Esmores, Kimberly Bautista. "China Tourists Could Return by May." Saipan Tribune, March 15, 2023. <https://www.saipantribune.com/index.php/china-tourists-could-return-by-may/>.

³⁵ Emont, Jon. "Saipan: The Island Where Chinese Mothers Deliver American Babies." The Wall Street Journal, December 22, 2017. <https://www.wsj.com/articles/the-island-where-chinese-mothers-deliver-american-babies-1513852203>.

Infrastructure Security Agency (CISA), and the FBI, issued a joint Cybersecurity Advisory regarding a cluster of activity of interest associated with a PRC state-sponsored cyber actor.³⁶ The actor, also called “Volt Typhoon,” is a Chinese government hacking group focused on espionage and information gathering.³⁷ Volt Typhoon used “built-in network administration tools” to evade detection and perform its objectives.³⁸ The tactics, techniques, and procedures included blending in with normal Windows system and network activities to avoid endpoint detection and triggering response products that would alert on the introduction of third-party applications to the host.³⁹ Volt Typhoon also intentionally limited the amount of activity captured in default logging configurations to further reduce the likelihood of detection.⁴⁰

Volt Typhoon installed the evasive computer code in telecommunications systems in Guam and other areas in the United States. The activity in Guam is noteworthy because “Guam, with its Pacific ports and vast American air base, would be a centerpiece of any American military response” to an invasion or blockade of Taiwan or American assets in the Indo-Pacific region.⁴¹ The PRC’s targeting of Guam takes increased importance given their ongoing efforts to gain influence over U.S. territories and the Freely Associated States in the Pacific.⁴²

Senior DOD officials have also said Guam’s location and strategic value makes it vulnerable to attack.⁴³ Guam is within range of some Chinese ballistic and nuclear-capable missile systems, including the Chinese People’s Liberation Army (PLA)’s DF-21 ballistic missile, which some China-based media reports have dubbed the “Guam killer”.⁴⁴ In 2020, the PLA Air Force released a video footage of what appears to be a simulated attack on U.S. Andersen Air Force

³⁶ NAT’L SEC. AGENCY et al., *People’s Republic of China State-Sponsored Cyber Actor Living off the Land to Evade Detection* (May 24, 2023) https://media.defense.gov/2023/May/24/2003229517/-1/-1/0/CSA_Living_off_the_Land.PDF.

³⁷ MICROSOFT THREAT INTELLIGENCE, *Volt Typhoon targets US critical infrastructure with living-off-the-land techniques* (May 24, 2023), <https://www.microsoft.com/en-us/security/blog/2023/05/24/volt-typhoon-targets-us-critical-infrastructure-with-living-off-the-land-techniques/>.

³⁸ NAT’L SEC. AGENCY, *supra* note 55.

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ David E. Sanger, *Chinese Malware Hits Systems on Guam. Is Taiwan the Real Target?*, N.Y. TIMES (May 24, 2023), https://www.nytimes.com/2023/05/24/us/politics/china-guam-malware-cyber-microsoft.html?campaign_id=190&emc=edit_ufn_20230524&instance_id=93396&nl=from-the-times®i_id=210828370&segment_id=133817&te=1&user_id=979bb1ccbe6564c599925c6e448cad29.

⁴² See generally STAFF OF THE S. COMM. ON INDIAN AND INSULAR AFFAIRS, H. COMM. ON NATURAL RESOURCES, 118TH CONG., *Memo. for Oversight Hearing Preserving U.S. Interests in the Indo-Pacific: Examining How U.S. Engagement Counters Chinese Influence in the Region* (May 16, 2023), https://naturalresources.house.gov/uploadedfiles/hearing_memo_sub_on_ii_a_ov_hrg_on_the_indo_pacific_051623.pdf.

⁴³ For more information, see Senate Committee on Armed Services, “United States Indo-Pacific Command,” hearing video, March 9, 2021, at <https://www.armed-services.senate.gov/hearings/21-03-09-united-states-indo-pacific-command>. See also Mark Montgomery, Riki Ellison and Bradley Bowman, “Guam Needs Better Missile Defenses—Urgently,” *Defense One*, May 23, 2022, at <https://www.defenseone.com/ideas/2022/05/guam-needs-better-missiledefensesurgently/367275/>.

⁴⁴ Lee Jeong-ho, “China Releases Footage of ‘Guam killer’ DF-26 Ballistic Missile in ‘Clear Message to the US’,” *South China Morning Post*, January 28, 2019, at <https://www.scmp.com/news/china/military/article/2183972/chinareleases-footage-guam-killer-df-26-ballistic-missile-clear>.

Base in Guam.⁴⁵ The video depicts nuclear capable Chinese H-6 bombers launching a missile on an unidentified runway that has the same layout as Andersen Air Force Base. The PRC did not release an official statement regarding the video.⁴⁶

Freely Associated States: The Congressional Research Service has reported that while China's influence in the Pacific Islands is growing, its engagement is relatively limited in the FAS as a whole, due to the U.S. security and economic presence in the FAS and to the PRC's lack of diplomatic relations with the RMI and Palau.⁴⁷ Among the FAS, China's engagement is greatest in Micronesia, where it is a major provider of economic assistance and investment, worth roughly \$40 million between 2009 and 2018, and with which it has a "comprehensive strategic partnership." Twenty-five PRC entities have financed and constructed government buildings, a sports facility, a bridge, and other infrastructure projects, also upgrading Chuuk International Airport in the FSM.⁴⁸ A recent letter in March 2023 by outgoing FSM President David Panuelo highlights the increasing Chinese influence within the country and China's use of political warfare.⁴⁹ In the letter, President Panuelo points out that Chinese political warfare is successful because the FSM government is "bribed to be complicit, and bribed to be silent."⁵⁰

While the PRC's engagement is limited in RMI and Palau, Beijing has leveraged their dominance in the tourism market to exert pressure on these countries. As countries like Palau rely economically on tourism, the PRC's ban on Chinese tourist travel to Palau places significant strain on the local economy.

Importance of U.S. Engagement and the Compacts of Free Association

In recognition of the importance of the Pacific Islands, the White House unveiled in September 2022 its Pacific Partnership Strategy (PPS), which supports the broader U.S. Indo-Pacific Strategy.⁵¹ As noted in the PPS, the impacts of Chinese pressure and economic coercion in the region and other challenges "demand renewed U.S. engagement across the full Pacific Islands region."⁵² Furthermore, the strategy outlined in the PPS recognizes the need for enhancing relationships with the FAS countries and that doing so will require substantial increase in overall

⁴⁵ "China Air Force Video Appears to Show Simulated Attack on U.S. Base on Guam." Reuters, September 21, 2020. <https://www.reuters.com/article/us-china-usa-security/china-air-force-video-appears-to-show-simulated-attack-on-u-s-base-on-guam-idUSKCN26C0EI>.

⁴⁶ "Foreign Ministry Spokesperson Wang Wenbin's Regular Press Conference on September 21, 2020." Ministry of Foreign Affairs of the People's Republic of China. Accessed August 8, 2023.

https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202009/t20200921_693391.html.

⁴⁷ Joint House Foreign Affairs and Natural Resources Hearing, Sustaining U.S. Pacific Insular Relationships, (Sept. 26, 2019), <https://www.govinfo.gov/content/pkg/CHRG-116hhrg37848/pdf/CHRG-116hhrg37848.pdf>.

⁴⁸ Id.

⁴⁹ Paskal, Cleo. "Micronesia's President Writes Bombshell Letter on China's 'Political Warfare.'" The Diplomat, March 21, 2023. <https://thediplomat.com/2023/03/micronesias-president-writes-bombshell-letter-on-chinas-political-warfare/>.

⁵⁰ Perry, Nick. Micronesia's president accuses China of "political warfare," March 13, 2023.

<https://apnews.com/article/micronesia-china-political-warfare-taiwan-55ea0ebc5e6580f14e7331acd878e907>.

⁵¹ "Fact Sheet: President Biden Unveils First-Ever Pacific Partnership Strategy." The White House, September 29, 2022. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/29/fact-sheet-president-biden-unveils-first-ever-pacific-partnership-strategy/>.

⁵² "Pacific Partnership Strategy." White House, September 2022. <https://www.whitehouse.gov/wp-content/uploads/2022/09/Pacific-Partnership-Strategy.pdf>.

U.S. engagement and diplomatic presence in the region, including enhanced Coast Guard and defense engagements.⁵³

Renewed and sustained U.S. engagement with the FAS is critical in countering PRC influence in the region. While the U.S. has historically enjoyed strong relations with the FAS, it must not underestimate the efforts by the PRC to dismantle these relationships. Strong U.S. diplomatic and economic engagement will be necessary to preserve existing partnerships and renew positive perceptions of the U.S. in the region.

Engagement serves as the primary line of defense against PRC influence operations in several ways. First, it serves as a reminder to the FAS that the U.S. is committed to a free and open Indo-Pacific and is a reliable partner in the region. Second, engagement serves to counter the PRC's attempts to undermine democracy through economic coercion.⁵⁴ U.S. diplomatic and economic presence in the region provides tools and stability for local governments to prevent democratic erosion. This is especially the case for the FAS.

Compacts of Free Association

The FAS are diplomatically, militarily, and economically connected to the U.S. through the COFA, which are mutually beneficial agreements that ally the FAS with the United States and serve as the primary line of defense against PRC influence operations in the Indo-Pacific region. First, they serve as a reminder to the FAS that the U.S. is committed and values the special relationships formed under free association. Second, the U.S. economic assistance to the FAS through the Compacts counter the PRC's attempts to undermine democracy through economic coercion by providing tools, support and stability for local governments to resist the PRC's efforts at democratic erosion.⁵⁵

Under Title III of the COFAs, the U.S. secures unprecedented and unmatched security and defense rights based in the FAS, in exchange for vital U.S. economic assistance and defense guarantees. These rights allow the U.S. to establish military facilities in the FAS in accordance with the COFA terms and to exercise the right of strategic denial. The right of strategic denial allows the U.S. to deny any foreign military, including the PRC, access to an FAS territory.⁵⁶

Barring termination of the COFA by the parties according to provisions of the agreement, the security and defense provisions of the COFA do not expire and continue indefinitely. However, the economic provisions that also sustain the COFA require periodic renewal.⁵⁷ The COFA

⁵³ Id.

⁵⁴ Shullman, David, ed. "Chinese Malign Influence and the Corrosion of Democracy." International Republican Institute. Accessed May 10, 2023. https://www.iri.org/wp-content/uploads/legacy/iri.org/china_malign_influence_executive_summary_booklet.pdf.

⁵⁵ Shullman, David, ed. "Chinese Malign Influence and the Corrosion of Democracy." International Republican Institute. Accessed May 10, 2023. https://www.iri.org/wp-content/uploads/legacy/iri.org/china_malign_influence_executive_summary_booklet.pdf.

⁵⁶ Hills, Howard. Free Association for Micronesia and the Marshall Islands: A Transitional Political Status Model. University of Hawaii Law Review, Vol. 27/1. Winter 2004.

⁵⁷ P.L. 99-239, 48 U.S.C. 1681 note, 59 Stat.1031, Section 211, and H.J. Res. 626, Nov. 14, 1986, P.L. 99-658, 61 Stat. 3301, Section 432.

agreements with the RMI and the FSM came into force in FY 1986 with economic assistance lasting for fifteen years, until FY 2001.⁵⁸ While renewal negotiations stalled for two years, grant assistance to the FSM and the RMI continued until the COFA agreements with both countries were renewed in December 2003. The renewal was for twenty years under a single piece of legislation from FY 2004 through FY 2023.⁵⁹

In the case of Palau, the final terms for implementation of the COFA approved by Congress in 1986 were set forth in the Implementation of Compact of Free Association with Palau Act.⁶⁰ The Palau COFA entered into force in 1994, with funding commencing in FY 1995 for 15 years, through FY 2009.⁶¹ The U.S. and Palau agreed to extend the economic assistance through a Compact Review Agreement (CRA) for 15 years, from FY 2010 through FY 2024, also known as the “2010 CRA.”⁶² However, Congress did not approve and authorize full funding until FY 2018. The authorization came through an agreement to amend the CRA, referred to as the “2010 CRA Amendment.”⁶³

The Compact agreements have provided approximately \$3 billion to the FSM and RMI from Fiscal Year (FY) 2004 to FY 2019 and \$560 million to Palau from 1994 to 2009.⁶⁴

Currently, the U.S. and the FAS are seeking a renewal of their respective COFA agreements before they expire at the end of FY 2023. While the COFA with Palau does not expire until the end of FY 2024, the Palau government requested to be renewed at the same time as the RMI and the FSM.

Biden Administration’s Proposed Compact of Free Association Amendments Act of 2023

Following several years of stalled negotiations across two administrations, the Biden administration submitted to Congress a legislative proposal for renewal of the COFA on June 16, 2023.⁶⁵ The legislative proposal is intended to allow for the approval of the Memorandum of Understanding (MOU) agreements, which were entered into with the FAS and authorize mandatory spending to implement the economic assistance agreements.

The Administration’s total proposed economic assistance, in the form of mandatory spending, for each FAS over twenty years is as follows:

⁵⁸ P.L. 99-239, 48 U.S.C. 1681 note, 59 Stat.1031, Section 211(a).

⁵⁹ P.L. 108-188. 117 Stat. 2720, Section 211(a).

⁶⁰ P.L. 99-658 and P.L. 101-219

⁶¹ H.J. Res. 626, Nov. 14, 1986, P.L. 99-658, 61 Stat. 3301; P.L. 101-219, 103 Stat. 1870, December 12, 1989.

⁶² Agreement Following the Compact of Free Association Section 432 Review, Signed at Honolulu, September 3, 2010.

⁶³ P.L. 115-91, 131 Stat. 1687.

⁶⁴ Statement of Douglas Domenech before S. Energy & Natural Resource Cmte. July 2019 at 3.

https://www.energy.senate.gov/public/index.cfm/files/serve?File_id=78F4BB31-C41F-4A48-9200-4FD10B6EB7E9

⁶⁵ See generally STAFF OF THE INDO-PACIFIC TASK FORCE, H. COMM. ON NATURAL RESOURCES, 118TH CONG., *Memo. for Oversight Hearing The Biden’s Administration’s Proposed Compact of Free Association Amendments Act of 2023* (July 18, 2023), https://naturalresources.house.gov/uploadedfiles/hearing_memo_-_ip_tf_ov_hrg_on_cofa_07.18.23.pdf

- FSM: \$3.3 billion (approx. \$1.2 billion increase from the 2003 FSM & RMI COFA)
- Palau: \$889 million (approx. \$599 million increase from the 2010 CRA)
- RMI: \$2.3 billion (approx. \$1.3 billion increase from the 2003 FSM & RMI COFA) *[pending negotiations]*
- U.S. Postal Services (USPS) to the FAS: \$634 million (a \$634 million increase from the 2003 FSM & RMI COFA and 2010 CRA)

Total: \$7.1 billion

Unfortunately, as submitted to Congress, the Biden administration's legislative proposal with respect to all three FAS was incomplete and did not represent a product ready for introduction in Congress. The Biden administration is still in the process of finalizing a Federal Programs and Services Agreement (FPSA) with the FSM and Palau, which clarifies FAS eligibility for certain programs and services administered by the U.S. government. The Biden administration's proposal contains sections of bracketed text that are meant to serve as temporary placeholders until a final agreement is reached with the RMI and the FPSA agreements are finalized. Failure of the Biden administration to complete negotiations with RMI before September 30, 2023, could have implications for U.S.-RMI relations, the legislative prospects of all three COFA agreements and, ultimately, U.S. interests in the Indo-Pacific region.

On July 18, 2023, the House Committee on Natural Resources Indo-Pacific Task Force held a hearing on *The Biden's Administration's Proposed Compact of Free Association Amendments Act of 2023*. Additional information, including a video recording of the hearing and memo prepared by House Committee on Natural Resources Republican Staff are available [here](#).

Recent actions by the PRC underscore the need for continued attention to Compact renewal with the FAS. The Compacts have wide ranging impacts on the U.S. influence and control in the region. It is equally as important to ensure that Compact spending is fiscally responsible and reflective of U.S. security interests.

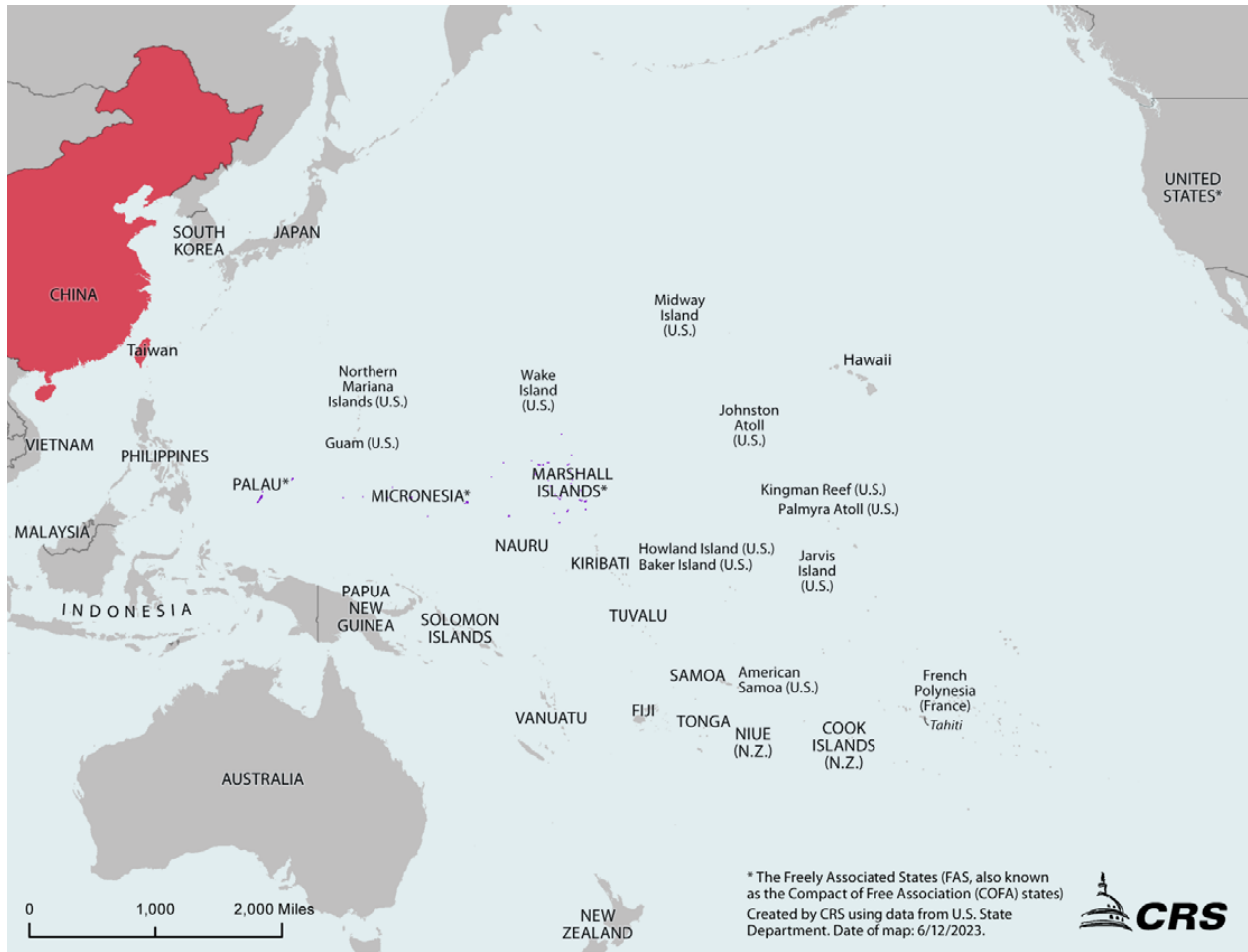


Figure G: Map of the Pacific. Source: CRS