

STATEMENT BY
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DEPARTMENT OF STATE
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Chairmen Engel and Grijalva, Ranking Members McCaul and Bishop, distinguished members of the Committee, thank you for the opportunity to appear before you today to testify on the importance to the United States of the Freely Associated States, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. I am pleased to be here today with Director Nikolao Pula from the Department of the Interior; Assistant Secretary of Defense Randall Schriver; and David Gootnick, Director of International Affairs and Trade, Government Accountability Office.

The Indo-Pacific is the most populous and economically dynamic region of the world. U.S. interest in a free and open Indo-Pacific extends back to the earliest days of our republic. Its economic and strategic significance to the United States grows by the day. The Administration has pledged to redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new partners that share respect for sovereignty, transparency, fair and reciprocal trade, and the rule of law.

Our relationships with the Marshall Islands, the Federated States of Micronesia, and Palau, collectively referred to as the Freely Associated States, have, since World War II, contributed to a secure, stable, and prosperous Western Pacific, a strategic location for the United States in the larger Indo-Pacific region. Together these three countries form a strategic bridge that stretches from Hawai'i to the Philippines, a span larger than the breadth of the continental United States. Traveling west from the Marshall Islands over the Federated States of Micronesia to Palau is like traveling by airplane from Washington, DC to California.

2019 has been an historic year. In May, President Trump hosted the Presidents of all three countries at the White House. In July, Secretary of Veterans Affairs Wilkie led the U.S. delegation to the inauguration of the President and Congress of the Federated States of Micronesia, and in August Secretary Pompeo became the first Secretary of State to visit the Federated States of Micronesia and the second Secretary of State to visit the Marshall Islands.

We have full responsibility and authority for security and defense matters in or relating to these three countries. We can deny other countries' militaries access to the Federated States of Micronesia, the Marshall Islands, and Palau. Recognizing our unique, historic, and special relationships, these three countries consult closely with us on their foreign policies, and we consult with each of the three countries on foreign policy matters that relate to them. The citizens of all three Freely Associated States have a long tradition and high rate of service in the United States armed forces, contributing to our mutual security.

In addition, the three countries work cooperatively with the United States, including through all three nations' membership in the Proliferation Security Initiative, their work securing their respective ship registries from illicit use by bad actors, and by jointly exercising our Shiprider Agreements to combat illegal, unreported, and unregulated (IUU) fishing.

The Freely Associated States hold strong to their core democratic values in an era of backsliding. Our shared values and commitment to democracy and human rights are enshrined in our respective Compacts of Free Association. This bedrock underpins our strong relationships and our close cooperation. As Secretary Pompeo said during his visit to the Federated States of Micronesia, these small islands are big strongholds of freedom. They are proven partners and friends.

Palau and the Marshall Islands are two of the 15 countries that publicly state that they maintain diplomatic ties with Taiwan. Taiwan is a democratic success story, a reliable partner, and a force for good in the world. As Vice President Mike Pence said, America will always believe that Taiwan's embrace of democracy is an example to be internationally supported. The United States has a deep and abiding interest in cross-Strait peace and stability – and in maintaining the status quo with respect to diplomatic ties is a key part of this.

The Marshall Islands, Federated States of Micronesia, and Palau are historically among the United States' strongest supporters at the United Nations, as closely aligned with us as some of our closest partners, including Australia and the United Kingdom. In fact, only Israel votes with the United States at rates higher than the Federated States of Micronesia. The Marshall Islands, Federated States of Micronesia, and Palau stand with us to combat anti-Israel bias, and stood with us on the Jerusalem vote. They are not afraid to break from the G-77 or stand up to pressure from larger countries to support key U.S. objectives in international organizations.

The three countries are also active contributors to implementing UN Security Council resolutions. The Marshall Islands, with the third largest ship registry by tonnage in the world, and Palau, which also has an open ship registry, are key partners in deregistering and reporting vessels that use their flags for sanctions evasion. Both have moved to de-register vessels and companies suspected of illicit ship-to-ship transfers of oil to North Korean vessels. In early 2018 the Trust Company of the Marshall Islands de-registered a company incorporated there for supporting the tanker LIGHTHOUSE WINMORE in its illicit trade of oil. Also in 2018, Palau de-registered the BILLIONS No. 18, another tanker illicitly trading with North Korean flagged or operated ships. The Federated States of Micronesia has also taken action against entities falsely using their flag. In addition, we are working with the Federated States of Micronesia through the U.S. Coast Guard to improve anti-terrorism and other security measures at its ports. We are supporting regional capacity building for Pacific shipping registries, in partnership with Australia, New Zealand, and the Pacific Islands Forum Secretariat as well as other likeminded partners. We have held two workshops, in July 2018 and March 2019, focused on addressing shipping security issues and performing due diligence to ensure vessels registered or applying for registry do not have links to North Korea. These workshops led to increased information sharing among the Pacific Islands resulting in the de-registration of at least one North Korean vessel. We are preparing for the next workshop in Fall 2019.

We work closely with the Marshall Islands, Federated States of Micronesia, and Palau on the full range of law enforcement issues through the Department of Homeland Security, U.S. Coast Guard, DEA, and FBI through law enforcement training in all three countries, conducting maritime law enforcement patrols through our respective Shiprider Agreements, and cooperating

on law enforcement investigations. Together we are also working to secure our respective borders, including our shared maritime boundaries with the Freely Associated States.

The threat posed by weapons of mass destruction is a key concern for the United States. In 2018, Palau and the Federated States of Micronesia joined the Marshall Islands as members of the Proliferation Security Initiative (PSI). Palau and the Federated States of Micronesia became the 106th and 107th PSI participant states. As PSI members, all three Freely Associated States committed to undertake voluntary measures, consistent with their authorities and resources, to interdict illicit transfers of weapons of mass destruction, their delivery systems, and related materials; exchange relevant information; and strengthen legal authorities to conduct interdictions. They also conduct exercises, workshops, and other activities to improve their capacities to fulfill their PSI commitments. The addition of each new member strengthens the Initiative and helps ensure PSI will remain a durable international effort in the years ahead.

Eligible citizens of all three countries can travel without visas to live, work, and study in the United States. Citizens of the Freely Associated States serve in the U.S. armed forces at rates higher than most U.S. states and 18 have lost their lives in combat over the past six decades. The depth and breadth of our people-to-people relationships is one of the strongest foundations of our relationship, and it is growing stronger every year. During the 2017-2018 school year, almost 100 students from the Federated States of Micronesia, the Marshall Islands, and Palau attended American universities, a 72 percent increase from the previous year.

The United States' relationships with the next generation of leaders in the Freely Associated States contribute to a continued shared understanding of our countries' mutual interests. We are committed to working with the next generation of Pacific leaders, enabling them to drive positive change in their home countries. A key way in which the State Department advances this goal is through the annual Young Pacific Leaders (YPL) conference, which gathers emerging leaders from Pacific Island nations to discuss issues of regional concern. The Young Pacific Leaders, of which this conference is a part, now has more than 180 alumni with diverse backgrounds, including diplomats, government officials, teachers, NGO leaders, and journalists. The YPL program features a small grants competition for participants to transform ideas into action. For example, a grant awarded this year will support a project in the Marshall Islands to provide each household in the country's remote outer island region with water filter systems to reduce waterborne illnesses and ensure resilience. In the Federated States of Micronesia, a grant is enabling a young leader to set up a Climate Action Network Camp for girls - called "Girls CAN" - to empower the next generation of Micronesian women leaders to combat climate change. In October this year, the first ever YPL International Visitor Leadership Exchange Program will launch bringing 15 young entrepreneurs, political, civic, and business leaders to the U.S. to focus on economic and social development, in support of entrepreneurship and workforce development across the Pacific. This summer, the Department of State, in partnership with the World Affairs Council of Oregon, launched the first Tuna Diplomacy Youth Leadership program for high school aged students from the Federated States of Micronesia, Marshall Islands, and Palau. The program introduced students to approaches to sustainable fisheries entrepreneurship through a three-week exchange in Oregon.

The Department of State also works with the East-West Center, in coordination with New Zealand, to implement a women's leadership program in the Marshall Islands, the Federated States of Micronesia, and Palau. This program, the North Pacific Women's Action Program, works with women to develop their ability to begin, support, and grow activities that address community needs and support community wellbeing. The program seeks to increase women's participation in their communities and in local decision-making.

Our relationship with the Freely Associated States - underpinned by our respective Compacts - is a strategic component of our position in the Indo-Pacific. These relationships allow the United States to guard long-term defense and strategic interests. Our partnerships and engagement in the region matter greatly and generate outsized results. Nevertheless, the United States must continue to deepen our engagement not only with the Freely Associated States, but with Pacific Islands broadly. We cannot take the goodwill generated from our historic bonds of friendship for granted at a time of increasing competition from China, Russia, and other countries seeking to exert greater influence, not only in the Freely Associated States, but in the larger Pacific region. All three Compacts last in perpetuity, unless terminated in accordance with the provisions contained therein. As the scheduled end of U.S. economic assistance is fast approaching, now is not the time to leave these small sovereign partner nations open to the predations of larger countries.

Our vision for the Indo-Pacific excludes no nation. The United States and China are not zero-sum competitors. We welcome opportunities to collaborate with partners, including China, on mutual interests and development goals in the Pacific islands, and to expand efforts with international institutions to tackle key global development challenges. The United States is committed to economic development that respects national sovereignty and builds regional trust. This occurs when infrastructure and other areas are physically secure, financially viable, environmentally sound, and socially responsible. We encourage China to promote and uphold these best practices in infrastructure development and financing, and to adopt an open and inclusive approach to its Belt and Road Initiative (BRI)-affiliated overseas infrastructure projects as it pursues economic cooperation with countries in the region and beyond.

China has significantly increased its engagement with Pacific Islands over the past decade through development aid, investment, diplomatic engagement, military assistance and people-to-people exchanges. China has provided \$1.8 billion in assistance to the Pacific Islands since 2006, mostly for infrastructure, putting China third behind Australia (\$7.7 billion) and the United States (\$1.9 billion). Approximately 80 percent of Chinese assistance is comprised of concessional loans, with the remainder composed of in-kind assistance and grants.

Pacific Island countries' collective debt to China rose from almost zero to more than \$1.3 billion within the last decade. Chinese loans reportedly account for 60 percent of Tonga's total external debt and 37 percent of Vanuatu's external public debt. Papua New Guinea has the biggest total debt to China at almost \$540 million, about a quarter of its total external public debt. These loans have the potential to be exploited for political leverage to extract additional concessions.

While the Freely Associated States do not have the same debts to China as some of their Pacific neighbors, China's engagement is still growing. In the Federated States of Micronesia, China

committed to provide \$75 million in foreign assistance (ODA) between 2011 and 2016; only \$24 million of this commitment has been reportedly spent. In Palau, Chinese tourists and Chinese investment in the tourism sector dominate the market making Palau's tourism-dependent economy vulnerable to changes in China's policies. From 2012 to 2015, Palau's tourism economy boomed, and GDP grew rapidly resulting from a large influx in Chinese tourists. Subsequently, in 2015, China began to more strictly enforce Palau's lack of an "approved destination status" and arrivals from China dropped as a share of overall tourist numbers. In 2017 the economy contracted by 4.7 percent.

We remain a top trading partner in the Freely Associated States, but China's trade relationship is growing. We have trade surpluses in goods with all three countries totaling more than \$300 million. In 2018, trade in goods between China and the Federated States of Micronesia was \$40.3 million in contrast to \$47.6 million with the United States. For the Marshall Islands, trade in goods with China was \$2.2 billion while trade with the United States was \$311 million. For Palau, trade in goods with China was \$13.8 million while with the United States it was \$21.9 million.

Against a backdrop of growing competition, there is uncertainty from our partners about the United States' willingness - and ability - to sustain our robust bilateral presence that has been a hallmark of much of the 20th century and that has contributed to peace, stability, and prosperity in the region. Our allies, partners, and other Pacific Island countries see our relationships with the Freely Associated States as a signal of our commitment to the Indo-Pacific.

President Trump's historic May meeting with the presidents of the Marshall Islands, Federated States of Micronesia, and Palau illustrates the importance the Administration attaches to these relationships.

On August 5, during the first visit by a Secretary of State to the Federated States of Micronesia, Secretary Pompeo announced that the United States has begun consultations on certain provisions of our respective Compacts of Free Association with each country.

We are already coordinating closely across the interagency to evaluate a range of options to promote our continued relationships with all three countries. These agreements are complex and require a thoughtful approach with extensive consultations to make sure that we get them right. An interagency group will travel to each of the Freely Associated States in October to better understand the needs of each of the three countries.

We welcome the opportunity to work with Congress to secure long-term U.S. strategic interests in this vital region. We are committed to working collaboratively to explore ways in which we might further strengthen these relationships after the economic assistance the United States currently provides expires under the current terms of the three Compacts of Free Association.

Chairmen Engel and Grijalva, Ranking Members McCaul and Bishop, distinguished members of the Committee, thank you for the opportunity to appear before you today. We look forward to working closely with Congress to ensure that the United States can effectively secure U.S. interests in the Indo-Pacific.