



# Department of Pacific Affairs

## American Strategic Considerations Drive Compact Negotiations in Micronesia: Part 2

Stewart Firth

In Brief 2020/5

From the United States' point of view, the Compacts of Free Association negotiated from the 1960s to the 1990s were primarily strategic in nature, with the United States Department of Defense closely involved at every stage of the negotiations. The compact states, after all, were part of the world's only United Nations strategic trust territory from 1947, a status that enabled the United States to conduct nuclear experiments there from 1946 to 1958, with health consequences for some Marshall Islanders that linger to this day. The compact states remain strategically vital to the United States. As the Department of State's Deputy Assistant Secretary for Australia, New Zealand and the Pacific Islands Sandra Oudkirk told the United States House Foreign Affairs Committee in 2019, the compact states 'form a strategic bridge that stretches from Hawai'i to the Philippines, a span larger than the breadth of the continental United States' and the United States' 'relationship with the Freely Associated States—underpinned by our respective Compacts—is a strategic component of our position in the Indo-Pacific' (Oudkirk 2019).

The Compacts of Free Association are both permanent and renegotiable. The compacts themselves last indefinitely unless terminated by both sides, giving Washington a veto. But their financial provisions—the compact funds that underwrite much of government expenditure—end in 2023 for the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM) and 2024 for the Republic of Palau (Palau). The United States' position has long been to render the RMI and the FSM financially independent by the mid-2020s, replacing compact funds with income from permanent trust funds. Much effort has gone into attempting to achieve this goal through the Joint Economic Management Committee in the FSM and the Joint Economic Management and Fiscal Accountability Committee in the RMI, but the countries' economies are too fragile for this to be possible (Joshua 14 September 2018). They remain highly aid dependent. As the title of a 2019 United States Government Accountability Office report puts it, *Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring US Annual Grant Assistance* (US GAO 2019).

Current arrangements offer the compact states nothing more than survival on inadequate trust funds, opening an opportunity for other players such as China to come to their rescue. The Department of State's position is that 'as the scheduled end of US economic assistance is fast approaching, now is not the time to leave these small sovereign partner nations open to the predations of larger countries' (Oudkirk 2019). The United States' perception of this threat was heightened by the defection of two Pacific countries—Solomon Islands and Kiribati—from recognition of Taiwan to China in September 2019, which seemed to serve as a precedent for Palau and the RMI to follow suit. Palau's economy rests in part on tourism and suffered considerable losses when in 2017 China instructed tour operators not to book package tours to Palau because it is not on the official list of approved destinations for Chinese travellers. This move was widely interpreted as an attempt to pressure Palau on its recognition policy. In the case of the RMI, China is seeking similar results by imposing extra taxes on RMI-badged vessels entering Chinese ports, conforming with its policy towards ships from Taiwan-recognising states (Grossman et al. 2019:40).

Hence, in recent months, negotiations have begun over renewing the financial provisions of the compacts. Their countries' relationships with the United States were central to discussions when the Micronesian presidents—Tommy Remengesau Jr (Palau), David Penuelo (FSM) and Hilda Heine (RMI) —met the United States president in May 2019, the first time all three Micronesian leaders had been together at the White House. Veteran Palauan leader Thomas Remengesau Jr emphasised that his country's:

steadfast reliability makes Palau and the other Freely Associated States natural allies in the Pentagon's new Indo-Pacific strategy, a plan to counter Chinese expansionism and its militarization of islands in the region (Remengesau 17 May 2019).

In August 2019, Mike Pompeo became the first United States Secretary of State to visit Micronesia. At Kolonia in Pohnpei [he announced](#) that the United States had begun negotiating an

extension of the compacts, which ‘sustain democracy in the face of Chinese efforts to redraw the Pacific’. In October, Washington despatched a team of negotiators to begin talks over the compact with Palau. Soon afterwards, United States officials were in Micronesia on a Compact Listening Tour seeking the Micronesian perspective on new arrangements.

Meeting with Pacific Island leaders on the sidelines of the United Nations General Assembly in September 2019, Pompeo announced US\$65 million in new assistance to the region as part of the Pacific Pledge, a United States counterpart to Australia’s Pacific Step-Up and New Zealand’s Pacific Reset. The pledge is worth US\$100 million in total. At the same time, the United States will embed security advisers in Palau, Fiji and Solomon Islands and USAID will expand its presence in Fiji and Papua New Guinea as well as the FSM, the RMI and Palau. Ironically, given the United States’ withdrawal from the Paris Agreement on climate change, the United States aid announcement specifically recognises threats to the region caused by sea level rise (US Department of State 3 October 2019).

The nuclear issue is sure to arise in the RMI’s negotiations with the United States. The RMI observes Nuclear Victims Remembrance Day each year, and the 2020 march for justice led by President David Kabua had the theme ‘we will not forget and we will not be deterred’ (Hosia 6 March 2020). The RMI will almost certainly seek a reopening of discussions about nuclear compensation in the new compact. All three compact states will want continued visa-free access to the United States and will also seek a continuation of the discretionary federal programs that are paid in addition to compact funds which help to support education, health, infrastructure and research. They may also want an extension of the social and medical benefits for Micronesians living in the United States such as Medicaid, for which they are presently ineligible. Whatever their demands might be, the rise of China in the Pacific means that the United States is likely to listen carefully.

### Author notes

*Stewart Firth is a research fellow with the Department of Pacific Affairs.*

### Acknowledgements

I would like to thank the anonymous reviewers for their very helpful comments.

### References

Grossman, D., M.S. Chase, G. Finin, W. Gregson, J.W. Hornung, L. Ma, J.R. Reimer and A. Shih 2019. *America’s Pacific Island Allies: The Freely Associated States and Chinese Influence*. Santa Monica: RAND Corporation.

Hosia, H. 6 March 2020. [March for Nuclear Justice](#). *Marshall Islands Journal*.

Joshua, T.H. 14 September 2018. [United States and the Republic of the Marshall Islands Hold Annual Joint Economic Management and Financial Accountability Committee Meeting](#). Office of Insular Affairs, US Department of the Interior.

Oudkirk, S. 2019. [Statement by Sandra Oudkirk, Deputy Assistant Secretary for Australia, New Zealand and Pacific Islands](#). Sustaining US Pacific Insular Relationships. US House of Representatives Committee on Foreign Affairs Hearing. Washington DC, 26 September.

Remengesau, T. 17 May 2019. [Pacific Defense Pact Renewal Vital to the US Amid Rising Tension with China](#). *The Hill*.

US Department of State 3 October 2019. [US Engagement in the Pacific Islands: UN General Assembly Update](#). US Embassy and Consulates in Australia.

US GAO 2019. [Compacts of Free Association: Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring U.S. Annual Grant Assistance](#). Testimony Before the Committee on Energy and Natural Resources, US Senate. GAO-19-648T. Washington DC: US GAO.

