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# The Pacific Islands: Policy Issues

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## Summary

The Pacific Islands region, also known as the South Pacific or Southwest Pacific, presents Congress with a diverse array of policy issues. It is a strategically important region with which the United States shares many interests with Australia and New Zealand. The region has attracted growing diplomatic and economic engagement from China, a potential competitor to the influence of the United States, Australia, and New Zealand. Congress plays key roles in approving and overseeing the administration of the Compacts of Free Association that govern U.S. relations with the Marshall Islands, Micronesia, and Palau. The United States has economic interests in the region, particularly fishing, and provides about \$38 million annually in bilateral and regional foreign assistance, not including Compact grant assistance.

This report provides background on the Pacific Islands region and discusses related issues for Congress. It discusses U.S. relations with Pacific Island countries as well as the influence of other powers in the region, including Australia, China, and other external actors. It includes sections on U.S. foreign assistance to the region, the Compacts of Free Association, and issues related to climate change, which has impacted many Pacific Island countries. The report does not focus on U.S. territories in the Pacific, such as Guam, the Northern Mariana Islands, and American Samoa.

The Southwest Pacific includes 14 sovereign states with approximately 9 million people, including three countries in “free association” with the United States—the Marshall Islands, Micronesia, and Palau. New Caledonia, a territory of France, and Bougainville, which is part of Papua New Guinea (PNG), are to hold referenda on independence in 2018 and 2019. U.S. officials have emphasized the diplomatic and strategic importance of the Pacific Islands region to the United States, and some analysts have expressed concerns about the long-term strategic implications of China’s growing engagement in the region. Other experts have argued that China’s mostly diplomatic and economic inroads have not translated into significantly greater political influence over South Pacific countries, and that Australia remains the dominant power and provider of development assistance in the region.

Major U.S. objectives and responsibilities in the Southwest Pacific include promoting sustainable economic development and good governance, administering the Compacts of Free Association, supporting regional organizations, helping to address the effects of climate change, and cooperating with Australia, New Zealand, and other major foreign aid donors. U.S. foreign assistance activities include regional environmental programs, military training, disaster assistance and preparedness, fisheries management, HIV/AIDS prevention, care, and treatment programs in Papua New Guinea, and strengthening democratic institutions in PNG, Fiji, and elsewhere. Other areas of U.S. concern and cooperation include illegal fishing and peacekeeping operations.

Congressional interests include overseeing U.S. policies in the Southwest Pacific and helping to set the future course of U.S. policy in the region, approving the U.S.-Palau agreement to provide U.S. economic assistance through 2024, and funding and shaping ongoing foreign assistance efforts. The Obama Administration asserted that as part of its “rebalancing” to the Asia-Pacific region, it had increased its level of engagement in the region. Other observers contended that the rebalancing policy had not included a corresponding change in the level of attention paid to the Pacific Islands.

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## Overview

The Pacific Islands region, also known as the South Pacific or Southwest Pacific, presents Congress with a diverse array of policy issues. It is a strategically important region that encompasses U.S. Pacific territories.<sup>1</sup> U.S. relations with Australia and New Zealand include pursuing common interests in the Southwest Pacific, which also has attracted Chinese diplomatic attention and economic engagement. Congress plays key roles in approving and overseeing the administration of the Compacts of Free Association that govern U.S. relations with the Marshall Islands, Micronesia, and Palau (also referred to as the Freely Associated States or FAS). The United States has economic interests in the region, particularly fishing. The United States provides foreign assistance to Pacific Island countries, which are among those most affected by climate change, particularly in the areas of climate change adaptation and mitigation.

**Table 1. Pacific Island Countries**

Melanesian Region	Micronesian Region	Polynesian Region
Fiji	Kiribati	Cook Islands (in free association with New Zealand)
Papua New Guinea	Marshall Islands (in free association with the United States)	Niue (in free association with New Zealand)
Solomon Islands	Federated States of Micronesia (in free association with the United States)	Samoa
Vanuatu	Nauru	Tonga
	Palau (in free association with the United States)	Tuvalu

**Notes:** The Pacific Islands Forum, the main regional organization, includes the 14 states in this table, plus Australia and New Zealand, and 2 territories of France (French Polynesia and New Caledonia).

The Southwest Pacific covers 20 million square miles of ocean and 117,000 square miles of land area (roughly the size of Cuba).<sup>2</sup> The region includes 14 sovereign states with approximately 9 million people, including three countries in “free association” with the United States—the Marshall Islands, Micronesia, and Palau. Papua New Guinea (PNG), the largest country in the Southwest Pacific, constitutes 80% of region’s land area and 75% of its population. (See **Table 1.**) The region’s gross domestic product (GDP) totals around \$32 billion (about the size of Albania’s GDP). Per capita incomes range from lower middle income (Solomon Islands at \$2,000 per capita GDP) to upper middle income (Nauru and Palau at \$14,200).<sup>3</sup>

According to many analysts, since gaining independence during the post-World War II era, many Pacific Island countries have experienced greater political than economic success. Despite weak political institutions and occasional civil unrest, human rights generally are respected and international observers largely have regarded governmental elections as free and fair. Of 12

<sup>1</sup> This report does not focus on U.S. territories in the Pacific, such as Guam, the Northern Mariana Islands, and American Samoa.

<sup>2</sup> This area is also referred to as the “Pacific Islands” and the “South Pacific.”

<sup>3</sup> Central Intelligence Agency, *The World Factbook*, 2016 (purchasing power parity); World Bank income categories.

Pacific Island states ranked by Freedom House for political rights and civil liberties, eight are given “free” status, while Fiji, Papua New Guinea, and the Solomon Islands—the three largest countries in the region—are ranked as “partly free.”<sup>4</sup>

Most Pacific Island countries, with some exceptions such as Fiji, Papua New Guinea, and the Solomon Islands, have limited natural and human resources upon which to launch sustained development. Many small atoll countries in the region are hindered by lack of resources, skilled labor, and economies of scale; inadequate infrastructure; poor government services; and remoteness from international markets. In addition, some areas also are threatened by frequent weather-related natural disasters and rising sea levels related to climate change.

## Regional Organizations

The Pacific Islands Forum (PIF), which was known as the South Pacific Forum until 1999, seeks to foster cooperation between member states. It is comprised of 18 states and territories. The PIF’s 16 states are Australia, Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Its two territories are French Polynesia and New Caledonia. The PIF Secretariat is located in Suva, Fiji. Key issues addressed by the PIF include climate change, regional security, and fisheries. American Samoa, Guam, and the Northern Marianas have observer status with the PIF.

The Melanesian Spearhead Group (MSG), founded in 1986, includes the following Melanesian countries and organizations: Fiji, the Kanak Socialist Liberation Front (FLNKS) of New Caledonia, Papua New Guinea, the Solomon Islands, and Vanuatu. The MSG seeks to have “common positions and solidarity in spearheading regional issues of common interest, including the FLNKS cause for political independence in New Caledonia.”<sup>5</sup> In 2015, the MSG granted the United Liberation Movement for West Papua observer status and Indonesia associate member status.<sup>6</sup>

## The Pacific Islands and U.S. Interests

On the whole, the United States enjoys friendly relations with Pacific Island countries and has benefitted from their support in the United Nations. This is especially true of the Freely Associated States, particularly Palau, which in 2014 reportedly voted with the United States 90% of the time.<sup>7</sup> (See “Compacts of Free Association” below.) The United States has worked with Australia, the preeminent power in the Southwest Pacific, to help advance shared strategic interests, maintain regional stability, and promote economic development, particularly since the end of the Cold War in the early 1990s. New Zealand also has cooperated with U.S. initiatives in the region, been a major provider of foreign aid, and helped lead peacekeeping efforts. France and Japan also maintain significant interests in the region. China has become a diplomatic force,

<sup>4</sup> Freedom House, *Freedom in the World, 2016*, <https://freedomhouse.org/report/freedom-world/freedom-world-2016>. The Cook Islands and Niue are not included in the survey.

<sup>5</sup> “Melanesian Spearhead Group,” Melanesian Spearhead Group Secretariat, 2016, <http://www.msgsec.info/index.php>.

<sup>6</sup> Gregory Poling, “The Upside of Melanesian Leader’s West Papua Compromise,” Center for Strategic and International Studies, July 2, 2015.

<sup>7</sup> Matthew Matthews, Deputy Assistant Secretary of State, Bureau of East Asian and Pacific Affairs, Statement before the House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, June 23, 2016; Department of State, *Fact Sheet: U.S. Relations with Palau*, February 4, 2015; Department of State, “Voting Practices in the United Nations 2014,” July 2015.

major source of foreign aid, and leading trade partner in the Southwest Pacific. In addition, more recently, other nations, including Russia, India, and Indonesia, have made efforts to expand their engagement in the region.

The Pacific Islands generally can be divided according to four spheres of influence, those of the United States, Australia, New Zealand, and France. The American sphere extends through parts of the Micronesian and Polynesian subregions. (See **Figure 1**.) In the Micronesian region lie the U.S. territories Guam and the Northern Mariana Islands as well as the Freely Associated States. In the Polynesian region lie Hawaii and American Samoa. U.S. security interests in the Micronesian subregion, including military bases on Guam and Kwajalein Atoll in the Marshall Islands, constitute what some experts call a defensive line or “second island chain” in the Pacific.<sup>8</sup> The first island chain includes southern Japan, Taiwan, and the Philippines. Some analysts in China have viewed the island chains as serving to contain China and the Chinese navy.<sup>9</sup> The region also was a key strategic battleground during World War II, where the United States and its allies fought against Japan.

Australia’s interests focus on the islands south of the equator, particularly the relatively large Melanesian nations of Papua New Guinea, which Australia administered until PNG gained its independence in 1975, the Solomon Islands, and Vanuatu. New Zealand has long-standing ties with its territory of Tokelau, former colony of Samoa (also known as Western Samoa), and the Cook Islands and Niue, two self-governing states in “free association” with New Zealand. Australia and New Zealand often cooperate on regional security matters such as peacekeeping. France continues to administer French Polynesia, New Caledonia, and Wallis and Futuna.

U.S. policymakers have emphasized the importance of the Pacific Islands region for U.S. strategic and security interests. In testimony before the Subcommittee on Asia and the Pacific of the House Committee on Foreign Affairs, former Deputy Assistant Secretary of State Matthew Matthews emphasized the changing strategic context of the Pacific Islands region:

The Pacific Island region has been free of great power conflict since the end of World War II, we have enjoyed friendly relations with all of the Pacific island countries. This state of affairs, however, is not guaranteed.... Our relations with our Pacific partners are unfolding against the backdrop of shifting strategic environment, where emerging powers in Asia and elsewhere seek to exert a greater influence in the Pacific region, through development and economic aid, people-to-people contacts and security cooperation. There is continued uncertainty in the region about the United States’ ... willingness and ability to sustain a robust forward presence.<sup>10</sup>

During the hearing, then-Chairman of the Subcommittee on Asia and the Pacific former Representative Matt Salmon stated that the countries of the region deserve U.S. attention “for the important roles that they play in regional security, as participants in international organizations, and as the neighbors to our own U.S. territories of American Samoa, Guam and the Commonwealth of the Northern Mariana Islands.”<sup>11</sup>

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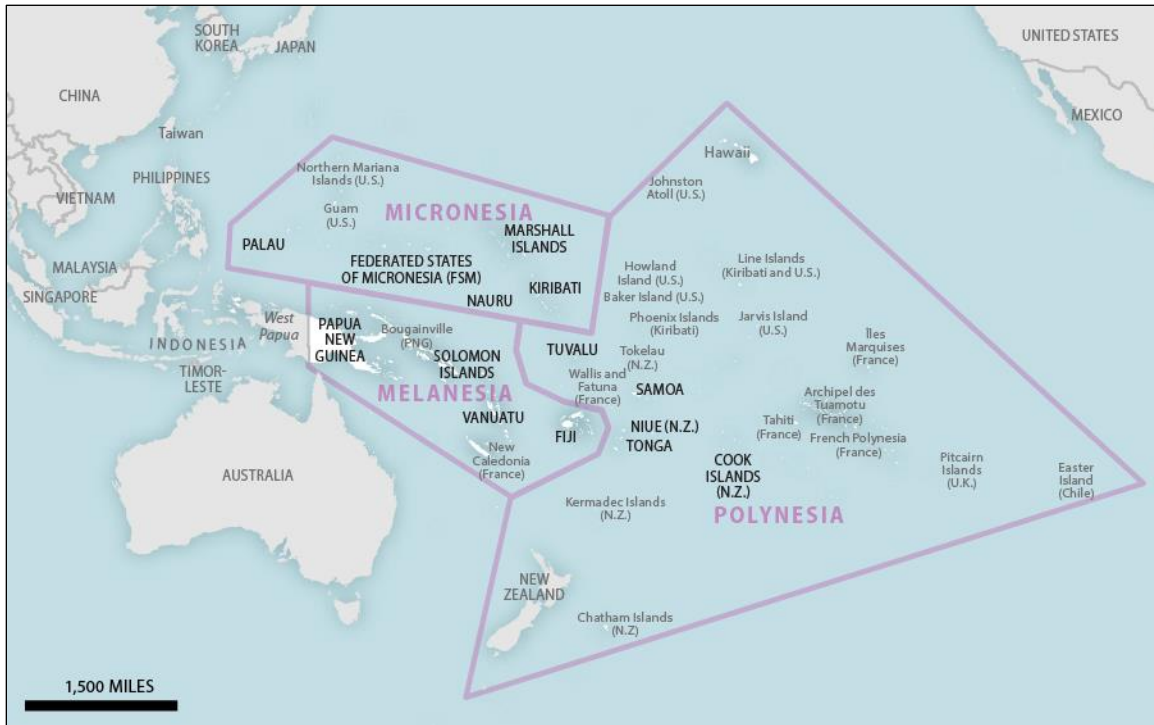
<sup>8</sup> Robert Scher, “Department of Defense’s Support of the Palau Compact Agreement Review,” Testimony before the Senate Committee on Energy and Natural Resources, June 16, 2011; “The Rising Strategic Stock of Micronesia,” *PACNEWS*, February 3, 2015.

<sup>9</sup> “Why Islands Still Matter in Asia,” *China and the World Program*, February 5, 2016.

<sup>10</sup> Matthew Matthews, *op. cit.*

<sup>11</sup> Rep. Matt Salmon, Opening Statement, “U.S. Policy in the Pacific: The Struggle to Maintain Influence,” House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, June 23, 2016.

Figure I. The Southwest Pacific: Melanesia, Micronesia, and Polynesia



Source: Congressional Research Service

Note: Pacific Island entities in bold are fully independent states and freely associated states.

Some analysts have expressed concerns about the long-term strategic implications of China’s growing engagement in the region. Other experts have argued that China’s diplomatic outreach and economic influence have not translated into significantly greater political sway over South Pacific countries, and that Australia, a U.S. ally, remains the dominant power and provider of development assistance in the region.<sup>12</sup> Some observers also have contended that Chinese military assistance and cooperation in the region remain modest compared to that of Australia, and that China has not actively sought to project “hard power.”<sup>13</sup>

## U.S. Policies in the South Pacific

Broad U.S. objectives and policies in the region have included promoting sustainable economic development and good governance, addressing the effects of climate change, administering the Compacts of Free Association, supporting regional organizations, projecting a presence in the region, and cooperating with Australia and regional aid donors. Other areas of concern and

<sup>12</sup> Graeme Smith, “The Top Four Myths About China in the Pacific,” Lowy Institute for International Policy, *The Interpreter*, November 18, 2014; Jenny Hayward-Jones, “Dreaming of China in the Pacific Islands,” Lowy Institute for International Policy, *The Interpreter*, May 16, 2013.

<sup>13</sup> Joanna McCarthy, “China Extends Its Influence in the South Pacific,” *ABC News Australia*, September 10, 2016; Darryn Webb, “China’s South Pacific Expansion and the Changing Regional Order: A Cause for Concern to the Regional Status Quo?” Australian Defence College, September 2015; Karl Claxton, “Decoding China’s Rising Influence in the South Pacific,” *Australian Strategic Policy Institute*, May 17, 2013; Jian Yang, *The Pacific Islands in China’s Grand Strategy*, New York: Palgrave Macmillan, 2011.



cooperation include combating illegal fishing, supporting peacekeeping operations, and responding to natural disasters.

Areas of particular concern to Congress include overseeing U.S. policies in the Southwest Pacific and the administration of the Compacts of Free Association; regional foreign aid programs and appropriations; approving the U.S.-Palau agreement to provide U.S. economic assistance through 2024; and supporting the U.S. tuna fleet. The Obama Administration asserted that as part of its “rebalancing” to the Asia-Pacific region, it had increased its level of engagement in the Southwest Pacific, including expanding staffing and programming and increasing the frequency of high-level meetings with Pacific leaders.<sup>14</sup> Other observers contended that the rebalancing policy had not included a corresponding change in the level of attention paid to the Pacific Islands region.<sup>15</sup>

U.S. diplomatic outreach to the region includes the following:

- In 2011, then-President Obama met with Pacific Island leaders on the margins of the Asia Pacific Economic Cooperation (APEC) Leaders Meeting.
- In 2012, Hillary Clinton attended the Pacific Islands Forum annual summit, the first Secretary of State to do so, in the Cook Islands, where she noted U.S. assistance to the region and highlighted three U.S. objectives: trade, investment in energy, and sustainable growth; peace and security; and women’s empowerment.<sup>16</sup>
- In 2013, then-Secretary of State John Kerry met with Pacific Island leaders at the United Nations and pledged to work with the region to address climate change.
- In 2014, then-Secretary Kerry visited the Solomon Islands following devastating floods there.<sup>17</sup>
- In 2015, then-President Obama met with leaders of Kiribati, the Marshall Islands, and Papua New Guinea at the Paris Climate Conference.
- In September 2016, then-Assistant Secretary of State for East Asian and Pacific Affairs Daniel Russel led a U.S. delegation to the 28<sup>th</sup> Pacific Islands Forum in Pohnpei, Micronesia. Main topics of discussion included climate change, management and conservation of fisheries and other marine resources, sustainable development, regional economic integration, and human rights in West Papua.<sup>18</sup>

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<sup>14</sup> Matthew Matthews, op. cit.; Rep. Matt Salmon, op. cit.

<sup>15</sup> Michael Field, “Pacific Islands Sore About US Inattention,” *Nikkei Report*, March 11, 2016;

<sup>16</sup> Department of State, “Hillary Rodham Clinton: Remarks at the Pacific Islands Forum Post-Forum Dialogue,” Rarotonga, August 31, 2012. The Pacific Islands Forum (PIF) is the main regional organization consisting of the 14 independent Pacific Island states plus Australia and New Zealand. There are currently 14 dialogue partners: Canada, China, the EU, France, India, Indonesia, Italy, Japan, South Korea, Malaysia, the Philippines, Thailand, the U.K., and the United States. The PIF Secretariat is located in Suva, Fiji.

<sup>17</sup> Department of State, “Secretary of State John Kerry at a Meeting of the Pacific Islands Forum,” New York, September 27, 2013; Eileen Natuzzi, “Epilogue to the South Pacific Tuna Treaty,” *PACNEWS*, February 15, 2016.

<sup>18</sup> “Forum Communiqué,” Forty Seventh Pacific Island Forum, Pohnpei, Federated States of Micronesia, 8-10 September, 2016.

## Foreign Assistance

The region depends heavily upon foreign aid. In terms of official development assistance (ODA) as defined by the Organization for Economic Cooperation and Development (OECD), which focuses on grant-based assistance, OECD members Australia, New Zealand, the United States, France, and Japan are the principal aid donors in the Southwest Pacific. Major multilateral sources of ODA include the World Bank's International Development Association and the Asian Development Bank. According to the OECD, in 2014, the most recent year for which full data are available, the leading aid donors committed ODA to the region as follows: Australia, \$850 million; New Zealand, \$374 million; the United States, \$277 million; France, \$126 million; and Japan, \$107 million.<sup>19</sup> Although the United States remains one of the largest providers of ODA to the region by some measures, U.S. assistance remains concentrated among the Freely Associated States. China has become a major source of foreign assistance, but Chinese aid differs from traditional ODA due to its heavy emphasis on concessional loans and infrastructure projects (see "China's Foreign Assistance and Trade" below).

The U.S. government administers foreign assistance to Pacific Island countries through the U.S. Agency for International Development (USAID) Office for the Pacific Islands (based in the Philippines) and Pacific Islands Satellite Office (based in Papua New Guinea). U.S. foreign assistance activities include regional environmental programs; military training; disaster assistance and preparedness; fisheries management; HIV/AIDS prevention, care, and treatment programs in Papua New Guinea; and strengthening democratic institutions in Papua New Guinea, Fiji, and elsewhere.<sup>20</sup> U.S. assistance also aims to help strengthen Pacific Islands regional fora.<sup>21</sup>

### MCC Compact with Vanuatu

The Millennium Challenge Corporation (MCC), an independent U.S. foreign aid agency established in 2004, awards aid packages to countries that have demonstrated good governance, investments in health and education, and a commitment to economic freedom. The 5-year MCC compact with Vanuatu (2006-2011) funded 11 public works projects worth \$65 million, including roads, an air strip, wharves, and storage warehouses.

USAID has partnered with Pacific Islands regional organizations to carry out a five-year program to coordinate responses to the adverse impacts of climate change.<sup>22</sup> Through the Coastal Community Adaptation Program, USAID supports local-level climate change interventions in nine Pacific Island countries.<sup>23</sup> The United States supports natural disaster mitigation and response capabilities and weather and climate change adaptation programs in the Marshall Islands and Micronesia, two low-lying atoll nations, and elsewhere in the Pacific Islands region. USAID's Regional Development Mission-Asia (RDM/A) carries out several environmental programs in the region, particularly in Papua New Guinea.

<sup>19</sup> Organisation for Economic Cooperation and Development, *Creditor Reporting System*, <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>, accessed September 22, 2016. These totals include U.S. economic assistance to the Freely Associated States and French foreign assistance to its territory of Wallis and Fortuna.

<sup>20</sup> USAID, "Pacific Islands," <https://www.usaid.gov/pacific-islands>, accessed September 22, 2016.

<sup>21</sup> Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 2, FY2017*.

<sup>22</sup> USAID, "U.S. and Pacific Partners Unite to Build Climate Resilience," November 5, 2015.

<sup>23</sup> USAID, "Coastal Community Adaptation Project," February 12, 2016.

**Table 2. Selected U.S. Foreign Operations, Compact of Free Association, and Other Assistance to the Pacific Islands, FY2016 (estimated)**  
(in millions of dollars)

Account	DA	ESF	GHP	IMET	Compact	Total
Fiji				0.200		0.200
Marshall Islands	0.500				109.000	109.500
Micronesia	0.500				75.000	75.500
Palau					13.000	13.000
Papua New Guinea	1.500		4.500	0.250		6.25.0
Samoa				0.100		0.100
Tonga				0.250		0.250
Regional	9.500					9.500
RDM/A	0.436					0.436
SPTT		21.000				21.000
<b>Total</b>	<b>12.436</b>	<b>21.000</b>	<b>4.500</b>	<b>0.800</b>	<b>197.000</b>	<b>235.736</b>

**Source:** U.S. Department of State, *Congressional Budget Justification, Foreign Operations, FY2017*; U.S. Department of the Interior, Office of Insular Affairs, FY2017 Budget Justification; USAID, *Foreign Aid Explorer*.

**Notes:** Compact—Compact of Free Association direct economic assistance; DA—Development Assistance; ESF—Economic Support Fund; GHP—Global Health Programs; IMET—International Military Education and Training; RDM/A—Regional Development Mission-Asia; SPTT—South Pacific Tuna Treaty. The amounts in this table do not include disaster assistance.

The United States conducts International Military Education and Training (IMET) programs related to peacekeeping operations, strengthening national security, responding to natural and man-made crises, developing democratic civil-military relationships, and building military and police professionalism in Fiji, Papua New Guinea, Samoa, and Tonga.<sup>24</sup> The Obama Administration requested \$1 million in Foreign Military Financing (FMF) for FY2016 for a regional program to promote peacekeeping activities, English language capabilities, and professionalism in the military. (See **Table 2.**) For FY2017, U.S. assistance aims to expand engagement with the PIF and other regional bodies to improve democratic development and governance in the region.<sup>25</sup>

### South Pacific Tuna Treaty

Funding provided pursuant to the South Pacific Tuna Treaty (SPTT) constitutes a major source of U.S. assistance to some Pacific Island countries.<sup>26</sup> Under the SPTT, in force since 1988, Pacific Island parties to the treaty provide access for U.S. tuna fishing vessels to fishing zones in the Southwest Pacific, which supplies one-third of the world's tuna. In exchange, the American Tunaboat Association pays licensing fees to Pacific Island parties to the treaty. In addition, as part

<sup>24</sup> Fiji, Papua New Guinea, and Tonga are the only Pacific Island states with formal defense forces.

<sup>25</sup> Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 2, FY2016*; Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 2, FY2017*.

<sup>26</sup> Australia, Cook Islands, Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, the United States, and Vanuatu are parties to the treaty.

of the agreement, the United States provides economic assistance to the Pacific Island parties totaling \$21 million per year. In January 2016, the United States temporarily withdrew from the agreement, arguing that the terms were “no longer viable” for the U.S. tuna fleet. The U.S. fleet argued that it could no longer pay quarterly fees due to sharply declining prices for tuna and competition from other countries, some of which was illegal. U.S. boats resumed fishing in the region in March 2016 but with fewer fishing days allotted than in 2015.<sup>27</sup> Talks to renegotiate the SPTT resulted in an agreement in principle in June 2016 that aims to “establish more flexible procedures for commercial cooperation between Pacific Island Parties and US industry.”<sup>28</sup>

## Compacts of Free Association

Congress plays roles in approving and overseeing the administration of the Compacts of Free Association that govern U.S. diplomatic, economic, and military relations with the Marshall Islands, Micronesia, and Palau. U.S. economic commitments to the Freely Associated States—totaling nearly \$200 million in FY2015<sup>29</sup>—are administered by the Department of the Interior. The Compact of Free Association Review Agreement, signed by the United States and the Republic of Palau in 2010, awaits congressional approval. Since 2000, the Republic of the Marshall Islands has unsuccessfully sought additional compensation for damages related to U.S. nuclear testing on Marshall Islands atolls during the 1940s and 1950s.

## Background

In 1947, the Marshall Islands, the Federated States of Micronesia, Palau, and the Northern Marianas, which had been under Japanese control during part of World War II, became part of the U.S.-administered United Nations Trust Territory of the Pacific Islands. In the early 1980s, the Marshall Islands and Micronesia rejected the option of U.S. territorial or commonwealth status and instead chose *free association* with the United States. Compacts of Free Association were negotiated and agreed by the governments of the United States, the Marshall Islands, and Micronesia, and approved by plebiscites in the Trust Territory districts and by the U.S. Congress in 1985 (P.L. 99-239). Congress approved the Compact with Palau in 1986 (P.L. 99-658), which Palau ratified in 1994. The Compacts were intended to establish democratic self-government and to advance economic development and self-sufficiency through U.S. grant and federal program assistance, and to further the national security of the Freely Associated States (FAS) and the United States in light of Cold War geopolitical concerns.

Under the Compacts, the FAS are sovereign nations that conduct their own foreign policy, but the United States and the FAS are subject to certain limitations and obligations regarding international security and economic relations. The United States is obligated to defend the Freely Associated States against attack or threat of attack. The United States may block FAS government policies that it deems inconsistent with its duty to defend the FAS (the “defense veto”), and it has the prerogative to reject the strategic use of, or military access to, the FAS by third countries (the

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<sup>27</sup> Giff Johnson, “U.S. Officially Pulls out of Pacific Fisheries Treaty,” *Marianas Variety*, January 20, 2016; Michael Field, op. cit. For additional information, see also Brian Hallman, Executive Director, American Tunaboat Association, Statement before the Subcommittee on Water, Power, and Oceans, Committee on Natural Resources, House of Representatives, March 1, 2016.

<sup>28</sup> “Parties to South Pacific Tuna Treaty Agree on Principles of Fishing Access,” *ForeignAffairs.co.nz*, July 5, 2016; Department of State, “South Pacific Tuna Treaty,” June 29, 2016.

<sup>29</sup> This total includes Compact grant assistance, Kwajalein “impact” assistance, and trust fund contributions. U.S. Department of the Interior, Office of Insular Affairs, FY2017 Budget Justification.

“right of strategic denial”). The United States also may establish military bases in the FAS, and the Marshall Islands is home to a premier U.S. military facility (the Ronald Reagan Ballistic Missile Defense Test Site [RTS], also known as the Kwajalein Missile Range).<sup>30</sup>

The Freely Associated States and their citizens are eligible for various U.S. federal programs and services. FAS citizens are entitled to reside and work in the United States and its territories as “lawful non-immigrants” and are eligible to volunteer for service in the U.S. armed forces. Several hundred FAS citizens serve in the U.S. military and roughly 12 FAS citizens serving in the U.S. armed forces died in the Iraq and Afghanistan war efforts. The Marshall Islands, Micronesia, and Palau were members of the U.S.-led coalition that launched Operation Iraqi Freedom in 2003.<sup>31</sup>

### **Kwajalein Missile Range**

The United States military regularly conducts intercontinental ballistic missile (ICBM) testing and space surveillance activities from the Kwajalein Missile Range. Former Chairman of the Joint Chiefs of Staff General Martin E. Dempsey referred to the site as the “world’s premier range and test site for intercontinental ballistic missiles and space operations support.”<sup>32</sup> Under the Military Use and Operating Rights Agreement (MUORA), the United States makes annual payments (\$18 million) to the Marshall Islands government, which compensates Kwajalein landowners for relinquishing their property through a Land Use Agreement. The amended Compact of 2003 extended U.S. base rights at Kwajalein Atoll through 2066, with the U.S. option to continue the arrangement for an additional 20 years (to 2086).

The FAS economies depend heavily on U.S. support. The Department of the Interior provides direct economic or grant assistance to the FAS. Its Office of Insular Affairs is responsible for administering the Compacts. The Compacts with the Marshall Islands and Micronesia provided economic assistance totaling roughly \$2.5 billion between 1987 and 2003, including payments for damages and personal injuries caused by U.S. nuclear testing on Marshall Islands atolls during the 1940s and 1950s. In December 2003, the Compacts were amended in order to extend economic assistance for another 20 years and establish trust funds that aim to provide sustainable sources of government revenue after 2023. Projected U.S. grant assistance and trust fund contributions to the Marshall Islands for the 2004-2023 period total \$629 million and \$235 million, respectively. Projected grant assistance and trust fund contributions to Micronesia for the same period total \$1.4 billion and \$442 million, respectively.<sup>33</sup>

## **Palau: Compact of Free Association Review Agreement**

In 1986, the United States and Palau signed a 50-year Compact of Free Association. The Compact was approved by the U.S. Congress but not ratified in Palau until 1993 (entering into force on October 4, 1994). The U.S.-Palau Compact provided for 15 years of direct economic assistance, the construction of a 53-mile road system, a trust fund, services of some U.S. federal agencies

<sup>30</sup> U.S. Army Kwajalein Atoll (USAKA) Reagan Test Site / Kwajalein Missile Range, GlobalSecurity.org, accessed September 22, 2016.

<sup>31</sup> Tomoko A. Hosaka, “Soldier’s Death, Guantanamo Detainees Rattle Palau,” *Associated Press*, June 16, 2009; Remarks by Peter A. Prahar, Ambassador of the United States of America, Federated States of Micronesia, February 5, 2010; Edgard Kagan, Deputy Assistant Secretary of State, Testimony before the House Committee on Natural Resources, Subcommittee on Fisheries, Wildlife, Oceans, and Insular Affairs, September 10, 2012.

<sup>32</sup> Lisa Ferdinando, “Dempsey Visits Strategic, Remote Kwajalein Atoll,” *Federal Information and News Dispatch*, February 21, 2015.

<sup>33</sup> United States Government Accountability Office, *Micronesia and the Marshall Islands Continue to Face Challenges Measuring Progress and Ensuring Accountability*, September 2013.

such as the U.S. Postal Service and the National Weather Service, and eligibility for some U.S. federal education, health, and other programs. Between 1995 and 2009, U.S. assistance totaled over \$850 million, including grant assistance, road construction, and the establishment of a trust fund (\$574 million), Compact federal services (\$25 million), and discretionary federal program assistance (\$267 million).<sup>34</sup>

**Table 3. Palau Amended Compact**  
(in millions of dollars)

<b>Economic Assistance Provisions</b>	
Trust Fund Contributions, FY2013-23	30.3
Infrastructure Maintenance Fund, FY2011-24	28.0
Fiscal Consolidation Fund, FY2011-12	10.0
Economic Assistance, FY2011-23	107.5
Infrastructure Projects, FY2011-15	40.0
Direct Economic Assistance Subtotal	215.0

**Source:** Government Accountability Office, 2012.

**Notes:** Numbers may differ slightly from other sources due to rounding.

Under the Compact, direct economic assistance was to terminate in 2009 while annual distributions from the trust fund were to increase, to help offset the loss of economic assistance. However, Palauan leaders and some U.S. policymakers argued that continued assistance to Palau beyond 2009 was necessary. Furthermore, the value of the Compact trust fund fell from nearly \$170 million to \$110 million in 2008-2009 due to the global financial crisis, although it rebounded and was valued at approximately \$184 million in 2015.<sup>35</sup> In September 2010, the United States and Palau agreed to renew Compact economic assistance, but it awaits approval by Congress. (See **Table 3**.)

The 2010 accord provided for \$215.75 million in direct economic assistance over an additional 15-year period (2011-2024).<sup>36</sup> According to some estimates, U.S. support, including both direct economic assistance and projected discretionary program assistance, would total approximately \$427 million between 2011 and 2024. In addition, the agreement committed Palau to undertake economic, legislative, financial, and management reforms.<sup>37</sup>

Although there has been bipartisan support for continued assistance, Congress has yet to approve the renewal agreement, also known as the Compact of Free Association Review Agreement,

<sup>34</sup> David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau for Fiscal Years 2016 to 2024,” Testimony before the Subcommittee on Indian, Insular, and Alaska Native Affairs, Committee on Natural Resources, House of Representatives, July 6, 2016; David Gootnick, Government Accountability Office, “Compacts of Free Association: Issues Associated with Implementation in Palau, Micronesia, and the Marshall Islands,” Testimony before the Committee on Energy and Natural Resources, U.S. Senate, April 5, 2016; David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau through Fiscal Year 2024,” Testimony before the Subcommittee on Fisheries, Wildlife, Oceans, and Insular Affairs, Committee on Natural Resources, House of Representatives, September 10, 2012.

<sup>35</sup> David Gootnick, Government Accountability Office, “Compacts of Free Association: Issues Associated with Implementation in Palau, Micronesia, and the Marshall Islands,” op. cit.

<sup>36</sup> David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau through Fiscal Year 2024,” op. cit.

<sup>37</sup> Ibid.

largely for budgetary reasons. From FY2010 to FY2016, the U.S. government continued annual direct economic assistance to Palau at 2009 levels (\$13.1 million), pending congressional approval of the 2010 agreement and resolution of funding issues. Other U.S. assistance pursuant to the agreement, however, remained unfunded.<sup>38</sup>

During the 114<sup>th</sup> Congress, two bills were introduced in support of the agreement to extend Compact assistance to Palau. S. 2610, A Bill to Approve an Agreement Between The United States and the Republic of Palau, would not significantly alter total U.S. economic assistance to Palau from the levels specified in the 2010 renewal agreement, although the assistance would be allocated in different increments due in part to the delay in implementing the agreement. H.R. 4531, To Approve an Agreement Between the United States and the Republic of Palau, and for Other Purposes, would provide an additional \$31.8 million as well as reschedule U.S. assistance.<sup>39</sup> In addition, the conference report (H.Rept. 114-840) to accompany S. 2943, The National Defense Authorization Act for Fiscal Year 2017, included the following statement: “The conferees believe that enacting the Compact Review Agreement is important to United States’ national security interests and, as such, believe that the President should include the Compact Review Agreement in the Fiscal Year 2018 budget request.”<sup>40</sup>

## Marshall Islands Nuclear Test Damages Claims

From 1946 to 1958, the United States conducted 67 atmospheric atomic and thermonuclear weapons tests on the Marshall Islands atolls of Bikini and Enewetak. In 1954, “Castle Bravo,” the second test of a hydrogen bomb, was detonated over Bikini atoll, resulting in dangerous levels of radioactive fallout upon the populated atolls of Rongelap and Utrik. Between 1957 and 1980, the residents of the four northern atolls returned to their homelands (Rongelap and Utrik in 1957; Bikini in 1968; and Enewetak in 1980). However, the peoples of Bikini and Rongelap were re-evacuated to other islands in 1978 and 1985, respectively, after the levels of radiation detected in the soil were deemed unsafe for human habitation. Although diving and tourist facilities have operated on Bikini on and off since 1996, and the U.S. government had declared some parts of Rongelap safe for human habitation following a \$45 million cleanup effort, neither atoll has been resettled.<sup>41</sup> Some experts claim that remediation techniques, primarily replacing surface soil in populated areas and adding potassium chloride fertilizer to agricultural areas, has made resettlement possible, although most of the displaced people have refused to return.<sup>42</sup>

## U.S. Nuclear Test Compensation

The Compact of Free Association established a Nuclear Claims Fund of \$150 million and a Nuclear Claims Tribunal (NCT) to adjudicate claims. Investment returns on the Fund were expected to generate revenue for personal injury and property damages awards, health care, resettlement, trust funds for the four atolls, and quarterly distributions to the peoples of the four

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<sup>38</sup> Esther P. Kia’aina, Department of the Interior, Statement before the House Subcommittee on Indian, Insular, and Alaska Native Affairs, Regarding H.R. 4531, To Approve an Agreement between the United States and the Republic of Palau, July 6, 2016.

<sup>39</sup> David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau for Fiscal Years 2016 to 2024,” op. cit.

<sup>40</sup> S. 2943 was signed into law (P.L. 114-328) on December 23, 2016.

<sup>41</sup> “Islanders Afraid to Go Home 60 Years After Bikini Atoll H-Bomb,” *Agence France Presse*, March 1, 2014.

<sup>42</sup> Lawrence Livermore National Laboratory, <https://marshallislands.llnl.gov/rongelap.php>; Dan Zak, “A Ground Zero Forgotten,” *Washington Post*, November 29, 2015.

atolls for hardships suffered. In all, the United States reportedly has provided over \$600 million for nuclear claims, health and medical programs, and environmental cleanup and monitoring.<sup>43</sup>

The Compact deems the Nuclear Claims Fund as part of a “full and final settlement” of legal claims against the U.S. government. However, the Fund was depleted by 2009 and was not sufficient to cover the NCT’s awards of \$96 million to approximately 2,000 individuals for compensable injuries. In addition, the Tribunal awarded, but was unable to pay, approximately \$2.2 billion to the four atoll governments for remediation and restoration costs, loss of use, and consequential damages.<sup>44</sup>

## Marshall Islands Legal Actions

The Marshall Islands government and peoples of the four most-affected atolls long have argued that greater U.S. compensation was justified for loss of land, personal injuries, and property damages. They have claimed that the nuclear tests caused high incidences of miscarriage, birth defects, and weakened immune systems, as well as high rates of thyroid, cervical, and breast cancer.<sup>45</sup> In addition, some experts contend that more than a dozen Marshall Islands atolls, rather than only four, were affected.<sup>46</sup> Some experts have disputed the Marshall Islands claims, pointing to some earlier studies.<sup>47</sup>

In September 2000, the government of the Republic of the Marshall Islands (RMI) submitted to the U.S. Congress a *Changed Circumstances Petition* requesting additional compensation of roughly \$1 billion for personal injuries, property damages, public health infrastructure, and a health care program for those exposed to radiation. The Petition based its claims upon the “changed circumstances” provision of Section 177 of the Compact, arguing that “new and additional” information, such as greater radioactive fallout than previously known or disclosed and revised radiation protection standards, constituted “changed circumstances” and that existing compensation was “manifestly inadequate.” In November 2004, the George W. Bush Administration released a report evaluating the Petition, *Report Evaluating the Request of the Government of the Republic of the Marshall Islands Presented to the Congress of the United States of America*, concluding that there was no legal basis for considering additional compensation payments.<sup>48</sup>

In April 2006, the peoples of Bikini and Enewetak atolls filed lawsuits against the United States government in the U.S. Court of Federal Claims seeking additional compensation related to the

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<sup>43</sup> Embassy of the United States, Majuro, Marshall Islands, “The Legacy of U.S. Nuclear Testing and Radiation Exposure in the Marshall Islands,” <http://majuro.usembassy.gov/legacy.html>, accessed September 22, 2016.

<sup>44</sup> Testimony of Bill Graham, Marshall Islands Nuclear Claims Tribunal, before the House Committee on Foreign Affairs Subcommittee on Asia, the Pacific, and the Global Environment, May 21, 2010.

<sup>45</sup> Advocates for greater nuclear test compensation have based some claims on a National Cancer Institute study: U.S. Dept. of Health and Human Services, National Institutes of Health, National Cancer Institute, *Estimation of the Baseline Number of Cancers Among Marshallese and the Number of Cancers Attributable to Exposure to Fallout from Nuclear Weapons Testing Conducted in the Marshall Islands*, September 2004. Prepared for the Senate Committee on Energy and Natural Resources.

<sup>46</sup> James H. Plasman, Testimony before the House Committee on Foreign Affairs, Subcommittee on Asia, the Pacific and the Global Environment, July 25, 2007.

<sup>47</sup> Steven L. Simon and James C. Graham, “Findings of the Nationwide Radiological Study,” 1994. See also Steven L. Simon and James C. Graham, “Findings of the First Comprehensive Radiological Monitoring Program of the Republic of the Marshall Islands,” *Health Physics*, vol. 73, no. 1 (July 1997).

<sup>48</sup> U.S. Department of State, *Report Evaluating the Request of the Government of the Republic of the Marshall Islands Presented to the Congress of the United States of America*, November 2004.



U.S. nuclear testing program. The court dismissed both lawsuits on August 2, 2007. The U.S. Court of Appeals for the Federal Circuit upheld the lower court ruling on January 30, 2009, finding that Section 177 of the Compact removed U.S. jurisdiction. In April 2010, the Supreme Court declined to hear the case.<sup>49</sup>

In April 2014, the RMI filed suits in the United States and the International Court of Justice in the Hague against the United States and eight other nuclear powers, claiming their failure to meet their obligations toward nuclear disarmament under Article VI of the Nuclear Non-Proliferation Treaty. The lawsuits did not seek compensation but rather action on disarmament. On February 3, 2015, a federal court in California dismissed the RMI suit against the United States, on the grounds that the RMI lacked standing to bring the case and that the case was resolvable by the political branches of government rather than the courts.<sup>50</sup>

## China's Growing Influence

Some policymakers, including Members of Congress, have expressed concerns about China's growing influence in the region.<sup>51</sup> China has become a growing political and economic actor in the Southwest Pacific, and some observers contend that it aims to promote its interests in a way that potentially displaces the influence of traditional actors in the region such as the United States, Australia, and New Zealand. In the view of one analyst, "China clearly does seek to become at least a leading power in the Western Pacific and perhaps the leading power in the Western Pacific."<sup>52</sup> One expert reports that China's principal strategic activity in the region is signals intelligence monitoring. Toward this end, China reportedly has regularly sent vessels to the region that both track satellites and ballistic missiles and also gather intelligence.<sup>53</sup>

Other analysts argue that Beijing does not consider the South Pacific to be of key strategic importance, and note that Australian assistance remains significantly larger than that provided by Beijing.<sup>54</sup> Some believe that although many Pacific Island leaders say they appreciate China's economic engagement and diplomatic policy of "non-interference" in domestic affairs, the region maintains strong ties to Australia and the West that are rooted in shared history and culture as well as migration.<sup>55</sup>

Beijing's engagement in the region has been motivated largely by a desire to garner support in international fora and find sources of raw materials. According to some analysts, China began to fill a vacuum created by waning U.S. attention following the end of the Cold War.<sup>56</sup> While the United States does not maintain an embassy in several Pacific Islands countries, for example, Beijing has opened diplomatic missions in all eight of the Pacific Island countries with which it

<sup>49</sup> Warren Richey, "Supreme Court: No Review of Award for US Nuclear Weapons Tests," *Christian Science Monitor*, April 5, 2010.

<sup>50</sup> This also is known as the "political question doctrine." Department of State, U.S. Relations with Marshall Islands, Fact Sheet, February 4, 2015; "Marshall Islands Will Appeal in Nuclear Case against US," *Daily Mail*, April 2, 2015.

<sup>51</sup> See, for example, Rep. Matt Salmon, op. cit.

<sup>52</sup> McCarthy, op. cit.

<sup>53</sup> "Chinese 'Spy Ship' Slips into Auckland," *New Zealand Herald*, October 3, 2016; "Satellite Tracking Ship in Suva," *Fiji Sun*, August 23, 2015; Joanne Wallis, "China's South Pacific Diplomacy," *The Diplomat*, August 30, 2012.

<sup>54</sup> McCarthy, op. cit.; Webb, op. cit.; Claxton, op. cit.; Jian Yang, op. cit.

<sup>55</sup> Cleo Paskal, "The New Battle for the Pacific: How the West Is Losing the South Pacific to China, the UAE, and Just About Everyone Else," East-West Center, October 3, 2013.

<sup>56</sup> Julie Pendray, "China Pours Aid to Islands: Rising Power's Financial Interest in South Pacific Under Scrutiny," *Washington Times*, October 19, 2007; McCarthy, op. cit.

has diplomatic relations. China-Taiwan “dollar diplomacy,” in which the two entities competed for official diplomatic recognition through offers of foreign aid, has been a declining factor since the late 2000s.<sup>57</sup>

### Fiji-China Relations

Some analysts view Fiji as an example of how deteriorating relations between Pacific Island countries and Western powers in the region may result in greater Chinese influence, although the significance of that influence is debated. China has become a main source of foreign aid and diplomatic support to Fiji, particularly after major foreign aid donors, including Australia, New Zealand, the EU, and the United States, imposed limited sanctions in response to the 2006 military coup.<sup>58</sup> Major donors resumed foreign aid after Fiji held parliamentary elections in 2014, which international observers viewed as free and fair.<sup>59</sup> During the interim period, Josaia Voreqe “Frank” Bainimarama, who has been the leader of Fiji since 2007 and was elected Prime Minister in 2014, put in place a “Look North” policy under which relations with China became more important.<sup>60</sup> After Australia and New Zealand supported Fiji’s suspension from the PIF, the Fijian government focused its attention on the Melanesian Spearhead Group. According to analysts, China seized this opportunity, sponsoring the creation of the MSG Secretariat, and building its headquarters in Vanuatu.<sup>61</sup> Prime Minister Bainimarama has argued that Australia and New Zealand should only be allowed to remain members of the Pacific Islands Forum if China and Japan are allowed to join.<sup>62</sup> In 2015, China and Fiji agreed to expand military cooperation.<sup>63</sup>

## China’s Foreign Assistance and Trade

China is one of the top providers of foreign assistance in the Southwest Pacific, providing \$150 million in foreign assistance per year on average during the past decade. China has held two China-Pacific Island Countries Economic Development and Cooperation Forums (2006 and 2013), where Chinese officials announced large aid packages, including pledges of preferential loans (\$376 million in 2006 and \$1 billion in 2013). In November 2014, Chinese President Xi Jinping travelled to Fiji to establish a strategic partnership between China and eight Pacific Island countries.<sup>64</sup> China also has provided support to the Pacific Islands Forum and has helped finance some of the organization’s activities and initiatives.

Despite China’s rise, Australia remains the dominant foreign aid donor in the region. Between 2006 and 2014, Australia reportedly provided approximately \$7.7 billion in foreign aid to the region, compared to the United States (\$1.9 billion), China (\$1.8 billion), New Zealand (\$1.3 billion), Japan (\$1.2 billion), and France (\$1.0 billion).<sup>65</sup> In terms of grant-based aid, China’s

<sup>57</sup> Taiwan (Republic of China) has official diplomatic relations with Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, and Tuvalu.

<sup>58</sup> Philippa Brant, “The Geopolitics of Chinese Aid: Mapping Beijing’s Funding in the Pacific,” *Foreign Affairs*, March 4, 2015.

<sup>59</sup> “Aust-NZ Response to Winston May Reset Diplomatic Relations,” Open Source Center Australia, March 4, 2016.

<sup>60</sup> “Fiji’s Look North Policy Finds an Open Armed Russia,” *Nikkei*, February 25, 2016.

<sup>61</sup> Joanne Wallis, “China’s South Pacific Diplomacy,” *The Diplomat* August 30, 2012. The Melanesian Spearhead Group, formed in 1986, is composed of Fiji, Papua New Guinea, the Solomon Islands, Vanuatu, and New Caledonia (France), whose native populations are predominantly ethnically Melanesian.

<sup>62</sup> “Renewed Friction over Fiji’s Stance on Pacific Islands Forum,” Economist Intelligence Unit, April 29, 2015.

<sup>63</sup> “China, Fiji Agree to Expand Military Cooperation,” *China Military Online*, July 16, 2015.

<sup>64</sup> “China, Pacific Island Countries Announce Strategic Partnership,” *Xinhuanet*, November 22, 2014.

<sup>65</sup> “China Has Become a ‘Major Donor’ in the Pacific Islands Region,” DW.COM, March 3, 2015; Danielle Cave, “Witnessing (an Opaque) Pacific Power Shift,” Lowy Institute for International Policy, *The Interpreter*, September 5, 2016; Lowy Institute for International Policy, “Chinese Aid in the Pacific,” updated September 2016, <http://www.lowyinstitute.org/chinese-aid-map/>

foreign assistance is relatively small. Unlike other major donors, which provide mostly grant assistance, nearly 80% of Chinese aid reportedly has been provided in the form of preferential loans, generally to finance infrastructure projects that use Chinese companies and labor.<sup>66</sup>

**Table 4. Pacific Island Trade with the China, Australia, and the United States, 2015**

(in millions of dollars)

	China	Australia	United States
Cook Islands	17	7	5
Micronesia	16	5	41
Fiji	352	414	260
Kiribati	49	20	10
Nauru	5	61	2
Niue	0	0	1
Palau	22	2	26
Papua New Guinea	2,875	3,523	299
Marshall Islands	3,399	5	83
Samoa	66	49	27
Solomon Islands	544	124	9
Tonga	30	11	16
Tuvalu	16	6	1
Vanuatu	86	65	10
<b>Totals</b>	<b>7,477</b>	<b>4,292</b>	<b>790</b>

Source: Global Trade Atlas

China's foreign assistance to the Southwest Pacific, like its economic assistance to many other regions, largely consists of concessional loans, infrastructure and public works projects, and investments in the extraction of natural resources. Papua New Guinea is the largest Pacific recipient of Chinese aid, having received 35% of Chinese assistance to the region. Other major recipients include Fiji, Vanuatu, and Samoa. China's foreign assistance has resulted in 218 projects since 2006, including Chinese-built roads, sea ports, airports, hydropower facilities, mining operations, hospitals, government buildings, educational facilities, sports stadiums, and other public works. Other Chinese assistance areas include public health, education, fisheries conservation, the environment, and financial support for Fiji's elections in 2014.<sup>67</sup> Recent, smaller forms of aid reportedly include rowing machines for Samoa, water supply systems for small towns in Tonga, and quad bikes for Cook Islands legislators. Beijing also reportedly has provided modest military equipment and training to Fiji, Papua New Guinea, and Tonga.<sup>68</sup>

Some observers have criticized Chinese assistance, arguing that some infrastructure projects are poor in quality and that some Chinese loans and aid activities lack transparency and exacerbate

<sup>66</sup> "Chinese Aid in the Pacific," *ibid.*

<sup>67</sup> "China in the Pacific: Big Fish in a Big Pond," *Economist.com*, March 25, 2015.

<sup>68</sup> Danielle Cave, *op. cit.*

corruption, increase debt burdens, or harm the environment. Other concerns are that some Chinese economic projects and investments do not employ local labor or that they are not directly aimed at reducing poverty.<sup>69</sup> Some experts contend that Chinese aid has reduced the regional influence of Australia, the United States, and European countries, while others dispute this contention. Another issue is the relatively recent influx of Chinese traders and shop owners in some urban areas, which reportedly has caused resentment among some native residents.<sup>70</sup>

China is a major trading partner in the region, surpassing even Australia, and has economic interests in the following sectors: energy production (hydro power and gas), mining, fisheries, timber, agriculture, and tourism. (See **Table 3.**) The largest Chinese investment project is the \$1.6 billion Ramu Nickel mine in Papua New Guinea. China also has become a major source of tourists and is the only non-Pacific Island nation to be a member of the South Pacific Tourism Organization.

## Australia, New Zealand, and Other External Actors

The United States has relied upon Australia, and to a lesser extent New Zealand, to help advance shared strategic interests, maintain regional stability, and promote economic development in the Southwest Pacific. Australia has played a critical role in helping to promote security in places such as Timor-Leste, which gained its independence from Indonesia following a 1999 referendum that turned violent, the Solomon Islands, and Bougainville, which is part of Papua New Guinea.<sup>71</sup> The 2016 Australia Defence White Paper articulates Australia's approach to the South Pacific:

The South Pacific region will face challenges from slow economic growth, social and governance challenges, population growth and climate change. Instability in our immediate region could have strategic consequences for Australia should it lead to increasing influence by actors from outside the region with interests inimical to ours. It is crucial that Australia help support the development of national resilience in the region to reduce the likelihood of instability. This assistance includes defence cooperation, aid, policing and building regional organisations.... We will also continue to take a leading role in providing humanitarian and security assistance where required.<sup>72</sup>

New Zealand's Pacific identity, derived from its geography and growing population of New Zealanders with Polynesian or other Pacific Island ethnic backgrounds, as well as its historical relationship with the South Pacific, undergirds its relationship with the region.<sup>73</sup> The June 2016 New Zealand Defence White Paper articulates New Zealand's ongoing interest in the South Pacific:

Given its strong connections with South Pacific countries, New Zealand has an enduring interest in regional stability. The South Pacific has remained relatively stable since 2010, and is unlikely to face an external military threat in the foreseeable future. However, the

<sup>69</sup> McCarthy, op. cit.; "China in the Pacific: Big Fish in a Big Pond," op. cit.; Matthew Dornan and Philippa Brant, "Chinese Assistance in the Pacific: Agency, Effectiveness and the Role of Pacific Island Governments," *Asia and the Pacific Policy Studies*, vol. 1, no. 2 (May 14, 2014); Kalafi Moala, "The Chinese Are Here to Stay," Pacific Institute of Public Policy, May 14, 2014; Matthew Dornan, Denghua Zhang, and Philippa Brant, "China Announces More Aid, and Loans, to Pacific Island Countries," Development Policy Center, November 13, 2013.

<sup>70</sup> Moala, op. cit.; Graeme Smith, op. cit.; Jenny Hayward-Jones, op. cit.

<sup>71</sup> "Australia Aims to Begin Troop Withdrawal from E. Timor Next Year," *Kyodo News*, April 15, 2011.

<sup>72</sup> Government of Australia, Department of Defence, White Paper, 2016.

<sup>73</sup> "Demographics of New Zealand's Pacific Population," [http://www.stats.govt.nz/browse\\_for\\_stats/people\\_and\\_communities](http://www.stats.govt.nz/browse_for_stats/people_and_communities), accessed October 27, 2016.

region continues to face a range of economic, governance, and environmental challenges. These challenges indicate that it is likely that the Defence Force will have to deploy to the region over the next ten years, for a response beyond humanitarian assistance and disaster relief. New Zealand will continue to protect and advance its interests by maintaining strong international relationships, with Australia in particular, and with its South Pacific partners, with whom it maintains a range of important constitutional and historical links.<sup>74</sup>

New Zealand works closely with Pacific Island states on a bilateral and multilateral basis. It has played a key role in promoting peace and stability in the Southwest Pacific in places such as Timor-Leste, the Solomon Islands, and Bougainville, and Papua New Guinea. Approximately 60% of New Zealand's foreign assistance goes to the Southwest Pacific.<sup>75</sup> In September 2015, Auckland pledged to increase foreign assistance to the region by \$100 million to reach a total of \$1 billion in expenditures over the next three years.<sup>76</sup> New Zealand also has provided development and disaster assistance to the region. In 2015, New Zealand's then-Prime Minister John Key reaffirmed New Zealand's support for the Pacific Islands Forum and sustainable South Pacific economic development, including for sustainable fisheries.<sup>77</sup> An estimated \$2 billion worth of fish is taken legally from the waters of the 14 PIF countries, with an additional \$400 million worth of fish thought to be taken illegally each year.<sup>78</sup>

## France

France's decision to stop nuclear testing in the South Pacific in 1996 opened the way for improved relations with the region. Although much of France's regional military presence was withdrawn following its decision to stop nuclear testing, France continues to have a military presence that reportedly includes 2,800 personnel and 7 ships, including surveillance frigates and patrol vessels.<sup>79</sup> France is also a member of the Quadrilateral Defense Coordination Group, along with the United States, Australia, and New Zealand, which seeks to coordinate maritime security in the South Pacific. France recently signed a \$39 billion deal to provide 12 new submarines to the Australian Navy.<sup>80</sup>

## Other External Actors

Other external actors are becoming more active in the Southwest Pacific.<sup>81</sup> Russia reportedly has sent a shipment of weapons with advisors to help train the Fijian military in the use of recently

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<sup>74</sup> Government of New Zealand, 2016 Defence White Paper, June 2016.

<sup>75</sup> Ministry of Foreign Affairs and Trade, "Strategic Direction," <http://www.mfat.govt.nz> undated, accessed October 27, 2016.

<sup>76</sup> John Key, "NZ Support for the Pacific to Reach \$1 Billion," September 9, 2015, [beehive.govt.nz](http://www.beehive.govt.nz).

<sup>77</sup> John Key, "New Funding Supports Sustainable Fisheries," September 11, 2015, <https://www.beehive.govt.nz/release/new-funding-supports-sustainable-pacific-fisheries>.

<sup>78</sup> Audrey Young, "US Extending Eye on Pacific to Help Cut Illegal Fishing," *New Zealand Herald*, February 22, 2011.

<sup>79</sup> "France and Security in the Asia-Pacific," France Ministry of Defense, <http://www.defense.gouv.fr/content/download/261113/3194598/file/>, accessed October 27, 2016.

<sup>80</sup> Bruno Tertrais, "With Military Deals, France Asserts its Presence in the Asia-Pacific," *World Politics Review*, June 15, 2016; Center for Strategic and International Studies, "France: The Other Pacific Power," December 14, 2012.

<sup>81</sup> Euan Graham, "Replacing the Patrol Boats: A Smart Re-Investment Play," PACNEWS, February 3, 2016.

delivered equipment.<sup>82</sup> India reportedly is exploring the possibility of establishing a satellite monitoring station in Fiji.<sup>83</sup>

Indonesia, too, has become more interested in the region, often with regards to its relations with the Melanesian countries. Indonesia has been a dialogue partner of the Pacific Islands Forum since 2001. Indonesian objectives related to the PIF include repositioning Indonesia's foreign policy towards a "look east policy" and getting "closer to the countries of the Pacific region," maintaining "the integrity of the unitary Republic of Indonesia," and improving the "image of Indonesia."<sup>84</sup> The PIF and Melanesian countries have criticized human rights abuses in West Papua, Indonesia, which has a large, ethnically Melanesian indigenous population.<sup>85</sup> Alleged human rights violations include the harassment of human rights groups and arbitrary arrests of independence activists.<sup>86</sup> Some Melanesian countries have supported self-determination for West Papua and its inclusion in the Melanesian Spearhead Group.<sup>87</sup> Indonesia has responded that it is a democratic country that is committed to human rights. It has resisted "interference in its domestic affairs" and in 2015 refused to accept a PIF fact-finding mission to investigate human rights violations.<sup>88</sup>

## Climate Change and Other Environmental Issues

Pacific Island countries have sought international support for helping them to cope with the impacts of climate change, reduce greenhouse gas (GHG) emissions, and increase renewable energy use and energy efficiency. U.S. assistance efforts in the region have focused on climate change adaptation and strengthening governmental capacity to attract international financing and successfully implement environmental programs.<sup>89</sup> Many experts view the Pacific Islands as highly vulnerable to the effects of climate change and other environmental problems, such as sea level rise, ocean acidification, invasive species, and extreme weather events. These environmental issues can have adverse effects on agriculture, drinking water supplies, fisheries, and tourism.

A report by the U.S. Fish and Wildlife Service states

Climate change presents Pacific Islands with unique challenges including rising temperatures, sea-level rise, contamination of freshwater resources with saltwater, coastal erosion, an increase in extreme weather events, coral reef bleaching, and ocean acidification. Projections for the rest of this century suggest continued increases in air and ocean surface temperatures in the Pacific, increased frequency of extreme weather events,

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<sup>82</sup> "Russian Arms Deal with Fiji Prompts Regional Concerns," *Nikkei*, February 15, 2016.

<sup>83</sup> "India for Satellite Tracking Unit in Fiji," *Deccan Herald*, August 20, 2015.

<sup>84</sup> Republic of Indonesia, Ministry of Foreign Affairs, *Pacific Islands Forum*, <http://www.kemlu.go.id/en/kebijakan/kerjasama-regional/Pages/PIF.aspx>, accessed October 27, 2016.

<sup>85</sup> The island of Papua is divided into two parts: West Papua, Indonesia, in the west and Papua New Guinea in the east.

<sup>86</sup> Department of State, *Country Reports on Human Rights Practices for 2015—Indonesia*; "Guest Blog: Maire Leadbeater—Pacific Nations Diplomacy for West Papua Puts New Zealand to Shame," *The Daily Blog*, October 18, 2016; "Geo-Politics At Play over Leaders' Lack of Expressed Commitment on West Papua," *PACNEWS*, September 12, 2016.

<sup>87</sup> "Full Membership for West Papua Expected in December," *PACNEWS*, October 9, 2016.

<sup>88</sup> Benny Giay, "Finding a Dignified Resolution for West Papua," *The Conversation*, May 6, 2016; Petrus Farneubun, "Commentary: Indonesia Rejects Pacific Leaders' Statement on Human Rights Abuses in Papua," *PACNEWS*, September 27, 2016.

<sup>89</sup> Gloria Steele, Deputy Assistant Administrator, Bureau for Asia, U.S. Agency for International Development, Statement before the House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, June 23, 2016.

and increased rainfall during the summer months and a decrease in rainfall during the winter months.<sup>90</sup>

Some areas of the region lie only 15 feet above sea level, and if sea levels continue to rise as projected, Kiribati, Tokelau, and Tuvalu may be uninhabitable by 2050.<sup>91</sup> Some experts predict that many Pacific Islanders face displacement over the coming decades. Kiribati reportedly is buying land in Fiji in case its population needs to relocate.<sup>92</sup>

Much of the Republic of the Marshall Islands is less than six feet above the sea, and some experts say that rising sea levels may make many areas of the country unfit for human habitation in the coming decades.<sup>93</sup> Bikini Islanders, with the support of the U.S. Department of the Interior, have asked to be allowed to resettle in the United States. They claim that Kili and Ejit, the islands to which Bikini Islanders were relocated before and after the nuclear tests of the 1940s and 1950s and where about 1,000 of them currently live, can no longer sustain them, due to a lack of resources and a greater frequency of bad weather. Recurrent flooding from storms and high tides has disrupted water supplies and destroyed crops. The Department of the Interior has proposed that the U.S. resettlement fund set up for Bikini Islanders help to support their relocation to the United States.<sup>94</sup>

## The Paris Agreement and the Pacific

Pacific Island states were very active in seeking to influence the outcome of the U.N. Climate Change Conference of the Parties (COP) in Paris, France, in 2015. The Paris Agreement includes several outcomes sought by Pacific Island countries, such as a commitment to limit temperature rise.<sup>95</sup> The Agreement reaffirms “the goal of limiting global temperature increase well below 2 degrees Celsius, while urging efforts to limit the increase to 1.5 degrees.”<sup>96</sup> Twelve Pacific Island countries signed the Paris Agreement on April 22, 2016.<sup>97</sup>

The Pacific Islands Forum 2016 annual meeting continued the organization’s focus on climate change. The Forum Communique included the following statement:

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<sup>90</sup> Intergovernmental Panel on Climate Change, *Climate Change 2013: The Physical Science Basis*, <http://www.ipcc.ch/report/ar5/wg1/>; U.S. Fish and Wildlife Service, “Climate Change in the Pacific Region,” <https://www.fws.gov/pacific/climatechange/changepi.html>.

<sup>91</sup> CRS In Focus IF10468, *Sea-Level Rise and U.S. Coasts*, by Nicole T. Carter and Peter Folger; Rob Taylor, “Pacific Islands Take Steps to Counter Rising Sea Levels,” *Dow Jones*, November 30, 2015; USAID, “Pacific Islands: Environment and Global Climate Change,” <https://www.usaid.gov/pacific-islands/environment-and-global-climate-change>.

<sup>92</sup> “Small Islands Demand Coal Moratorium,” *Australian Associated Press*, September 7, 2015; After Paris: Climate Finance in the Pacific Islands,” Oxfam Research Report, September 2016.

<sup>93</sup> Coral Davenport, “The Marshall Islands Are Disappearing,” *New York Times*, December 1, 2015.

<sup>94</sup> Giff Johnson, “Interior Official Focuses on Bikini Resettlement Options,” *Marianas Variety*, July 17, 2016; “Bikini Islanders Demand Refuge in US amid Radiation and Climate Concerns,” *Sputnik News Service*, March 22, 2015; Taryn Tarrant-Cornish, “Bikini Islanders in Desperate Plea to USA as Island Home Disappears Due to Climate Change,” *Express.co.uk*, October 27, 2015; Department of the Interior, Office of Insular Affairs, “Interior Proposes Legislation to Expand Bikini Islanders’ Use of Resettlement Fund beyond the Marshall Islands,” October 20, 2015.

<sup>95</sup> “Framework for Pacific Regionalism,” *PACNEWS*, February 8, 2016.

<sup>96</sup> “Outcomes of the UN Climate Change Conference in Paris,” Center for Climate and Energy Solutions, December 12, 2015. <http://www.c2es.org>

<sup>97</sup> Fiji, Nauru, Palau, Republic of the Marshall Islands, Samoa, and Tuvalu ratified the agreement. “Six Pacific Island Nations Ratify Paris Accord on Climate Change,” *ForeignAffairs.co.nz*, April 26, 2016.

Leaders reiterated the importance of the Pacific Islands Forum in maintaining a strong voice considering the region's vulnerabilities to the impact of climate change. Leaders welcomed the Paris Agreement and reinforced that achieving the Agreement goal of limiting global temperature increases to 1.5°C above pre-industrialised levels is an existential matter for many Forum Members which must be addressed with urgency. Leaders congratulated the eight Forum countries that have ratified the Agreement and encouraged remaining Members and all other countries to sign and ratify the Agreement before the end of 2016 or as soon as possible. Leaders called for ambitious climate change action in and across all sectors and encouraged key stakeholders to prioritise their support for the implementation of key obligations under the Agreement.<sup>98</sup>

## Ocean Acidification

Climate change and sea level rise are not the only environmental challenges “substantially enhanced” by anthropogenic activity facing the region.<sup>99</sup> Ocean acidification is likely to have a severe impact on Pacific Island states. According to some experts, carbon dioxide, absorbed by seawater, creates acidification which in turn reduces the ability of many marine organisms, such as coral, from regenerating.<sup>100</sup> Coral reefs play a key role in supporting fisheries and tourism which are two key components of the economy of many Pacific Island states. A recent study has found that coral cover in the Great Barrier Reef off the coast of Australia has declined by 50% over the past 30 years. Various studies have predicted that if current trends continue, ocean reefs will “be the first major ecosystem in the modern era to become ecologically extinct” by the end of the century. Others predict an earlier demise.<sup>101</sup>

## Fisheries

The Southwest Pacific straddles the largest tuna fisheries in the world. According to one advocacy group, over half of the tuna consumed in the world is harvested from the Western and Central Pacific Ocean at an unsustainable rate.<sup>102</sup> Many of the Pacific Islands states lack the capacity to effectively monitor and patrol their fisheries resources. In one example, Palau, a nation with a land area of 177 square miles and a maritime exclusive economic zone (EEZ) of 230,000 square miles, has a maritime police division of 18 personnel and one patrol ship. The global black market for seafood is estimated to be worth \$20 billion with one in five fish caught illegally.<sup>103</sup> As a result, poaching of fisheries is a major problem in the Pacific. In order to minimize poaching, the United States and nine Pacific Island states have entered into ship rider agreements. Under the program, enforcement officials from Pacific Island states may ride U.S. Coast Guard ships while they are patrolling the EEZs of those states. U.S. Coast Guard ships are empowered to enforce the laws of the host nation.<sup>104</sup>

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<sup>98</sup> “Forum Communique,” op. cit.

<sup>99</sup> “It is unequivocal that anthropogenic increases in the well-mixed greenhouse gases (WMGHGs) have substantially enhanced the greenhouse effect.” Intergovernmental Panel on Climate Change, *Climate Change 2013: The Physical Science Basis*, op. cit.

<sup>100</sup> “What Is Ocean Acidification?” National Oceanic and Atmospheric Administration Carbon Program, <http://www.pmel.noaa.gov>, accessed October 27, 2016.

<sup>101</sup> Elizabeth Kolbert, *The Sixth Extinction* (New York: Picador Publishers, 2014), pp. 130, 138.

<sup>102</sup> Greenpeace, “Pacific Ocean,” <http://www.greenpeace.org>, accessed September 22, 2016.

<sup>103</sup> Ian Urbina, “Palau vs the Poachers,” *New York Times*, February 17, 2016.

<sup>104</sup> “The Value of Ship Rider Agreements in the Pacific,” cogitASIA, CSIS, December 10, 2014; CRS Report RL34124, *Seafood Fraud*, by Harold F. Upton.



## Referenda on Self-Determination

New Caledonia, a territory of France, and Bougainville, which is part of Papua New Guinea, are to hold referenda on independence in 2018 and 2019. Issues and areas of possible concern to Congress include U.S. assistance for the administration of free and fair elections, the building of political institutions, and the mitigation of potential conflict. Developments in Bougainville also may affect U.S. relations with Papua New Guinea.

### New Caledonia

The French Overseas Territory of New Caledonia, annexed by France in 1853 and formerly used as a penal colony for French convicts, may become the world's next state. An estimated 39% of New Caledonia's 260,000 people are Kanaks while 27% are European, with the balance composed of "mixed race" persons and others from elsewhere in the Asia-Pacific.<sup>105</sup> In the 1980s, the indigenous Kanaks clashed with pro-France settlers. In a referendum in 1987, which was boycotted by local independence groups, New Caledonians voted to remain with France.<sup>106</sup> Under the Noumea Accord of 1998, signed by France, the Kanak Socialist Liberation Front, and the territory's anti-independence RCPR Party,<sup>107</sup> a referendum on independence must be held by the end of 2018.

### Bougainville

The Bougainville conflict between the Papua New Guinea Defense Force and the pro-independence Bougainville Revolutionary Army began over disputes related to the Panguna copper mine on Bougainville in the late 1980s. Key grievances related to the mine included the influx of workers from elsewhere in Papua New Guinea and Australia, environmental damage caused by the mine, and Bougainville islanders' dissatisfaction with their share of mine revenue.<sup>108</sup> Tensions over the mine and secessionist sentiment led to a decade-long, low-intensity war in which an estimated 10,000 to 20,000 government troops, militants, and civilians died. Peace between the government and rebels was restored in 1997 under a New Zealand-brokered agreement.<sup>109</sup> Under the terms of the agreement, a referendum on self-determination is to be held by mid-2020. A target date of June 2019 has now been agreed to by the Papua New Guinea government and Bougainville regional government.<sup>110</sup> Some factions reportedly have held onto their weapons out of concern that the PNG government will not go through with the referendum.<sup>111</sup>

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<sup>105</sup> "Introducing Your Future Pacific Neighbors," *PACNEWS*, April 5, 2016.

<sup>106</sup> "New Caledonia Rights Campaigner Found Dead on Nudist Beach," *The Guardian*, June 7, 2016.

<sup>107</sup> *Rassemblement pour une Calédonie dans la République*

<sup>108</sup> Timothy Hammond, "Resolving Hybrid Conflicts: The Bougainville Story," *Foreign Policy Journal*, December 2012, and "Bougainville Island," *Encyclopedia Britannica*, <http://britannica.com>.

<sup>109</sup> Bede Cory, "The Bougainville Peace Process," in Bruce Vaughn ed. *The Unraveling of Island Asia? Governmental, Communal, and Regional Instability* (Westport: Praeger Publishers, 2002).

<sup>110</sup> "Ball Rolling on Bougainville Referendum," *Radio New Zealand*, May 23, 2016.

<sup>111</sup> "Decision Set to Change Bougainville Future," *PACNEWS*, May 22, 2016.

## Appendix. Social and Economic Indicators

Country	Population	GDP per capita \$US (PPP)	Life Expectancy (years)
Papua New Guinea	6,672,429	2,700	67
Fiji	909,389	9,000	72
Solomon Islands	622,469	1,900	75
Vanuatu	272,264	2,500	73
Samoa	197,773	5,200	73
Tonga	106,501	5,100	76
Kiribati	105,711	1,800	65
Micronesia	105,216	3,000	72
Marshall Islands	72,191	3,200	72
Palau	21,265	15,100	72
Tuvalu	10,869	3,400	66
Cook Islands	9,838	12,300	75
Nauru	9,540	14,800	66
Niue	1,190	5,800	n/a

**Source:** Central Intelligence Agency, *The World Factbook*, 2016.

**Note:** PPP = Purchasing Power Parity

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