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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**SMART POWER VS. SHARP POWER: POLITICAL
WARFARE IN THE SECOND ISLAND CHAIN**

by

Michael T. Culligan and David K. Burris

December 2019

Thesis Advisor:
Second Reader:

Douglas A. Borer
Leo J. Blanken

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**SMART POWER VS SHARP POWER: POLITICAL WARFARE IN THE
SECOND ISLAND CHAIN**

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**MASTER OF SCIENCE IN INFORMATION STRATEGY
AND POLITICAL WARFARE**

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December 2019**

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ABSTRACT

This study investigates China's use of non-military instruments of statecraft in Micronesia in order to assess the Chinese government's motives and methods for greater regional presence. By exploring China's use of diplomacy, economic measures, and information operations in the Marshall Islands, the Federated States of Micronesia, and Palau over the past three decades, this thesis seeks to explain China's current and aspirational maritime security objectives beyond the South China Sea and contribute to debates on the Chinese Communist Party's motives and approaches for gaining strategic advantages vis-à-vis the United States in the Indo-Pacific region. The research in this thesis leverages concepts of modern political warfare, theories of state-driven geo-economics strategy and psychological effects-based operations to assess China's engagements in Micronesian states as indicators of great power competition with the United States. It finds that China's approach to political warfare in the region has become increasingly focused on leveraging state-owned enterprises and economic inducements toward the fishing industries of lesser-developed Micronesian states in order to secure access, grow capacities for displacing American placement and influence, and impose long-term costs and risks to the sustainment of U.S. forward security positions.

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LIST OF ACRONYMS AND ABBREVIATIONS

AEI	American Enterprise Institute
ADB	Asian Development Bank
ANU	Australian National University
A2AD	anti-access area denial
BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CGIT	China Global Investment Tracker
CSIS	Center for Strategic International Studies
CNMI	Commonwealth of the Northern Mariana Islands
COFA	Compacts of Free Association
DWFN	distant water fishing nation
EEZ	economic exclusion zone
EPPSO	Economic Policy Planning and Statistics Office
FSM	Federated States of Micronesia
GPC	great power competition
IUU	illegal, unprotected, and unregulated
ICT	information and communications technology
IBRD	International Bank of Reconstruction and Development
IMF	International Monetary Fund
INDOPACOM	United States Indo-Pacific Command
JEMCO	Joint Economic Management Committee
LSD	least developed country
MAGTF	Marine Air Ground Task Force
MDB	Multinational Development Bank
OSD	Office of the Secretary of Defense
OECD	Organization of Economic Cooperation and Development
ODA	Overseas Development Assistance
PIC	Pacific Island Country
PIF	Pacific Islands Forum

PNG	Papua New Guinea
PLA	People's Liberation Army
PMU	program managing unit
RMI	Republic of the Marshall Islands
RMI-CTF	Republic of the Marshall Islands-Compact Trust Fund
RASAR	Rongelap Atoll into a Special Administration Region
SPREP	Secretariat of the Pacific Regional Environment Programme
SCS	South China Sea
SPTT	South Pacific Tuna Treaty
SLOC	sea lines of communication
TRA	Taiwan Relations Act
TTPI	Trust Territory of the Pacific Islands
UNCTD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
USDOS	United States. Department of State
VAT	value added tax
WPCO	Western and Central Pacific Ocean

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—D. Burris

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—M. Culligan

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I. INTRODUCTION

To commemorate 30 years of diplomatic relations between the two countries, Ambassador Huang Zheng of the People's Republic of China recently authored an opinion piece in Kaselehie Press—the national newspaper of the Federated States of Micronesia.¹ In his statement to Micronesians, Ambassador Zheng praises three decades of mutual respect, fruitful achievements, and adherence to the One China Principle as “the most fundamental cornerstone of the China-FSM Comprehensive Strategic Partnership.”² The Ambassador subsequently denounces “ungrounded criticisms” of China-FSM relations driven by bitter and “colonialist” countries “that distort the facts and overturn the right with the wrong.”³

A. BACKGROUND OF THE STUDY

This study aims to provide a deeper understanding of approaches employed by the Chinese Communist Party (CCP) to displace American presence and influence in the Pacific Islands. The United States has maintained exclusive defense cooperation with FSM and the rest of Micronesia since the end of the Second World War; however, Ambassador Zheng's messaging suggests that the CCP is in a contest to win the hearts and minds of local populations which could lead to a weakening of American collective security arrangements. This research contributes to assessments of China's strategic competition with the United States by answering the following question: what do Chinese engagements in Micronesia over the past three decades indicate about the CCP's approach to great power competition with the United States in the broader Indo-Pacific?

¹ Huang Zheng, “FSM and China Celebrate 30 Years of Diplomatic Relations,” *Pacific Island Times*, September 08, 2019, <https://www.pacificislandtimes.com/single-post/2019/09/08/FSM-and-China-celebrate-30-years-of-diplomatic-relations>.

² The “One China Principle” (commonly translated as One China Policy) declares that Taiwan as a component part of China, possesses neither the recognition nor rights of a sovereign state. Zheng.

³ Zheng, “FSM and China Celebrate 30 Years of Diplomatic Relations.”

B. PURPOSE OF THE STUDY

This study investigates China's use of non-military instruments of statecraft in Micronesia in order to assess the Chinese government's motives and methods for greater regional presence. By exploring China's use of diplomacy, economic measures, and information operations in the Marshall Islands, the Federated States of Micronesia, and Palau over the past three decades, this thesis seeks to explain China's current and aspirational maritime security objectives beyond the South China Sea and contribute to debates on the Chinese Communist Party's motives and approaches for gaining strategic advantages vis-à-vis the United States in the Indo-Pacific region. The research in this thesis leverages concepts of modern political warfare, theories of state-driven geo-economics strategy and psychological effects-based operations to assess China's engagements in Micronesian states as indicators of great power competition with the United States. It finds that China's approach to political warfare in the region has become increasingly focused on leveraging state-owned enterprises and economic inducements towards the fishing industries of lesser-developed Micronesian states in order to secure access, grow capacities for displacing American placement and influence, and impose long-term costs and risks to the sustainment of U.S. forward security positions.

C. IMPORTANCE

This research addresses three interconnected issues currently facing the United States Indo-Pacific Command (INDOPACOM), U.S. interagency teams supporting political and economic development in Oceania, and partners seeking to mitigate geopolitical tensions with the People's Republic of China (PRC). From local to global, these issues include maintaining strong relations and agreements with small Pacific Island Countries (PICs) amidst increasing Chinese influence; maintaining forward presence for national security and collective defense; and maintaining resilient coalitions that support a continuation and strengthening of a rules-based international order.

1. Maintaining Relations

The United States maintains atypical relations with the Micronesian nations of Palau, the Marshall Islands, and the Federated States of Micronesia which have served as

the foundation for U.S. presence in the Central Pacific since the 1980s. These three independent countries “in free association with the U.S.” provide the United States with strategically important access to operate militarily within their territorial borders as well as the authority to deny third-party countries access for military purposes.⁴ In return, the United States guarantees national defense and contribute towards the economic development of each partner while also granting special status for citizens to work and live as non-immigrants in the United States or its territories. The United States has already recognized the need to examine and bolster these relations; however, many still raise concerns over a lack of real political appreciation for these partners, a lack of tangible successes in their development, and a lack of clarity on the CCP’s potential to undermine U.S.-Micronesian relations over time.⁵

2. Maintaining National and Collective Security

The trans-pacific sea lines of communication (SLOC) network, demonstrated in Figure 1, supports both U.S.-led collective security interests in the region as well as national defense. In addition to the three Compact countries, Micronesia is home to the U.S. territories of Guam and the Commonwealth of the Northern Mariana Islands (CNMI) which serve as platforms for force projection and strategic deterrence. In recent decades, the CCP has used a mix of non-conventional methods for expanding its territorial sovereignty, and by doing so, has reinvigorated concerns within the U.S. security establishment regarding possible efforts to establish an “Offshore Defense”.⁶ Chinese efforts to displace Japanese and Philippine maritime control in areas of the East and South China Seas (SCS) creates dilemmas for U.S. decision making between defending the territorial sovereignty of its allies

⁴ United States Pacific Command and United States Forces Korea: Testimony before the Senate Armed Services Committee, 115th Cong. (2017) (Statement of Admiral Harry Harris, Commander U.S. Pacific Command).

⁵ Dean Cheng, “Countering Chinese Inroads into Micronesia,” Heritage Foundation, October 27, 2016, <http://www.heritage.org/asia/report/countering-chinese-inroads-micronesia>; see also *Full Committee Hearing on the Freely Associated: Testimony before the Senate Committee on Energy and Natural Resources*, 116th Cong. (2019) (Statement of Randall Schriver, Assistant Secretary of Defense for Indo-Pacific Security Affairs).

⁶ Daniel M. Hartnett and Frederic Vellucci, “Toward a Maritime Security Strategy: An Analysis of Chinese Views Since the Early 1990s,” in *The Chinese Navy*, ed. Saunders, Yung, Swaine, and Yang (Washington, DC, : National Defense University Press, 2011), 100.

and risking an escalation of conflict. Furthermore, the CCP arguably seeks to militarily and politically “squeeze democratic Taiwan out of existence,” which challenges a permeant imperative of U.S. foreign policy to ensure a non-coercive resolution to the Taiwan-PRC issue.⁷ A potential extension of China’s maritime contest beyond the SCS both expands China’s leverage in the geopolitical space and escalates dilemmas by introducing additional costs and risk to established force projection and deterrence schemes.

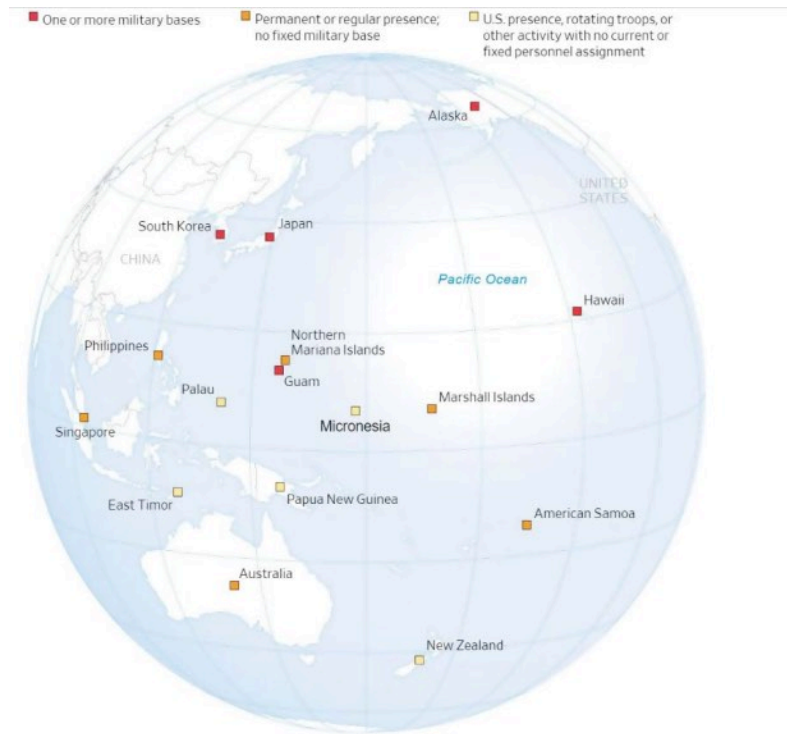


Figure 1. Pacific Countries with Full- or Part-Time U.S. Military Presence.⁸

⁷ Ben Lowson, “Is it Time for the United States to Recognize Taiwan?” *The Diplomat*, June 29, 2019, <https://thediplomat.com/2019/06/is-it-time-for-the-united-states-to-recognize-taiwan/>.

⁸ Ben Kesling, “Leaders of Three Strategic Pacific Islands Plan Joint Visit to U.S.,” *Wall Street Journal*, May 15, 2019, <https://www.wsj.com/articles/leaders-of-three-strategic-pacific-islands-plan-joint-visit-to-u-s-11557931878>.

3. Maintaining the Rules-Based International Order

To some observers, including the current Commander of INDOPACOM, those who see China's threat as merely a growing military competition between an established power and a rising power "are not seeing the whole picture."⁹ China's state-sponsored activities in the SCS and against Taiwan not only highlight security dilemmas but also demonstrate its government's ability and willingness to undermine established institutions and norms to advance national agendas. In the SCS China has built islands, dismissed international arbitration, encouraged maritime militias, and interfered in the domestic law enforcement of other nations all while expanding military anti-access area denial (A2AD). If the United States fails to recognize and address similar types of activities beyond the SCS, then it may unwittingly allow for precedent that current security providers will no longer deter coercion so long as the means employed are non-military in essence. Perhaps this is a component of what Admiral Davidson warns as "a fundamental divergence in values that leads to incompatible visions of the future."¹⁰

The purpose of this research is not to conflate the CCP's far seas engagements with the assertive acts taken in its near sea's disputes. The authors believe that a fine line exists between state competition and conflict and that mischaracterizing China's approach only exacerbates dilemmas. The goal of this research is not to undercut legitimate competition but rather to distinguish unique aspects of the CCP's approach to shaping foreign environments where motives of assertive displacement may exist beyond the scope of near-term areas of emphasis. By better understanding the range of activities that China conducts with and within the Pacific Island region, this research seeks to illuminate not only implications on established U.S. security arrangements, but on the resilience of U.S. values and interests in these areas more broadly.

⁹ *Testimony before the Senate Armed Services Committee*, U.S. INDO-Pacific Command Posture, 116th Cong. (2019) (Statement by Admiral Phil Davidson, Commander, INDOPACOM).

¹⁰ *Ibid.*

D. RESEARCH QUESTIONS

As previously stated, this thesis aims to answer what China's state-sponsored engagements in Micronesia over three decades indicate about the CCP's approach to great power competition with the United States in the Indo-Pacific. This work seeks to satisfy the main question through qualitative analysis of the following related sub-questions:

RQ1. What are China's interests, motives, and objectives for expanding presence and influence in Oceania?

RQ2. To what extent do activities in Micronesia affirm or refute claims that the CCP aims to displace American power, influence, and values?

RQ3. How have China's state-sponsored engagements impacted the local political decision-making behaviors of Pacific island nations?

The intent of sub-questions is to generate and development of the most relevant cases of study study for deeper analysis. The research sub-questions were developed to further guide the research from identifying the most relevant aspects of China's interests at a broad, regional level covering the past 30 years into a more specific analysis of actions and approaches taken by the CCP.

E. ORGANIZATION OF THE STUDY

The authors organize this study to provide increasingly narrower analysis of China's foreign engagements in the Central Pacific. Chapter II begins by explaining the range of views that experts and scholars maintain regarding China's expanding power and forecasted relations with the United States. The chapter includes overviews of theoretical foundations as well as a literature review of past research used to guide our own. Chapter II also provides the rationale for Micronesia as an appropriate case for assessing Chinese gray zone activities in the context of GPC. Chapter III frames the analysis of the study by providing hypotheses and methods for conducting comparative analysis of interests, instruments, and strategies. Chapters IV and V focus on successively narrowed case-studies of China's motives and methods for gaining and leveraging regional influence—beginning at a regional level of

analysis (Chapter IV) and moving through country, community, and program-centric case studies (Chapter V). Each chapter is also organized to explore and provide insights into a specific sub-question of the research topic. Chapter IV examines the various political, economic, and security interests that select countries have within the region of Oceania and explains where and how interests overlap within Micronesia. Chapter V provides an inventory and assessment of Chinese state-sponsored activities within the Compact states and assesses where and how the CCP employs instruments of statecraft to advance or achieve objectives by employing theoretical concept models of political warfare and sharp power. Chapter VI provides a summary of findings, analysis, conclusions, and recommendations for future research.

F. HYPOTHESES

This study looks at a combination of six core hypotheses to determine whether and how the Chinese Communist Party engages in political warfare to shape the foreign policies and perceptions of small island nations against U.S. security positions and interests in the Pacific.

H1: The CCP leverages coercive diplomatic, economic, and psychological statecraft in concerted campaigns to weaken Compacts of Free Association agreements between the U.S., Palau, FSM, and RMI.

H2: China's political objectives in the central Pacific grow more assertive and antithetical to American interests as countries become more dependent on Chinese trade and capital flows.

H3: China's economic engagements in Micronesia have limited potential for economic return, but notable capacity for political opportunity and leverage.

H4: China's foreign engagement and volume of public diplomacy within Micronesia increases during periods of political dispute with the United States.

H5: China increases tangible support to local actors who take outspoken positions against U.S. policies.

H6: The CCP utilizes misinformation to obscure its strategic intentions and activities in Micronesia.

These hypotheses from the basis of the overall assessment of this study. Information collected within each country study and case study will serve as evidence for either validating or discounting each hypothesis and the validated hypotheses taken together will help to better characterize and validate strategies and methods sponsored by the CCP.

G. HINGE ASSUMPTIONS AND DEFINITIONS

While a range of alternative premises for assessment were considered, this thesis presupposes that the United States and China are dually engaged in a long-term strategic competition for power, influence, and prestige on the international stage. The term “great power competition” broadly encompasses the United States’ doctrine for furthering and maintaining vital interests within this paradigm; however, GPC presently lacks clear policy, prescriptive guidance, and a clear strategic conceptualization.¹¹ This work uses concepts provided by English military historian Sir Basil Liddell Hart on strategy, grand strategy, and approaches to strategic competition as a conceptual starting point for assessing U.S.-China GPC. Hart’s “notable works on the indirect approach provide the following definitions and distinctions:

Strategy—“The art of the employment of battles as a means to gain the object of war.”¹²

Grand Strategy—“Policy which guides the conduct of war. The role of grand strategy is to co-ordinate and direct all the resources of a nation, or band of nations, toward the attainment of the political object of the war.”¹³

¹¹ Ali Wyne, “The Need to Think More Clearly About ‘Great-Power Competition,’” *The RAND* (Blog), February 11, 2019, <https://www.rand.org/blog/2019/02/the-need-to-think-more-clearly-about-great-power-competition.html>.

¹² B. H. Liddell Hart, *Strategy*, 2nd. ed. (New York: Fredrick A. Praeger, 1967), 333.

¹³ *Ibid.*, 335.

Instruments—“Within the context of grand strategy, military capability is combined with economic, political, and psychological “weapons” to achieve conflict objectives.”¹⁴

Dislocation—“A strategic situation so advantageous that it either produces the political object of the approach without further contest or ensures that a continuation of the contest through military force would be certain to. The sequel of dislocation may be either the enemy’s dissolution or its easier disruption in battle.”¹⁵

According to Liddell Hart, the aim of grand strategy is not to seek battle but dislocation as dislocation facilitates responsible use of a nation’s resources.¹⁶

H. LIMITATIONS

Because no standard or fully comprehensive data source for overseas investment and aid in Micronesia exists, we consult and consolidate multiple sources to include those maintained by the American Enterprise Institute (AEI), AidData—Research Lab at The College of William and Mary, the Lowy Institute, the Center for Strategic International Studies (CSIS), the United Nations Conference on Trade and Development (UNCTD),¹⁷ and the major multinational development banks.

¹⁴ Ibid., 351, Hart describes such objectives as “war policy” or the political object of war which are distinguished from the more limited military aims.

¹⁵ Ibid., 339.

¹⁶ Ibid.

¹⁷ “China Global Investment Tracker, “American “Pacific Aid Map,” Lowy Institute, accessed April 22, 2019 <https://pacificaidmap.lowyinstitute.org/>; “China Power Project,” Center for Strategic and International Studies, 2019, <https://www.csis.org/programs/china-power-project>.

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II. LITERATURE AND CASE SELECTION

Prior to reviewing China's interests and activities in Micronesia, this Chapter outlines the theoretical foundations and past research that serve as a basis to the approach of this work. The chapter also outlines the methods used for developing and testing hypotheses and rationale used for case selection.

A. THEORETICAL FOUNDATION

1. Views on China

This assessments of China's activities in the central Pacific extends as a continuation of debates regarding the international role that Chinese officials want the nation to fill more broadly. After serving as Deputy Assistant for National Security Affairs, political scholar Aaron Friedberg wrote that most analysis on China deploys arguments from one of the three main camps of international relations theory, but within each camp are also both optimistic and pessimistic outlooks over whether China's foreign aims and acts will trend toward greater peace and stability or confrontation and conflict over time (Figure 2).¹⁸

Theorists	Optimists	Pessimists
Liberals	Interdependence Institutions Democratization	PRC regime: Authoritarian/insecure The perils of transition U.S. regime: A crusading democracy Interactive effects
Realists	PRC power: limited PRC aims: constrained Security dilemma: muted	PRC power: rising PRC aims: expanding Security dilemma: intense
Constructivists	Identities, strategic cultures, norms: flexible and "softening" via institutional contact	Rigid and "hardening" via shocks and crises

Figure 2. Theoretical Perspectives on U.S.–China Relations¹⁹

¹⁸ Aaron Friedberg, "The Future of U.S.-China Relations: Is Conflict Inevitable?" *International Security* 30, no. 2 (Fall 2005): 7–45, <http://www.jstor.org/stable/4137594>.

¹⁹ Ibid., 39.

Friedberg argues that the factors espoused by each theoretical perspective as essential causal mechanisms of either cooperation or competition collide with one another to produce dynamic realities between the two pure conditions (Figure 3). For pessimists, shifting power relations, mutual hostilities, and suspicion exacerbate competition while optimists look toward trade, institutions, local balancing, and technology as “peace-producing” mechanisms.²⁰

Figure 3. Contending Causal Factors

This research begins from a “realist-pessimist” perspective that China’s power is rising, its aims are expanding, and security dilemmas between the U.S. and China are intensifying. Traditional security-focused views within this frame often fixate on comparing military power in direct conflict and see China as building up combat power and positional advantage to challenge U.S. military access and power projection while also asserting de facto sovereignty over disputed space.²¹ Alternative thinking dedicates more value and attention to the premise that China seeks political objections while minimizing escalations toward armed conflict altogether through an exercising of power in a “gray zone” of competition situated between peace and war.²² This research examines evidence supporting

²¹ United States Pacific Command and United States Forces Korea: Testimony before the Senate Armed Services Committee, 115th Cong. (2017) (Statement of Admiral Harry Harris, Commander U.S. Pacific Command).

each of these perspectives foremost while also considering claims and evidence from the range of alternative perspectives.

2. Competition Short of Violent Conflict

Aside from military capability, states leverage diplomacy, economics, and information to achieve foreign policy interests.²³ Long before professor Harold Lasswell suggested these categorical classifications or Clausewitz reminded us that war is politics by other means, Thucydides described the integration and balancing of these instruments c. 432 BC after Athenian economic sanctions against the Megarians, coalition building, and fear drove Sparta into the Peloponnesian War.²⁴ Thucydides' accounting of debate surrounding the Megara decree demonstrates one of the earliest examples of states leveraging their respective tools of national power to minimize weaknesses and maximize strengths in strategic competition through processes called statecraft.²⁵ In western perspectives, statecraft leverages diplomatic, military, economic, and psychological instruments either coercively or persuasively against other powerbrokers in the international arena.

Military capability, economic capital, natural resources, and other tangible resources employed in statecraft constitute an exercise of hard power, where a state aims to coerce another actor to “do something that [the latter] would not do otherwise.”²⁶ Soft power, by contrast, occurs when states leverage diplomacy, ideas, values, culture or other intangible instruments of attraction to “[get] other countries to *want* what it wants.”²⁷ In the decades since Joseph Nye introduced soft power as a means of securing foreign interests, “smart power” and “sharp power” concepts emerged as experts dialogued and policy making sought the integration of hard and soft power into comprehensive strategies. Smart power

²³ Harold Lasswell, *Politics: Who Gets What, When, How?* (United States: Meridian, 1958), 202.

²⁴ Victor D. Hanson, *The Landmark Thucydides: A Comprehensive Guide to the Peloponnesian War* (New York: Simon & Schuster, 1998), 195.

²⁵ Robert Van de Velde, “Instruments of Statecraft,” *Association of the United States Army Publication* (December 1962), 53–56.

²⁶ Robert Dahl, “The Concept of Power,” *Behavioral Science* 2, no. 3 (January 2007): 201–25, <https://doi.org/10.1002/bs.3830020303>.

²⁷ Joseph Nye, “Soft Power,” *Foreign Policy* 80 (Autumn 1990): 166.

generally describes the integration of defense, diplomacy, and development programs to advance free trade, human rights, collective security alliances, and institution-building in order to guarantee democratic interests and U.S. security.²⁸ While experts rarely still use the term, the conceptual application of smart power is still very present in the formation of U.S. strategy.²⁹ Alternatively, political observers increasingly use the term sharp power to discuss and describe China's strategies and policies abroad.³⁰ Contrasting with the liberalizing and democratizing nature of smart power, sharp power characterizes the malign and assertive nature of authoritarian regimes to employ instruments to "subvert, bully, or pressure other actors into self-censorship" without the application of military force.³¹ While helpful for bringing renewed attention and scrutiny to China's grey zone approaches, concepts of sharp power have long existed both within military contexts of psychological operations as well as outside of military contexts as information operations extending from political warfare.

3. Foundations of Political Warfare

In the view of famed statesman George Kennan, "political warfare is the employment of all the means at a nation's command, short of war, to achieve its national objectives." ³² Kennan brought renewed emphasis on non-military approaches of competition by advocating a prolonged, low-end, and ideological competition with the Soviet Union which aimed to achieve what he termed a "capitalist encirclement" of

²⁸ Suzanne Nossel, "Smart Power," *Foreign Affairs* 83, no. 2 (March 2004): 131–143; Joseph Nye, "Get Smart: Combining Hard and Soft Power," *Foreign Affairs* 88, no.4 (July 2009); Francisco Wong-Diaz, *Smart Power and U.S. National Strategy*, Report 13–3 (Tampa: Joint Special Operations University Press, 2013), 22–25.

²⁹ Joint Chiefs of Staff, *Joint Concept of Integrated Campaigning* (Washington, DC: Joints Chiefs of Staff, 2018), <https://www.jcs.mil/Doctrine/Joint-Concepts/>; Department of State/ U.S. Agency for International Development, *Joint Strategic Plan FY 2018–2022* (Washington, DC: Department of State, 2018), https://www.usaid.gov/sites/default/files/documents/1870/JSP_FY_2018_-_2022_FINAL.pdf.

³⁰ Christopher Walker and Jessica Ludwig, "From Soft Power to Sharp Power: Rising Authoritarian Influence in the Democratic World," National Endowment for Democracy, December 5, 2017, <https://www.ned.org/sharp-power-rising-authoritarian-influence-forum-report/>.

³¹ Joseph Nye, "China's Soft and Sharp Power," *Project Syndicate* (Blog), January 4, 2018, <https://www.project-syndicate.org/commentary/china-soft-and-sharp-power-by-joseph-s--nye-2018-01>.

³² George Kennan, "269. Policy Planning Staff Memorandum" (official Memorandum, Washington, DC: National Security Council, 1948), <https://history.state.gov/historicaldocuments/frus1945-50Intel/d269>.

America's post WWII rival.³³ Kennan aided the orchestration of political warfare against the Soviets as a policy planner for the reconstruction of Europe under Secretary of State George Marshall and President Harry Truman.³⁴ The Recovery of Europe Program (known commonly as the Marshall Plan) that the Truman administration championed in the late 1940s is by many measures the last integrated grand strategy campaign of the United States. It is also often used to provide a helpful case and criteria for assessing China's contemporary economic development agenda.³⁵

4. Economic Statecraft

Political warfare since Kennan's conceptualization has increasingly demonstrated linkages between state competition and the employment of "economic measures" as key instruments.³⁶ Political scientists now refer to Kennan's economic measures as economic statecraft, defined as the use of economic means to pursue foreign policy goals.³⁷ Political economist David Baldwin, an early champion for the importance of economic instruments of power, argues that historical emphasis on coercive or "negative" instruments in competition contexts often overlook "positive sanctions" as a means of exercising power.³⁸ Baldwin's characterization of trade and capital as instruments of power (Figure 4) allows for deeper analysis and a growing recognition that economic instruments of statecraft are at least as relevant to achieving policy objectives as diplomatic and military tools.³⁹

³³ George Kennan, "The Sources of Soviet Conduct," *Foreign Affairs* (July 1947), http://www.digitalhistory.uh.edu/disp_textbook.cfm?smtID=3&psid=3629.

³⁴ Melvyn Leffler, "Divide and Invest: Why the Marshall Plan Worked," *Foreign Affairs* (July/August 2018), <https://www.foreignaffairs.com/reviews/review-essay/2018-06-14/divide-and-invest>.

³⁵ Simon Shen, "How China's 'Belt and Road' Compares to the Marshall Plan," *The Diplomat*, February 6, 2016, <https://thediplomat.com/2016/02/how-chinas-belt-and-road-compares-to-the-marshall-plan/>.

³⁶ Kennan, "269. Policy Planning Staff Memorandum."

³⁷ David Baldwin, "Economic Statecraft," *Encyclopedia Britannica*, February 4, 2015, <https://www.britannica.com/topic/economic-statecraft>.

³⁸ David Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985).

³⁹ Michael Mastanduno, "Economic statecraft, Interdependence, and National Security: Agendas for Research," *Security Studies* 9, no. 1 (December 24, 2007): 288–316, doi: 10.1080/09636419908429402.

<i>Trade</i>	<i>Capital</i>
Tariff discrimination (favorable)	Providing aid
Granting "most-favored-nation" treatment	Investment guarantees
Tariff reduction	Encouragement of private capital exports
Direct purchase	or imports
Subsidies to exports or imports	Taxation (favorable)
Granting licenses (import or export)	Promises of the above
Promises of the above	

Figure 4. Examples of Economic Statecraft: Positive Sanctions⁴⁰

Some observers and academic circles look at economic statecraft through a slightly more encompassing lens and prefer to use the term geo-economics "to describe the admixture of the logic of conflict with the methods of commerce."⁴¹ Edward Luttwak argues that contrary to geostrategic concepts such as mercantilism, where states seek resources as a "subordinate modality" to military backed international status, geo-economics "have no superior modality."⁴² Geo-economics perspectives maintain that global power today is characterized by economic competition with realists emphasizing use of economic means for relative power and liberal views contending that states can establish international leadership and control by setting the standards and agendas for multinational economic integration.⁴³

Mikael Wigell offers a framework for conducting comparative assessments of geo-economics strategies for regional actors, as shown in Figure 5.

⁴⁰ Baldwin, *Economic Statecraft*, 42.

⁴¹ Edward N. Luttwak, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," *The National Interest*, no. 20 (Summer 1990): 17–23. <http://www.jstor.org/stable/42894676>.

⁴² Luttwak, "From Geopolitics to Geo-Economics," 18.

⁴³ Mark Beeson and Jinghan Zeng, "The BRICS and Global Governance: China's Contradictory Role," *Third World Quarterly* 39, no. 10 (October 3, 2018): 1962–78, <https://doi.org/10.1080/01436597.2018.1438186>.

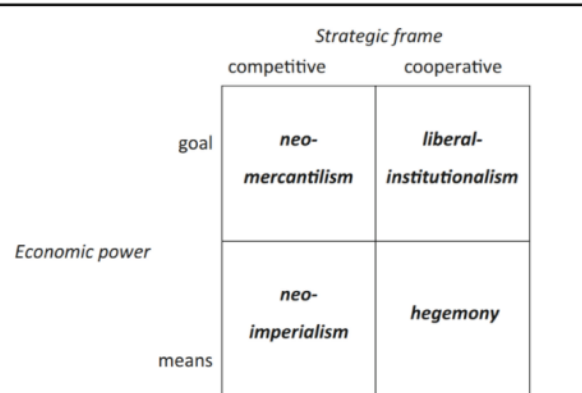


Figure 5. Conceptualizing Regional Powers' Geo-economics Strategies⁴⁴

Wigell's framework demands analysis toward whether states employ economic instruments cooperatively or competitively and whether the use of economic power in competition reflects statecraft for broader political goals or economic dominance specifically.

In competition, efforts directed at control of markets signify a neo-mercantilist strategy, while neo-imperialism seeks to create an "informal" empire through the establishment and control of new rules and norms.⁴⁵ The distinguishing tactics in a neo-imperialist strategy include coercion, bribery, and imposition, with the latter method defined as "when [economic] asymmetry is so great that the weaker state's position is that of a vassal on which the regional power does not need to use either force or coercion to make the weaker state acquiesce."⁴⁶ Wigell also provides a useful null test for geo-economics strategy by offering that "economic power is clearly a means to other ends when regional powers invest considerable resources in an exchange for political influence without a clear prospect of economic returns on investment."⁴⁷

⁴⁴ Mikael Wigell, *Asia Europe Journal* 14, no. 2 (June 2016): 142.

⁴⁵ Mikael Wigell, "Conceptualizing Regional Powers' Geo-Economic Strategies: Neo-Imperialism, Neo-Mercantilism, Hegemony, and Liberal Institutionalism," *Asia Europe Journal* 14, no. 2 (June 2016): 135–51, <https://doi.org/10.1007/s10308-015-0442-x>. 142–143.

⁴⁶ Wigell, "Conceptualizing Regional Powers' Geo-Economic Strategies," 148.

⁴⁷ Wigell, "Conceptualizing Regional Powers' Geo-Economic Strategies," 151.

5. Information Operations and Psychological Warfare

U.S. Army Colonel Robert Van de Velde once wrote that the psychological instrument of statecraft is set apart from the others because psychological statecraft “tends to transcend all other activities in the realm of foreign affairs.”⁴⁸ Joseph Nye pushed back on the idea of sharp power as a novel concept by contending that it merely highlights a form of coercion which has always existed—hard power by way of information warfare.⁴⁹ Unfortunately, the concept that describes actors leveraging information and persuasion to achieve policy objectives goes by many names and debate over terminology is endless.⁵⁰ Carnes Lord, a prominent American military and political strategist, argues that there has been very little consensus on the role of psychological instruments in peacetime since the Korean War and further notes that a characteristic weakness of the American approach to competition is the “tendency to draw sharp distinctions between wartime and peacetime.”⁵¹ Researchers from RAND offer a stopgap solution for the consensus issue in a research project intended to examine and explain modern political warfare. After analysis of the psychological statecraft and debates surrounding it, RAND proposes regarding information as the instrument category on par with diplomacy, economics, and military, uses the term propaganda to describe information intended to shape collective predispositions, and identifies psychological warfare as information operations specifically conducted by military forces to influence the behaviors of adversaries.⁵²

Nearly every classic military theorist has commented on psychological aspects of competition in some fashion, and countless scholars have sought to better capture the psychological component at all levels and forms of conflict. Andrew Mack contributed to renewed attention to psychology at the grand-strategic level through analysis of the paradox

⁴⁸ Van de Velde, “*Instruments of Statecraft*.”

⁴⁹ Nye. 2018. “China’s Soft and Sharp Power.”

⁵⁰ Carnes Lord, “The Psychological Dimension in National Strategy,” in *Political Warfare and Psychological Operations: Rethinking the U.S. Approach*, ed. Carnes Lord and Frank R. Barnett (Washington, DC: National Defense University Press, 1989).

⁵¹ Ibid., 29–30.

⁵² Robinson, Linda et al., *Modern Political Warfare: Current Practices and Possible Responses* (Santa Monica, CA: RAND Corporation, 2018) <https://doi.org/10.7249/RR1772>.

involving militarily superior states losing small, limited wars to weaker states. By assessing the failures of major military campaigns in limited conflicts such as Vietnam and the Algerian War, Mack demonstrates that militarily weaker states can leverage psychological power by leaning on asymmetric advantages in socio-political commitment and national will to overcome disadvantages in military capability.⁵³

In 2006, Edward Smith, a career naval officer, captured the role and strategies of psychological statecraft in the information age through extensive research on asymmetric warfare and effects-based operations. While Smith’s work is also born out of and intended to inform low-intensity military-centric conflict, his categories and descriptions of outcomes or “effects” of psychological versus physical means of shaping behavior (Figure 6) still apply in the context of gray zone competition.

Physical	Psychological (Reason/Belief)
Destruction	Chaos / Entropy
Physical Attrition	Foreclosure
Chaos / Entropy	<ul style="list-style-type: none"> • Passive • Active
	Shock
	Psychological Attrition

Figure 6. Kinds of Effects in Conflict⁵⁴

Smith describes effects-based operations as “coordinated sets of actions directed at shaping the behavior of friends, foes, and neutrals in peace, crisis, and war.” At the tactical level, a successful synchronization of effects emphasizes the destruction and shock of enemy forces, while emphasis at a geo-strategic level should be placed on psychological

⁵³ Andrew Mack, “Why Big Nations Lose Small Wars: The Politics of Asymmetric Conflict,” *World Politics: A Quarterly Journal of International Relations* 27, no. 2 (1975): 175–200, <https://doi.org/10.2307/2009880>.

⁵⁴ Edward Smith, *Effects Based Operations: Applying Network Centric Warfare in Peace, Crisis, and War* (Fort Belvoir: Defense Technical Information Center, 2003). <https://doi.org/10.21236/ADA457292>.

attrition and passive foreclosure (Figure 7) with foreclosure defined as the curtailing of an opponent's options.⁵⁵

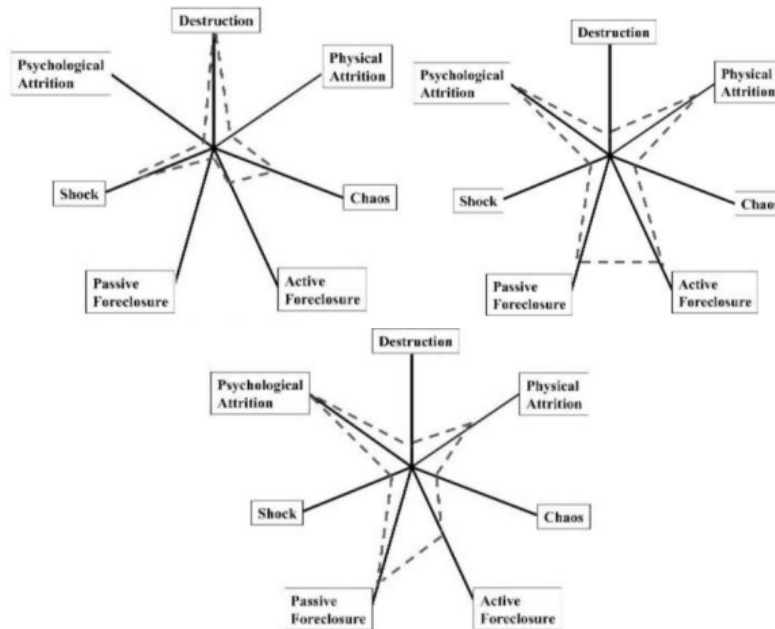


Figure 7. Tactical, Military, and Geo-Strategic Level Balancing of Effects⁵⁶

As an example, China's efforts to achieve control of territory in the SCS through legal maneuvering, occupation of territory, physical denial, and threat of recourse could be assessed according to the effects achieved at each level. In a geo-strategic context, CCP success would be assessed primarily by the degree to which other territorial claimants accept that their own escalated responses to area denial would result in either immediate or inevitable failure and the loss of any capabilities employed.⁵⁷ Thus, Smith states that the ultimate object of the psychological instrument is to break the will or otherwise shape the

⁵⁵ Ibid., 336–346.

⁵⁶ Ibid., 336–346.

⁵⁷ Ibid., 261.

behavior of resisters so that they no longer wish to continue a struggle which is an echo of military theory occasionally mused over but often underappreciated in practice.⁵⁸

Two other works on psychology, which concern the identification and evaluation of propaganda, provide insights for the evaluation and assessment of psychological statecraft at and below the national policy level of analysis. Edward Bernays, the “father of public relations” who helped engineer public opinion behind the 1954 Guatemalan coup d’état, provides basic characteristics of propaganda which helps to cut away some of the socially constructed misnomers more recently added to the term.⁵⁹ Daniel Lerner, an American scholar of psychological warfare and modernization theory, provides criteria for the evaluation of propaganda in world politics.⁶⁰ Bernays explains that propaganda are ideas disseminated on a large scale in a consistent and enduring effort to influences the relations of the public to an enterprise, idea or group.⁶¹ He also declares that propaganda “serves to focus and realize the desires of the masses.”⁶² Lerner contends that an evaluation of propaganda requires clarity on five aspects: the nature of policy goals, the function of the propaganda in promoting these goals, the conditions essential for success, the possible effects that propaganda can achieve, and the types of evidence for estimating achievement.⁶³ Function deals with how the manipulation of beliefs and expectations interacts with the functional application of other instruments such as diplomatic negotiation, economic bargaining, and military coercion.⁶⁴ Lerner’s conditions for success include securing the attention of the audience, credence of the audiences, and ensuring the environment permits the modification of predispositions and expectations to new

⁵⁸ Ibid., 106.

⁵⁹ “Edward Bernays, ‘Father of Public Relations’ and Leader in Opinion Making, Dies at 103,” *New York Times*, March 10, 1995, <https://archive.nytimes.com/www.nytimes.com/books/98/08/16/specials/bernays-obit.html>.

⁶⁰ Daniel Lerner, *Propaganda in War and Crisis; Materials for American Policy* (New York: G. W. Stewart, 1951).

⁶¹ Edward Bernays and Mark Crispin Miller, *Propaganda* (Brooklyn, NY: Ig Publishing, 2005), 11.

⁶² Ibid., 12.

⁶³ Lerner, *Propaganda in War and Crisis; Materials for American Policy*, 344–351.

⁶⁴ Ibid., 346.

alternatives.⁶⁵ Possible effects involve submission, subversion, cooperation, privatization and panic, and types of evidence include observable actions, audience accounts, and third-party observer commentaries.⁶⁶

6. Modern Political Warfare

After decades of disparate usage, RAND Corporation researchers recently distilled the concept of political warfare since Kennan into a more tightly defined version for application the modern gray zone competition. RAND describes modern political warfare as activities employed through a coordinated mix of traditional instruments of statecraft to affect the political composition or decision making of other governments. The researchers provide a helpful depiction of these instruments and activities working in concert as shown in Figure 8.⁶⁷

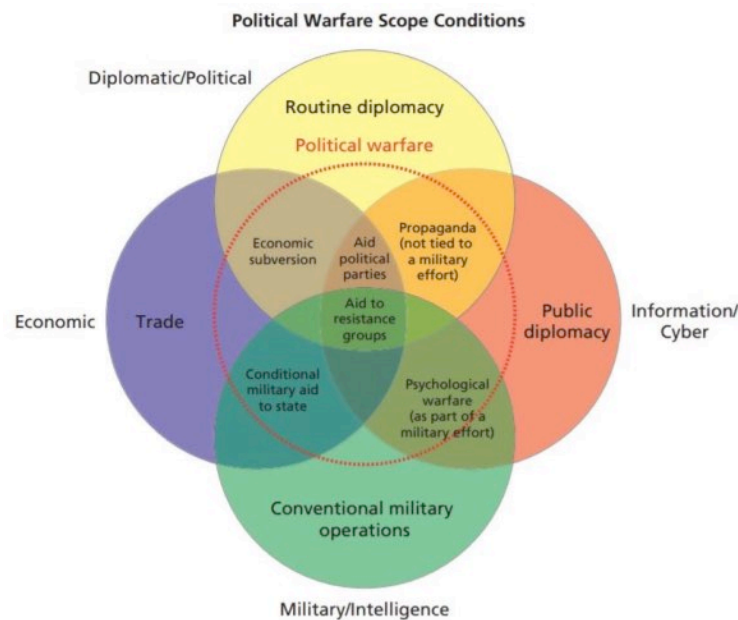


Figure 8. The Contours of Political Warfare⁶⁸

⁶⁵ Ibid., 347.

⁶⁶ Ibid., 348–350.

⁶⁷ Linda Robinson et al., *Modern Political Warfare: Current Practices and Possible Responses*.

⁶⁸ Ibid., 7.

To classify as political warfare, activities must support a deliberate policy choice to undermine a rival or achieve policy objectives. After examining each instrument and tactical activities through case study, RAND describes ten overarching characteristics of modern political warfare and makes eight recommendations for improving capabilities of the U.S. military and special operations forces (SOF) to combat modern political warfare.

7. Government Sponsored Studies

Every year since 2000, the Office of the Secretary of Defense (OSD) provides a report to Congress on “military and security developments involving the People’s Republic of China.”⁶⁹ The report describes the DoD’s perspective on Chinese security strategy, capabilities, approach, and security cooperation with an outlook on future developments over the next 20 years. In the 2019 report, OSD views China’s strategic objective as securing “status as a great power and, ultimately emerging as the preeminent power in the Indo-Pacific region.”⁷⁰ Further, the report claims that China’s leaders “use tactics short of armed conflict” and harness “an array of economic, foreign, policy, and security tools” to pursue military and strategic objectives.⁷¹ Its authors speculate that China’s Belt and Road Initiative (BRI) “will probably drive military overseas basing through a perceived need to provide security for [BRI] projects;” assert that the CCP “seeks to condition foreign and multilateral political establishments and public opinion to accept China’s narrative surrounding its priorities;” and generalize that “China employs non-military tools coercively” to advance its interests.⁷² Finally, the report’s conclusion includes a “special topic” of discussion on Chinese influence operations focusing on the PLA’s Three Warfare Strategy. Comprised of psychological warfare, public opinion warfare, and legal warfare, OSD views the Three Warfare Strategy as aimed at “establishing and maintaining power brokers within a foreign government to promote policies that will facilitate China’s rise.”⁷³

⁶⁹ Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2019* (Washington, DC: Office of the Secretary of Defense, May 2, 2019).

⁷⁰ Ibid., 3.

⁷¹ Ibid., 14.

⁷² Ibid., 6.

⁷³ Ibid., 112.

Recognizing that stronger evidence for OSD's views and claims likely exist in the classified version of the report or other unaccompanied documentation, several claims regarding China's regional interests extend anecdotally from incidents within the disputed SCS or military operational concepts directed toward Taiwan.

A second commissioned report, *China's Engagement in the Pacific Islands: Implications for the United States*, helps to explain U.S. security perspectives on China's interests and strategies through a narrower look at Pacific Island Countries (PICs). With an heavier emphasis on particular events and activities as evidence, the report's analysts contend that Beijing's engagement with the Pacific Islands "is largely driven by interests in the following three areas: (1) promoting its diplomatic and strategic priorities; (2) reducing Taiwan's international space; and (3) gaining access to raw materials and natural resources".⁷⁴ Their study primarily examines Chinese statecraft at the regional level through its participation in regional organizations, high level visits, trade, and capital flows. The study demonstrates China's involvement in the region as accelerating since the late 1990s, particularly on economic fronts through aid and tourism.⁷⁵ The reports assessments on trade, investment, development assistance, and tourism data place China well ahead of the United States in many areas of economic engagement within the Compact countries as well as the Northern Mariana Islands territory.⁷⁶

8. Institutional Research

Given China's growing global engagement, several institutes and thinktanks created dedicated teams to studying Chinese national power, foreign engagements, and influence. AEI and the Heritage Foundation, maintain a database of China's global investments which they consider to be "the only comprehensive data set covering China's global investment and construction."⁷⁷ The China Global Investment Tracker (CGIT) project labels nearly

⁷⁴ Ethan Meick, Michelle Ker, and Han May Chan, "*China's Engagement in the Pacific Islands: Implications for the United States.*," (Washington, DC: US-China Economic and Security Review Commission, 2018).

⁷⁵ Meick, Ker, and Chan. 2018. 6.

⁷⁶ Meick, Ker, and Chan. 2018. 19.

⁷⁷ American Enterprise Institute, "China Global Investment Tracker."

\$700 billion of its nearly \$2 trillion data set as “Belt and Road Initiative;” however, the data does not include any entries for Micronesian states and only a small handful of projects in Oceania outside of Australia, New Zealand, and Papua New Guinea. This is not to say that Chinese projects in Micronesia do not exist. Since China is not a member country of the Organization of Economic Co-operation and Development (OECD), and because CGIT only tracks global investments projects valued at \$100 million or more, China’s capital flows to the Pacific Islands are under-researched by Washington policy thinktanks. Australia’s Lowy Institute maintains a similar database on Chinese capital flows, but Lowy uses a narrower scope in terms of activity type and project value. Lowy’s Pacific Aid Map identifies 265 Chinese projects in the region to the tune of \$7 billion committed and \$1.6 billion spent since 2011.⁷⁸ By Lowy’s estimates, China matches Australia in aid committed to the Pacific; however, Australia leads China in dollars actually spent by five to one.⁷⁹

AidData, a research lab at William and Mary college, gathers and assesses other data in addition to capital flows for aid which are particularly useful in the assessment of China’s public diplomacy activities. Two notable reports, *Ties That Bind: Quantifying China’s public diplomacy and its “good neighbor” effect* and *Aid, China and Growth: Evidence from a New Global Development Finance Dataset*, incorporate quantified measures of information and cultural exchanges along with China’s diplomatic and financial efforts.⁸⁰ In *Ties That Bind* researchers look at Chinese public diplomacy activities across 25 countries in East Asia and the Pacific between 2000–2016 in order to examine how China packages messages for general audience and builds ties between its own citizens and leaders and those abroad.⁸¹ After conducting quantitative assessments of proxy measures for cultural diplomacy, exchange diplomacy, financial diplomacy, and elite-to-elite diplomacy (Figure 9), and conducting a qualitative assessment of informational diplomacy, researchers

⁷⁸ Lowy Institute. “Pacific Aid Map.”

⁷⁹ Julia Hollingsworth, “Why China is Challenging Australia for Influence over the Pacific Islands,” CNN, July 22, 2019, <https://www.cnn.com/2019/07/22/asia/china-australia-pacific-investment-intl-hnk/index.html>.

⁸⁰ Russel Custer, et.al., “Ties That Bind: Quantifying China’s Public Diplomacy and Its “Good Neighbor” Effect,” AID DATA, June 27, 2018, <https://www.aiddata.org/publications/ties-that-bind>.

⁸¹ Ibid., 1.

found that China has tailored and targeted its public diplomacy efforts by country for various political and economic objectives.⁸²

Category	Proxy Measure Used
Informational Diplomacy	N/A—insufficient data available to conduct comparable descriptive or statistical analysis
Cultural Diplomacy	Number of established Confucius Institutes present in an EAP country
Exchange Diplomacy	Number of sister city agreements between cities or provinces in an EAP country and China
Financial Diplomacy	Total amount of official finance dollars committed by China in assistance to an EAP country to provide budget support, humanitarian assistance, infrastructure investments, and/or debt relief
Elite-to-Elite Diplomacy	Number of civilian or military official visits at national or provincial levels between China and a given EAP country

Figure 9. Proxy Measures for Analysis of Chinese Public Diplomacy⁸³

Unfortunately, these assessments do not include all Micronesian states and territories. Even so, the measures, methods, data, and findings of the assessment help to provide a foundation on which to conduct subsequent assessments of psychological statecraft in the Pacific region.

The Center for Strategic and International Studies' China Power project hosts a range of data and expert analyses for developing a collective understanding of the international opportunities or challenges posed by China's growth. China Power examines "five key areas of [Chinese] capabilities: military, economic, social, technology, international image and engagement" through the research of its fellows, forums, and debates between leading experts from both China and the United States. Three reports by CSIS fellows provide this research effort with important insights for the analysis of political

⁸² Ibid., 1–6.

⁸³ Ibid., 7.

warfare via diplomatic and economic instruments. In 2016, Christopher Johnson provided a geo-economics focused analysis on China's Belt and Road Initiative arguing that "although there certainly is an underlying geostrategic component to [BRI], this element is likely overstated by foreign observers, and especially in the U.S."⁸⁴ In 2018, Seth Jones wrote on a return of political warfare in international competition. Jones contends that much of today's GPC between the U.S. and China "will likely be unconventional" and that focusing on preparing for conventional war "may undermine U.S. unconventional readiness and capabilities."⁸⁵ Lastly, Jonathan Hillman addresses a series of topics related to BRI to include: the extent that BRI projects follow norm market rules, how BRI affects China's diplomatic reach, and the implications of BRI to the United States. First, Hillman evidences how Chinese projects are less open to local and international participation and transparency. Second, he demonstrates that China benefits politically through BRI projects with some countries but that broad foreign support for the BRI could decline as a result of overpromises and underperformance. Lastly, Hillman warns that greater success of BRI on China's terms could revise trade and financial systems in a manner that dislocates the U.S. from its current, central position in the global economy.⁸⁶ These featured studies published over the past few years demonstrate a narrowing of focus toward Chinese activities as tools of statecraft. They also show that uncertainty over the characterization of China's economic activities in terms of legitimate competition versus coercion remains pervasive and contentious.

Stanford University's Hoover Institute and Asia Society, a global educational institution, recently collaborated on multi-year programs seeking greater consensus on characterizing China's foreign policy behavior by focusing on the less tangible aspects of diplomacy, information, and influence leveraged by China within the U.S. The debates and forums hosted by the research centered around China's approach toward shaping the

⁸⁴ Christopher Johnson, "President Xi's 'Belt and Road Initiative,'" Center for Strategic and International Studies, March 28, 2016, <https://www.csis.org/analysis/president-xi-jinping%E2%80%99s-belt-and-road-initiative>.

⁸⁵ Seth Jones, "The Return of Political Warfare," Center for Strategic and International Studies, February 2, 2018, <https://www.csis.org/analysis/return-political-warfare>.

⁸⁶ Jonathan Hillman, "China's Belt and Road Initiative: Five Years Later," Center for Strategic and International Studies, January 25, 2018, <https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0>.

organizational attitudes and behaviors of various public and private partners. The final report notes that a significant concern among collaborating experts is whether China's elites are "willing and able to adjust economic and foreign policies so that they become more in line with the rules-based global order."⁸⁷ The collection of these workgroup studies conclude that the CCP not only assertively seeks to "redefine China's place in the world as a global player," but also promotes a global development model "claimed to be a more efficient than liberal democracy."⁸⁸ These findings contribute to starker consensus among Asia Society contributors that "the United States and China are on a collision course" unless "more responsible statecraft" is employed to protect American interests and mitigate no-win outcomes.⁸⁹

9. Notable Individual Studies

Darren Lim and Victor Ferguson, senior researchers in political economics at the Australian National University (ANU) School of Politics and International Relations, have each written and coauthored several works on Chinese foreign policy. In one article featured in ANU's Centre on China in the World, Lim and Ferguson outline five pathways that China exercises power in its foreign engagements. The pathways described are attraction, coercion, persuasion, bargaining, and agenda setting.⁹⁰ The authors provide examples for how China uniquely practices each method and describes how common conceptions of sharp power are explained by China's exercising a combination of the five pathways specifically to co-opt support, deter criticism, and change narratives.

Merriden Varrall of Australia's Lowy Institute provides a notable contribution on Chinese influence through an assessment of the CCP's use of specific narratives to justify

⁸⁷ Larry Diamond and Orville Schell, eds. "Chinese Influence and American Interests: Promoting Constructive Vigilance," The Hoover Institution, November 29, 2018, <https://www.hoover.org/research/chinas-influence-american-interests-promoting-constructive-vigilance>.

⁸⁸ Ibid.

⁸⁹ Orville Schell and Susan Shirk, *Course Correction: Toward an Effective and Sustainable China Policy* (New York: Asia Society, 2019), 7.

⁹⁰ Darren Lim and Victor Ferguson, "Power in Chinese Foreign Policy," in *China Story Yearbook 2018: Power*, ed. Jane Golley et al. (Canberra, Australia: ANU Press, 2019), <https://doi.org/10.22459/CSY.2019.02A>.

its foreign policy, maintain legitimacy, and interpret the behaviors of the international community toward China.⁹¹ According to Varrall, four key narratives regularly used by Chinese leaders provides a more nuanced understanding and a guide to Chinese behavior on the international stage. Most observers are aware of China's leaders leveraging "the century of humiliation to describe how China's central role in world affairs was weakened by Western incursions since the Opium Wars beginning in the 1840s."⁹² A second narrative noted as, "cultural characteristics are inherent and unchanging," describes a "belief that China has always been inherently peaceful and never aggressively expansionist." Third, "history as destiny" explains China's natural and rightful role as a global actor. The fourth narrative is "the idea that Chinese people and the state form a 'family'" which requires filial piety and familial obligation. Varrell argues that China's narratives are particularly powerful in explaining motivations in the East and South China Seas and that China's creation of the AIIB and Belt and Road Initiatives "reflect the century of humiliation narrative and the idea of history as destiny."⁹³

B. RESEARCH GAPS

1. Effects-Based Analysis of Chinese Influence in the Pacific Islands

Local observers contend that the significance of smaller Pacific Island nations continues to lack appreciation in the larger view of understanding and managing China's rise.⁹⁴ Indeed, far more observation and commentary exist on the importance of growing Chinese influence in the Pacific Islands than actual analysis of that influence. Experts have conducted helpful analyses of Chinese sharp power in Africa, Europe, South America, the United States, Australia and New Zealand, Central Asia, and Southeast Asia, however, similar regional and national-level reports still do not exist for Pacific Islands presumably

⁹¹ Merriden Varrall, "Chinese Worldviews and China's Foreign Policy," Lowy Institute, accessed October 1, 2019, <https://www.lowyinstitute.org/publications/chinese-worldviews-and-china-s-foreign-policy>.

⁹² Ibid., 5.

⁹³ Ibid., 13.

⁹⁴ Kathryn Hille, "Pacific Islands: A New Arena of Rivalry Between China and the US," *Financial Times*, April 8, 2019, <https://www.ft.com/content/bdbb8ada-59dc-11e9-939a-341f5ada9d40>.

due to a general lack of data to analyze.⁹⁵ In 2018, The U.S. Congress increased reporting efforts on Compact states by mandating studies in the National Defense Authorization Act, but despite these government reports containing sections on China’s economic assistance practices, “information operations,” and “public diplomacy,” concerted efforts to describe influence, messaging, and psychological statecraft in conjunction with other instruments is lacking.⁹⁶

2. The Interests and Goals of Pacific Islanders

In addition to an absence of data, understanding influence within the Pacific Islands is particularly difficult due to a lack of discussion and understanding of smaller nations’ willingness to bargain with China. Several reports recognize the vulnerabilities of small states to political influence stemming from weaknesses in economic development; however, most studies on Chinese influences focuses more on identifying bribery and coercion rather than looking at both positive and negative forms of economic statecraft as a described by David Baldwin. The rising influence of China creates new possibilities for Pacific Island nations beyond the terms they have previously negotiated for in recent decades.⁹⁷ Despite the recognition of a changing geopolitical situation, views and interest of the smaller Pacific partners hardly receive adequate recognition in most reporting and discussion.

C. CASE SELECTION

Subsequent research in this work covers a range of comparative assessments on foreign engagement centering on three Pacific Island nations and one U.S. territory within Micronesia. The case study begins with an exploration of foreign engagement at the regional level; however, as analysis becomes more granular the research increases focus on specific

⁹⁵ Scott McDonald and Michael Burgoyne, eds., *China’s Global Influence: Perspectives and Recommendations* (Hawaii: Asia Pacific Center for Security Studies, 2019), <https://apcss.org/chinasglobalinfluence/>; Pablo Cardel et al., “Sharp Power Rising: Authoritarian Influence,” National Endowment for Democracy, December 5, 2017.

⁹⁶ Study on United States Interests in the Freely Associated States, H.R. 5936, 115th Cong. (2018).

⁹⁷ Erin Thomas, “Compacts of Free Association in FSM, RMI, and Palau: Implications for the 2023–2024 Renewal Negotiations,” *Human Rights Brief* (Blog), March 2019, <https://icaad.ngo/wp-content/uploads/2019/10/COFA-Policy-Brief-2019.pdf>.

instruments of engagement and sectors of exchange that best defines China's engagement within each country. The initial indication, through cursory study, is that FSM is the most politically tenuous of the three Micronesian nations and best supports deeper analysis on China's political warfare. FSM is the only Micronesian nations to diplomatically recognize the PRC while Palau and the Marshall Islands still recognize Taiwan. It would be expected that through comparison China has developed more and stronger mechanisms for attractive and persuasive influence within FSM while relying on sharper forms of engagement with Palau and RMI to gain and leverage influence for political objectives. FSM is also not only regarded as the least assured nation in reaffirming the terms of its COFA with the U.S., but its province of Chuuk is also approaching the end of a five-year legal process to hold a referendum for national independence in March of 2020.⁹⁸

These Micronesian nations were selected for analysis in the context of GPC for several practical reasons related to their relative size, isolation, and importance to the U.S. As stated previously, institutional research and data on all the Pacific Islands compared to much of the world is lacking, but the unique diplomatic relationships that Compact states share with the U.S. provides additional sources of information via the various oversight reporting of government agencies. Also, each country's relatively small populations, land areas, and political structures, make efforts to inventory foreign interactions more manageable where current information and data requires augmenting. Finally, given their history, Micronesian governance and bureaucratic systems generally mirror those of U.S. states at national and state/provincial levels. This last point makes assessment of changes to political composition or decision making a more straightforward process than alternative Pacific Island nations and government systems.

⁹⁸ "Chuuk Independence Vote Postponed," Radio New Zealand, February 27, 2015, <https://www.rnz.co.nz/international/pacific-news/267264/chuuk-independence-vote-postponed>; Catherine Graue, "Chuuk Independence Vote Was to Be Today, but Citizens Now Have Another Year," ABC Radio Australia, March 5, 2019.

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III. METHODOLOGY

A. EXAMINATION OF THE CASES

This assessment takes an ends, means, ways approach to understanding the CCP's strategy for gaining position and influence relative to the U.S. in Micronesia.⁹⁹ This approach requires that ends, means, and ways are in balance and if they are not, the strategy has high risk of failure.¹⁰⁰ The Micronesia case study is first examined through a chronological study of major regional developments over three decades in order to characterize the nature of changing Chinese presence relative to other key international actors. This initial assessment uses government policies and open source reporting to develop a full listing of the political, economic, and security goals (the ends) of each major actor operating near, with, and through Micronesia with an emphasis on identifying China's changing interests and policy goals relative to other actors. After assessing the range of plausible Chinese interests and motivations, the study then collects and collates available datasets pertaining to Chinese diplomatic, economic, and information-related activities (the means) in each in each of the three independent Micronesian nations and the U.S. territory of CNMI. Once gathered, analysis is conducted over a series of steps. First, assessment of available data compares China's employment of statecraft instruments (the ways) and identifies activities that specify or demonstrate reasonable connections with Chinese interests. Next, the research expands available data by using open source internet and media-based research to identify additional relevant engagements as well as information-based activities associated with diplomatic or economic activities. The final phases of analysis involve a targeted assessment of specific activities for indicators of psychological statecraft, sharp power, and political warfare followed by a testing of alternative hypotheses for explaining efforts to influence.

⁹⁹ Harry Yarger, "Toward a Theory of Strategy," Chapter 8 in *Guide to National Policy and Strategy*, 2nd Edition, U.S. Army War College, Carlisle, PA, 2006.

¹⁰⁰ Ibid.

B. EXAMINING INTERESTS AND MOTIVATIONS

The first step for assessing U.S.-China competition in Micronesia is determining plausible interests and motivations behind sponsored activities in the region. Chapter IV uses primary and secondary source research of key actors' policies and regional engagement at the macro-level to capture specified or well documented interests in a broad scope which allows us to assess the 2nd and 4th research hypotheses and make initial findings toward testing H3.

H2: China's political objectives in the central Pacific grow more assertive and antithetical to American interests as countries become more dependent on Chinese trade and capital flows.

H4: China's foreign engagement and volume of public diplomacy within Micronesia increases during periods of political dispute with the United States.

H3: China's economic engagements in Micronesia have limited potential for economic return, but notable capacity for political opportunity and leverage.

After outlining the interests of the U.S., Japan, Australia and New Zealand, the Philippines, Chapter IV provides a more thorough analysis of the national interests of Pacific Islands themselves and of China. Analysis of Micronesian nations focus on the key interests in each of the past three decades and the nation's priorities for future engagement with foreign powers. Analysis of China looks at changes in diplomatic and economic engagement in absolute terms and the degree to which China's engagement matches the demand signals of Micronesian policy makers. Diplomatic engagement focuses on official engagements between senior leadership; economic engagement assesses macro-level data and trends for national trade, capital flows, acquisitions and shareholding; Chapter IV concludes with a comparison of foreign diplomatic and economic engagement in Micronesia in relative terms and an overall assessment of China's interests and opportunities for expanded presence in the region.

C. EXAMINING CHINESE STATECRAFT

The second step of analysis focuses on cataloging specifically where, how, and with who China has previously employed and continues to employ instruments of statecraft within Micronesia. Chapter V begins with a collation and assessment of data built and maintained by think tanks (i.e., Pacific Aid Map—Lowy Institute), educational institutions (i.e., Aid Data—College of William and Mary), and intergovernmental agencies (i.e., GovData360—World Bank) on each of the three Micronesian nations and CNMI. Each activity or event captured is characterized by the instruments of statecraft functionally employed, a categorical activity of that instrument, and categories of local impact or efforts supported, as shown in Table 1.

Table 1. Excerpt of Chinese Engagement with the Federated States of Micronesia ¹⁰¹

ID #	Dates	Event Description	Instrument (D,E,P,M) and Activities	Local Impact
1	2009	Bridge Project Feasibility Study Sichuan Road and Bridge Cooperation Okat Bridge, Kosrae Source: AidData Global Chinese Official Finance Dataset	D-State-Funded	Infrastructure
2	2009–2016	Bi-lateral Agreement for funding and construction of bridge in Kosrae Kosrae / Okat Bridge Total cost: 13 million USD. China provides 60 million RMB in grants. Unspecified Chinese Funding Agency 2014. Approved by FSM 2014. Sichuan Road & Bridge Construction begins project 2016 Project Complete. 2015. China railway 17th Bureau Group implement mid-term quality inspection. Assessment concludes that the project meets acceptance criteria. Source: AidData Global Chinese Official Finance Dataset	D-State-Funded E-Grant Aid P-Strategic Partnership	Infrastructure

¹⁰¹ Appendix E. Chinese Engagement with the Federated States of Micronesia.

After collating diplomatic, economic, and cultural exchange data further opensource research is conducted to capture consequential public diplomacy engagements involving non-government associated business or social elites out of the PRC and “information diplomacy” associated with higher profile Chinese activities. Our expanded data set is then used to reassess H2, H3, and H4 and highlight relevant information to assist in subsequent testing of H1, H5, and H6.

H1: The CCP leverages coercive diplomatic, economic, and psychological statecraft in concerted campaigns to weaken Compacts of Free Association agreements between the United States, Palau, FSM, and RMI.

H5: China increases tangible support to local actors who take outspoken positions against U.S. policies.

H6: The CCP utilizes misinformation to obscure its strategic intentions and activities in Micronesia.

Chapter V concludes with an assessment of China’s use of statecraft in seeking leverage and influence to further policy objectives. Diplomatic strategies are assessed in terms of Lim and Ferguson’s pathways to power in Chinese foreign policy.¹⁰² Economic strategies are assessed using Wigell’s framework of geo-economics and the notion that a lack of economic returns on investment indicate alternative geopolitical or geostrategic goals.¹⁰³

¹⁰² Lim and Ferguson, “Power in Chinese Foreign Policy,” 57–60.

¹⁰³ Wigell, “Conceptualizing Regional Powers’ Geo-Economic Strategies,” 142–149.

Table 2. Theoretical Perspectives of Geo-economic Strategy¹⁰⁴

State Strategy	Indicator	Evidenced By (Regional Examples)
Geo-economics—Liberal Institutionalism (Cooperative)	Foreign assistance through established IDBs and IGOs: Local development maintains priority	(Untied Aid through PIF)
Geo-economics—Hegemonic (Cooperative)	Rule-maintaining economic statecraft: Mutual returns on economic investment over time	(Expanded role within the ADB)
Geo-economics—Neo-Mercantilist (Competitive)	Market-seeking economic statecraft: Unilateral returns on Investment	(Tied Aid, SOE contracts)
Geo-economics—Neo Imperialist (Competitive)	Rule-changing economic statecraft: Coercion, Imposition, Bribery	(Creation of AIIB, NDB)
Null: Geopolitical Goals	Political returns: Allies and support	(Tied Aid, Recognition of One China Policy)
Null: Geostrategic Goals	Security returns: Militarization, basing, reconnaissance, surveillance	(Underwater surveillance)

Psychological strategies are assessed through Daniel Lerner’s criteria for the evaluation of propaganda and Edward Smith’s effects-based outcomes asymmetric competition. The study also assesses psychological statecraft in terms of whether messaging constitutes propaganda (predisposition shaping) or information warfare (behavior shaping). Finally, a qualitative assessment is conducted to discern the degree that respective strategies support broader strategic objectives and how China’s respective activities and strategies have changed over time.

¹⁰⁴ Derived from Wigell, 2016.

D. ASSESSING POLITICAL WARFARE

The final assessment of the case study is a deductive analysis on the degree that China's state-sponsored activities constitute successful political warfare. Chapter V focuses on local-level analysis for the case study by taking a more granular look into specific projects or programs through which China may be seeking change to the composition of local politics, influence foreign decision-making. By combining Lim and Ferguson's foreign policy strategies with political science concepts of state power and RANDs definition of political warfare, this study establishes thresholds for the characterization of Chinese statecraft as indicated in Figure 10.

Tactical Activity (Employment of Power)
Routine Diplomacy (Attraction—Soft)
Public Diplomacy (Persuasion—Smart)
Routine Trade and Investment (Bargaining—Smart)
Threshold for Political Warfare
Indicators: (Agenda Setting, Coercion—Sharp)
Use of statecraft to affect political composition or decision making
Deliberate policy choice to undermine a rival
Deliberate policy choice to achieve other explicitly political objectives
Example Set of Activities
<i>Propaganda</i>
<i>Aid to Political Parties</i>
<i>Economic Subversion</i>
<i>Aid to Resistance Groups</i>
<i>Conditional Military Aid</i>
<i>Psychological Warfare</i>
Other
Threshold for War
Indicator: Violence (Hard Power)
Conventional Military Operations

Figure 10. Theoretical Threshold for Political Warfare¹⁰⁵

¹⁰⁵ Lim and Ferguson, "Power in Chinese Foreign Policy."

Additionally, where the three threshold indicators may be plausible but not explicitly observed, the research adapts and uses five of the ten RAND characteristics of modern political warfare as an alternative method for determining whether CCP activities reflect a political warfare strategy:

Do events or activities seek or provide credibility and leverage to the CCP?

Are there unattributable actors or means involved with the activity/engagement?

Is the event or activity heavy laden with behavior-shaping messaging?

Are there indicators of economic leverage via coercion, bribery, or imposition?

Do events or activities exploit ethnic or other socio-cultural seams?

In order to conduct a comparative assessment, Chapter V will select and analyze a project or program that the Chinese government sponsors or supports in each of the three Compact states. Chapter V also conducts a mini case study on the province of Chuuk in order to find and examine any indicators that China has enmeshed itself in the Chuukese referendum for succession from FSM.

E. ASSESSING IMPLICATION AND IMPACT

The final chapter of this research assesses the extent that China's activities at the local level in Micronesia affirm or refute claims that China engages in efforts to displace American power, influence, and values. The assessment seeks to determine whether and how China leverages local and third-party actors to influence the collective defense policies of the United States. Finally, the assessment will be compared across competing hypotheses on Chinese foreign relations based upon theoretical perspectives provided by Aaron Friedberg:

F. ASSESSING ALTERNATIVE HYPOTHESES

- 1) Growing Security Dilemma (Realist Pessimist). As Chinese presence increases, China increases leverage against local political composition or decision making to undermine U.S. interests and influence

- 2) Muted Security Dilemma (Realist Optimist). China's presence and engagement continually increase; however, attempts to affect local political affairs are left wanting due to a lack of credibility, leverage, or other resistance factors.
- 3) Perils of Authoritarian Transition (Liberal Pessimist). Micronesian states develop mutually beneficial economic interdependency and institutional integration with China; however, active authoritarianism creates negative pressures on liberal norms and creates structural instability.
- 4) Security and Liberalization (Liberal Optimist). Increased economic engagement and institutional integration pressures the CCP to liberalize Chinese engagement—increasing private sector engagement and increasing transparency and accountability of state activities. Chinese programs contribute to greater political, economic, and ecological security for Micronesians.
- 5) Softening (Constructivist Optimist). Institutional integration pulls the United States, China, and regional actors into new, more cooperative arrangements within Micronesia.
- 6) Hardening (Constructivist Pessimist). Institutional arrangements falter and fail under the pressures of increasingly rigid engagements between members.

The study will conclude with a summary of findings, policy recommendations to mitigate risks to established security arrangements in the Central Pacific, and recommendations for future research.

IV. MOTIVATIONS AND INTERESTS IN OCEANIA

The Pacific Island regions of Oceania consists of 14 independent nations and several territories situated throughout the three geographic subregions of Polynesia, Melanesia, and Micronesia (Figure 11). Polynesia stretches from the Hawaiian Islands to New Zealand and contains the nations of Tuvalu, Samoa, Tonga, Niue, and the Cook Islands. Melanesia includes Papua New Guinea (PNG), Fiji, the Solomon Islands, and Vanuatu. Micronesia consists of Palau, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), Kiribati, and Nauru. Major territories in the region include French Polynesia and New Caledonia as well as the U.S. territories of the Northern Mariana Islands (CMNI) and Guam.

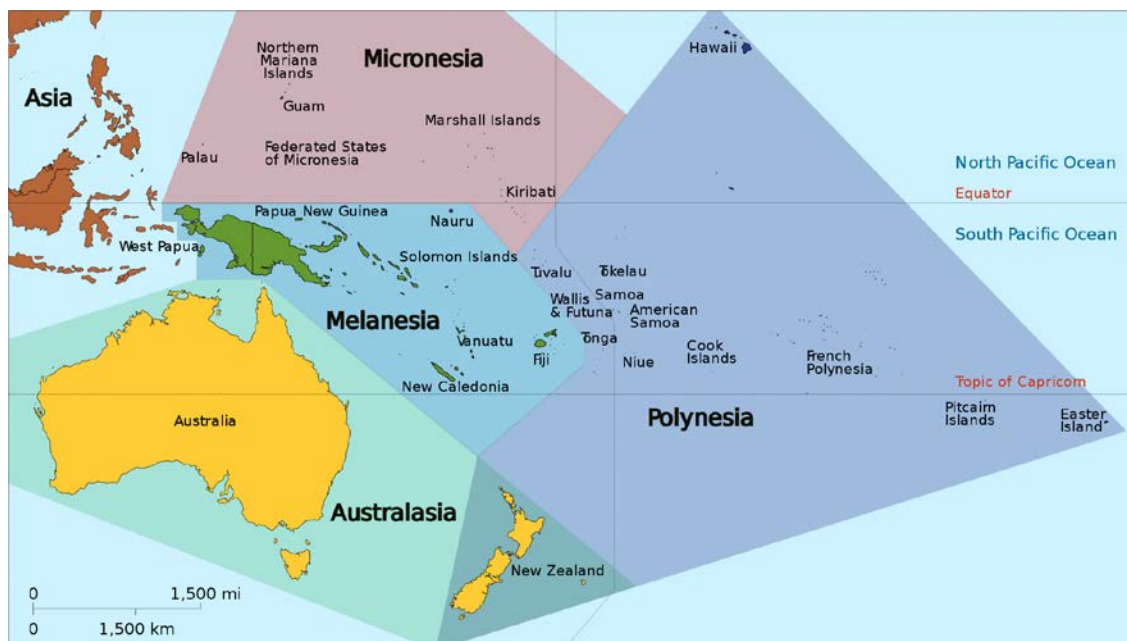


Figure 11. Sub Regions Within Oceania¹⁰⁶

Pacific Island Countries (PICs) span across vast ocean territories which creates substantial challenges for their populations and governments. Geographic dispersion, limited resources, environmental fragility, and remoteness all place downward pressures on

¹⁰⁶ Source: Cruickshanks. "Map of Oceania," *Wikimedia Commons*: CC-BY-SA-3.0.

economic activity as well as human security, and many PICs have suffered persistently low growths or declines in real per capita incomes over the past 25 years.¹⁰⁷ When setting aside PNG, the collective GDP of island nations amounted to roughly \$10 billion USD in 2018—up from \$1 billion in 1975.¹⁰⁸ The total population of these states rose from 1.3 million then to roughly 2.5 million now, making the region’s current gross national income roughly \$4,140 per individual.¹⁰⁹ Five Pacific Island nations rank in the global top 20 at risk to natural disaster, and the UN recognizes four PICs on its list of Least Developed Countries (LDCs).¹¹⁰

Alternatively, vast ocean territories create unique opportunities for the islands. Expansive economic exclusion zones (EEZs), geographic positioning along maritime corridors, and equal political standing in international fora provide small island nations outsized influence. Regional efforts for economic advancement over the next 25 years focus towards improved local management of fisheries, expanding tourism, deep sea mining, and improving labor mobility.¹¹¹ Given the importance of the fisheries within their EEZs and acute vulnerabilities to natural disaster, PICs wield a disproportionate amount of influence on matters related to global fishing and climate change.¹¹² The Pacific Islands Forum (PIF)—comprised of the 14 aforementioned PICs, two French territories, Australia, and New Zealand—serves as the region’s premier political and economic policy organization for managing these and other key strategic issues.¹¹³

¹⁰⁷ “Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries” (working paper, World Bank, 2017), XIV, <https://www.worldbank.org/en/who-we-are/news/campaigns/2017/pacificpossible>.

¹⁰⁸ “*Data for Pacific Islands Small States*,” The World Bank, accessed October 3, 2019, <https://data.worldbank.org/region/pacific-island-small-states>.

¹⁰⁹ “Pacific Islands Overview,” World Bank, September 26, 2019.”

¹¹⁰ “*UN List of Least Developed Countries*,” United Nations Conference on Trade and Development (UNCTD), accessed <https://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx>.

¹¹¹ World Bank, “Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries.”

¹¹² Ethan Meick, “*China’s Engagement in the Pacific Islands: Implications for the United States*.”

¹¹³ “The Pacific Islands Forum,” Pacific Islands Forum Secretariat, accessed September 6, 2019, <https://www.forumsec.org/who-we-are/pacific-islands-forum/>.

In terms of political influence, each Island nation engages its own unique set of “associated” bilateral partners, regional associations, and global activist networks. New Zealand traditionally acts as the primary partner to Polynesian communities, except for American Samoa and French Polynesia. Australia plays a heavy role throughout the region with focused engagement in Melanesia. France contributes significantly to its administered territories of French Polynesia, New Caledonia, and Wallis and Futuna. Japan, Taiwan, and China have each contributed significantly to the economic development of select partners; however, PICs still divide amongst four prominent spheres of influence: United States, Australia, New Zealand, and France. Given its combination of longstanding Compact agreements and territories, the U.S. sphere of influence predominantly lies within Micronesia.¹¹⁴

A. U.S. INTERESTS

The current administration stresses four “vital” interests of the United States at a global level—protect the homeland, promote American prosperity, preserve peace through strength, and advance American influence.¹¹⁵ Rhetorically, these interests deviate from the previous “enduring interests” of promoting security, prosperity, values, and a rule-based international order; however, while President Donald Trump maintains that current American interests are “guided by a return to principled realism,” the implementation and execution of foreign engagement continues to blend much of the same tools and principles developed through the eras of containment, engagement and enlargement, and collective security.¹¹⁶ The U.S. Department of State (USDOS) asserts that “the resilience of our partners and allies to deter aggression, coercion and malign influence” is fundamental to protecting security; that “healthy, educated and productive populations” within partner nations promotes American prosperity and sustained economic growth; and that

¹¹⁴ Amy Searight, Brian Harding, and Kim Mai Tran. “Strengthening the U.S.-Pacific Islands Partnership,” Center for Strategic and International Studies, May 2019, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/190515_SoutheastAsia_U.S.PacificIslands_WEB.pdf.

¹¹⁵ Donald Trump, “*National Security Strategy of the United States of America*” (Washington, DC: White House, December 2017).

¹¹⁶ White House, “*A New National Security Strategy for a New Era*” (Washington, DC: White House, December 18, 2017. <https://www.whitehouse.gov/articles/new-national-security-strategy-new-era/>).

transitioning nations “from assistance recipients to enduring partners” advances American leadership.¹¹⁷ Similarly, the Defense Department conveys in its strategic defense framework that a robust network of allies and partners is as important to achieving military objectives as building lethal capability in the era of great power competition.¹¹⁸

1. Regional Interests

The United States considers itself a dedicated security provider throughout the Pacific. Since 1951, Washington has maintained collective defense arrangements with Australia, New Zealand, the Philippines, Thailand, Japan, the Republic of Korea and guarantees the defense of numerous Pacific Island nations and territories.¹¹⁹ The U.S. government also signed a defense treaty with the Republic of China (Taiwan) in 1955, but the Carter administration nullified the agreement in 1979 upon establishing diplomatic relations with Beijing. Under the 1979 Taiwan Relations Act (TRA), Washington extended “defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense.”¹²⁰ By mandating a determination of Taiwan’s defense by military authorities, the President, and the Congress, the TRA provides the United States with strategic ambiguity designed to both dissuade Taiwan from unilaterally declaring independence and dissuade the PRC from unilaterally unifying the two entities.¹²¹ Since 2016, Washington has reinforced defacto support to Taiwan by formalizing its “six assurances” policy, increasing diplomatic engagement, and providing record military arms sales.¹²² In addition to support to partners and allies, Washington also maintains forward

¹¹⁷ Department of State, “*Joint Strategic Plan FY 2018–2022*.”

¹¹⁸ Jim Mattis, “*Summary of the 2018 National Defense Strategy*” (Washington, DC: Department of Defense. February 2018).

¹¹⁹ Department of State, “*U.S. Collective Defense Arrangement*” (Washington, DC: Department of State), <https://2009-2017.state.gov/s/l/treaty/collectivedefense/>.

¹²⁰ Taiwan Relations Act, H.R. 2479, 96th Cong. (1979-1980).

¹²¹ Taiwan Relations Act, H.R. 2479, 96th Cong. (1979-1980).

¹²² H.R.88, 114th cong. (2015-20156); Reaffirming the Taiwan Relations Act and the Six Assurances as cornerstones of United States-Taiwan relations <https://www.census.gov/foreign-trade/balance/c0018.html>.

presence and force projection in the region to facilitate its deter, secure, and defend functions for national defense.

U.S. economic interests within Oceania have been modest relative to other regions. In 2018, U.S. exports to the region totaled \$30.4 billion with imports totaling \$14.8 billion; however, when removing Australia and New Zealand, these figures plummet to roughly \$1 billion and \$470 Million respectively.¹²³ Samples of trade data in Table 3 show the changes in total value for U.S. imports and exports with Pacific Island nations and demonstrates both the preponderance of U.S. exchanges in with Fiji, PNG, and the French territories as well as the considerable rise in total regional trade over the past decade.

Table 3. Sample of U.S. Imports and Exports with Pacific Island States and Territories: 1994, 2006, and 2018 (USD Million)¹²⁴

	Imports 1994	Exports 1994	Imports 2006	Exports 2006	Imports 2018	Exports 2018
Papua New Guinea	114.9	65.6	83.7	43.8	90.1	87
Cook Islands	1.6	1	2.1	3	1.1	7.2
Niue	0	0.4	0.1	2.5	0.4	1.3
Samoa	0.1	7.2	4.3	18.3	6.9	39.1
Solomon Islands	0.7	1	2.2	5.7	4.1	11.7
Vanuatu	0	1.1	2.3	9.1	7.1	10.3
Kiribati	1	23.5	1.3	1.4	2.8	4.4
Tuvalu	0	0.1	0	0.1	0.1	1.4
New Caledonia	22.5	27.2	50.6	43.6	55.3	63.9
French Polynesia	14.2	72	58.1	108.2	36.1	287.8
Marshall Islands	7.9	33.3	14.4	15.5	21	290
Micronesia	13.2	24.4	0.9	29.6	0.9	46.7
Palau	2.8	8.6	0.6	10.8	1.3	20.6
Nauru	0	0.1	0.3	3.8	2.9	0.8
Fiji	97.1	118.1	145.8	32.5	220.7	105
Tonga	5.6	6	7.3	10.5	2.9	24.1
Total (Minus Aus/NZ)	289.9	398.5	381.2	388.9	468	1,025.1

¹²³ “2019: *Trade in Goods with Australia and Oceania.*” United States Census Bureau, accessed October 29, 2019, <https://www.census.gov/foreign-trade/balance/c0018.html>.

¹²⁴ Derived from U.S. Census Bureau Database.

U.S. goods exported to the region vary considerably by type and location, while goods received generally reflect greater consistency and allow for the development of specialized economic relations with several nations. Export growth centers around aircraft and aircraft parts to both French Polynesia and Fiji; shipping containers and crude oil to the RMI; and industrial equipment to PNG.¹²⁵ Water and caviar from Fiji are currently the largest and fastest growing imports which represent nearly a quarter value of all PIC-derived goods by value.¹²⁶ Other major imports include coffee and cocoa from Papua New Guinea and nickel from New Caledonia. Outside of these specialties, a significant portion of imported goods consist of fish and fish products, local produce and flora, and local artwork or collectibles.

According to USDOS, the Multilateral Fisheries Treaty commonly called the South Pacific Tuna Treaty (SPTT), serves “as a cornerstone for cooperation.” between the United States and Pacific Island signatories.¹²⁷ Dating back to 1988, the SPTT establishes terms of access for U.S. fishing vessels within Pacific Island EEZs. Given that U.S. vessels catch over 10% of tuna harvested from the Western and Central Pacific Ocean (WCPO), Pew estimates dock value of WCPO tuna at \$6.5 billion, and end-product sales value between \$33.3 and \$41.6 billion, then U.S. tuna fishing vessels net around \$650 million in catch with

¹²⁵ “*US Trade Numbers*,” World City, accessed October 15, 2019, <https://www.ustradenumbers.com/country/>.

¹²⁶ “*US Trade Numbers*,” World City, accessed October 15, 2019, <https://www.ustradenumbers.com/country/fiji/>.

¹²⁷ Department of State. 2016. “*Conclusion of the South Pacific Tuna Treaty Amendment Negotiations*” (Washington, DC: Department of State, 2016). <https://2009-2017.state.gov/r/pa/prs/ps/2016/12/264807.html>.

end-sales ranging between \$3 billion and \$4 billion annually.¹²⁸ The SPTT is also tied to a “related agreement” whereby the U.S. government provides \$21 million in economic overseas development assistance (ODA) to multinational fisheries management organizations which provide a major source of income to smaller island nations.¹²⁹

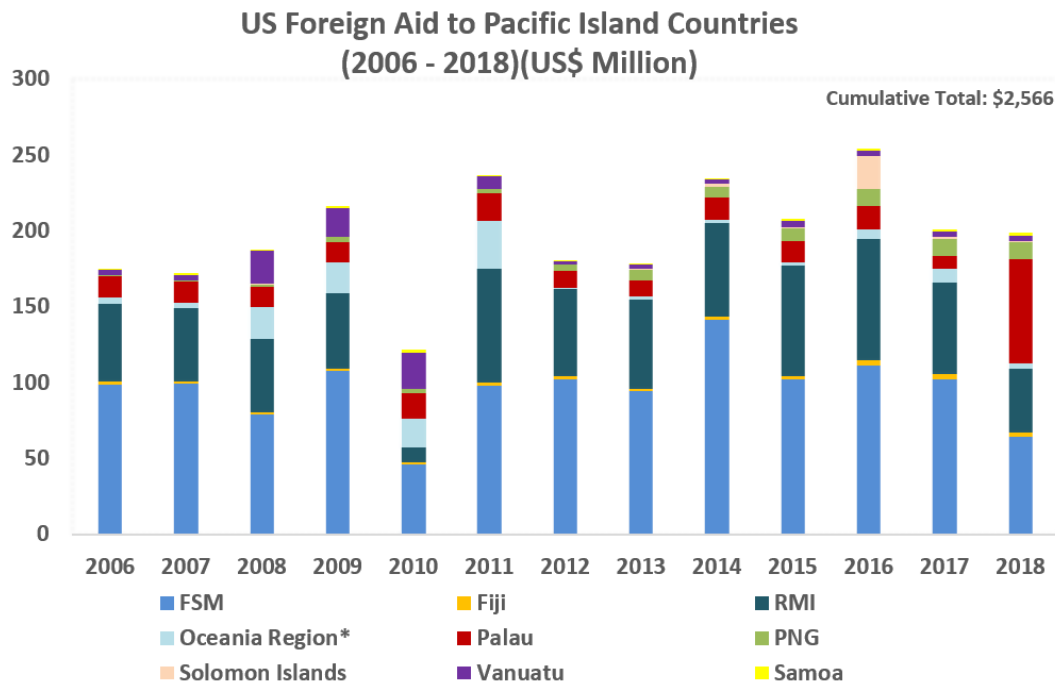
Beyond security and financial interests, the United States also maintains regional development interests. USDOS partners with the Pacific community to tackle challenges to regional stability, sustainable growth, and environmental security.¹³⁰ U.S. development efforts dipped in the 1990s after the United States Agency for International Development (USAID) ended its mission in the Pacific and returned once USAID opened its new regional office in PNG.¹³¹ Depending on sources or methods used, the United States ranks either second or third largest contributor of ODA to the region. Figure 12, and associated data maintained by USAID, show that between 2006 and 2018 U.S. foreign aid to the region surpassed \$2.5 billion with most of the funding going to U.S. Compact nations.

¹²⁸ Data for total catches derived as an average using data from 2008 to 2018 retrieved from the Western and Central Pacific Fisheries Commission, *Tuna Fishery Yearbook 2018*. (November 3, 2019), 134. <https://www.wcpfc.int/file/355404/>; estimates of tuna values retrieved from Macfadyen G., and Defaux V. 2016. “Estimate of the global sales values from tuna fisheries” (February 29, 2016), <https://www.pewtrusts.org/-/media/assets/2016/05/estimate-of-global-sales-values-from-tuna-fisheries--phase-2.pdf>.

¹²⁹ Department of State., *Conclusion of the South Pacific Tuna Treaty Amendment Negotiations*” (Washington, DC: Department of State, 2016), <https://2009-2017.state.gov/r/pa/prs/ps/2016/12/264807.html>.

¹³⁰ Department of State, “*U.S. Engagement in the Pacific*” (Washington, DC: Department of State, 2018). <https://www.state.gov/u-s-engagement-in-the-pacific/>.

¹³¹ Searight, “Strengthening the U.S.-Pacific Islands Partnership.”



Note: 2018 Data incomplete according to source.

Figure 12. U.S. Foreign Aid 2001–2018.¹³²

Despite variations in estimates, most contemporary assessments contend that U.S. assistance to Pacific Islands over the past several decades has been insufficient or even negligent, which has prompted Washington to amplify its commitments toward regional development and stability. In 2016, Representative Matt Salmon, then-Chairman of the Subcommittee on Asia and the Pacific, advocated increased attention to PICs due to their roles “in regional security as participants in international organizations and as the neighbors to our own U.S. territories.”¹³³ Official messaging in 2018 publicized U.S. commits at “more than \$350 million to the Pacific Islands annually via projects, assistance, and operations.”¹³⁴ In August 2019, Secretary of the Interior David Bernhardt announced \$36.5 million more in ODA

¹³² “Foreign Aid Explorer,” U.S. Agency for International Development (USAID), *Foreign Aid Explorer*, accessed October 28, 2019. <https://explorer.usaid.gov/data>.

¹³³ *U.S. Policy in the Pacific: The Struggle to Maintain Influence*, House Foreign Affairs Committee, Subcommittee on Asia and the Pacific (June 23, 2016) (Opening Statement by Representative Matt Salmon).

¹³⁴ Department of State, “U.S. Engagement in the Pacific.”

to support climate change initiatives, security cooperation, and public diplomacy programs.¹³⁵ In September 2019, Secretary of State Mike Pompeo announced an additional \$65 million in new assistance for governance, disaster resilience, maritime security, and the development of information and communications technology (ICT) infrastructure.¹³⁶

2. U.S. Interests in Micronesia

Post-WWII, the United Nations Trusteeship Council assigned administrative control of the Marshall, Caroline, and Marianas Island chains to the United States as a strategic-area trusteeship designated as the Trust Territory of the Pacific Islands (TTPI). From the 1970s through 1980s, the administered territories transitioned their governance systems into their current respective arrangements. Guam and the Northern Mariana Islands became U.S. territories. Four of the six administrative districts—Kosrae, Pohnpei, Truk (now Chuuk), and Yap—established the Federated States of Micronesia (FSM). The Marshall Islands became the Republic of Marshall Islands (RMI) and Palau formed the Republic of Palau (ROP).¹³⁷ Following examples set by the Cook Islands and Niue, who each declared their own independent statehood in free association with New Zealand, FSM, RMI, and ROP negotiated for and ratified their declarations of independence in association with the United States. This designation bound the parties to special political affiliations, economic development arrangements, and security guarantees all integrated into two comprehensive accords.¹³⁸ RMI and FSM signed the first joint Compact with U.S. representatives in 1982 which the U.S. Congress ratified as The Compact of Free Association Act of 1985. This original COFA obligated U.S. funding and oversight for economic development through 2002, at which point the parties completed negotiations for an amendment to extend U.S.

¹³⁵ Department of State, “*Pacific Islands Forum - U.S. Engagement in the Pacific Islands*” (Washington, DC: Department of State, August 17, 2019). <https://www.state.gov/pacific-islands-forum-u-s-engagement-in-the-pacific-islands/>.

¹³⁶ Department of State, “*U.S. Engagement in the Pacific Islands: UN General Assembly Update*” (Washington, DC: Department of State, October 3, 2019). <https://www.state.gov/u-s-engagement-in-the-pacific-islands-un-general-assembly-update/>.

¹³⁷ *Encyclopedia Britannica*, s.v. “Trust Territory of the Pacific Islands,” accessed February 13, 2019, <https://www.britannica.com/place/Trust-Territory-of-the-Pacific-Islands>.

¹³⁸ “*U.S. Relations With the Federated States of Micronesia*,” United States Department of State, accessed June 12, 2019, <https://www.state.gov/u-s-relations-with-the-federated-states-of-micronesia/>.

support under slightly different terms to 2023.¹³⁹ Palau entered into its own Compact which took effect in 1994, and also allocated 15 years of grant-based funding for development assistance.¹⁴⁰

The Compact of Free Associations Amendments Act of 2003 breaks down into the same four title parts as the original: “Governmental Relations,” “Economic Relations,” “Security and Defense Relations”; and “General Provisions.” Government relations includes permissions for citizens to “lawfully engage in occupations, and establish residence as a nonimmigrant in the United States and its Territories.”¹⁴¹ Title 1 also requires each party to “prevent or eliminate damage to the environment” and allows Compact states to bring certain United States actions under legal review as an enforcement mechanism for ensuring environmental protection.”¹⁴² Under Title 2 the United States is obligated to provide grant-based development assistance for education, healthcare, private sector development, the environment, and public sector capacity building. Over the course of 20 years, an increasing portion of assistance funding is removed from sector-based grants and allocated into trust funds intended to provide for continued economic security upon the expiration of appropriated funding in 2024.¹⁴³ Figure 13 demonstrates the gradual decrement of Compact grant funding from sector-grant payments into RMI’s Compact Trust Fund (RMI-CTF) over time. The figure shows total annual contributions of roughly \$60 million per year to RMI; similar payment arrangements for FSM, not shown, total around \$93 million per year in grants and trust fund contributions. Title Two establishes requirements for U.S. oversight of grant allocations via the U.S. Department of the Interior (USDOI) and allows for any funding not allocated each year to carry forward for use in subsequent budget cycles. Title Three gives the United States exclusive authority to both establish military facilities and foreclose access to third party countries “for military

¹³⁹ “Compact of Free Association Act of 1985.”

¹⁴⁰ “*Republic of Palau: Political Status*,” Department of the Interior, accessed February 13, 2019, <https://www.doi.gov/oia/islands/palau>

¹⁴¹ Public Law 108-188, Title One, Article IV. Section 141.

¹⁴² Public Law 108-188, Title One, Article VI. Section 161.

¹⁴³ Public Law 108-188, Title Two Article I. Section 211.

purposes.”¹⁴⁴ It also continues authorized volunteer service of Compact nation citizens in the U.S. armed forces as well as prevents the testing, disposing and discharging of radioactive, chemical, or biological materials that would be hazardous to public health or safety.

[In millions of dollars]

Fiscal year	Annual Grants Section 211	Audit Grant Section 213(b)	Trust Fund Section 216 (a&c)	Kwajalein Impact Section 212	Total
2008	33.2	.5	9	15.0	57.7
2009	32.7	.5	9.5	15.0	57.7
2010	32.2	.5	10	15.0	57.7
2011	31.7	.5	10.5	15.0	57.7
2012	31.2	.5	11	15.0	57.7
2013	30.7	.5	11.5	15.0	57.7
2014	32.2	.5	12	18.0	62.7
2015	31.7	.5	12.5	18.0	62.7
2016	31.2	.5	13	18.0	62.7
2017	30.7	.5	13.5	18.0	62.7
2018	30.2	.5	14	18.0	62.7
2019	29.7	.5	14.5	18.0	62.7
2020	29.2	.5	15	18.0	62.7
2021	28.7	.5	15.5	18.0	62.7
2022	28.2	.5	16	18.0	62.7
2023	27.7	.5	16.5	18.0	62.7

Figure 13. Amended Compact Funding for Development Grants and Trust Fund Contributions to RMI (2004–2007 not shown).¹⁴⁵

Early in the Cold War, U.S. territory in Micronesia became “the site of the largest nuclear weapons testing program in the world.”¹⁴⁶ Since then the United States has expanded air, surface, and subsurface training capability in CMNI and regularly conducts intercontinental ballistic missile testing and space surveillance operations from the Ronald Reagan Ballistic Missile Defense Test Site in the Marshall Islands.¹⁴⁷ Radar systems on Palau also help to monitor missile tests from actors such as North Korea, and the U.S. military regards its assets and basing in Guam as a strategically vital due to its position as

¹⁴⁴ Public Law 108-188, Title Three Article I. Section 311.

¹⁴⁵ Compact of Free Association Act of 1985.

¹⁴⁶ Thomas, “Compacts of Free Association in FSM, RMI, and Palau: Implications for the 2023–2024 Renewal Negotiations.”

¹⁴⁷ Thomas Lum and Bruce Vaughn, “The Pacific Islands: Policy Issues,” Congressional Research Service, February 2, 2017.

“the westernmost territory of the United States.”¹⁴⁸ Guam hosts active Missile Defense capability, continuous intelligence, surveillance, and reconnaissance (ISR) and bomber presence as well as significant ammunition and fuel storage for the region. Beginning in 2020, a Marine Air Ground Task Force (MAGTF) of 5,000 U.S. Marines will forward position in Guam, and INDOPACOM continues to expand its “ready joint forces” and “multilateral training” in CMNI.

B. PACIFIC ISLAND NATIONS—REGIONAL INTERESTS

Leaders in the Pacific Islands emphasize that “escalating climate change related impacts, coupled with the intensification of geostrategic competition” exacerbates the region’s vulnerabilities.¹⁴⁹ Every year, members of the Pacific Islands Forum (PIF) meet to coordinate regional efforts pertaining to political, economic, and security matters and set agendas for broader international engagement. Since its inception, the PIF has sought increased regionalization of governance and collective action. Consequently, Intergovernmental ministries and frameworks have assumed greater roles in managing core interests such as fishing (Pacific Islands Forum Fishing Agency), energy (Pacific Power Association), development (Pacific Islands Development Program), science and technological assistance (Secretariat of the Pacific Community) and tourism (South Pacific Tourism Organization). In 1989, the PIF annual meeting has expanded to facilitate dialogue with “post-forum” observers among whom include the United States, China, Japan, South Korea, France, the Philippines and a dozen other countries.¹⁵⁰ Australia and New Zealand, as founding members of the PIF, contribute substantially to supporting and furthering regional initiatives particularly in the areas of regional and maritime security, economic and technical assistance to development, and regional trade arrangements.

¹⁴⁸ *The Struggle to Maintain Influence*, Written testimony to the House Foreign Affairs Committee Subcommittee on Asia and the Pacific, Hearing on U.S. Policy in the Pacific (June 23, 2016) (written testimony of Matthew Matthews); Department of Defense, *Indo-Pacific Strategy Report: Preparedness, Partnership, and Promoting a Networked Region* (Washington, DC: Department of Defense, 2019).

¹⁴⁹ Pacific Islands Forum Secretariat, *Fiftieth Pacific Islands Forum: Forum Communique*, August 16, 2019.

¹⁵⁰ Pacific Islands Forum Secretariat, “*Forum Dialogue Partners*,” accessed October 15, 2019 <https://www.forumsec.org/dialogue-partners/>.

1. Regional Security Interests

Small Pacific Island nations possess fundamentally different concepts of national security than major powers. Economic security, human security, and environmental security issues far outstrip local focus on national defense, and islanders regard climate change and sea level rise as “the greatest threat to the livelihoods, security, and well-being of the peoples of the Pacific.”¹⁵¹ PIF member states recently formalized this long expressed concept in 2018 through signing of the Boe Declaration on Regional Security. PIF members also recognize maritime security as “a key issue for the development and security of the region.”¹⁵² For smaller island nations, maritime security is not so much a territorial defense issue as an economic security issue tied to preventing the illegal, unprotected, and unregulated (IUU) fishing that threatens these countries’ most renewable resources. Australia has committed several billion dollars in recent years towards this priority effort through the expansion of regional surface patrol capacities, aerial surveillance, and the establishment of a Pacific Fusion Center for maritime management.¹⁵³ PIF members maintain that cornerstone priorities in the region include the sustainment of ocean resources; managing climate change and disaster resilience; strengthening institutional arrangements; connecting the “Blue Pacific Continent” through air, sea, and ICTs; improving public health conditions; and managing nuclear and radiological contamination.¹⁵⁴ Every year since 1995, PIF communique have included calls for the United States to address health consequences related to previous nuclear testing in the Marshall Islands.¹⁵⁵

¹⁵¹ Pacific Islands Forum Secretariat, 2010. *Forty-First Pacific Islands Forum: Forum Communique*, 2010, Pacific Islands Forum Secretariat, “Boe Declaration on Regional Security,” <https://www.forumsec.org/boe-declaration-on-regional-security/>.

¹⁵² Pacific Islands Forum Secretariat, *Forty-Third Pacific Islands Forum: Forum Communique*, 28 August 28, 2012. PIF Secretariat. 2018. *Forty-Ninth Pacific Islands Forum*.

¹⁵³ Pacific Islands Forum Secretariat, *Forty-Fifth Pacific Islands Forum: Forum Communique*, 2014, p.3, http://www.forumsec.org/wp-content/uploads/2017/11/2014-Forum-Communique_-Koror_-Palau_-29-31-July.pdf.

¹⁵⁴ Pacific Islands Forum Secretariat, *Fiftieth Pacific Islands Forum: Forum Communique*, 2019.

¹⁵⁵ Derived from multiple sources, Pacific Islands Forum Secretariat, “*Leaders Communiques*.” <http://www.forumsec.org/category/communiques/>.

2. Regional Economic Interests

The Pacific Islands region leans heavily on foreign support and after decades of assistance and low economic growth, many PICs are expanding their search for methods and partnerships that will assist in mobilizing their niche economies for sustainable economic self-reliance. Remittances historically contribute 6 to 10 percent of annual GDP for most small island nations, while development assistance contributes anywhere from 8 percent—in the case of Palau—to upwards of percent for several other small states.¹⁵⁶ According to OECD data, the leading donors of ODA to the region in 2017 were: Australia (\$814 million), Japan (\$230 million), New Zealand (\$225 million), the United States (\$157million), and France, (\$102 million).¹⁵⁷ The Lowy Institute also captures significant contributions from the Asia Development Bank (\$187 million), China, (\$171 million), the World Bank (\$115 million), and United Nations (\$112 million).¹⁵⁸ In total, development assistance to the region exceeded \$2.4 billion in 2017.¹⁵⁹ UN projections indicate negative economic growth per capita for several Polynesian and Micronesian countries over the next 20 years; however, PIF members demonstrate optimistic inclinations towards assessments by the World Bank’s International Bank of Reconstruction and Development (IBRD).¹⁶⁰

Given states’ individual impediments to economic growth and high costs of transaction, the Pacific community views multilateral collective action as the best approach towards economic growth and stability.¹⁶¹ IBRD assessments suggest that further regionalization in fisheries, tourism, labor mobility policies, and ICT expansion will provide

¹⁵⁶ “Net ODA received (% of GNI)—*Pacific Islands Small States*,” World Bank, accessed August 31, 2019, <https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?locations=S2>.

¹⁵⁷ “Distribution of Net ODA (Indicator),” OECD, accessed October 10, 2019, doi: 10.1787/2334182b-en. OECD data calculates U.S. assistance lower than USAID (\$201 million for 2017).

¹⁵⁸ World Bank, “Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries.”

¹⁵⁹ Lowy Institute, “Pacific Aid Map.”

¹⁶⁰ World Bank, “*Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries*,” 11.

¹⁶¹ Matthew Dornan and Jonathan Pryke, “Foreign Aid to the Pacific: Trends and Developments in the Twenty-First Century,” *Asia & the Pacific Policy Studies* 4, no. 3 (2017): 386–397, <https://doi.org/10.1002/app5.185>.

significantly more economic opportunities and stability in the coming decades.¹⁶² Recent Pacific Forum agendas closely echo the priorities, challenges, and possibilities reflected in these assessments.¹⁶³ Some of the optimism that PIF members have towards collective action and the efforts their intergovernmental agencies come from tangible results delivered in recent years. Multilateral fisheries management unlocked \$250 million per year in public revenues by collectivizing fees imposed on foreign-registered fishing vessels.¹⁶⁴ This “Vessel Day Scheme” (VDS) has become a significant source of government funding for several small-economy nations, and analysts project that regional VDS revenues could double in value again by 2040 “without an increase in catch levels or threats to the sustainability of the fisheries stock.”¹⁶⁵ Figure 14 shows the contribution of access fees as a percentage of total GDP for select states and demonstrates the rise in contributions following the implementation of VDS in 2011.

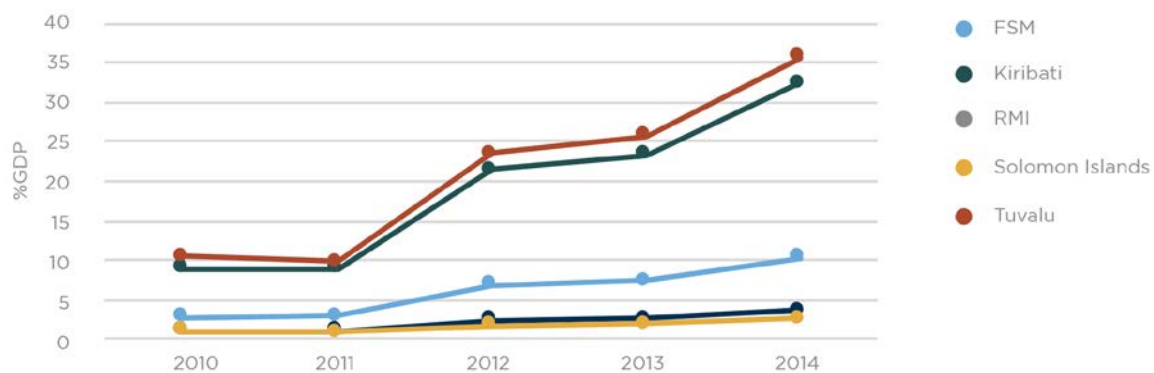


Figure 14. Contribution of tuna access fees from foreign fleets to select PICs as a proportion of GDP (2010–2014)¹⁶⁶

¹⁶² World Bank, “Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries.”

¹⁶³ Pacific Islands Forum Secretariat, *Council of Regional Organizations of the Pacific*, accessed October 15, 2019, <https://www.forumsec.org/council-of-regional-organisations-of-the-pacific/>.

¹⁶⁴ Gillett, Robert. 2018. *Fisheries of the Pacific Islands*. April 2018. Suva : FAO Fisheries and Aquaculture Technical Paper 625. <http://www.fao.org/3/i9297en/i9297EN.pdf>, 38.

¹⁶⁵ International Bank for Reconstruction and Development. 2017. *Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries*.

¹⁶⁶ World Bank, “Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries,” 65.

Regionalization, technical assistance programs, and IGO assessments appear to have strong impacts on shaping the strategic thinking, motivations, and mobilization within the Pacific Islands community. The World Bank assesses that regional policies in fisheries management could feasibly boost the smaller economies of Tuvalu, Kiribati and FSM by generating over \$300 million in new revenues and 15,000 jobs for local islanders.¹⁶⁷ Tourism could likewise contribute an additional \$1.8 billion in revenues and up to 128,000 jobs for six PICs, while the larger economies of Fiji, PNG, and the Solomon Islands could benefit through efficiencies created by the development of ICT capacities.¹⁶⁸ Figure 15 shows the World Bank’s estimates for what each PIC stands to gain through further development in regional fishing, tourism, labor mobility, and ICT expansion over the next two decades. According to analysts at the IBRD, the Marshall Islands is the only country that lacks “any significant growth opportunities.”¹⁶⁹

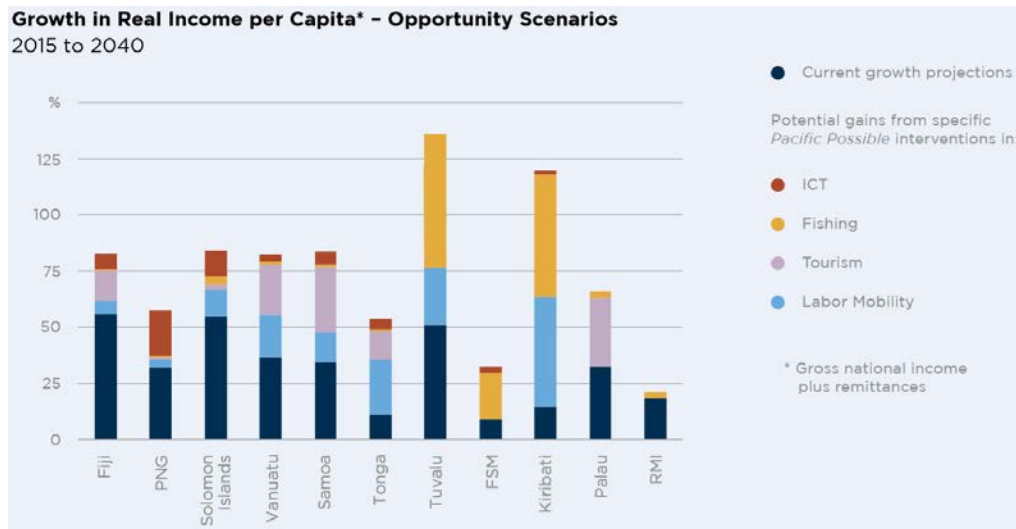


Figure 15. International Bank for Reconstruction Efforts assessment of income growth potential for Pacific Islands Countries.¹⁷⁰

¹⁶⁷ Ibid., 66.

¹⁶⁸ “Extra One Million Tourists Per Year for the Pacific Possible by 2040,” World Bank, May 23, 2016. <https://www.worldbank.org/en/news/press-release/2016/05/23/extra-one-million-tourists-per-year-for-the-pacific-possible-by-2040>.

¹⁶⁹ International Bank for Reconstruction and Development, 2017, *Pacific Possible*. XVII.

¹⁷⁰ International Bank for Reconstruction and Development, “Pacific Possible,” World Bank, 103.

3. Marshallese Interests

The Republic of the Marshall Islands seeks to continue building strategic partnerships centered around advancing global efforts on environmental protection, mitigating its own long-term environmental security threats, and looking for opportunities to achieve greater self-sufficiency. In three decades, slow economic growth in the RMI has helped the nation shed some reliance on foreign assistance and borrowing, but ODA continues to prop up limited domestic capacities. In past decades, much of RMI's human security and financial stability has rested heavily on foundations made and maintained by a handful of foreign partners. The atoll nation of 58,000 residents hosts three embassies in Majuro which represent the United States, Japan, and ROC Taiwan, while RMI itself staffs embassies in Washington, Tokyo, Taipei and Suva as well as consulates in Manila, Tel Aviv, Honolulu, and Springdale Arkansas. The vast majority of RMI's residents live and work in the two local population centers of Majuro and Ebaye while 30,000 additional Marshallese have emigrated in recent decades to work and reside in communities concentrated within Arkansas, Hawaii, Oklahoma, California, and 14 other western and southern U.S. states. The U.S. military base on Kwajalein atoll near Ebaye employs around 15 percent of the country's entire private sector workforce, and U.S. payments for occupation contributes roughly 10% of GDP. Table 4 provides key economic indicators and statistics demonstrating the contribution of remittances, ODA, and FDI relative to total economic production as reported by the OECD. Due to conditions associated with U.S. grant funding, the World Bank and OECD statistics do not include some elements of funding provided by U.S. Compact grants.

Table 4. Economic Indicators for the RMI 1990–2018 USD (Million)

	1990	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total GDP	78.5	120.3	110.9	137.9	164.9	173.2	185.2	190.8	183.1	179.7	194.5	204.1	211.5
Total GNI	No Data	152.9	147.2	179.0	199.3	211.0	214.0	227.1	232.2	248.4	259.5	269.2	276.5
Remittances Received	No Data	No Data	No Data	23.7	22.2	22.1	23.2	24.5	26	27.3	28.3	28.3	29.8
Remittances % of GNI	No Data	No Data	No Data	13.2%	11.1%	10.5%	10.8%	10.8%	11.2%	11.0%	10.9%	10.5%	10.8%
Net ODA Received	0.28	38.88	57.23	56.77	32.63	82.32	83.85	93.74	55.70	57.06	12.56	72.50	No Data
ODA % of GNI	No Data	25.4%	38.9%	31.7%	16.4%	39.0%	39.2%	41.3%	24.0%	23.0%	4.8%	26.9%	No Data
Net FDI	No Data	No Data	No Data	-3.3	9.4	4.4	-21.4	-32.6	-9.0	-5.4	-3.1	No Data	No Data

(amounts in current US\$, millions)

Note: ODA does not include most U.S. Compact grant funding

Aside from losses in human capital from high emigration, RMI's government faces challenges involving a narrow economic base, limited natural resources, limited access to international markets, and high costs of doing business along with perpetual threats and costs associated with climate change.¹⁷¹ These challenges have contributed to modest economic growth, and real wages have steadily declined around 2 percent annually since 2003.¹⁷² Domestic unemployment within the RMI persists at levels at or above 30 percent, so remittances, subsistence farming, and fishing each contribute significantly to local livelihoods. The Marshallese view climate change as an even more pressing issue than the stagnant economy. In coming decades, sea level rise is expected to inundate several atolls, which has driven the Marshallese to become prominent advocates for global climate change management and environmental protection.

RMI's Economic Policy, Planning, and Statistics Office (EPPSO) acts as the nation's chief planning body for tackling economic security issues through strategy development and planning. EPPSO coordinates efforts across RMI's government and partners in support of five core strategic "sectors" consisting of "Social Development"; "Environment," "Climate Change and Resiliency"; "Infrastructure Development";

¹⁷¹ Republic of the Marshall Islands, National Strategic Plan 2015–2017, <https://www.adb.org/sites/default/files/linked-documents/cobp-rmi-2016-2018-ld-04.pdf>. 7.

¹⁷² RMI and USDoI, "Economic Review: RMI Fiscal Year 2018," 10–13.

“Sustainable Economic Development”; and “Good Governance”.¹⁷³ Within this framework, EPPSO prioritizes 10 foundational goals which include: “1—Operating in an interdependent world” which focuses on maximizing international partnerships; “2—Enhanced Socio-Economic Self Reliance;” and “3—An Educated People.”¹⁷⁴ RMI has made some small steps towards its goals of education, economic self-reliance, and collective action in support of environmental security, but the country still requires significant external support for development.

United States policy and economic support features prominently in the RMI’s support network and timeline. The Marshallese received roughly \$1 billion in economic assistance from the United States between 1986 and 2001 under the original COFA and continues to receive injections of roughly \$60 million annually through the amended Compact which came into effect in 2004.¹⁷⁵ The amended Compact earmarks roughly \$30 million a year for education, health, private sector development, and governance capacity building. It also provides \$20 million in annual lease payments to the Ebeye and Kwajalein communities and contributes annual remainders to the RMI Compact Trust Fund (RMI-CTF).¹⁷⁶ Budget analysts estimate that RMI-CTF growth will achieve benchmarks sufficient enough to allow a smooth transition from grant reliance to sustained interest payments by 2024. This sustainability of trust fund payments significantly contributes to the government’s goal of economic self-sufficiency, but RMI still struggles with a lack of opportunities for real economic growth. Figure 16 shows RMI’s top five domestic revenue sources and demonstrates the country’s substantial reliance on U.S. grant funding which provided approximately 50 percent of the government budget in 2014 and forecasts around 48 percent going forward. RMI-CTF disbursements will replace the equivalent of “Compact

¹⁷³ Republic of the Marshall Islands, 2014, National and Strategic Plan 2015–2017. xv.

¹⁷⁴ Republic of the Marshall Islands Ministry of Foreign Affairs, 2013, “Republic of the Marshall Islands (RMI): National Report for Third International Conference.” *UN Document Repository*. 2016. <http://wedocs.unep.org/handle/20.500.11822/8552>.

¹⁷⁵ Republic of the Marshall Islands, National Strategic Plan 2015–2017, 4.

¹⁷⁶ Public Law 108-188, Title Two Article I. Section 211.

Sector Grants,” and “Compacts Rents will continue, but analysts assess the status of funding for “Other U.S. Federal Grants” beyond 2024 as “uncertain.”¹⁷⁷

	2016 Actual	2017 RMI Estimate	2018 RMI Estimate	2019 RMI Forecast	2020 RMI Forecast
Total Government Revenues*	166.2	202	211.9	188.5	193.5
Income Tax	11.7	13.8	14.5	13.4	13.7
Fishing Licenses	27.8	40.1	25	25	25
Ship Registries	6.8	6.5	7.3	7.5	7.5
Import Duties	6	5.9	7.5	7.3	7.6
Business Tax	5.3	8.4	6.2	6.6	7
Compact Sector Grants	33.3	39.1	39.1	38.7	38.6
Compact Rents - Kwajalein	23.3	23.7	24	24.3	24.7
Other U.S. Federal Grants	9.8	14.4	14.4	8.9	9
ROC (Taiwan) Grants	11	11	11	11.2	11.2
Compact Trust Fund	15.2	16.1	16.9	17.7	18.6
% U.S. Funded (Constant-2017 US\$, millions)	49.9%	46.7%	45.0%	48.0%	47.5%

*Table displays top sources only, "Total Government Revenues" includes other sources not listed

Figure 16. Recent and Projected U.S. Compact Funding Compared to Other Sources of RMI Government Revenues (2016-2020).¹⁷⁸

During the amended Compact period beginning in 2004 the Marshallese government has diligently shed fractions of its reliance on foreign support, but its overall reliance remains substantial. In 2004 RMI’s total external debts exceeded 75 percent of GDP.¹⁷⁹ As of 2017, outstanding debts were nominally the similar but only 37 percent of GDP. This figure still places RMI’s debts above the International Monetary Fund (IMF) 30 percent threshold for high risk of debt distress.¹⁸⁰ Currently, the nation’s top five revenue sources consist of the sale of fishing days to foreign vessels, local income taxes, royalties from foreign-controlled shipping registry corporations, import duties, and business taxes as

¹⁷⁷ RMI and USDoI. 2018, Economic Review: RMI Fiscal Year 2017, xix.

¹⁷⁸ Source: “Republic of the Marshall Islands Budget Book 2016–2021,” RMI Ministry of Finance, February 2017, <http://rmi-mof.com/wp-content/uploads/2017/02/MTBIF-RMI-2016-2021-2.pdf>.

¹⁷⁹ RMI and USDoI, 2018, Economic Review: RMI Fiscal Year 2017, xii.

¹⁸⁰ RMI and USDoI, 2018, Economic Review: RMI Fiscal Year 2017, 22.

previously shown. Other major sources of funding over the past several decades include ODA from Taiwan and nearly \$150 million in loans, grants, and technical assistance from the Asia Development Bank (ADB) since 1994.¹⁸¹

RMI's risk of debt distress has placed its national goals for political, social, and economic development in the hands of its international partners. After designating it as high risk in 2010, the IMF subsequently placed RMI on a "grants only" status—discontinuing its access to loan-based development.¹⁸² Consequently, the ADB, the World Bank, the EU, and Japan have each responded by surging ODA-grant availability to an extent that exceeds RMI's local capacities to program and implement much of it in the near term.¹⁸³ In February 2019, RMI became the first country to program \$44 million out of the World Bank's \$2.7 billion dollar "Green Climate Fund."¹⁸⁴ Recent domestic efforts to break stagnation include the governments adoption of a cryptocurrency (SOV) and a proposal to declare the Rongelap atoll a free economic zone in hopes of creating "the next Hong Kong."¹⁸⁵

4. Micronesian Interests

True to its political origins, the government of the Federated States of Micronesia leaves the bulk of responsibility for the nation's development in the hands of its four state governments in Yap, Chuuk, Korsae, and Pohnpei while the central government in Palikir deals mostly with purely national-level programs and deconflicting the autonomous agendas of these states.¹⁸⁶ According to Article VIII of FSM's constitution, "[a] power expressly

¹⁸¹ "Marshall Islands and ADB," Asian Development Bank, December 31, 2018, <https://www.adb.org/countries/marshall-islands/main>.

¹⁸² Asian Development Bank, "Marshall Islands and ADB".

¹⁸³ RMI Fiscal Year, "Economic Review: RMI Fiscal Year 2017," 85.

¹⁸⁴ "Green Climate Fund and World Bank Partnership Unlocks USD 2.7 billion for Climate Action, Marshall Islands First to Benefit with USD 44M Project," Green Climate Fund, February 4, 2019, <https://www.greenclimate.fund/news/green-climate-fund-and-world-bank-partnership-unlocks-usd-2-7-billion-for-climate-action-marshall-islands-first-to-benefit-with-usd-44m-project>.

¹⁸⁵ Mackenzie Smith, Remote Marshall Islands Atoll Plans to Become the Next Hong Kong, *Radio New Zealand*, September 21, 2018, <https://www.rnz.co.nz/international/pacific-news/366965/remote-marshall-islands-atoll-plans-to-become-the-next-hong-kong>.

¹⁸⁶ FSM Department of Transportation, Communication & Infrastructure (FSM DoTC&I), *Federated States of Micronesia Infrastructure Development Plan*. October 2015. <http://www.dofa.gov.fm/wp-content/uploads/2018/12/FSM-Infrastructure-Development-Plan-2016-2025.pdf>. 32.

delegated to the national government, or a power of such an indisputably national character as to be beyond the power of a state to control, is a national power,” while “[a] power not expressly delegated to the national government or prohibited to the states is a state power.”¹⁸⁷ Officials from Palikir represent the whole of FSM and the interests of its 103,000 residents through embassies in Tokyo, Suva, Beijing, and Washington, DC, along with its consulates established in Honolulu, Guam, and Portland Oregon. The capital also hosts diplomatic missions from Australia, Japan, the United States, and the PRC.¹⁸⁸ Economically, FSM operates on a “two-part system” which affords jurisdiction for foreign investments “of a national character” to the central government while states maintain autonomy in matters of their own FDI.¹⁸⁹

FSM’s Compact with the United States fundamentally drives FSM’s national strategy and development agendas, but not all this drive has been positive. Like the other Compact nations, the COFA acts as a load-bearing column for both foreign relations and economic development as FSM received roughly \$1.3 billion worth of Compact grants between 1986 and 2001 and negotiated for another \$2.1 billion in obligations for grants and trust fund contributions through 2023 via the 2003 amendment. Unique to FSM, state governments have responsibilities to implement grant funding for their respective states in coordination with national stakeholders.¹⁹⁰ The federalization of economic support created far more complications for Micronesians in implementing their development agendas under the amended Compact’s terms which some have described as “lip service to the notion of achieving budgetary self-reliance and economic self-sustainability.”¹⁹¹ Development program managing units (PMUs) struggled to balance between principles of autonomy and coordinated development after the amended Compact came into effect in 2004. From a

¹⁸⁷ *Constitution of the Federated States of Micronesia*, 1978, art. VIII, § 1–2.
<http://www.fsmlaw.org/fsm/constitution/index.html>.

¹⁸⁸ FSM Department of Foreign Affairs, n.d., “Overseas Embassies, Consulates and Missions,”
<https://www.fsmgov.org/ovmis.html>.

¹⁸⁹ Graduate School USA, *Economic Brief, FSM FY2018* August 2019, Washington, DC, : U.S. Department of the Interior Office of Insular Affairs. <http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/08/FSM-FY18-Brief-Final-Digital.pdf>. 9.

¹⁹⁰ FSM 2013 Planning Committee, 2014, *Draft 2023 Action Plan*. 10.

¹⁹¹ *Ibid.*, 15

Micronesian perspective, disputes between levels of governments, a lack of coherent policies, and decisions made by the Compact’s administering body—the USDOJ-FSM Joint Economic Management Committee (JEMCO)—contributed to significant losses in economic potential for the nation. Washington may have lost some political capital as well. In light of failing implementation, JEMCO placed a freeze on funding earmarked for infrastructure in 2012 until Palikir could publish an updated national infrastructure development plan.¹⁹² Micronesian officials note that this decision, “led to a decline in construction activity of 26 percent in FY2013 followed by 41 percent in FY2014,” and contributed “the worst period of economic performance since the start of Amended Compact.”¹⁹³ Appendix B provides a snapshot of key political and socioeconomic events for FSM from 1989 to 2019.

FSM’s economic recession from 2012 to 2015 has driven an expansion of centralized strategies and goals that the nation would otherwise rather have left to its states. In addition to an 8 percent contraction of the economy, FSM’s Compact Trust Fund (FSM-CFT) had performed far below anticipated growth rates since its inception in 2004 and, during the recession, signaled threats of a fiscal crisis once Compact grant funding ceases in 2023.¹⁹⁴ Faced with these economic security challenges, Palikir established two overarching national goals in its plan of action to unfreeze its economy: fiscal balance by 2024, and a 2% national economic growth rate.¹⁹⁵ Development objectives span economic, social, and environmental outcomes, and the government’s medium-term efforts along with infrastructure development, include tax reform; more effective governance; an improved business environment; and economic expansion in tourism, fisheries, and agriculture.¹⁹⁶ Along with these priorities, President Peter Christian also seeks to preserve the unity of

¹⁹² Graduate School USA, 2019, *Economic Brief: FSM FY2018*, 10.

¹⁹³ FSM-DoTCI, 2015, *Infrastructure Development Plan FY2016-FY2025*, 2.

¹⁹⁴ FSM 2013 Planning Committee, 2014, *Draft 2023 Action Plan*, Palikir : Government of the Federated States of Micronesia, November 2014, <https://www.adb.org/sites/default/files/linked-documents/cobp-fsm-2016-2018-ld-02.pdf>. p.12.

¹⁹⁵ FSM 2013 Planning Committee, 2014, *Draft 2023 Action Plan*. 31.

¹⁹⁶ FSM 2013 Planning Committee, 2014, *Draft 2023 Action Plan*. 51.

Micronesia against secessionist movements in Chuuk—FSM’s largest state in terms of area and population.¹⁹⁷

FSM estimates that between FY2016 to FY2025 it will have access to roughly \$780 million in funding solely for infrastructure development and maintenance.¹⁹⁸ Figure 17 shows a breakdown of FSM’s anticipated group of donors and exhibits that roughly half of foreign support is expected via the U.S. Compact while China, Japan, and the ADB constitute the next three largest resource respectively.

Infrastructure Investment Funding Source	Funding Amount (\$ millions)			
	FY2016 FY2019	FY2020 FY2022	FY2023 FY2025	FY2016 FY2025
FSM National Government	77.2	48.9	48.9	175.0
FSM State Governments (matching maintenance funds)	4.8	3.6	2.4	10.8
Bilateral Development Partners				
Amended Compact	207.4	71.7	23.8	302.9
Compact Trust Fund			24.5	24.5
US Federal Agencies	27.0			27.0
European Union	16.5	8.7	10.8	36.0
Japan	20.0	15.0	15.0	50.0
PR China	24.4	15.0	15.0	54.4
UN Climate Adaptation Funds	7.2	11.8	12.0	31.0
Multilateral Development Partners				0.0
Asian Development Bank	17.0	16.5	16.5	50.0
World Bank Group		10.5	10.5	21.0
Total:	401.5	201.7	179.4	782.6

Figure 17. FSM Anticipated Funding Sources for Infrastructure¹⁹⁹

Within its Infrastructure Development Plan, FSM DTC&I describes some of the funding in Figure 17 as indicative rather than secured. The document explains and itemizes each instance by contributor but the overall logic of incorporating the indicative funding is

¹⁹⁷ “Micronesia Country Profile,” *BBC*, 9 January 2018. <https://www.bbc.com/news/world-asia-pacific-15494620>.

¹⁹⁸ FSM Department of Transportation, Communication & Infrastructure (FSM DoTC&I), 2015, *Federated States of Micronesia Infrastructure Development Plan*. Vi.

¹⁹⁹ Source: FSM Department of Transportation, Communication & Infrastructure (FSM DoTC&I), 2015. *Federated States of Micronesia Infrastructure Development Plan*.

provided by the following excerpt taken from the IDPs section on strategic planning titled “Working with Development Partners.”²⁰⁰

Historically, FSM’s dialogue and coordination with non-US bilateral development partners has been weak due to the dominance of the Compact, but with 2023 looming has recently been strengthened. An Overseas Development Assistance (ODA) policy was approved by Congress in January 2014. The purpose of the policy is to establish approaches to managing ODA such that benefits are maximized for all stakeholders. The policy acknowledges, recognizes and respects the unique circumstances of each state but also seeks commonalities across FSM. Implementation of the policy began in 2014.²⁰¹

5. Palauan Interests

The Republic of Palau (ROP) has similar interests as other Pacific Island Countries due to shared inherent structural issues, but the country also possesses unique motivations, challenges, and foreign relations born out of its success and specialization in economic development. Since 2000, Palau’s economy and national strategy have operated on two driving forces: construction and tourism. Today, the tiny nation of under 18,000 residents enjoys the highest per capita income of all PICs and ranks in the top 80th percentile of all countries on the UN Development Programme’s Human Development Index.²⁰² President Tommy Remengesau opened his 2019 State of the Republic address by recognizing his republic’s 25th independence together with 25 years of diplomatic relations with the United States and Japan and 20 years of relations with the Republic of China. Next, the president praises his country and its partners for their achievements, notes the World Bank’s decision to “graduate” Palau into a “High Income Country,” and explains bitter-sweetly that the nation no longer qualified for “many forms of international assistance [it] historically relied

²⁰⁰ FSM Department of Transportation, Communication & Infrastructure (FSM DoTC&I), 2015, *Federated States of Micronesia Infrastructure Development Plan*.

²⁰¹ Ibid.

²⁰² The World Bank, 2017, *Pacific Possible: Long-term Economic Opportunities and Challenges for Pacific Island Countries*. 9.

upon to improve the living conditions of [its] people.”²⁰³ Since 1994, Palau’s reliance on its three strategic partner nations has evolved from direct support and financial assistance into market-based exchange, technical assistance, and investment partnerships. Appendix C provides a snapshot of key political and socioeconomic events that highlight Palau’s transition from a lower-income trust territory of the United States in 1994 to becoming the strongest case in the Pacific for late-stage transition nations from assistance recipient to enduring partner in 2019.

The ROP government operates from a relatively simpler set of strategies compared to its larger and more vulnerable Compact counterparts. The country’s core concerns deal in conflicts of interests between continued economic development on one hand and cultural and ecological preservation on the other, and it addresses its issues through individual policy decisions and community consultation rather than comprehensive national programs. According to Palau’s Medium-Term Strategy for Sustainable Economic Development, the nation’s strategic priorities include preserving the environment, cultural values, political security, and effective relationships; addressing constraints to self-sufficiency; and implementation of effective governance for the benefit of the community as a whole.²⁰⁴ The government aims to meet its goals through policies that foster sustainable agricultural and fisheries opportunities, investing in both public infrastructure and foreign ventures to sustain social security, and making Palau the “island of choice for environmentally conscious visitors.”²⁰⁵ In 2015, the country turned to the USDOJ to help develop a “master tourism plan,” which built on the ROP’s medium-term development strategies to frame a longer-term approach focused on the development of high-end tourism and delivering a national brand: “Pristine, Paradise. Palau.”²⁰⁶

²⁰³ Tommy Remengesau, *State of the Republic Address*, April 25, 2019, <https://www.palau.gov.pw/wp-content/uploads/2019/04/2019-State-of-the-Republic-Address-by-H.E.-President-Tommy-E.-Remengesau-Jr.pdf>.2.

²⁰⁴ Government of Palau and Asia Development Bank, *Actions for Palau’s Future*, <https://www.sprep.org/att/IRC/eCOPIES/Countries/Palau/43.pdf>. 2.

²⁰⁵ *Ibid.*, 9.

²⁰⁶ Graduate School USA, *Economic Review Palau FY2018*, July 2019, http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf.

The ROP's focus on sustainable tourism is not simply an idealistic notion, but a realistic strategy for addressing fundamental challenges for long-term social and economic development. Initially, Palau relied on COFA funding and foreign assistance at levels comparable to other former trust territories. The ROP's unilateral COFA with the United States provided Palau with roughly \$700 million in ODA between 1994 and 2010 during which time Japan and Taiwan also contributed significantly to economic and infrastructure development. Construction, spurred by large public sector projects such as the Japan-Palau Friendship Bridge and the Compact Road during the early and mid-2000s, had been a leading industry in Palau, and the inclusion of other infrastructure such as airport improvements and hotel construction allowed for opportunities in private sector tourism growth.²⁰⁷ Palau's tourism industry began showing growth in the early 2000s which prompted an increase in FDI and trade that expanded the economy 17 percent in five years. After a slowdown during the global financial crisis, grant funding fell to below a quarter of Palau's GDP by 2010 with construction and tourism helping to replace ODA as the government's primary revenue stream, as shown in Figure 18.

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Grants as % of GDP	22%	14%	18%	25%	25%	22%	27%	29%	23%	23%	27%	24%	23%	19%	19%	16%	16%	13%	14%
Current grants % of GDP	21%	14%	17%	18%	17%	15%	15%	16%	15%	16%	16%	16%	14%	13%	14%	11%	10%	11%	11%
Capital grants % GDP	0%	0%	1%	8%	8%	7%	12%	13%	8%	6%	11%	8%	8%	5%	6%	5%	6%	2%	2%
Grants as % of Total Revenue	49%	41%	50%	56%	56%	53%	58%	61%	55%	55%	58%	53%	51%	46%	44%	38%	39%	32%	30%
Tax Revenue as % of GDP	16%	16%	14%	16%	17%	17%	17%	16%	17%	16%	17%	18%	18%	19%	19%	20%	20%	20%	21%
Domestic Rev. as % of GDP	23%	20%	18%	20%	19%	20%	19%	19%	19%	19%	20%	21%	22%	22%	24%	25%	25%	27%	27%

Figure 18. Grant Funding as a Proportion of Palau's GDP and Government Revenues Between 2000 and 2018.²⁰⁸

²⁰⁷ Graduate School USA, *Economic Review Palau FY2018*, July 2019, http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf. Washington, DC, : DoI Office of Insular Affairs. 48.

²⁰⁸ Source: Graduate School USA, *Economic Review Palau FY2018*, July 2019, http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf. Washington, DC, : DoI Office of Insular Affairs. 48.

Employment and wages have increased steadily since 2000, and the labor market stays close to full with over half of the country's 12,000 workers coming from virtually limitless labor pools abroad.²⁰⁹ Public administration, accommodation, retail, construction, and education make up three-quarters of the workforce, and Palauan citizens earn roughly 50 percent more than foreign workers through public sector or higher-skilled jobs.²¹⁰ Table 5 provides key economic measures and indicators for Palau. The top of Table 5 demonstrates steady economic growth through FY16 before successive drops in FY17 and FY18; "GDP Production" shows recent economic losses occurring most significantly in construction and accommodation; the center of the table more clearly demonstrates the long boom and sudden taper of Palau's total tourism which accounts for hotel, restaurant, and value added tax (VAT) receipts; the bottom shows the contributions of taxes and grants in proportion to both one another as well as to total government revenues and demonstrates an increase in tax revenues as grants stay relative stable over time.

Table 5. Palau Economic Indicators FY04-FY18²¹¹

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Per Capita Income measures															
GDP current prices, \$ million	164,8861	190,3554	192,2449	198,8348	198,1074	187,3526	185,9225	196,6646	212,0974	220,7229	241,336	281,4718	297,1417	282,1575	277,7873
Population	19,670	19,828	19,721	19,353	18,991	18,636	18,288	17,946	17,611	17,400	17,359	17,661	17,884	17,901	17,536
GDP per capita \$	8,382	9,600	9,748	10,274	10,436	10,053	10,166	10,958	12,043	12,686	13,902	15,937	16,615	15,762	15,841
GNI per capita \$	9,027	10,437	10,715	11,444	11,689	10,861	11,026	11,867	13,074	13,801	14,960	17,194	18,058	16,805	17,072
GDP production, \$ million															
Agriculture and fisheries	6.2	7.1	7.9	7.2	7.9	7.3	7.1	7.4	7.8	8.3	8.1	8.2	8.8	9.2	9.0
Manufacturing, utilities, construction	25.2	25.5	22.4	21.8	18.3	16.7	18.4	17.1	17.8	17.8	18.3	20.7	28.2	23.0	22.6
Wholesale and retail trade	20.0	22.2	21.3	23.7	26.2	22.9	21.8	23.9	29.8	31.0	33.4	41.4	43.3	41.6	43.2
Accommodation, restaurants and transport	21.0	26.5	27.2	30.1	31.9	30.2	30.8	34.9	39.8	44.4	48.8	59.8	62.6	57.3	51.3
Public admin. Health and education	40.0	39.7	41.8	43.3	45.2	45.4	45.2	46.3	47.3	48.5	51.6	53.3	58.5	61.1	62.3
Other services	38.5	44.9	50.7	50.6	49.4	44.8	42.8	43.6	44.4	48.4	54.3	62.9	64.8	60.5	62.5
Taxes less subsidies on products	16.1	18.7	17.8	18.0	19.2	16.0	17.4	19.9	24.3	25.0	28.6	34.1	33.9	33.6	33.2
Tourism															
Total Tourism receipts, \$ million	49.6	68.6	69.4	66.8	71.6	67.0	72.0	89.7	105.1	112.3	129.5	148.7	138.3	123.2	117.3
Government Finance Statistics, (\$ million)															
Revenue	72.7	77.4	87.1	92.1	84.8	76.3	85.7	87.2	95.0	92.0	106.6	114.9	124.7	115.0	127.0
Tax revenue	28.0	31.9	31.3	30.8	32.9	29.3	31.2	34.7	39.0	41.4	47.0	56.6	59.1	56.9	60.6
Grants	41.1	40.8	50.5	56.0	46.3	41.8	49.6	46.0	48.2	41.9	47.1	43.7	49.3	37.3	49.8
Other revenue	3.7	4.7	5.3	5.3	5.7	5.2	4.8	6.6	7.9	8.6	12.5	14.6	16.3	20.7	16.5

²⁰⁹ Graduate School USA, *Economic Review Palau FY2018*, July 2019.
http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf.
 Washington, DC, : DoI Office of Insular Affairs, xii.

²¹⁰ ROP Ministry of Finance, *2018 Statistical Yearbook*, Koror : Bureau of Budget and Planning,
<https://www.palau.gov.pw/wp-content/uploads/2019/07/2018-Statistical-Yearbook.pdf>. Table 4.6b.

²¹¹ Source: ROP Ministry of Finance, *2018 Statistical Yearbook*, Koror : Bureau of Budget and Planning,
<https://www.palau.gov.pw/wp-content/uploads/2019/07/2018-Statistical-Yearbook.pdf>. Table 4.6b.

In 2015, Palau received 163,905 foreign tourists, which represented a 37 percent growth over 2014 and an increase of 88,000 annual visitors compared to 2010. Figure 19 shows an independent assessment the bureau's statistics demonstrating that Chinese tourists contributed all of the industry's growth in visitors after 2014 as well as the majority of contraction as tourism dropped to substantially to 106,309 visits in 2018.²¹² Substantial reporting on the topic all center around a Chinese "travel ban" as the cause of the recent collapse in the sector.²¹³

Assessment of regional interests demonstrates that Palau's strategic interests include economic growth through an expansion of high-quality tourism, ecological preservation, and cultural revival; that the ROP enjoys the highest per capita income of all PICs as well as a much lower reliance on foreign assistance than other Compact nations, and it continues to receive the majority of its FDI inflows from Japanese and Taiwanese sources. Palau strictly controls foreign ownership of companies, does not allow foreign ownership of land beyond 99-year leases, and the government is cracking down on practices of foreigners creating "front" companies with silent local partners. Finally, initial assessment demonstrates that the nation expresses concerns of losing funding streams on account of earning a "high income" status, which has placed pressure on the government to seek new opportunities for investment and partnership; however, the degrees of demand, concern, and efforts to adapt have yet to fully develop.

²¹² ROP Bureau of Budget and Planning, *2018 Statistical Yearbook* (Koror : ROP Ministry of Finance, 2018), <https://www.palau.gov.pw/wp-content/uploads/2019/07/2018-Statistical-Yearbook.pdf>. Table 10.1.

²¹³ Meick, Ker, and Chan, 2018, 20.

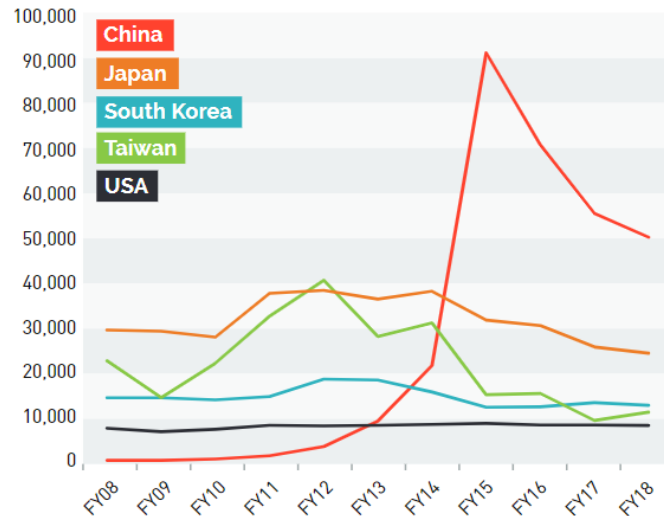


Figure 19. Chinese contribution to Palau's tourism by total visitors (2008-2018)²¹⁴

C. CHINESE INTERESTS

The People's Republic of China currently perceives itself within a “new normal” of social and economic development as the CCP continues in its Thirteenth Five-Year Plan “for the building of a moderately prosperous society in all respects” by 2021.²¹⁵ At the start of China's Fourth Plan, the PRC joined the United Nations, replacing the Republic of China (Taiwan) as the international representative of the Chinese nation. Ending its 5th Plan, Deng Xiaoping announced China's “opening up” to foreign engagement and a Joint Communiqué on the Establishment of Diplomatic Relations with the United States.²¹⁶ Between China's Seventh through Ninth Plans, Beijing took “measures to reform its foreign aid mechanisms” and ramped up its contest with Taiwan to shape third-party behaviors against the ROC's pro-

²¹⁴ Source: Graduate School USA, *Economic Review Palau FY2018*, July 2019. http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf. Washington, DC, : DoI Office of Insular Affairs, 19.

²¹⁵ PRC National Development and Reform Commission, *An Overview of the 13th Five-Year Plan* (Beijing : NDRC, 2017), http://en.ndrc.gov.cn/policyrelease/201612/t20161207_829924.html.

²¹⁶ U.S. Department of State, Joint Communiqué on the Establishment of Diplomatic Relations between the United States of America and the People's Republic of China, January 1, 1979. https://photos.state.gov/libraries/ait-taiwan/171414/ait-pages/prc_e.pdf.

independence movement.²¹⁷ By 2001, China completely cast off its old mindset of self-reliance and embraced a Going Global strategy that urged Chinese firms to leverage world trade and global markets to expand the prosperous society.²¹⁸ From 2001 into the setting of the Thirteenth Plan, Beijing has adopted Going Global 2.0, a Belt and Road Initiative (BRI), an Active Defense, Made in China 2025, and various trade and aid policies for increasing its engagement and leadership in the “new normal” environment. Appendix D provides an overview of political events and policies shaping China’s interests for increased engagement in the Central Pacific.

1. National Political Interests

At a grand-strategic level, the leadership of the CCP contend that “the Party’s leadership is the greatest strength of socialism with Chinese characteristics, and provides the fundamental political guarantee for sustained, healthy economic and social development.”²¹⁹ Guiding political principles for the CCP’s grand strategy include “strengthening Party self-governance,” “improving Party conduct” and “building a clean government” in order to “accelerate socialist modernization” in the new historic era.²²⁰ Within these guiding principles the, domestic political goals for the period ending in 2020 include expanding the political participation of citizens, strengthening party building, and “political development” within the armed forces.²²¹ Foreign goals include the use of political and diplomatic means to ensure peace, bolster development, and establishing multinational cooperative platforms for scientific innovation, finance, manufacturing production, and climate change.²²² The CCP places an extra emphasis on actively pursuing

²¹⁷ State Council of the PRC, *Foreign Aid Policy 2011* (Beijing : Office of the States Council, 2011), http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284620.htm; Zhang, Jian. 2015. “China’s Role in the Pacific Islands Region,” 51.

²¹⁸ China Policy, *China Going Global Between ambition and capacity* (Beijing : China Policy, 2017).

²¹⁹ Central Committee of the Communist Party of Beijing, *The 13th Five-Year Plan for Economic and Social Development of the People’s Republic of China* (Beijing : Central Compilation & Translation Press, 2016). <http://en.ndrc.gov.cn/policyrelease/201612/P020161207645766966662.pdf>. 15.

²²⁰ *Ibid.*, 8.

²²¹ *Ibid.*, 209–213.

²²² *Ibid.*, 60, 138, 142.

international cooperation for agriculture development in rural area.²²³ Particular mechanisms for international cooperation include the AIIB, New Development Bank, and overseas Chinese who can act as “bridges of communication and bonds of friendship.”²²⁴ China proactively participates in cooperation with governments, IGOs, and institutions focused on climate change based on the principles of “mutual benefit”.²²⁵

2. Economic Interests

In 1978, China ranked 32nd in world trade, and its \$20.6 billion U.S. dollar value of imports and exports accounted for less than 1 percent of the world’s total; by the end of 2010, China had become the world’s largest exporter and second-largest importer, and Since 2011, “foreign trade, domestic investment and domestic consumption have become the three major engines propelling China’s economic growth.”²²⁶ Beijing seeks to continue its economic successes through continued expansion in trade, reforming the global economic governance mechanisms, and leveraging the market system to increase the employment of Chinese citizens.²²⁷ The CCP sees itself as an advocate for improving market systems, establishing an equitable “new international economic and trade order,” and improving macroeconomic regulation.²²⁸ China aims to “guide the international economic agenda” and “safeguard the multilateral trade system.”²²⁹ The CCP also believes that trade with developing countries and emerging economies provide a significant development potential.²³⁰

²²³ Ibid., 51–53, 215.

²²⁴ Ibid., 147.

²²⁵ State Council, *China’s Policies and Actions for Addressing Climate Change*. (Beijing : Information Office of the State Council, 2011), http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284685.htm sec. IV.

²²⁶ PRC Information Office of the State Council, *China’s Foreign Trade* (Beijing : Information Office of the State Council, 2011), http://english.www.gov.cn/archive/white_paper/2014/08/23/content_281474983043184.htm. Sec. I.

²²⁷ Ibid., Sec. V.

²²⁸ Central Committee of the Communist Party of Beijing, *The 13th Five-Year Plan for Economic and Social Development of the People’s Republic of China*. 37–46.

²²⁹ Ibid., 142.

²³⁰ Ibid., 156.

3. Security Interests

The CCP recognizes that “geopolitical competition is growing fiercer” with international relations “more complicated than ever” and “traditional and non-traditional security threats” becoming intertwined.²³¹ China’s “non-traditional” security includes economic security, cyberspace and information security, food and water security; social and public security; and eco-security.²³² Each of these non-traditional forms impact China’s traditional national security which centers around securing both the nation’s national borders as well as “China’s political power and sovereignty.”²³³ In regards to political security, the CCP aims to ensure that “ideological work is carried out properly in order to safeguard China’s ideological security.”²³⁴

As mentioned previously, China approach to “peace along it borders” emphasizes leveraging political and diplomatic means, but also calls for continued military development and adoptions in science and technology.²³⁵ China’s strategic concept of “active defense” embodies “the essence of the CPC’s military strategic thought.”²³⁶ Active defense involves a commitment to never strike first, but always strike back with decisive effect. The CCP prepares and directs its armed forces to perform a range of strategic tasks that includes active defense for safeguarding the sovereignty and unification of China; safeguarding China’s interests overseas and “in new domains;” maintaining strategic deterrence; participating in security cooperation; and protecting “against infiltration, separatism and terrorism so as to maintain China’s political security and social stability.”²³⁷ To support these goals China has continually grown its armed forces in recent decades with an emphasis on modernization

²³¹ Central Committee of the Communist Party of Beijing, The 13th Five-Year Plan for Economic and Social Development of the People’s Republic of China. 11.

²³² Ibid., 21–203.

²³³ Ibid., 206.

²³⁴ Ibid., 207.

²³⁵ Ibid., 166.

²³⁶ PRC State Council, *China’s Military Strategy* (Beijing : Information Office of the States Council, 2015), http://english.www.gov.cn/archive/white_paper/2015/05/27/content_281475115610833.htm. Sec. III.

²³⁷ Ibid., Sec. II.

through physical restructuring and innovation. China reports total defense spending in 2018 at \$167 billion which ranks second in totals between the United States (\$633.6 billion) and India (\$66.6 billion); however, various expert observers assess the PRC's actual 2018 defense spending ranges between \$210 billion and \$239 billion.²³⁸ Given its economic growth, China's defense budget has maintained a constant 2 percent of national GDP since 2001, and has fallen from 12% to 5.5% of total government spending between 2001 and 2018.²³⁹

Since 2010, the People's Liberation Army (PLA) have regarded joint operation systems "as the focal point of its modernization." These systems aim to enhance PLA combat, command, and support systems as well as strengthening ideological and "political work" through the integrated use of information systems—described as "informationalization."²⁴⁰ Over the past decade, the PLA has worked to achieve a more scientific approach in innovating its political work "through education in ideology, guidance of opinion, and cultural edification" with regards to "the building of armed forces and changes to the state of mind of officers and men."²⁴¹ Military doctrine stipulates that "the PLA should have a good understanding and mastery of the characteristics and laws of political work in [military operations other than war]."²⁴² Practitioners have continued to advance the innovation of ideological and political work into a more actionable concept known referred to as the "Three Warfare's"—legal warfare, public opinion, and psychological warfare—which aim to seize political advantage, foment psychological disintegration, and ultimately change the national policies of others through subversion.²⁴³

²³⁸ China Power Team, "What does China really spend on its military?," China Power, August 6, 2019. <https://chinapower.csis.org/military-spending/>.

²³⁹ China Power Team, "What does China really spend on its military?"

²⁴⁰ PRC State Council, *China's National Defense in 2010* (Beijing : Information Office of the State Council, 2011), http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284525.htm. Sec. II.

²⁴¹ Ibid.

²⁴² Ibid.

²⁴³ Kevin McCauley, "System of Systems Operational Capability: Operational Units and Elements.," *In China Brief* vol. 13. no. 6 (Washington, DC, : The Jamestown Foundation).<https://jamestown.org/program/system-of-systems-operational-capability-operational-units-and-elements/>.

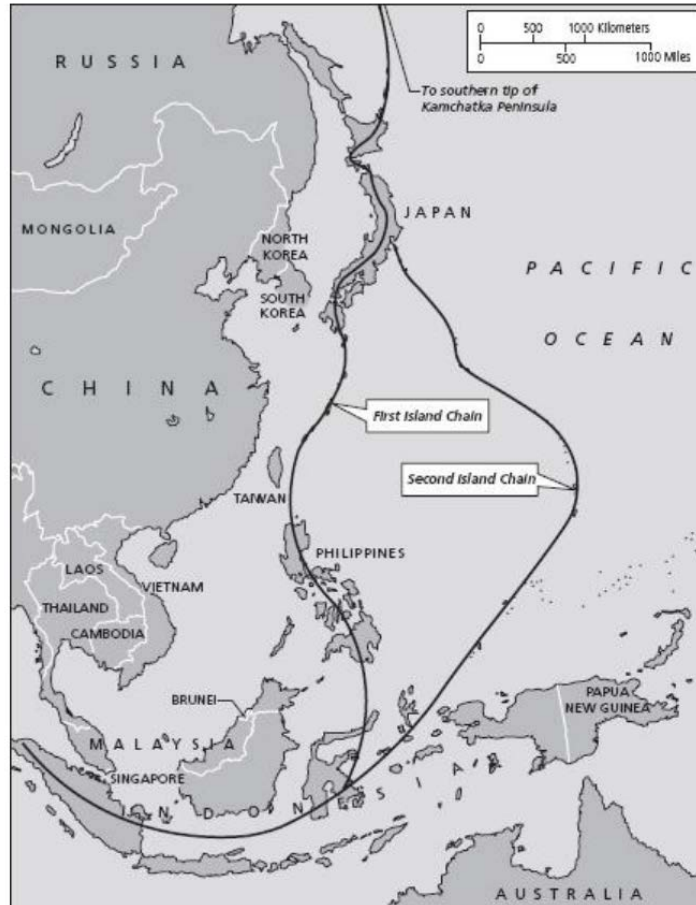
4. Chinese Interests in Oceania 1989 - 2018

According to publicly available documents pertaining to PRC goals and strategy, the CCP does not maintain aspirational security interests in the Central Pacific beyond general policies of deterrence and defense. Observers and security experts from each of the major and middle Pacific powers discuss China's maritime security goals and challenges in contexts tied to Admiral Liu Huanqing's "Offshore Defense" strategy of the 1980s and American-based concepts of Island Chains. As shown in Figure 20, Admiral Huanqing conceptualized a "First Island Chain" which stretches from the Kurile Islands through Japan via Okinawa, the Ryukyus, Taiwan, the Philippines, through Sulawesi Indonesia and into Sumatra along with a "Second Island Chain" which runs from Tokyo through the Marianas and Guam, the Caroline's Islands and Palau, terminating in Sulawesi.²⁴⁴ According to "Offshore Defense," areas within the first chain encompassed national strategic interests of territory, resources, and coastal defense zones, while the Second Island Chain would give Beijing control of East Asia's oceans which Admiral Liu proposed to secure by 2020.²⁴⁵ Chinese publications in more recent decades do not mention Offshore Defense or comparable strategies. Likewise, despite longstanding security cooperation agreements with Fiji, PNG, and Tonga, the PRC makes no mention of these nor any other Pacific Island nation in China's Policies on Asia-Pacific Security Cooperation.²⁴⁶

²⁴⁴ Bernard Cole, *The Great Wall at Sea*, 2nd Edition: China's Navy in the Twenty-First Century (Annapolis : Naval Institute Press, 2012), 305–307.

²⁴⁵ Ibid.

²⁴⁶ PRC State Council, *China's Policy on Asia-Pacific Security Cooperation*. (Beijing : Information Office of the State Council, 2017), http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284525.html.



Admiral Liu Huaqing's island chains. (Bernard D. Cole)

Figure 20. Admiral Liu Huaqing's Offshore Defense ²⁴⁷

The PRC's economic interests in the region has grown steadily over the past decades; however, China's economic engagement with the Pacific Islands has recently become grossly overestimated in recent years. According to several prominent research reports produced in recent years, China is "the largest trading partner of PIF member countries," and "China's trade with the Marshall Islands and Papua New Guinea comprised 72 percent of its total trade with PIF members."²⁴⁸ Figure 21, taken from a 2017 congressional research report, shows China's trade with the Marshall Islands totaling \$3.4

²⁴⁷ Source: Bernard Cole, *The Great Wall at Sea*, 2nd Edition: China's Navy in the Twenty-First Century. (Annapolis : Naval Institute Press, 2012).

²⁴⁸ Meick, Ker, and Chan, *China's Engagement in the Pacific Islands: Implications for the United States*, 7–8.

billion in a single year and represents one of several of such estimates. While the data is technically correct—based on official international trade data, nearly all value associated with shipments to and from the Marshall Islands “are a quirk of U.S. regulations.”²⁴⁹ Ignoring the details and implications of this “quirk” for the moment, Beijing’s trade with the region has indeed grown from approximately \$2 billion to over \$8 billion in total imports and exports as demonstrated in Figure 22. While this figure is certainly significant relative to the small economies in the PICs, the amount has almost no significance relative to the PRCs \$1.7 trillion in total annual trade with all of Asia and the Pacific or \$4 trillion in its annual global exchange of goods.

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
Totals	7,477	4,292	790

Source: Global Trade Atlas

Figure 21. Congressional Research Report Figure Indicating China’s Trade with the Marshall Islands totaling \$3.4 Billion in 2015.²⁵⁰

²⁴⁹ Henning Gloystein, “How the Marshall Islands became a top U.S. crude export destination,” *Reuters*, August 12, 2016, <https://www.reuters.com/article/oil-marshall-islands/how-the-marshall-islands-became-a-top-u-s-crude-export-destination-idUSL8N1AT07P>.

²⁵⁰ Source: Lum and Vaughn, “The Pacific Islands: Policy Issues,” Congressional Research Service. 16.

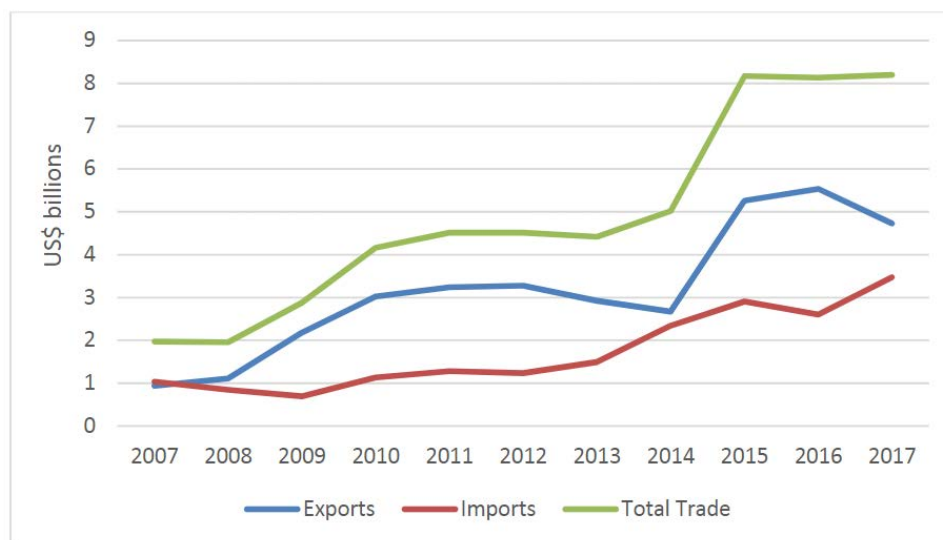


Figure 22. Growth of Total Trade between the PRC and Pacific Island Countries (2007–2017)²⁵¹

In terms of economic security, Pacific Island countries only present some value to China terms of what precious metals or minerals can be extracted or jobs created through overseas ventures and investments. China’s most relevant partners and sources for metals and materials outside of Australia and New Zealand have been Papua New Guinea, the Solomon Islands and New Caledonia.²⁵² Investments into PNG have totaled 1.5 billion since 2010, with Samoa being the only other PIC to receive an investment over \$100 million over the past decade.²⁵³ PNG provides the PRC with 2.5 percent of imported petroleum gas, 2.7 percent of precious metal ores, 6.3 percent of timber, and 31 percent of imported nickel.²⁵⁴ Another 24 percent of China’s nickel mattes come from New Caledonia which also provides 7 percent of the PRCs imported ferroalloys and 2.5 percent of cobalt, while the Solomon Islands provide 5% of its wood.²⁵⁵ Chapter V contains an assessment of

²⁵¹ Source: Meick, Ker, and Chan, *China’s Engagement in the Pacific Islands: Implications for the United States*, 7–8.

²⁵² Jian Zhang, 2015, “China’s Role in the Pacific Islands Region,” 47.

²⁵³ China Power, <https://chinapower.csis.org/china-foreign-direct-investment/>

²⁵⁴ The Economic Complexity Observatory, “*China: Imports, HS92*,” 2017. https://oec.world/en/visualize/tree_map/hs92/import/chn/all/show/2017/.

²⁵⁵ Ibid.

potentially significant resource-based relations between U.S. compact countries and China; however, any other niche China-PIC trade relationship that may exist falls beyond the scope of this study.

The CCP's central political interests within Oceania pertain to its longstanding efforts to isolate Taiwan's pro-independence movement. In 1989, five of the current island nations (Fiji, Samoa, PNG, Kiribati, and Samoa) officially recognized the PRC while three (Tuvalu, Nauru, and the Solomon Islands) recognized Taiwan. Both Beijing and Taipei have engaged the region continuously through official diplomacy, ODA, and "other financial flows" in order to shape the political affiliations of each country. This method of political shaping earned term "check book diplomacy" in the 1990s when the independence movement ramped up between the two chief parties.²⁵⁶ Table 6 demonstrates the nine changes in diplomatic relations between 1989 and 2019, and Figure 23 shows the alignment of countries recognizing either the PRC or Taiwan in 2018. The Solomon Islands and Kiribati both changed diplomatic ties from the PRC to Taiwan in September of 2019.²⁵⁷

Table 6. Changes in Pacific Island Countries' Recognition of the PRC or Taiwan.

	1989	Interim Changes	October 2019
PIC Countries Recognizing the PRC	Fiji (1975) Samoa (1975) PNG (1976) Kiribati (1980-2003) FSM (1989)	Tonga (1998) Nauru (2002-2005) Vanuatu (2004)	Fiji Samoa PNG FSM Tonga Vanuatu Nauru Kiribati (2019) Solomon Islands (2019)
PIC Countries Recognizing the ROC	Tuvalu (1979) Nauru (1980-2002) Solomon Islands (1983-2019)	Marshall Islands (1998) Palau (1999) <u>Kiribati</u> (2003-2019)	Tuvalu Nauru (2005) Marshall Islands Palau

() indicates date of official diplomatic recognition

²⁵⁶ Jian Zhang, 2015. "China's Role in the Pacific Islands Region," 51.

²⁵⁷ Melissa Clarke. 2019. "Kiribati cuts ties with Taiwan to switch to China, days after the Solomon Islands." 20 September 2019. <https://www.abc.net.au/news/2019-09-20/kiribati-to-switch-diplomatic-ties-from-taiwan-to-china/11532192> accessed 26 September 2019.

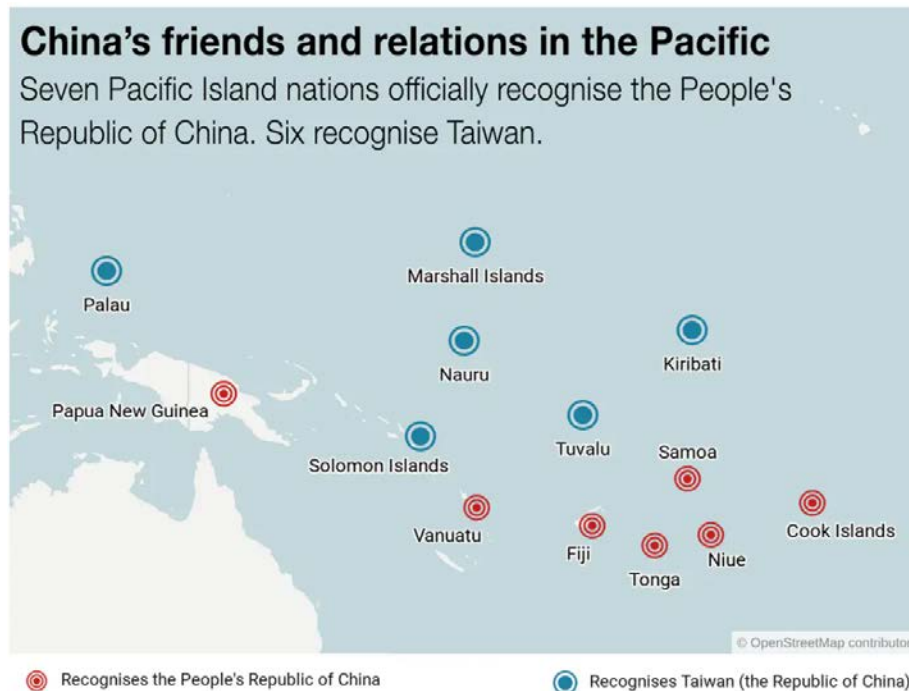


Figure 23. Disposition of Pacific Island Nations Recognizing China or Taiwan Prior to September 2019 ²⁵⁸

D. MACRO-LEVEL ASSESSMENT OF CHINA'S INTERESTS IN MICRONESIA

China's interests in Micronesia appear relatively limited from a regional perspective over most of the past three decades, and cursory evidence suggests that the political isolation of Taiwan represents the single greatest interest for China by far. The CCP does not publicize nor endorse plans reflecting military expansion, and its vague notions to "safeguard interests overseas" would seem to hardly apply to a region that provides relatively little economic benefits. Official exchange between the PRC and the RMI or Palau have essentially been non-existent to include the period when RMI recognized Beijing as the government of China from 1990 to 1998. Exchanges with FSM's officials on the other hand have expanded significantly and constitutes a "strategic partnership" to the extent that

²⁵⁸ John Garrick, "Soft power goes hard: China's economic interest in the Pacific comes with strings attached" October 16, 2018, <https://theconversation.com/soft-power-goes-hard-chinas-economic-interest-in-the-pacific-comes-with-strings-attached-103765>.

official Chinese messaging denotes strategic partnerships. Using information examined thus far, this Chapter will conclude with a cursory look at three initial research hypotheses.

H2: China's political objectives in the central Pacific grow more assertive and antithetical to American interests as countries become more dependent on Chinese trade and capital flows.

Economic exchange between China and Micronesian states has been marked by increased trade ODI to FSM, limited but locally significant FDI in the Marshall Islands, and gradual increases trade that rose in significance beginning in 2008, but to degrees far less than major U.S. reports in recent years has suggested. Figure 24 shows the years in which China became a top three-trading partner with Palau (2015) and FSM (2016) and demonstrates a sharp drop in goods and services received from Palau after 2017.

	1995	2000	2005	2010	2015	2016	2017
Where Does Micronesia Import From? (% of total Imports)							
FSM	USA (41) Japan (29) Australia (10)	USA (34) Japan (12) Singapore (11)	USA (26) Guam (19) Japan (9)	USA (28) Guam (19) Japan (10)	S Korea (27) USA (24) Japan (13)	S. Korea (30) Taiwan (13) China (8)	S. Korea (25) USA (22) Taiwan (15)
RMI	Data Unreliable						
PALAU	Japan (44) USA (35) Thailand (14)	Japan (16) USA (35) S. Korea (13)	USA (31) Taiwan (18) Philippines (14)	Taiwan (21) Singapore (21) Guam (20)	USA (23) China (18) Japan (14)	USA (22) China (20) Japan (15)	Japan (24) Taiwan (19) USA (16)
Who Does Micronesia Export To? (% of Total Exports)							
FSM	Japan (61) Thailand (28) U.S.A (11)	Thailand(48) Japan (30) USA (20)	Thailand (82) Philippines (6) Japan (4)	Thailand (38) Ecuador (26) Japan (13)	Thailand (50) Japan (19) Indonesia (7)	Thailand (57) Indonesia (16) China (11)	China (38) Philippines (26) Japan (23)
RMI	Data Unreliable						
PALAU	Japan (60) USA (24) Thailand (10)	Japan (54) USA (43) Nigeria (1)	Japan (91) USA (2) Philippines (2)	Japan (90) Taiwan (3) Philippines (2)	Japan (50) India (25) Turkey (15)	Japan (60) Greece (31) USA (6)	Japan (82) Turkey (5) India (3)

Figure 24. China's Increased Trade within Micronesia (1995-2017)²⁵⁹

²⁵⁹ Source: Ricardo Hausman, Atlas of Economic Complexity, *Harvard Growth Lab*, Cambridge Center for International Development, 2017. <http://atlas.cid.harvard.edu/explore>.

Multiple sources to include the 2018 U.S.-China Economic and Security Review Commission have cited UN COMTRADE and IHS Markit Global Trade Atlas data indicating that China's trade with the Marshall Islands included multiple billions of dollars in exports. These spikes in trade begin in 2011 and 2015; however, 99.8% of exports in 2015 actually passed through foreign companies domiciled in the RMI.²⁶⁰ Based on WTO data, China actually exported roughly \$7 million in goods received, while importing \$24 million in goods—tuna specifically—that year.²⁶¹ Imports of Marshallese tuna did increase from zero in 2008 to \$74 million in 2013, then fell steadily to under \$20 million since 2016. More notable economic engagement between China and RMI were foreign direct investments made occurred during the financial crisis in 2008–2009 and between 2012 and 2013 when a Chinese company purchased the Pan Pacific Fisheries processing plant in Majuro and a registered a number of fishing vessels within the RMI as a joint venture in tuna fishing.²⁶²

The strongest evidence for PRC assertiveness is shown in its efforts to coerce Palau by encouraging companies to promote trade via tourism and then positioning Palau government into severing ties with Taiwan. China's share in Palau's tourism rose to one-fifth of its total value prior to dropping dramatically in 2017 and beyond due to restrictions imposed by the government banning organized travel packages for Chinese tourists. This evidence only holds on the premise that coercive actions against Taiwan opposes American interests by extension. This research argues that it does, given U.S. guarantees of ensuring a non-coercive resolution between the ROC and PRC which itself represents American values and practices supporting rules-based order. This assessment also finds that economic coercion towards Palau does not demonstrate evidence of attempting to shaping U.S. security positions or policies within the ROP.

²⁶⁰ Henning Gloystein, "How the Marshall Islands became a top U.S. crude export destination," *Reuters*, August 12, 2016, <https://www.reuters.com/article/oil-marshall-islands/how-the-marshall-islands-became-a-top-u-s-crude-export-destination-idUSL8N1AT07P>.

²⁶¹ The World Bank, "Imports of goods and Services—Marshall Islands," <https://data.worldbank.org/indicator/NE.IMP.GNFS.CD?locations=MH>

²⁶² Elizabeth Havice, Mike McCoy, Anthony Lewis. Market and Industry Dynamics: Western and Central Pacific Ocean Distant Water Tuna Purse Seine Fishery (Honiara : Forum Fisheries Agency, 2019).

Evidence for assertive political objectives are not as readily apparent in FSM or the Marshall Islands from a regional perspective. In FSM, the PRC has clearly messaged intent to help alleviate the country's fiscal cliff, which is directly tied to the discontinuation of U.S. Compact funding; however, recent, current, and future levels ODA, while increasing, indicate long-term financial support equivalent to that of Japan, the World Bank, and the ADB which reflects a more cooperative development agenda over the long term. Further assessment of Chinese activities related to ODA in FSM is required. Similarly, China's increased trade and direct investment has turned the PRC into a top-five source of financing for Marshall Islands; however, additional information is required in regards to the geo-economic nature of investments pertaining to commercial fishing as well as accusations by the country's president that Chinese entities have attempted to subvert Marshallese politics in order to turn the Rongelap atoll into a "Special Administrative Region" of lax tax standards and entry requirements.²⁶³ Figure 25 provides a summary of initial evidence suggesting plausibility of different geo-economic, geopolitical, and geo-economic strategies in Micronesia.

²⁶³ Mackenzie Smith. "Remote Marshall Islands Atoll plans to become the 'next Hong Kong,' *Radio New Zealand*. <https://www.rnz.co.nz/international/pacific-news/366965/remote-marshall-islands-atoll-plans-to-become-the-next-hong-kong>

State Strategy	Indicator	Evidenced By
Geo-economics—Liberal Institutionalism (Cooperative)	Foreign assistance through established IDBs and IGOs: Local development maintains priority	
Geo-economics—Hegemonic (Cooperative)	Rule-maintaining economic statecraft: Mutual returns on economic investment over time	(+) ODA to FSM (/) FDI in RMI
Geo-economics—Neo-Mercantilist (Competitive)	Market-seeking economic statecraft: Unilateral returns on Investment	(/) FDI in RMI
Geo-economics —Neo Imperialist (Competitive)	Rule-changing economic statecraft: Coercion, Imposition, Bribery	(+) Coercive Trade, Palau
Null: Geopolitical Goals	Political returns: Allies and support	(/) Coercive Trade, Palau (/) Tied Aid, FSM (/) FDI in RMI
Null: Geostrategic Goals	Security returns: Militarization, basing, reconnaissance, surveillance	(/) Underwater Reconnaissance

(+) = Evidence for; (/) = Plausible; (-) = Evidence Against

Figure 25. Assessment of Chinese Geo-economic Strategies in Micronesia

H4: China's foreign engagements within Micronesia increase during periods of political dispute with the United States.

From a regional perspective, the relationship between Chinese economic engagement to U.S.-Micronesian relations is highly circumstantial at best, but broad links in economic engagement to political affairs does provide initial insight into further sub-national case study. Two topics of dispute standout between the United States and Compact nations over the past several decades. The first case involves the management of Compact sector funding in FSM between 2004 and 2017, which peaked with the freezing of infrastructure funding in 2012. Chinese ODA began to increase in size and scope in 2002, jumped substantially at the offset of the 2008 global financial crisis, and has increased steady ever since. FSM has been a top five ODA recipient since 2014 (alongside PNG, Fiji, Samoa, and Vanuatu), and in 2016 China announced its decision to grant \$5 million in untied aid to Palikir for every year from 2017 to 2024.

The second case involves RMI's ongoing disputes over the restoration of atolls used for nuclear testing and whether Marshallese grievances have any connection with alleged Chinese plans to commercialized Rongelap. US-RMI disputes over radioactive fallout and presence of nuclear materials saw their highest periods of friction (within this research timeframe) in 1995, 2000, and 2014 though recent studies and reporting by experts at Columbia University have sparked renewed debate as recent as late 2019.²⁶⁴ In 1988 a tribunal held by the UN International Court of Justice determined that the United States should compensate the RMI \$2.3 billion in claims and damages, and even though the RMI government agreed to lesser claims with the signing of the COFA, the tribunal findings are still used as a point of grievance.²⁶⁵ In 1995, the RMI government rejected a U.S. study finding the majority of previously contaminated atolls safe for resettlement, In 2000, the RMI government petitioned for U.S. compensation—in addition to Compact funding—to subsidize Marshallese healthcare until 2050.²⁶⁶ In 2014, RMI filed suits with California and the International Court of Justice claiming that nuclear powers were failing to uphold obligations under the 1968 Nuclear non-proliferation treaty.²⁶⁷ Despite claim settlements, rehabilitation, and assurances that atolls have been deemed safe for resettlement, Marshallese grievances and skepticism persist, which has left the Rongelap and Bikini atolls essentially unsettled.²⁶⁸ At this point each of these hypotheses can only be deemed plausible by research at the regional level on Chinese political and economic engagement; however these data do provide reasonable points for initiating further assessment of Chinese statecraft and political warfare at the sub-national level.

²⁶⁴ Susanne Rust, "How the U.S. betrayed the Marshall Islands, Kindling the next nuclear disaster," *Los Angeles Times*, 10 November 2019. <https://www.latimes.com/projects/marshall-islands-nuclear-testing-sea-level-rise/>.

²⁶⁵ Ibid.

²⁶⁶ Thomas Bussanich, Statement before the Senate Committee on Energy and Natural Resources Regarding the Implementation of the Compact of Free Association with the Republic of the Marshall Islands, 25 September 2007, https://www.doi.gov/ocl/hearings/110/S1756_092507.

²⁶⁷ BBC. 2018, "Marshall Islands profile—Timeline," 11 June 2018, <https://www.bbc.com/news/world-asia-15595431>.

²⁶⁸ U.S. Embassy Marshall Islands, "The Legacy of Nuclear Testing and Radiation Exposure in the Marshall Islands," 15 September 2012. <https://mh.usembassy.gov/the-legacy-of-u-s-nuclear-testing-and-radiation-exposure-in-the-marshall-islands/>.

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V. CHINESE ENGAGEMENTS IN MICRONESIA 1989–2019

Using the findings for the PRCs political and economic engagement in Micronesia from a regional perspective, this Chapter provides the analysis of five sub-national case studies in order to provide greater clarity and analysis of details pertaining to Chinese sanctions against Palau, development assistance in FSM and investments in the Marshall Islands. Given the absence of official channels through which to assess instruments of statecraft in the RMI, assessment of potential avenues for political warfare in the Marshalls focus on less-than-official channels of social and political influence.

A. SHARP EMPLOYMENT OF TOURISM IN PALAU

The CCP's negative sanctions against Palau's tourism industry as an economic means for political ends is currently the most reported, best understood, and least debated form of economic statecraft covered within the five case studies in this Chapter. It may also be the least significant in terms of effectiveness and potential impact on United States security interests. As discussed in Chapter IV, Palau's tourism industry contributes over 80 percent of exports, represents half of Palau's economy, and receipts from tourism dropped from \$148 million in 2015 to \$117 million through 2018. Initial assessment of Palau's interests and positions demonstrated that China's leverage on Palau's tourism industry represents a significant risk to the country's economic security. Further analysis suggests that Beijing's leverage and Palau's vulnerability have each become somewhat sensationalized across some reporting, but also that the underlying intent of the PRC to use its leverage to shape Palau's recognition of Taiwan is virtually undeniable. While some details of the CCP's use of tourism as a means requires minor points of clarification so as not to perpetuate exaggerations of coercion, all reporting across government studies, academic research, and global, regional, and local media share the same consensus—that Beijing imposed sanctions on tourism to Palau in order to shake the country's political relations with Taiwan.

China's leveraging of tourism to advance its "One Policy" agenda, isolate Taiwan, and signal discontent to the international community have all been substantively documented for Palau along with other cases involving Turkey, Vatican City, and South Korea, with ongoing observation and discussion involving pressure on New Zealand.²⁶⁹ In the 1990s, the PRC established its Approved Destination Status (ADS) list which has since become a multi-purpose tool of the government for leveraging the economic flows associated with its growing sector of middle-class travelers toward countries that support the CCP's political positions and away from those that do not. China first brought attention to its ADS as a carrot when it provided Turkey a place on the list in exchange for safe passage through its waterways.²⁷⁰ Then in 2017, the CCP demonstrated the coercive power of its tourism by imposing internal restrictions and penalties on travel to South Korea following the ROK's commitment to accommodate U.S. missile defense systems. That same year, Beijing also directed travel agencies to stop booking group of tours to Vatican City and Palau.²⁷¹ Sixty different hotel projects across Palauan islands leased by Chinese investors prior to 2017 were put all put on hold, and by 2018 Taiwanese airlines began suspending routes from China to the ROP. China's State Council has addressed its travel bans as an impetus of the "One China" principle.²⁷²

The positive impacts of Chinese visitors on Palau's tourism industry between 2014 and 2017 represented more of a flash in the pan on the margins of nation's foundational development rather than the supposed gold rush Chinese tourism has received attention over, and the ROP has already adapted to increase its resilience and long-term prospects for the industry in the future. Figure 26 shows an excerpt of subsequent analysis conducted by the

²⁶⁹ Adam Minter "Chinese Tourists Won't Be Weapons Much Longer." *Bloomberg*, 21 February 2019. <https://www.bloomberg.com/opinion/articles/2019-02-22/china-won-t-be-able-to-use-tourists-as-leverage-for-much-longer>.

²⁷⁰ Adam Minter "Chinese Tourists Won't Be Weapons Much Longer," 2019.

²⁷¹ Ralph Jennings "Why it Hurts Less Now as China Punishes South Korea" 4 March 2018. *Forbes* <https://www.forbes.com/sites/ralphjennings/2018/03/04/china-keeps-punishing-south-korea-with-tourism-cuts-for-now/#7bde94b366c4>.

²⁷² Farah Master "Empty Hotels, idle boats: What happens when a Pacific island upsets China" *Reuters* 18 August 2018, <https://www.reuters.com/article/us-pacific-china-palau-insight/empty-hotels-idle-boats-what-happens-when-a-pacific-island-upsets-china-idUSKBN1L4036>.

some of the country’s technical assistance teams demonstrating their assessment that the loss in Chinese tourism has only impacted Palau’s “low end” tourism market.²⁷³ In fact, the ROP had already been under significant pressure to contain the negative impacts of low-end tourism prior to 2015, which had first become apparent in the 2008 economic development plan and reinforced through substantial reporting on local concerns leading to the development of Palau’s “master tourism plan” published in 2016.²⁷⁴

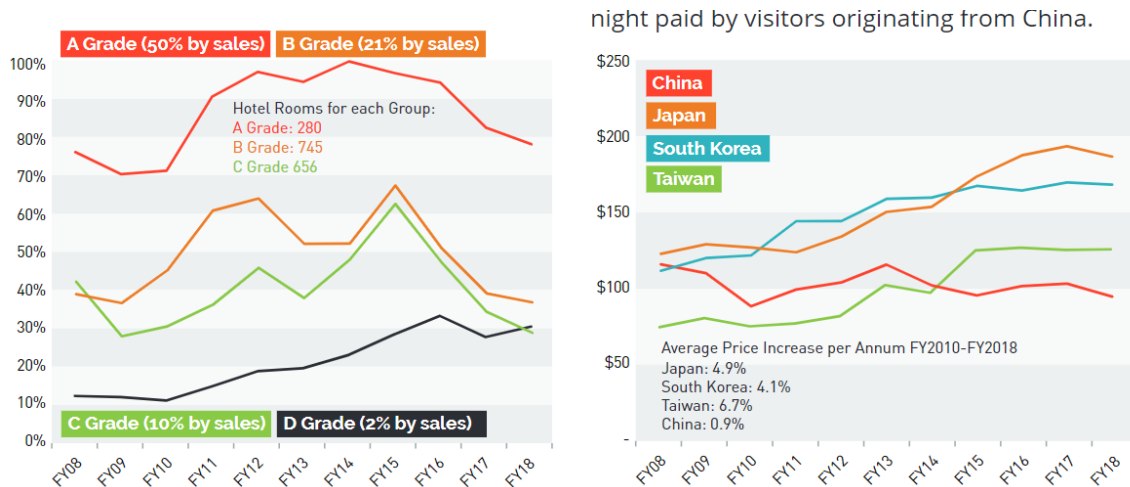


Figure 26. Excerpt of analyses on China’s economic impact on Palauan tourism markets (2008-2018)²⁷⁵

A common narrative for the Palau case is that Beijing had actively pushed tourism toward the nation before signaling and initiating a ban in order to actively pressure the ROP into a dependency-based request for diplomatic ties; however the sensational narrative

²⁷³ Graduate School USA, *Economic Review Palau FY2018*, July 2019. http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf. Washington, DC, : DoI Office of Insular Affairs, 19–20.

²⁷⁴ Government of Palau and Asia Development Bank, *Actions for Palau’s Future 2009–2014: The Medium-Term Development Strategy*, OP and ADB, n.d. http://prdrse4all.spc.int/system/files/palau_medium_term_development_strategy_2009-2014_-_explanatory_booklet.pdf. 22.

²⁷⁵ Source: Graduate School USA, *Economic Review Palau FY2018*, July 2019. http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf. Washington, DC, : DoI Office of Insular Affairs, 20.

misrepresents the CCP's approach.²⁷⁶ Beijing is not communicating ultimatums at an executive level but rather relying on passive signals, societal pressures, and informal networks to apply pressures toward desirable political outcomes. According to President Remengesau Beijing had never communicated officially with his government either in regard to the imposed restrictions or with offers to replace expiring U.S. Compact funding, but his government has discussed the latter issue internally.²⁷⁷ In terms of Chinese tourism and investment, Palau's approach involved simply welcoming and managing the flows as they naturally came.²⁷⁸ From the government's perspective, the rising number of Chinese tourists did not equate to success for Palau, but "it actually made us more determined to seek the policy of quality versus quantity."²⁷⁹ The current administration, like those prior, has staunchly supported the diplomatic independence of Taiwan who it sees as more closely aligned in terms of "principles and democratic ideals."²⁸⁰ However, Palauan Jackson Henry, former ambassador to Taiwan and Chairman of Palau Visitors Authority recognizes that Palauan desire partnership with both Taiwan and China to the furthest extent possible, and that "mainland Chinese are looking towards the next administration," which changes over in 2021, to improve the bilateral relationships.

Palau will most likely reset and cautiously move toward finding ways to bring in independent tourists and business partners under conditions that more strictly align with its own policy of high-quality low-impact tourism. Reports show that tourism from China is shifting from predominantly organized to increasingly independent, which waters down the level of state control and leverage available to the CCP.²⁸¹ Given its experiences, Palauan society will likely seek to balance its government's economic and political relations across the nation's range of partners as well as the PRC and PIF community. The only real concern

²⁷⁶ Farah Master, "Empty Hotels, idle boats: What happens when a Pacific island upsets China," 2018.

²⁷⁷ Ibid.

²⁷⁸ Ibid.

²⁷⁹ Ibid.

²⁸⁰ Ibid.

²⁸¹ Adam Minter, "Chinese Tourists Won't Be Weapons Much Longer," 2019; Ralph Jennings "Why it Hurts Less Now as China Punishes South Korea" 4 March 2018.

for malign CCP influence going forward would be whether individual points of leverage could be created as Palau's government transitions through subsequent administrations; however, the environment will likely be more primed to resist outside pressures and enticements through at least the current election cycle. Palauan parliamentary speaker Sabino Anastacio has become an advocate of switching diplomatic ties from Taiwan to China, and local reporting suggests that Speaker Anastacio's business relationships with Chinese developers has at least some bearing on this position.²⁸² Taiwan is less concerned with the CCP's economic coercion as it is with inducements as the ROC Foreign Ministry assesses that Beijing has lured four countries to switch diplomatic recognition in the past two years through its more effective use of generous aid packages and investment.²⁸³

B. POSITIVE ECONOMIC SANCTIONS IN THE FSM'S YAP STATE

FSM's second-smallest federated state of Yap has roughly as many citizens as Palau, but while its neighbor 280 miles southwest has seen tourism expand to 160,000 visitors in a single year, Yap continues to receive roughly 4,000 tourists annually.²⁸⁴ Early in 2012, Yap Governor Sabastian Anefal signed an agreement allowing Chinese developer Exhibition and Travel Group (ETG) to lease lands from local owners with initial enticements of economic development extending from a mega-resort, casinos, golf courses, marinas, and a new runway for regularly chartered jets full of tourists. Following the state's post-agreement announcement, segments of the public began to push back due to a perceived lack of information and transparency.²⁸⁵ While Governor Anefal coordinated with ETG, Yap State Congresswoman Madeline Bordallo released a statement calling for the inclusion of Chinese visitors under the Guam-CNMI Visa Waiver Program. Congresswoman Bordallo

²⁸² Kathryn Hille, "Pacific Islands: A New Arena of Rivalry Between China and the US," *Financial Times*, 2019.

²⁸³ Farah Master, "Empty Hotels, idle boats: What happens when a Pacific island upsets China," 2018.

²⁸⁴ Daniel Lin, "This Pacific Island is Caught in a Global Struggle," *National Geographic*. <https://www.nationalgeographic.com/news/2017/08/yap-pacific-island-tourism-development-conservation-china-us-cofa/>.

²⁸⁵ Bill Jaynes and Bernadette Grong, "Opinions Split in Yap over Massive ETG Tourism Project," in *Kaselehlie Press*, 03 September 2012, http://www.fm/news/kp/2012/sept3_1.htm.

called for the U.S. Departments of Homeland Security and Defense to loosen policies in order to better accommodate the flow of Chinese visitors, adding that China's willingness to initiate direct flights to Yap from China "highlight [ed] the importance and urgency" of expanding the program. Both the governor's land-lease and the congresswoman's travel policies demonstrate two likely short-term goals of a broader campaign of the CCP efforts to establish physical and political control of the state.

Prior to serving as governor of Yap, FSM Foreign Minister Sabastian Anefal traveled to Beijing in 2006 to meet with Chinese officials to map out FSM's Program of Action within the context of the PRC's newly formed China-Pacific Island Countries Economic Development and Cooperation forum. Official visits and economic cooperation had already become routine between Beijing and Palikir by 2006, but the forum represented new efforts between the countries to increase personnel exchanges and, in FSMs case, expand tourism.²⁸⁶ By 2012, the PRC had provided several hundred thousand dollars to Yap for small assistance programs, such as the construction of community centers, government assistance, and crisis response, but the facilitated tourism effort represented an entirely new economic outlook. The government's attempt to test its nation's locals-only land management norms split opinions dramatically, with some landowning families signing 99-year agreements with ETG and others holding out.²⁸⁷ ETG's immediate responses were clear, "if Yapese people do not lease their land, then E.T.G. will leave. No land means no investment."²⁸⁸ Mr. Yang Gang's company did not leave. ETG purchased the existing Yap Dive Resort and appointed Gang General Manager. In 2013, the CCP arrested ETG's chairman, and whether for the arrest, public discontent towards the project's scope, Chinese labor stipulations, disagreements on payouts, or combinations of above, the

²⁸⁶ PRC Ministry of Foreign Affairs. "Tang Jiaxuan Meets with Foreign Minister of the Federated States of Micronesia," 24 February 2006, https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/bmdyzs_664814/gjlb_664818/3402_664860/3404_664864/t237531.shtml

²⁸⁷ Jaynes and Grong, "Opinions Split in Yap over Massive ETG Tourism Project," 2012.

²⁸⁸ Ibid.

project has sat.²⁸⁹ In the meantime, the company still holds fifty leases with the majority of the property in municipalities of Fanif and Maap.²⁹⁰ As of 2018, ETG still maintained plans to deliver a scaled-back version of construction and tourism.²⁹¹ They also maintain that they do not work at the behest of the Chinese government.

ETG was founded in 1997 and has promoted urban development through tourism and exhibition-based real estate both within and outside of the PRC.²⁹² The company is owned and operated by one of China's wealthiest billionaires—Mr. Deng Hong, and has distinctions of constructing both the world's largest building—the New Century Global Center in Chengdu as well as the controversial InterContinental Resort in Lhasa, Tibet.²⁹³ Mr. Hong handed off a 30 percent stake in the Shawan Exhibition Centre ETG built to the city government without charge in 2001 and told the Washington Post that “my business depends on the government” in 2002.²⁹⁴ In 2011, ETG “responded to the state's strategic development call of GOING GLOBAL” by establishing the International Investment Department to integrate with other resources and promote development for overseas tourism projects.²⁹⁵ After being arrested by the anti-corruption police, Deng resurfaced in 2017, returned to ETG as chairman, and “has continued to assert his intention to invest and build in Yap.”²⁹⁶ The most recent reporting suggests that ETG is reluctant to move forward due to the state's newer demands of business plans and annual reviews of operations.²⁹⁷ The

²⁸⁹ Malcolm Moore, “Corruption and the World's biggest building,” in *The Telegraph*, 13 September 2013. <https://www.telegraph.co.uk/news/worldnews/asia/china/10308029/Corruption-and-the-worlds-biggest-building.html>.

²⁹⁰ Ibid.

²⁹¹ Joyce McClure, Yap is Having Serious Second Thoughts about Chinese Tourism, *Pacific Island Times*, January 25, 2018. <https://www.pacificislandtimes.com/single-post/2018/01/26/Yap-is-having-serious-second-thoughts-about-Chinese-tourism>.

²⁹² ETG, “Profile,” 2014, http://www.etgcn.com/english/upload_en/etg_en/aboutetg/aboutetg.html.

²⁹³ Daniel Lin, “This Pacific Island is Caught in a Global Struggle,” *National Geographic*, 15 August 2017, <https://www.nationalgeographic.com/news/2017/08/yap-pacific-island-tourism-development-conservation-china-us-cofa/>.

²⁹⁴ Moore, “Corruption and the World's biggest building,” 2013.

²⁹⁵ ETG, “Chronicle,” 2014, [etgcn.com/english/upload_en/etg_en/aboutetg/aboutetg2.html](http://www.etgcn.com/english/upload_en/etg_en/aboutetg/aboutetg2.html).

²⁹⁶ McClure, “Yap is Having Serious Second Thoughts about Chinese Tourism,” 2018.

²⁹⁷ Ibid.

same local reporting also challenges claims by major Chinese fishing company Luin Thai which has publicized agreements to build port facilities on Yap. State officials maintain that these claims “misrepresent” actual arrangements which only provided Luin Thai with short lease while the government awaits formal plans from the company.²⁹⁸

On the opposite, eastern end of the nation, individuals and groups within the state of Chuuk have been pushing for independence from the Federated States. Chuuk has historically been the most independent minded among FSM states since independence, and in 2012 a group of pro-successionists organized the Chuuk State Political Status Commission (CSPSC) in order to work through proceedings for securing a referendum on independence for a Chuuk Republic. In 2014, the CSPSC issued its report to the state government outlining the basis of succession as well as its perceived prospects for future economic development and transition to political independence. The commission’s grievances outline that the “status quo” between the existing FSM constitutional framework and the Compacts of Free Association with the United States inhibits “foreign affairs which could enable assistance to our country,” and argues that, given autonomy, Chuuk could accelerate its development and correct for the structural disadvantages and injustices suffered under federated status.²⁹⁹ Within its assessment of “Prospective Economic Future Under Independence” the commission references vague “access to foreign economic resources,” argues that its entitled share of Compact Trust Funds would contribute to significantly to national revenues, and also that Chuuk could realize \$40 million annually from untapped resources within and under the waters of its EEZ.³⁰⁰ Local anti-independence activist point the vagueness of commission members’ plans for funding and misrepresentations of the current and future COFA arrangements as chief complaints against the movement.³⁰¹ Despite public skepticism, after years of working through legal

²⁹⁸ Ibid.

²⁹⁹ Chuuk Political Status Commission. Final Report to the Chuuk State Legislature as Required by Chuuk State Law 11–12-18, 15 December 2014. 1–3.

³⁰⁰ Chuuk Political Status Commission. Final Report to the Chuuk State Legislature as Required by Chuuk State Law 11–12-18, 15 December 2014. 3–4.

³⁰¹ Vid Raatior, “Interview with AG Sabino Asor on Chuuk Secession,” *Chuuk Reform Coalition*, 4 February 2015, <http://www.chuukstate.org/interview-with-ag-sabino-asor-on-chuuk-secession/>.

and political processes Chuuk's state legislature scheduled a referendum for March of 2019, which Governor Johnson Elimo subsequently rescheduled to March of 2020 citing the need for more consultation.

China has invested hundreds of millions of dollars in developing its ties with FSM since 2000, and Chuuk has received direct assistance to an extent that rivals that given to the federal government.³⁰² The PRC has either provided funding or the full construction for a stadium, reconstruction of airport and seaport facilities, a hospital, a government complex and several smaller programs in the sectors of agriculture and energy production. Upon completion of the hospital project, the PRC has maintained a full medical team for services and capacity building within the Chuuk State. Figure 27 provides a condensed sample of China's activities and aid within both Yap and Chuuk beginning in 2000; additional data are provided in Appendix E demonstrating a fuller look at Chinese engagement across the three Compact nations. progression of initial aid-based engagement to current Chinese ownership of land. During an interview with FSM's Chief Justice in 2008, outgoing Chinese Ambassador H.E. Liu Fei highlighted restoration projects, the medical program, and electricity projects in Chuuk as well as developments to tap China's 37 million tourists a year among the top five priorities of PRC's support to the nation. The interview also captures an inquiry from the Chief Justice requesting China to consider the use of non-government organizations to work with civil society on grass roots development; Ambassador Fei's response was that the Embassy "does not deal with that kind of arrangement" and that "language barriers" prevented the divesting of work from state entities.³⁰³

³⁰² Appendix E.

³⁰³ Supreme Court of the Federated States of Micronesia, "Chinese Ambassador's (sic) visit with FSM Chief Justice" in *Newsletter* vol.1, no.2, 30 September 2008. 2.

ID #	Dates	Event Description Excerpts	Instrument (D,E,P,M) and Activities	Local Impact
C7	2006	China holds first China-Pacific Island Countries Economic Cooperation and Development Forum	D-Agenda Setting for Economic Development	Access to 300 entrepreneurs across China and the PICs
31	2009	2009, China pledges \$70,000 grant for meeting house in Meerur village	D-PRC Funded site for local engagement; E-Grant Aid	Multipurpose Community Center
42	2011–2012	Dengue outbreak in 2011 leads to the health department request for assistance. China provides two separate donations months after the outbreak.	D- Humanitarian Aid	Unknown details regarding donations
	2012	ETG proposes a 4,000-unit resort with golf clubs, marina, convention center and casino.	D- MOU to Develop; E- promises of trade and capital; P- guarantees of economic security	Forfeiture of land rights for 99 years
	2012	Yapese public and landowners split over whether to lease lands to ETG	P- ETG holds firm. “No land,” “No Deal”	Public tensions, grievances mount
	2012	ETG purchases Yap Dive Resort		
	2013	ETG Chairman imprisoned for corruption		Land-lease purchases progress ceases
C19	Aug. 2016	An undeclared and unresponsive Chinese research vessel is confiscated by local authorities immediately off the Maap community coast. Vessel possesses a permit to conduct EEZ research scheduled for the following week issued by Palikir. Vessel also has a USDOS-PRC cable granting requests for research.		
44a	2016	PRC provides grant to purchase a Y-12 under terms of sourcing through AVIC Harbin Aircraft Industry Group	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transportation
44b	2017	Completed Y-12 plane arrives in Yap for cargo transport, rescue and medical services		
	2017	Luen Thai Fishing Company signs a “deal” to “build a fishing port” on Yap. Not according to Yap State Officials. Five-year lease has been granted but no business plan exists.	E—FDI P—conflicting statements “misrepresent” arrangements	
	2018	Deng returns to Palau as the reinstated chairman of ETG to assess a recommencement of development and tourism.		

Figure 27. Excerpts from readers’ guide to Chinese engagement with FSM, Palau, rMI, and CNMI. Adapted from sources listed in Appendix E.

The combination of official and unofficial engagements in Yap and Chuuk suggest efforts by the PRC to offer promises of economic security in exchange for land, loosened policies for access, and looser governance and oversight of corporate land management. Yap's local officials willingly advanced the PRC's policy efforts in order to secure promises for development; however, pushback by local constituents demonstrates a degree of urgency and pressure to secure deals faster than publics can deliberate the details. In the case of Chuuk, the PRC is likely providing assurances of economic security in order to facilitate a succession that would afford greater opportunities for bilateral engagement outside of the security arrangements created by the U.S. COFA.

C. SMART POWER WITH CHINESE CHARACTERISTICS IN THE MARSHALL ISLANDS

Based on initial findings, Chapter V's assessment of the Marshall Islands focuses on Chinese activities that support CCP interest through the building of local political influence through RMIs fishing industry and efforts to stoke anti-American sentiment by leveraging historical grievances involving past nuclear testing in the northern atolls. The first case demonstrates that major Chinese SOEs have become a large and growing presence in this industry, and evidence suggest that current presence will continue to develop into significant economic dependencies as well as expanded coastal facilities. The second case of Rongelap does not provide any evidence of CCP interests and influence beyond the speculations of senior political officials and western regional media.

Total reliance on foreign assistance has decreased in the RMI since 2004 largely due to growth in fishing revenues. The Marshallese economy also trudges forward through modest growth in other areas, but the Marshallese government currently reaps as much economic benefits from foreign fishing companies as it receives from domiciled shipping companies, import duties, and local business taxes combined. Fishing looks to be the only viable industry through which the country might make up for losses in foreign assistance over the short-term once development-based elements of Compact funding cease in 2024. Unfortunately, local commercialization has contributed to less than half of the industry's growth and most revenues come from licensing access of the nation's local tuna stocks to foreign companies.

Six major distant water fishing nation (DWFN) fleets operate within the WCPO purse seine fishery—Japan, (Republic of) Korea, Taiwan, China, the United States, and the Philippines. The PRC was the last DWFN to enter the WCPO, and its fleet has grown considerably since the early 2000s to its current size of fifteen vessels and an additional six “beneficially-owned” RMI-flagged vessels.³⁰⁴ This fleet is closely linked to the China’s tuna processing industry and the government provides substantial subsidies for “operations, vessel construction and the building or expansion of overseas bases.”³⁰⁵ In 2014, the PRC spent \$3 billion in subsidies for its distant water fleets; however, vessel-based subsidies has “since been reduced, with funds...diverted to drive investment in port facilities.”³⁰⁶ Financial support for the establishment of bases has primarily gone towards China’s longline fishing industry for bases in Palau, Yap, Pohnpei, Kosrae, Majuro, and Samoa, except in the Marshall Islands which is the only shore-based investment linked to purse seining—commercial net fishing—in the PICs.³⁰⁷

Shanghai Kaichuang Deep Sea Fisheries Corporation, who purchased Marshall Island’s Pan Pacific Fisheries plan in 2008, has been a “notable recipient” of these government subsidies.³⁰⁸ China’s SOE Bright Food group, controls Shanghai Kaichuang Marine International which owns Kaichuang Deep Sea—the third largest seafood company in China.³⁰⁹ In addition to the Majuro-based plant, Kaichuang also operates the largest of five Chinese purse seiner fleets in the WCPO consisting of six Chinese-flagged vessels and the six vessels flagged in the Marshall Islands.³¹⁰ The company “readily admits” that operation of the processing plant serves to gain fishery access around the RMI, and that “the

³⁰⁴ Elizabeth Havice, Mike A McCoy, Anthony Lewis. *Market and Industry Dynamics: Western and Central Pacific Ocean Distant Water Tuna Purse Seine Fishery* (Honiara : Forum Fisheries Agency, 2019), 43.

³⁰⁵ Havice, xiii.

³⁰⁶ *Ibid.*, 48.

³⁰⁷ *Ibid.*, 52.

³⁰⁸ *Ibid.*, 48.

³⁰⁹ *Ibid.*, 44.

³¹⁰ *Ibid.*, 43.

facility has operated at about one-fifth of its full capacity” since Kaichuang purchased the plant.”³¹¹

China’s total fifteen-vessel purse seine fleet fishes mostly within the EEZs of Kiribati, Marshall Islands and Nauru, and receives 26 days a year for fishing in the high seas.³¹² However, because the beneficially owned RMI-flagged vessels have unlimited high seas access, Kaichuang receives this same benefit afforded to local operators by extension. With local designation, Kaichuang’s six Chinese-crewed vessels also have eligibility to gain access to all zones covered under separate fishing provisions of the FSM Arrangement. China does not generally allow its vessels to operate under flags of convenience; however, the China Overseas Fisheries Association describes the situation in the RMI as “a special case because the vessels are directly connected to an onshore fishery.”³¹³ Ultimate control of China’s distant fleets reside with the Ministry of Agriculture and Rural Affairs’ Bureau of Fisheries with the Overseas Fisheries Association acting as a conduit between the government and overseas fishing companies.³¹⁴ Beijing requires all Chinese overseas fishing companies to establish membership in the OFA, and among its other regulatory duties the organization provides “assistance in situations overseas when diplomatic solutions are impractical.”³¹⁵

The Marshall Island’s Rongelap atoll has been at the center of Marshallese grievances against the United States since nuclear fallout contaminated the Island during nuclear tests in the 1950s and 1960s. Rongelap had been evacuated and resettled on two separate occasions after the tests and, despite assurances that the land is safe for reoccupation, only small handfuls of Marshallese have returned to reside full time. The U.S. position on the atoll is that all appropriate compensation and measures of recourse have been served through the COFA and other U.S. Mid-2018, a group consisting of RMI’s former

³¹¹ Havice, 53.

³¹² Ibid., 49.

³¹³ Ibid., 43.

³¹⁴ Ibid., 46

³¹⁵ Ibid., 46.

president Kessai Note, parliamentary speaker Kenneth Kedi, Rongelap mayor James Matayoshi, and Chinese-Marshallese businessman Cary Yan submitted a proposal to turn Rongelap Atoll into an Special Administration Region (RASAR).³¹⁶ Shortly after President Heine's government rejected the proposal over concerns that the RASAR could be vulnerable to money laundering scams, former president Note called for a no-confidence vote to remove President Heine from office citing the administrations negative publicity over the creation of a national cryptocurrency. President Heine's own assertions that the RASAR was more central to her opposition's schemes, that it represented Chinese interests, and that it threatened geopolitics and national sovereignty all have fueled speculation since.

Any evidence that supports President Hein's claims against her opponents has become highly convoluted in speculation given the high-profile nature of the issue. James Matayoshi has served as the Mayor of Rongelap since 1995 and has famously been a lifelong advocate for the atoll and Marshallese people impacted by nuclear testing. Outside of tacit support for the RASAR there is no indication that Mr. Matayoshi has connections to any Chinese economic or political efforts. The fact that Mr. Yan is Chinese has made him an easy target of discriminatory reporting as many sources omit the fact that he is also a Marshallese citizen. Mr. Yan has leased lands in Rongelap and travelled to Hong Kong seeking potential investors to support his plan to open Rongelap as a Chinese re-export base, but all references to the scheme having political designs stem from speculations regarding a period when the RMI hosted embassies of both the PRC and Taiwan which enabled other Marshallese officials to grant passports to Chinese citizens in the 1990s.³¹⁷ While the Rongelap atoll case has obvious implications for U.S. security and is certainly being monitored, open source research does not reflect the same degree of state-based measures of competition as the other four cases.

³¹⁶ Alan Boyd, "Chinese Money Unsettles Marshallese Politics," *Asia Times* 14 November 2019. <https://www.asiatimes.com/2018/11/article/chinese-money-unsettles-marshallese-politics/>.

³¹⁷ Mackenzie, "Remote Marshall Islands Atoll Plans to Become the Next Hong Kong," 2018.

D. CASE STUDY RESULTS AND CHINA'S APPROACH

The five sub-national assessments conducted in this Chapter provides strong evidence for three of six initial hypotheses established for evaluating Chinese political, economic, and psychological statecraft in the Marshall Islands. The cases provide weak, yet positive evidence furthering the plausibility of two hypotheses and evidence suggesting, but not confirming, the studies central hypothesis pertaining to the existence of coordinated political warfare. Correlations between Chinese political objectives and economic dependency (H2) appear to be positive and significant as demonstrated to various degrees in four of the five cases. A comparison of economic versus political returns on investment provides mixed evidence for and against the notion that China's economic engagements have more political viability than economic potential (H3). While evidence does support that Chinese ODA and FDI did increased over periods of tensions and negotiation with U.S. policy makers (H4), the cases and data may still be too broad and generalized to attribute significant meaning to the result as China's engagement has grown rather significantly across the entire period assessed, thus leaving little room for period-based comparisons. Evidence provided through the assessed case studies is weakest for demonstrating targeted tangible support to groups denouncing United States policies (H5) and state-based misinformation campaigns (H6). Chuuk's focus on alternative foreign investment and grievances toward the COFA suggest evidence for H5, but actual state support is speculative. Similar results are reached in the cases of ETG's and Luen Thai's promises to investments in Yap, where companies have leveraged inducements to secure land leases with a lack of follow-through for development, but instances of misinformation can only be attributed to the companies themselves rather than state backers. Finally, several gaps still exist to make a strong case supporting the studies primary hypothesis, that the CCP is leveraging coercive diplomatic, economic, and psychological statecraft in concerted campaigns to weaken COFA agreements and U.S. security (H1). While evidence supports different components of this hypothesis across the case studies, only the Chuuk case provides any evidence suggesting coordinated efforts aimed at the COFA, which as described, lacks concrete proof.

State Strategy	Indicator	Evidenced By
Geo-economics—Liberal Institutionalism (Cooperative)	Foreign assistance through established IDBs and IGOs: Local development maintains priority	
Geo-economics—Hegemonic (Cooperative)	Rule-maintaining economic statecraft: Mutual returns on economic investment over time	(+) ODA to FSM (/) FDI in RMI
Geo-economics—Neo-Mercantilist (Competitive)	Market-seeking economic statecraft: Unilateral returns on Investment	(/) FDI in RMI
Geo-economics—Neo Imperialist (Competitive)	Rule-changing economic statecraft: Coercion, Imposition, Bribery	(+) Coercive Trade, Palau
Null: Geopolitical Goals	Political returns: Allies and support	(/) Coercive Trade, Palau (/) Tied Aid, FSM (/) FDI in RMI
Null: Geostrategic Goals	Security returns: Militarization, basing, reconnaissance, surveillance	(/) Underwater Reconnaissance

Figure 28. Chinese Trade Strategies

H2: China's political objectives in the central Pacific grow more assertive and antithetical to American interests as countries become more dependent on Chinese trade and capital flows.

Correlations between Chinese political objectives and economic dependency appear to be both positive and significant from a qualitative standpoint as demonstrated through economic coercion to shape Palau's diplomatic relations with Taiwan, SOE-based efforts to secure resources and potentially secure greater political influence in the RMI, efforts of state-affiliated enterprises to exchange economic development for access and control of lands in Yap, and strong, albeit inconclusive, indications of direct inducements to the Chuukese successionists encouraging the separation from the Federated States and established relations with the United States through the Compacts of Free Association.

H3: China's economic engagements in Micronesia have limited potential for economic return, but notable capacity for political opportunity and leverage.

Reporting from local fisheries managers regarding the lack of concern that the Pan Pacific processing plant in Majuro only operates at one-fifth capacity provides telling example of financial investments for less-than purely economic reasons. Granting that partnership with the plant also provide the economic benefit of greater access to Marshallese fisheries at lower costs to Shanghai Kaichuang vessels, given that multiple SOEs reportedly spend billions in government subsidies to acquire lands for more facilities across Micronesia, decisions to not operate existing facilities at higher capacity seem to contradict economic interests as a driving motivation. Fisheries managers also report Chinese tuna fishing crews as being agnostic to the cost of fishing days when this particular operating cost acts as the primary driver causing American tuna companies to sell off fleets and leave the business.³¹⁸ As for political opportunity and leverage, evidence is not readily apparent at this time; however, monopolization of WPCO fishing and the leasing of lands for infrastructure certainly creates voting power in fishing-based island nations. According to local monitors and technical assistance experts within the WPCO, financial cooperation and cross-investment between Taiwan and China's fishing sector "has occurred for some time and will continue," while the Chinese Government has simultaneously been seeking to encourage PICs to break diplomatic ties with Taiwan in favor of stronger economic relationships with the PRC.³¹⁹

H4: China's foreign engagement and volume of public diplomacy within Micronesia increases during periods of political dispute with the United States.

Evidence demonstrating the increase of Chinese ODA and FDI during periods of disagreement cannot be separated from other factors well enough to be considered

³¹⁸ Philip Molner, "San Diego-based tuna company selling boats, blames U.S. regulations," *San Diego Tribune* 10 July 2019. <https://www.sandiegouniontribune.com/business/story/2019-07-09/san-diego-based-tuna-company-selling-boats-blames-us-government>; Philip Molnor, "U.S. tuna fleet to be shut out of vast area of Pacific Ocean in fee dispute," *Los Angeles Times* 31 December 2015, <https://www.latimes.com/business/la-fi-tuna-fees-20160101-story.html>.

³¹⁹ Havice, McCoy, and Lewis. *Market and Industry Dynamics*, 2019, 71.

significant; however, one particularly interesting correlation is the overlap of the formation of Chuuk's Independence Commission with the decision of the USDOJ's JEMCO to freeze funding for infrastructure given that the COFA weighed so prominently in CSPSC's recommendations for secession.

H5: China increases tangible support to local actors who take outspoken positions against U.S. policies.

Local reporting reflects consistent accounts of mutual beneficial connections between local business, PRC politics, and local officials within Yap, Chuuk, and Palau; however, information collected within this study cannot substantiate that the CCP is actively supporting or encouraging individuals who take positions against U.S. interests in Micronesia.

H6: The CCP utilizes misinformation to obscure its strategic intentions and activities in Micronesia.

Since 2011 large SOEs ETG and Luen Thai have entered into agreements with state officials in Yap promising valuable economic development and securing lands for Chinese developers. Luen Thai has gone so far as to publicize agreements for the development of shore-based fishing infrastructure, but state officials report that these companies routinely fail to produce business plans required for actual development to occur. It is unclear exactly how pervasive the practice of securing land and not following through with promised development has been over in recent years, but senior level officials and ambassadors have highlighted the economic prospects of China's massive tourism market for over a decade; however, the only country within this study that experienced any notable influx of Chinese tourism did not receive significant support in capacity building for that sector and subsequently experienced greater costs and pressures from Chinese tourism rather than benefits.

H1: The CCP leverages coercive diplomatic, economic, and psychological statecraft in concerted campaigns to weaken Compacts of Free Association agreements between the U.S., Palau, FSM, and RMI.

Collective assessments of the other five hypotheses and indicators comprising the threshold of political warfare are assessed collectively in order to assess this hypothesis. First, political warfare demands that statecraft is used affect either political composition or decision making. While each case has only led to a suggestion of such activities economic coercion in Palau would satisfy the requirement for decision making while economic inducements made to secessionists in Chuuk would constitute both an intent to shape decision making as well as the political composition of the federation. The second indicator describes a deliberate policy to achieve political objectives. The most definitive and explicit evidence for this criterion is the State Council's citing of its One China principle as justification of economic sanctions enforced against Palau although the PRC denies that the sanctions were deliberately premeditated for the purpose of inducing political change. Statecraft employed in other instances could serve a range of political objectives ranging from food and resource security to offshore defense; however, the PRC only states only refers to its development initiatives in Oceania in the broad terms of strategic partnerships and overseas interests which elude the prospect of definitively tying action to policy. Finally, the third criteria demand that the deliberate policy choice undermines a rival. In the case of Palau, the rival being undermined is Taiwan and the study could definitively conclude that the PRC is conducting political warfare against Taiwan and, by some extension, American interests and values; however, the intended purpose of the research is to consider the PRCs actions against the Compact arrangements and security arrangements specifically. In this regard China's political warfare effort can only be determined as plausible and would depend on how the CCP leverages the advantages in physical positioning and political access gained through SOEs after U.S. compact funding concludes in 2024 and Compact states experience a significant change in economic dependencies.

The PRC is acquiring control of physical space in the Central Pacific through the leveraging of state-owned enterprises and inducements of economic development in local fishing and tourism industries to secure local land-use and access agreements. It is unlikely

that the PRC will pursue militarization of lands in Micronesia over the short-term to any extent reflecting current militarization taking place in the SCS. It is however likely that these positions will assist in the installation of local intelligence, reconnaissance and surveillance efforts, as well as provide options for gradual escalations in “active defense” capabilities if the CCP could justify being provoked enough to take active measures. Such escalation would not have to achieve a physical foreclosure of U.S. capabilities, but only psychological foreclosure to the extent that the U.S. interests become divided and impotent over the prospects of growing risks and costs in the Central Pacific relative to the public perceptions of benefits for maintaining force projection further west.

E. ALTERNATIVE ENDS, WAYS, MEANS AND RISK ASSESSMENTS

The CCP’s own stated foreign policy goals of bolstering development and establishing multinational cooperative platforms to ensure long-term peace and stability through political and diplomatic means reflects what Friedberg described as the “optimist-constructivist” perspective on U.S.-China relations.³²⁰ China’s increased diplomatic and economic engagement with the FSM along with a strong willingness to support the vulnerable nation’s economic security at levels similar to other donors after 2024, serves as general base of evidence for stability-focused policy. Evidence of a cooperative approach to these ends exist in the establishment of the China-Pacific Island Countries Economic Development and Cooperation forum, which held its third forum in October 2019, and has facilitated direct coordination between select Pacific Island nations and a large network of development sector entrepreneurs. One issue with the constructivist perspective is that China sanctions against PIC governments that don’t recognize its legitimate authority are barred from entry until their political leanings change. Other issues include China’s avoidance to work with and through established multilateral institutions and eschew cooperative efforts with partners such as Australia and New Zealand on the premise that, as a developing country, China and its partners must work independently on direct “south-to-south” development agendas. Foreign engagement through the Export Import Bank of

³²⁰ Central Committee of the Communist Party of Beijing, The 13th Five-Year Plan for Economic and Social Development of the People’s Republic of China. 2016. 142.

China, AIIB, and overseas Chinese “bridges of communication” all undermine established norms as the grass-roots nature of this approach runs counter to the general practice of working by, with, and through national channels.³²¹ To explain further, bilateral donors and supporters more generally engage with national entities as opposed to state governments in order to bolster the development, legitimacy, and accountability of federal agencies; China’s facilitation of SOEs engaging with state and local governments undermines these principles.

Liberal pessimist perspectives certainly provide plausible explanations and insights regarding Chinese economic investments in the fishing and tourism. In the case of Palau, it very well may be that Chinese business prior to 2017 had simply found a new market for mutually beneficial economic exchange and that the government’s own authoritarian insecurities derailed an otherwise free market endeavor. Palau (and Yap) sit only four hours from China by plane, and both make for ideal investment options given the Chinese public’s growing demand for tourism, and ETG’s identification of Yap as a potential conference destination is also plausible along similar logic. Outside of the reporting on local accounts there is no evidence that Beijing’s actions to sanction Palau had been premeditated and very well could have occurred as a consequence of enforcing state policies more generally. In the case of the fishing investments China’s SOEs are providing new mechanisms for longer-term food security while providing economic benefit to host communities and thus satisfying China’s grass-roots development and “mutual benefit” agendas.

While narrow evidence within the case studies of this research supports the plausibility of optimist-constructivist and pessimist-liberal explanations of China’s foreign relations it is important to look at each of these assessments against broader contexts of China’s foreign engagements. While ETG may be seeking economic returns on the construction of massive infrastructure in Yap, it is difficult to discount both Yap and ETGs project in Tibet both create similar political implications in regions representing the fringe of Chinese influence. During the later stages of this research both the Solomon Islands exchanged their respective diplomatic relations with Taipei for Beijing and Kiribati’s economy has been far more driven by its fishing industry than any other PIC in recent years.

³²¹ Ibid., 147.

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VI. CONCLUSION

A. FINDINGS

This study has sought to assess what Chinese activities in the Central Pacific over the past 30 years indicates with regards to the CCP's strategy for displacing United States positions and influence within the Indo-Pacific theater. The research assessed the strategic interests, foreign policies and economic engagements of the United States, Marshall Islands, Federated States of Micronesia and Palau, as well as the ends, ways, and means available to the CCP in gaining relative positions of power and influence while avoiding the risks of eliciting resolute responses or escalations of conflict.

From a regional perspective, intergovernmental ministries and frameworks have assumed larger roles in guiding and collectivizing the interests of individual Pacific Island nations, and most states are increasingly reinforcing these bonds due to the tangible value and security that regionalization is providing; however, even after accounting for increased revenue levels projected under prominent IGO "opportunity scenario" assessments, funding to sustain public sector growth and governance will likely require continued contributions from bilateral and multilateral foreign assistance. The PRC has moved into this space as a prominent bilateral partner for several Pacific Island Countries. This study reveals that several prominent reports currently shaping policy discussion on U.S. interests have grossly overestimated and routinely mischaracterize China's total economic engagement with the region. Billions of dollars that pass through foreign companies domiciled in the Marshall Islands have been determined as China's trade "with" Pacific Island Countries leading to assessments that position the PRC in a relatively more central economic position with the region than it truly is. Assessments of the PRCs current and future leverage over Palau also tend toward overstating that nation's vulnerabilities to future economic coercion. Regarding the Federated States of Micronesia and the Marshall Islands, reporting seems to underappreciate the degree by which Chinese SOEs have leveraged positive economic tools of statecraft on behalf of CCP interests.

Sub-national assessment suggests that rather than exercising statecraft centrally or at an executive level, Beijing relies on passive signals, societal pressures, and informal networks to create internal pressures on local governments to move toward desirable policy outcomes. Prospects of economic insecurity tied to the setting of U.S. Compact funding exacerbates internal frictions with RMI and FSM specifically, as both will continue to rely on remittances and ODA for economic security for their respective plannable futures. RMI's more optimistic Compact Trust Fund scenario, shrinking debt burden, and injection of grants from non-governmental sources all help in bringing the country closer to its economic security goals; however, the lack of domestic opportunities for industry drives greater reliance on fishing as well as political infighting over generating creative schemes for economic development. FSM has been and will continue to be at a higher risk of political influence from external actors in general compared to the other Compact nations due to more pronounced fiscal problems leading into 2024. Economic insecurity in FSM also impacts the political security of its individual states to a degree that is potentially forcing Chuuk to leave the federation, and assessment of the leading secessionists in Chuuk demonstrate aspirations to align with Beijing if not outright sponsored subversion.

Having observed where reliance, vulnerabilities and opportunities lie within Micronesia in recent years lie, China is currently shaping the local political and economic environment by heavily sponsoring increased Chinese positions in local fishing industries; displacing Taiwanese, Japanese, and U.S. tuna companies; and assuming strategic relationships as an economic security provider. The PRC has also sought to leverage economic development in tourism as both a carrot and stick for shaping the environment in Micronesia; however, these efforts seem to have taken a back-seat either because the economic inducements have already achieved the intended goal of securing land leases to the fullest extent feasible before local push-back, because slowdowns in China's economic engines have made economic development through tourism too costly and risky of an economic investment, or some combination thereof.

B. IMPLICATIONS

China is positioning itself to be the strategic partner, through irregular means and outside of official government channels. Evidence gathered supports the notion that China used its growing position in regional fishing to shift Kiribati's diplomatic recognition of Taiwan to the PRC, and suggests that similar outcomes of political shaping could be achieved in the Marshall islands as relative dependence on fishing increases and other, balancing bilateral partners reduce their respective positions with that industry space.

C. FUTURE RESEARCH

Based on findings throughout this assessment, subsequent research should assess on China's engagements with Kiribati and focus attention on the fungibility of investments and informal relationships to the political influence that ultimately tipped the country away from Taiwan and into Beijing's sphere of influence. Studies should also look at land lease and development agreements secured within Kiribati given its proximity to U.S. positions in Micronesia. Assessments of land lease agreements for the region would also provide useful special and temporal information, while conducting a network analysis of Chinese fishing and development corporations might provide greater insight into coordinated shaping operations. Finally, this study did not move the ball very far in terms of understanding influence and messaging efforts at the local, grassroots level that many of the PRC's state-run develop efforts focus on. Open source information on these small and sparsely populated areas can be highly reductive and contain large amounts of unhelpful bias, which makes understanding local information and its impacts difficult. First-hand analysis of local information environments, narratives, and surveys of local perspectives would pay huge dividends in providing significant depth and value to studies such as this.

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**APPENDIX. A. EXCERPTS ON MAJOR ECONOMIC AND POLITICAL EVENTS
SHAPING MARSHALLESE INTERESTS**

	Date	Event or Policy	Impact or Interest	Source
F1	1986	US Congress ratifies Compact of Free Association. FSM enters a Compact of Free Association (Compact) with the United States	“FSM receives \$1.8 billion in funding over twenty years Marshallese citizens non-resident immigrant status. Right to live and work in the United States. FSM has full control over all aspects of domestic and foreign policy, with the exception of defense and security issues”	CIA World Factbook. 2019. “Marshall Islands.”
F2	2004	The Amended Compact of Free Association (Amended Compact), comes into effect	“The U.S. government appropriates \$1.8 billion in funding to FSM over twenty years to include contributions to a Compact Trust Fund (CTF)”	FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025. p.1.</i>
F3	1989	FSM Establishes Diplomatic Relations with PRC		FSM Department of Foreign Affairs. n.d. “Established Diplomatic Relations.”

				https://www.fsmgov.org/diprel.html
F4	2000-2003	Renegotiation of Compact of Free Association with U.S.		About the Compacts of Free Association. U.S. Compact. http://uscompact.org/about/cofa.php .
F5	2004	Amended Compact (Compact-II) comes into effect		About the Compacts of Free Association. U.S. Compact. http://uscompact.org/about/cofa.php .
F6	2004	“FSM spends \$56 of \$76 million available COFA grant funds due to failures to adjust to new implementation rules”		FSM 2023 Planning Committee. <i>Draft 2023 FSM Action Plan</i> . 2014. p.12
F7	2004	“JEMCO requires 30% floor on Compact grant spending towards infrastructure”		FSM 2023 Planning Committee. <i>Draft 2023 FSM Action Plan</i> . 2014. p.14
F8	2004-2014	“Economy languishes with real GDP averaging - 0.4%”		FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025</i> . p.2.
F9	2005	FSM passes corporate tax regulations	Enables the creation of an overseas domicile. Increased tax revenues from Japanese Corporations.	Graduate School USA. 2019. <i>Economic Brief: FSM FY2018</i> . p.4

F10	2009-2011	JICA funds large infrastructure projects linked to airport renovations and other grant funded construction	Economic growth	FSM OBEM. 2018. <i>Economic and Fiscal Update</i> . p.2.
F11	Mar. 2012	“US Department of Interior freezes infrastructure grants until updated development plan is published”	“led to a decline in construction activity.” 26 percent in FY2013, 41 percent in FY2014	FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025</i> . p.2.
F12	2012-2014	“Significant decline in construction activity” leads to recession.	Economy contracts 8 percent	Graduate School USA. 2019. <i>Economic Brief: FSM FY2018</i> . p.10
F13	Nov. 2012	“FSM holds a Development Partners Meeting with the purpose of accelerating implementation of the SDP and seeking development partner support across four broad areas: Agriculture, fisheries, tourism, energy.”	“A second Development Partners meeting is scheduled for 2016 where development partners will be invited to commit to funding IDP priority projects.”	FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025</i> . p.4.
F14	2013	“The economic impact of the decision to freeze infrastructure grants is severely felt”		FSM 2023 Planning Committee. <i>Draft 2023 FSM Action Plan</i> . 2014. p.15
F15	2013	“15 percent decline in domestic fisheries”	“the worst period of economic performance since the start of Amended Compact”	FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025</i> . p.2.
F16	Jan. 2014	Overseas Development Assistance (ODA) policy was approved by Congress. “The purpose of the policy is to establish approaches to managing ODA such that benefits are maximized for all stakeholders. The policy acknowledges, recognizes and respects the	“coordination with non-US bilateral development partners ... has recently been strengthened”	FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025</i> . p.4

		unique circumstances of each state but also seeks commonalities across FSM.”		
F17	2014	FSM Planning Committee releases <i>Draft 2023 FSM Action Plan</i>	Initial strategy for approaching the 2024 “Fiscal Gap” and a precursor to the <i>Infrastructure Development Plan</i>	FSM 2013 Planning Committee. Draft 2023 Action Plan. Palikir: Government of the Federated States of Micronesia. November 2014. https://www.adb.org/sites/default/files/linked-documents/cobp-fsm-2016-2018-ld-02.pdf
F18	2015	FSM Department of Transportation, Communications, and Infrastructure (FSM DoTCI) Publishes Infrastructure Development Plan	National strategy required to release infrastructure funding	FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025. p.2.</i>
F19	- 2015	\$111.3 million in unallocated Amended Compact infrastructure funds.	“Obtaining the release of these funds is critical to restoring construction activity and getting GDP out of negative growth.”	FSM-DoTCI. 2015. <i>Infrastructure Development Plan FY2016-FY2025. p.3.</i>
F20	2015-2017	Economic growth across all economic sectors. Annual average growth = 3.4%		FSM OBEM. 2018. <i>Economic and Fiscal Update. p.2.</i>
F21	Jun-17	A resolution between the U.S. and the FSM removes the suspension of infrastructure grant funding		U.S. DOI. FSM and U.S. Officials Lift Suspension on Compact Public Infrastructure Grant Funding. https://www.doi.gov/oia/

				fsm-and-us-officials-lift-suspension-compact-public-infrastructure-grant-funding.
F22	Mar. 2019	Typhoon Wutip	States of emergency for Chuuk and Yap	Relief Web. IOM Micronesia Newsletter, July 2018 - April 2019 - Typhoon Wutip Destruction. https://reliefweb.int/report/micronesia-federated-states/iom-micronesia-newsletter-july-2018-april-2019-typhoon-wutip .
F23	Mar. 2019	Referendum on the Independence of Chuuk postponed to 2020		Radio New Zealand. Chuuk independence referendum postponed. https://www.rnz.co.nz/international/pacific-news/383328/chuuk-independence-referendum-postponed .

APPENDIX. B. EXCERPTS ON MAJOR ECONOMIC AND POLITICAL EVENTS SHAPING MICRONESIAN INTERESTS

	Date	Event or Policy	Impact or Interest	Source
R1	1986	US Congress ratifies Compact of Free Association. Marshall Islands attains independence. Compact of Free Association with the United States comes into effect.	“The Marshall Islands received roughly \$1 billion in aid from the U.S. during the period 1986–2001. Marshallese citizens non-resident immigrant status. Right to live and work in the United States. The U.S. keeps its military base on Kwajalein Atoll.”	CIA World Factbook. 2019. “Marshall Islands.”
R2	1990	UN Terminates Trusteeship.	RMI a full member to the United Nations in 1991.	BBC. 2018. “Marshall Islands profile - Timeline” https://www.bbc.com/news/world-asia-15595431
R3	1990 - 1998	FSM establishes Diplomatic Relations with the People’s Republic of China (PRC)		BBC. 2018. “Marshall Islands profile - Timeline”
R4	1998 -	FSM ends diplomatic relations with the PRC. Establishes diplomatic relations with Republic of China (Taiwan)		BBC. 2018. “Marshall Islands profile - Timeline”
R5	1999	RMI Officials attend the first National Economic and Social Summit	Recommendations from the NESS “compel RMI to	World Summit on Sustainable

			establish the National Commission on Sustainable Development (NCSD)”	Development. https://sustainabledevelopment.un.org/csd.html
R6	2002 - 2003	Renegotiation of Compacts of Free Association with the United States. Amended Compact comes into effect for twenty years beginning in 2004.	Marshall Islands will receive roughly \$1.5 billion in direct U.S. assistance The U.S. and Marshall Islands also jointly funding a trust fund for the that will provide an income stream beyond 2024	S.J.Res.16, 108th Cong. 2003. https://www.congress.gov/bill/108th-congress/senate-joint-resolution/16/ .
R7	2004	RMI enters into agreement with shipping registries	“Creates mechanism for ship registry and shipping royalties, now a significant source of income”	Graduate School USA. 2018. “Economic Review: RMI Fiscal Year 2017.”
R8	2004	U.S. Owned Fish-processing plant in Majuro closes	Loss of 400 jobs. Contributes to economic stagnation.	Graduate School USA. 2018. “Economic Review: RMI Fiscal Year 2017.”.
R9	2007 - 2010	Increases in Foreign Direct Investments associated with fish-processing plant	Aids economic recovery.	Graduate School USA. 2018. “Economic Review: RMI Fiscal Year 2017.” p.19.
R10	2008-2009	Global Financial Crisis.	RMI’s economy shrinks by 2.4%	Graduate School USA. 2018. “Economic Review: RMI Fiscal Year 2017.” p.30.

R11	2008	Flooding in Majuro and Ebeye.	President Declares State of Emergency	BBC. 2018. “Marshall Islands profile - Timeline”
R12	2010	Implementation of Vessel Day Scheme (VDS) for purse seine fishing vessels	Annual revenues for fishing licenses increase from \$7.9 to \$40 million by 2017	Graduate School USA. 2018. “Economic Review: RMI Fiscal Year 2017.” p.6.
R13	May 2013	“RMI Ministry of Foreign Affairs Presents Vision 2018 to the Third International Conference. Goal 1- Operating in an interdependent world; Goal 2- Enhanced Socio-Economic Self Reliance; Goal 3- An Educated People; Goal 4- A Healthy People; Goal 5- A Productive People; Goal 6- A Law Abiding People; Goal 7- A God Loving People; Goal 8—Respecting Individual Freedom and Fundamental Human Rights; Goal 9—Respecting Culture and Traditions; Goal 10—Environmental Sustainability”	RMI's national set of strategic principles.	Republic of the Marshall Islands Ministry of Foreign Affairs. 2013. “Republic of the Marshall Islands (RMI): National Report for Third International Conference.” <i>UN Document Repository</i> . 2016. http://wedocs.unep.org/handle/20.500.11822/8552
R14	Sept. 2013	Signing of Majuro Declaration to combat climate change		PIF. 2013. Pacific Islands Forum Communique
R15	Dec. 2013	IMF designates RMI as high risk of debt distress. External Debt burden over 50% of GDP	RMI financing for development projects limited to “grants only”	IMF. 2013. Republic of the Marshall Islands: Debt Sustainability Analysis.
R16	Mar. 2014	Flooding in Majuro and Ebeye. State of Emergency		BBC. 2018. “Marshall Islands profile - Timeline”
R17	Apr. 2014	Marshall Island sues for nuclear disarmament	International Court of Justice declares a lack of jurisdiction and drops suit in 2016	BBC. 2018. “Marshall Islands profile - Timeline”

R18	June 2014	RMI Publishes National Strategic Plan 2015–2017	Establishes Priority Development Goals “as the RMI moves towards the scheduled completion of The Compact of Free Association in 2023”	RMI and USDoI. “Economic Review: RMI Fiscal Year 2018.”
R19	2014–2017	“Fishing royalties drive economic growth. Fishing-based revenues increase from \$7.9 to \$40 million”	Economy grows 6.5%.	Graduate School USA. 2018. “Economic Review: RMI Fiscal Year 2017.” p.44.
R20	Jan. 2016	Election of President Hilda Heine		
R21	2016–2017	Fisheries Receipts help spur economic recovery	External debt burden falls to 35% of GDP	Graduate School USA. 2018. “Economic Review: RMI Fiscal Year 2017.” p.19.
R22	2018	Members of government propose Special Administration Region (SRA) in Rongelap Atoll		Radio New Zealand. 2018. “Remote Islands atoll plans to become the ‘next Hong-Kong.’”
R23	Feb. 2018	RMI legislature passes law declaring SOV (cryptocurrency) the new legal national tender.		SOV Foundation. 2019. https://sov.foundation/ Bloomberg. 2019. “Tiny Pacific Nation Makes a Go of its Own Digital Currency.”
R24	Nov. 2018	No Confidence vote by the Nitijela (parliament). 16 of 33 votes cast for removal.	Heine retains presidency by 1 vote	SCMP. 2018. “Marshall Islands leader survives no-confidence motion”

APPENDIX. C. EXCERPTS ON MAJOR ECONOMIC AND POLITICAL EVENTS SHAPING PALAUAN INTERESTS

ID	Date	Event or Policy	Impact or Interest	Source
P1	Oct. 1994	The Republic of Palau becomes an independent nation in Free Association with the United States of America.	Political and economic ties to the West.	U.S. DOS. 2012. The Continued Free Association with the Republic of Palau Act of 2012. https://2009-2017.state.gov/p/eap/rls/rm/2012/09/197539.htm
P2	2010	Palau signed the Compact Review Agreement (CRA) with the US.	Tourism bolsters the economy	FSM OBEM. 2018. <i>Economic and Fiscal Update</i> . p.2.
P3	2015	Palau requests technical support from USDoI to develop a master tourism plan.	The nation has adopted a “Pristine, Paradise. Palau brand and a policy to attract high-value tourism”	Graduate School USA. 2019. Economic Review Palau FY2018. July 2019. http://www.pitiviti.org/news/wp-content/uploads/downloads/2019/07/Palau_FY18_EconReview_web.pdf . Washington, DC, : DoI Office of Insular Affairs.
P4	2015-2017	Palau, with technical assistance from the ADB, “publishes a Medium-Term Strategy for Sustainable Economic Development”	Tourism growth stresses infrastructure	Government of Palau and Asia Development Bank. n.d. Actions for Palau’s Future. https://www.sprep.org/att

				/IRC/eCOPIES/Countries/Palau/43.pdf.
P5	2018	Palau recognized as the “World’s Most Sustainable Travel Destination” from the Internationale Tourismus-Börse in Berlin	Economic	Remengesau, Tommy 2019. “State of the Republic Address.” p.11.
P6	2018	Economy grows by 1.7% “driven primarily by the public sector infrastructure projects.”	Total average wage and salary levels increased by 2.1 percent from \$11,125 in FY2017 to \$11,365.	Remengesau, Tommy E. 2019. “State of the Republic Address,” April 25, 2019. https://www.palau.gov.pw/wp-content/uploads/2019/04/2019-State-of-the-Republic-Address-by-H.E.-President-Tommy-E.-Remengesau-Jr.pdf/ . p.4
P7	2019	President Tsi Ing-wen (ROC), visits Palau	Diplomatic ties	Taiwan Today. President Tsai to visit Palau, Nauru, and Marshall Islands. 2019. https://taiwantoday.tw/news.php?unit=2,6,10,15,18&post=151160 .

**APPENDIX.D. READERS' GUIDE TO EXCERPTS ON
CHINESE SOCIAL, ECONOMIC, AND POLITICAL EVENTS SHAPING THE SOUTH PACIFIC**

	Date	Event or Policy	Impact or Interest	Source
C1	Nov. 1971	The People's Republic of China (PRC) joined the United Nations	Replaces the Republic of China (Taiwan) as the international representative of the Chinese nation.	Why did Resolution 2758 recognize the P.R.C government as the sole legitimate government representing China in the UN? <i>Permanent Mission of the PRC to the UN</i> , http://www.china-un.org/eng/zt/twwt/t39576.html .
C2	Dec. 1978	Then-CCP leader Deng Xiaoping announces China's policy to reform and open up to political and economic engagement.		Jacques Delisle and Avery Goldstein, <i>China's Economic Reform and Opening at Forty</i> . https://www.brookings.edu/wp-content/uploads/2019/04/9780815737254_ch1.pdf .
C3	Jan. 1979	PRC signs the <i>Joint Communiqué on the Establishment of Diplomatic Relations</i> and establishes diplomatic relations with the US	United States recognizes PRC as the legal government of China. Outlines intentions to reduce the "dangers of military	USDOS. <i>Joint Communiqué on the Establishment of Diplomatic Relations between the United States of America and the</i>

			conflict and oppose regional hegemony.”	<i>People’s Republic of China</i> , January 1, 1979.
C4	1993	PRC sets up the Foreign Aid Fund for Joint Ventures and Cooperative Projects	State-sponsored policy to SOEs in building and expanding joint ventures with recipient countries	PRC State Council, <i>China’s Foreign Aid</i> , April 21, 2011. english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284620.htm .
C5	1994	Chinas founds the Export-Import Bank of China	Increases foreign aid through medium- and long-term low-interest loans to developing countries	PRC State Council, <i>China’s Foreign Aid</i> , 2011.
C6	2001	China joins the WTO and asserts its “Going Out” Policy (Now Going Global 1.0)	Going Global 1.0 provided a guide for SOEs to find resources and markets offshore.	China Policy, <i>Going Global: between ambition and capacity</i> , 2017
C7	2004 - 2009	China increases its financial resource for foreign aid	ODA increased 29.4% on average per year	PRC State Council, <i>China’s Foreign Aid</i> , 2011.
C8	2008-2009	Global Financial Crisis		
C9	2010	State Council Publishes white paper on <i>China’s National Defense in 2010</i>	Outlines the National Defense Policy and the modernization of the People’s Liberation Army (PLA) in the “new era”	PRC State Council, <i>China’s National Defense in 2010</i> .
C10	2010	State Council Publishes <i>China’s Foreign Aid</i>	Outlines China’s foreign aid policy, funding, distribution,	PRC State Archives www.gov.cn/archive/whi

			and management under “new circumstances”	te_paper/2014/09/09/content_281474986284620.html.
C11	Nov. 2011	PRC Publishes white paper on <i>China’s Policies and Actions for Addressing Climate Change</i>	Outlines the PRCs policies and for mitigating climate change, adapting to climate change, and participating in international cooperation. Calls for funding and technology transfers to developing countries	PRC State Council, <i>China’s Policies and Actions for Addressing Climate Change</i> , 2011
C12	Dec. 2011	State Council Publishes white paper on <i>China’s Foreign Trade</i> policy	Outlines reforms to China’s Trade policies, contributions to the world economy, and proposals for a “new international economic and trade order”	PRC State Council, <i>China’s Foreign Trade</i> , 2011.
C13	2012	China Commissions first Aircraft Carrier <i>Liaoning</i>		China Power Team. “How does China’s first aircraft carrier stack up?” <i>China Power</i> . December 9, 2015. Updated October 11, 2019. Accessed November 23, 2019. https://chinapower.csis.org/aircraft-carrier/ Copy.

C14	2013	CCP Chairman Xi Jinping announces China's Belt and Road Initiative (BRI)	BRI projects accounting for 51.6 percent of the total value of foreign contracts. Chinese firms invest US\$14.35 bn in the real economies of 53 Belt and Road states and sign 8,158 project contracts worth \$126.03 bn in 2016,	China Power Team. "How will the Belt and Road Initiative advance China's interests?" <i>China Power</i> . May 8, 2017. Updated October 18, 2019. Accessed November 23, 2019. https://chinapower.csis.org/china-belt-and-road-initiative/ .
C15	July 2014	State Council publishes white paper on <i>China's Foreign Aid</i> policy	Outlines China's policies for promoting "economic and social development and participation in international exchanges and cooperation mechanisms"	PRC State Council, <i>China's Foreign Aid, 2014</i>
C16	Oct. 2014	China founds the Asia Infrastructure Investment Bank (AIIB)	Most PRC infrastructure loans still come from Exim Bank of China and China Development Bank	China Policy, <i>Going Global: between ambition and capacity, 2017</i>
C17	May 2015	State Council publishes white paper on <i>China's Military Strategy</i>	Outlines the development, missions, and strategic tasks of the armed forces. Provides strategic guidance for "Active Defense"	PRC States Council, <i>China's Military Strategy, 2015</i> .
C18	2015	China launches <i>Capacity Cooperation</i>	Smaller BRI-like program focused on Europe and South America	China Policy, <i>Going Global: between ambition and capacity, 2017</i>

C19	Aug. 2016	Local authorities confiscate the Chinese research/survey vessel <i>Xiang Yang Hong 19</i> within the EEZ of Yap, FSM	Exacerbates U.S. concerns of Chinese maritime surveys for dual-use (civilian and military) purposes.	http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284620.htm
C20	Jan. 2017	State Council publishes white paper on <i>China's Policies on Asia-Pacific Security Cooperation</i>	Outlines China's policies, positions, and vision for regional security and security cooperation	PRC State Council and Information Office, 2017.
C21	2017	China establishes first overseas military base in Djibouti		China Formally Opens First Overseas Military Base in Djibouti, Reuters, https://www.reuters.com/article/us-china-djibouti/china-formally-opens-first-overseas-military-base-in-djibouti-idUSKBN1AH3E3 .
C22	2017	China Pledges \$4bn USD in aid to the Pacific; largest commitments include PNG (\$3.9 bn), Tonga (\$24.5 million), and Vanuatu (\$11.1 million)	Pledge fulfillment would potentially make the PRC the largest aid donor in the region.	Huge Increase in Chinese Aid Pledged to the Pacific, <i>The Guardian</i> , https://www.theguardian.com/world/2018/aug/08/huge-increase-in-chinese-aid-pledged-to-pacific .
C23	June 2018	"The PLAN hospital ship <i>Ark Peace</i> sailed over 30,000 nautical miles for the tasks of Mission Harmony in Papua New Guinea, Vanuatu, Fiji, Tonga and 8 nations across South America and the Caribbean."	Diagnosed and treated 50,884 people, performed 288 surgical operations across the South Pacific and South America	State Council and Information Office of the PRC, July 2019. https://www.globalsecurity.org/military/library/report/2019/china-national-

				defense-new-era_20190724.pdf.
	2018 -	China engages in trade war with the United States		
C24	Jun. 2019	China Publishes white paper on <i>China's National Defense in the New Era</i>	<p>“China’s National Defense Aims:</p> <ul style="list-style-type: none"> • deter and resist aggression; • safeguard national political security and social stability; • Oppose and contain “Taiwan independence”; • crack down on proponents of separatist movements • safeguard national sovereignty, unity, and territorial integrity • safeguard China’s maritime rights and interests; • safeguard China’s security interests in outer 	<p>PRC State Council, <i>China’s National Defense in the New Era</i>, (Beijing : Foreign Language Press, 2019), http://english.www.gov.cn/archive/whitepaper/201907/24/content_WS5d3941ddc6d08408f502283d.html.</p>

			space, electromagnetic space and cyberspace; <ul style="list-style-type: none"> • safeguard China's overseas interests • support the sustainable development of the country” 	
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APPENDIX. E. READERS' GUIDE TO EXCERPTS ON CHINESE ENGAGEMENT WITH FSM, PALAU, RMI, AND CNMI

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
1	2009	Bridge Project Feasibility Study Sichuan Road and Bridge Cooperation Okat Bridge, Kosrae	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	AidData. 2017 China's Global Chinese Official Finance Dataset 2000–2014. https://www.aiddata.org/data/chinese-global-official-finance-dataset .
2	2009	“In 2009 an agreement was signed between FSM and China for the funding and implementation of a bridge in Kosrae. The project was approved in 2011 and China also funded a feasibility study worth 450,000 RMB (see project #40001). The total cost of this project was 13 million USD. For the project, China provided 60 million RMB in grants, approved by FSM Congress in 2014. In October 2014, Sichuan Road & Bridge Construction began implementation of the project, with completion scheduled for April 2016. The bridge, also known as Kosrae Bridge or Okat Bridge, will have a length of 96.2m and a width of 9.5m. In August 2015, China railway 17th Bureau Group implemented a mid-term quality inspection of the project. The assessment concluded that the project met acceptance criteria.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure”	AidData
3	2009	“Zhejiang Province, China engineers implement installation of biogas stoves in Chuuk and Pohnpei”	D-PRC-Funded E-Grant Aid	Energy Generation and Supply	AidData

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
			P-Strategic Partnership		
4	2009	“In 2009, China provided a \$1 million grant to Micronesia for the refurbishment and repair of a naval ship in Chuuk, the MS Chief Mailo”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transport	AidData
5	2008	“China pledges to construct nine temporary classrooms in Micronesia Unspecified Chinese Government Institution.”	D-PRC-Funded E-Grant Aid	Education	AidData
6	2006	“The Chinese government aided FSM leaders in building four residence projects. The handover ceremony was held in Pohnpei, FSM. FSM President Urusemal and VP Killion were among the heads of state who attended the handover ceremony”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	AidData
7	2009	“In 2009 the Chinese Embassy in Micronesia reported the proposal of a project design and concessional loan from China’s Exim Bank to the Federated States of Micronesia for the establishment of fish processing plants at Micronesia’s main ports. The value of this loan would be \$22 million USD, with a 5-year grace period and a 20-year term. In 2010 FSM’s congress voted to allow the President to enter negotiations over the loan. There is no evidence that the loan was formally committed. “	E-Loan P-Strategic Partnership	Agriculture, Forestry and Fishing	AidData
8	2006	“In October 2006, the government of China and Micronesia signed an agreement to build a government office building to the state of Pohnpei. Construction started in February 2008 and was completed in January	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		2010. The Chinese government funded the project, which cost approximately 30 million RMB.”			
9	2009	“In January 2010 China granted office supplies to FSM Congress. The value of this donation was 500,000 RMB”	D-PRC-Funded E-Grant Aid	Government and Civil Society	AidData
10	2009	“In 2009, the Chinese government dispatched two medical teams to Micronesia, addressing urgent need for medicines and surgery as well as pediatric and gynecological care. In total, five doctors were sent, and all care provided was free of charge”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Humanitarian Aid	AidData
11	2008	“China loaned Micronesia 2 million USD for a construction of a high school in Kosrae. The project was completed on April 14, 2010.”	E-Loan	Education	AidData
12	2007	“In February 2007, China agreed to construct a fisheries zone in Micronesia. The project consisted of maintaining a pilot vegetable farm project in Madolenihmw; developing a 28-boat tuna-fishing operation, Luen Thai from Hong Kong, which is based permanently in Pohnpei, that has plans to increase the number of fishing vessels to up to 40 next year.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Agriculture, Forestry and Fishing	AidData
13	2007	“In August 2007 China reported that it would soon sign a lending agreement in which the EXIM bank would loan 2 million USD to the Federated States of Micronesia Development Bank at an annual interest of 7%. The funding is for loans to Micronesian SMEs. The current state of this project is unknown”	E-Loan P-Strategic Partnership	Business and Other Services	AidData
14	2007	“In 2007 China pledged to provide Micronesia a concessional loan to support Chinese oil storage facilities and improve communications. The loan amount and details are unclear”	E-Loan P-Strategic Partnership	Infrastructure	AidData

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
15	2007	“In 2007 China donated a cargo ship to Micronesia. The goal of the donation was to improve Micronesia’s transport and trade. The value of this donation is unknown”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transportation	AidData
16	2011	“The government of China provided agricultural science and vegetable gardening techniques to more than 300 students and teachers. Furthermore, Chinese officials donated vegetable seeds. This project is likely an extension of the Sino-Micronesia demonstration farm committed in 1998.”	D-PRC-Funded P-Strategic Partnership	Agriculture, Forestry and Fishing	AidData
17	2008	“In 2008 China committed a grant of 20 million RMB to the government of Micronesia for implementation of various economic and technical projects. The current state of this project is unknown.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
18	2008	“In 2008 the government of China granted Micronesia 4 million RMB to be used for leasing a building to be used by the Micronesian embassy in China”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
19	2005	“As part of three agreements signed between the governments of China and Micronesia, the Chinese government has pledged reconstruction assistance of the Chuuk International Airport in Micronesia. While the agreement was signed in 2005, later sources show that the project has been extremely delayed, and construction had not begun in 2009”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transportation	AidData

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
20	2005	“The Chinese government constructed a Tuna Commission building in Micronesia to house the Micronesian delegation to the UN-facilitated and Chinese aided Western and Central Pacific Highly Migratory Fish Management committee. The building will be used for project management and development.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
21	2004	“In April 2004 China provided emergency relief aid after tropical storm Sudal hit Micronesia. The value of this aid is unknown.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Humanitarian Aid	AidData
22	2002	“On November 27, 2002, China agreed to design and construct a stadium in Truk state, Micronesia.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	AidData
23	2006	“In 2006 a bilateral assignment between the Chinese government and the Federated States of Micronesia. As part of fulfilling the agreement a Chinese language instructor, Mr. Lu Shihua, arrived at the College of Micronesia, FSM in 2007. The total cost of the deal was \$30000. Professor Lu Shihua spent a year at the college and taught Chinese language courses.”	D-PRC-Funded P-Strategic Partnership	Education	AidData
24	2008	“In 2008, the Chinese government funded four full scholarships for Micronesian students to study at Chinese universities. The valued amount of the scholarships is \$32,000 USD”	D-PRC-Funded P-Strategic Partnership	Education	AidData

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
25	2008	“In 2008 China gives \$14k to Micronesia to buy computers for the FSM congress. No other information found. Source: AidData Global Finance Dataset”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
26	2008	“In 2008 the Chuuk state government of Micronesia received \$3.5 million USD from China in the form of a financial grant for its Financial Recovery Program. The funds come from a \$4 million USD financial grant that the FSM received from the Government of the People’s Republic of China in July 2007.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
27	2008	“In 2008, China provided a \$500,000 grant to Micronesia for financial reform”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
28	2008	“On December 20, 2007, an agreement for a grant of 1 million USD for the FSM Trust Fund was signed in Beijing by China’s Vice Minister for the Ministry of Commerce, Yu Guangzhou and by the FSM Secretary for the Department of Foreign Affairs, Lorin S. Robert. The funds were transferred and accepted on March 11, 2008. During the same visit in December 2007, an Agreement on Economic and Technical Cooperation between the Federated States of Micronesia and the People’s Republic of China was signed as well. The 20,000,000 RMB grant is to be used for the projects to be agreed upon between the two Governments. Specific matters in this regard will be stipulated in the	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		subsequent agreements to be signed by the two countries”			
29	2009	“China gave \$US 1 million grant for Kosrae coastal erosion”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	AidData
30	2009	“In 2009, China gives \$160,000 USD grant for Pohnpei government administration building furniture.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	AidData
31	2009	“In 2009, China pledged a \$70,000 grant for the construction of a meeting house in Meerur, a village on Yap”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	AidData
32	2009	“China gives \$US 0.28m grant for Chuuk campus power generator, STAFF_NOTE: Academic Journal is not specific.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Energy Generation and Supply	AidData
33	2009	“In 2009, China gave a \$US 0.22 million grant for the renovation of a tennis court and a swimming pool in the Pohnpei State of Micronesia.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	AidData
34	2009	“In 2009, China provided a \$500,000 USD grant to Micronesia for a hospital in Chuuk.”	D-PRC-Funded E-Grant Aid	Humanitarian Aid	AidData

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
			P-Strategic Partnership		
35	2009	“In 2009, China granted Micronesia \$0.14 million USD in scholarships.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Education	AidData
36	2005	“In 2005, China gave a \$US 3.7 million economic and technical assistance grant to Micronesia”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
37	2005	“In 2005, China provided Micronesia a \$250,000 grant to purchase cars for protocol use”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	AidData
38	2009	“Bi-lateral cooperation between China and FSM in the medical field began in 2009, with the “First Phase Medical Cooperation Project in Chuuk from August 2009 to August 2011. The first medical team consisted of five medical doctors who served at the Chuuk State Hospital. The second phase medical cooperation project includes six doctors from China who are currently serving at the Pohnpei State Hospital. As part of this second phase, the PRC present over \$130,000 worth of medical equipment and supplies to the Pohnpei State Department of Health Services in December 2016”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Humanitarian Aid	Lowy Institute. 2019. Pacific Aid Map. https://pacificaidmap.lowyinstitute.org .

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
39	2010	“China originally donated 2 ships: Chief Mailo (2004) and Hapimohol 1 (2007). Both needed repair within a few years. China funded the repair of Chief Mailo in 2010 and the repair of Hapimohol 1 in 2012. Repairs were undertaken by Wuhan Nanhua High Speed Ship Engineering Ltd, the company that originally supplied the ships. The agreement included towing the ship back to China, repairing and performing maintenance of the ship, delivering the repaired ship back to Micronesia, and training a local Micronesian crew”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transportation	Lowy Institute
40	2010	“The Chinese Embassy has been working with FSM tourism authorities and tourism organizations in China to market the FSM as a tourist destination. In 2010, the China National Tourism Administration invited tourism officials from FSM to attend the 12th session of the China International Travel Mart. This is the largest international tourism fair in Asia and has served as an important platform for enhancing tourism exchanges between China and foreign countries.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Tourism	Lowy Institute
41	2011	“As FSM’s compact for financial assistance from the U.S. nears its end (2023), the FSM Government has been happy to strengthen its relationship with China. Since 2000, China has invested hundreds of millions of dollars in developing its diplomatic relationship with FSM. These grants are either for the purpose of economic and technical cooperation or outright financial assistance and are used to finance the same sectors that the US–FSM Compact intended to address education, health, infrastructure, public sector capacity	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Government and Civil Society	Lowy Institute

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		building, private sector development, and the environment. Some of the money from the grant has been deposited into a Trust Fund that will help support the FSM government after 2023. The most recent package of grants from China used for these purposes were approved in 2011: 1.3 million RMB for financial assistance; 20 million RMB for Economic and Technical Cooperation; and another 10 million RMB for Economic and Technical Cooperation”			
42	2012	“An outbreak of dengue fever in late 2011 in the State of Yap led to the health department requesting assistance to help respond. China responded with a donation in late February 2012. This was after the number of new cases had peaked in December”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Humanitarian Aid	Lowy Institute
43	2012	Emergency assistance—Dengue Fever outbreak second assistance in 2011	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Humanitarian Aid	Lowy Institute
44	2013	“In September 2016, the Government of the People’s Republic of China gave the Government of FSM a grant to purchase a Y-12 aircraft. A previous agreement has been made that the Chinese company AVIC Harbin Aircraft Industry Group would build the aircraft. In November 2017, the completed Y-12 plane arrived in Yap. It will be used for cargo transport, rescue and medical services in Micronesia.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transportation	Lowy Institute
45	2014	“When President Christian visited China in 2017, he established a new sister province –state relationship with Hainan. As part of this relationship, Hainan made	D-PRC-Funded E-Grant Aid	Education	Lowy Institute

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		a commitment of 50 scholarships to be used by FSM within the next 5 years (10 scholarships/year) for FSM students to study in Hainan. The first batch of 10 students from FSM departed for Hainan in August 2017”	P-Strategic Partnership		
46	2014	“China funded the upgrade of the FSM-China Friendship Sports Centre for the 2014 Micronesian Games. The Centre was originally built by China Guangzhou International Economic and Technical Cooperation Company, between 1999–2002, at a cost of ‘a little over’ US\$5 million. The renovation included a new electronic scoreboard, lights, sound system, and NBA-style backboards and shot clocks”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	Lowy Institute
47	2015	“Pacific Islands Forum Grant: Included in this grant is the provision of 15 vehicles and it can be used for other projects as agreed by the two governments.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transportation	Lowy Institute
48	2015	“Typhoon Maysak Assistance: Emergency humanitarian assistance provided in April 2015 following Typhoon Mayask which hit FSM from 29 March to 2 April”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Humanitarian Aid	Lowy Institute
49	2015	“Agriculture Pilot Farm: In 1996, China began an agricultural technical assistance project in Pohnpei with the construction of a pilot farm, conversing an area of 80,000 square meters. Half of it is designated for traditional local crops like sakau, yam, taro, banana and others. The other half to trialing agricultural	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Agriculture, Forestry & Fishing	Lowy Institute

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		products and methods. The farm is organic and has been up and running for almost 22 years. Five Chinese agriculturalists work with local counterparts to pass on new and appropriate methods of vegetable production. Hundreds of locals (likely over 1000) have received training. Grants, agricultural technicians and equipment have been provided on an ongoing basis by China to see the project through its numerous phases. A grant worth 14.2 million RMB was provided in 2015 to assist with its 10th phase”			
50	2017	“Madolenihmw-China Friendship Gymnasium: In March 2017, President Christian was flow to Beijing, He was flattered at the degree of formality with which his party was welcomed to China (including a military review and school children in traditional costume). The party was taken to see the tourist village Hainan, as an example of successful tourism—which could be implemented in FSM. President Christian met with President Xi as part of the trip and was encouraged to take an active part in the Belt and Road scheme. The meeting concluded with a signing ceremony of an economic and technical agreement providing the FSM with 100 million RMB, as well as the forgiveness of an interest free loan that FSM had taken in 1993 for the construction of a multi-purpose gymnasium located at the College of Micronesia national campus, officially named the FSM-China Friendship Sports Center”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	Lowy Institute
51	2016	“China’s Ministry of Commerce committed to provide FSM with USD \$5 million per year from 2017 to 2025.”	D-PRC-Funded E-Grant Aid	Infrastructure	Lowy Institute

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
			P-Strategic Partnership		
52	2016	“China’s Ministry of Commerce committed to provide FSM with an untied grant of \$9.4 million USD scheduled for FY2016”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	Lowy Institute
53	2016	“In 2015, China provided a grant for the construction of Chuuk state’s Government complex. This building is still under construction.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	Lowy Institute
54	2016	“Chuuk State Government Complex Construction effort. Related to item 53.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	Lowy Institute
55	2016	“At the request of the FSM Government, the Chinese Embassy donated drought relief materials including sea water desalination equipment, generators, pumps, water tanks, canned goods, sacks of rice and bottled water. China chartered cargo planes to deliver these supplies to FSM. These supplies were delivered into Pohnpei for further distribution to affected areas at the discretion of the FSM Government”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Humanitarian Aid	Lowy Institute
56	2016	“In May 2016, a handover ceremony for a Garbage Truck and Solar Power Lights to Madolenihmw Municipal Government from the Chinese Government was held. The lights included ten solar power indoor lights and two solar streetlights. Mayor Ringlen said	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Infrastructure	Lowy Institute

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		the garbage truck would play an important role protecting environment and making people live with cleaner and safer condition”			
57	2017	“On September 15, H.E. Ambassador Li Jie attended the Handover Ceremony for the Pohnpei State and Kolonia Town police uniforms.”	P-Strategic Partnership	Government & Civil Society	Lowy Institute
58	2016	“In September 2016, an agricultural product market was donated by China to Net Municipal Government. The market will play an important role in promoting local economic development and increasing farmers and fishermen’s income”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Agriculture, Forestry & Fishing	Lowy Institute
59	2017	“President Christian visits China: When President Christian visited China in 2017, he established a new sister province –state relationship with Hainan. As part of this relationship, Hainan made a commitment of 50 scholarships to be used by FSM within the next 5 years (10 scholarships/year) for FSM students to study in Hainan. The first batch of 10 students from FSM departed for Hainan in August 2017”	P-Strategic Partnership	Government and Civil Society	Lowy Institute
60	2017	“In 2017 the FSM Government approved a grant from China to subsidies the newly launched airline between the FSM and Papua New Guinea. Port Moresby’s Jacksons Airport is the leading regional ‘hub’ for air travel in the Pacific and will provide a platform for tourists to fly to FSM. Air Niugini, a PNG air service provider, is running the service.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Transportation	Lowy Institute
61	2017	“The Embassy of the People’s Republic of China donated three large boxes of books covering a wide range of subjects on China, from regional histories and	P-Strategic Partnership	Education	Lowy Institute

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		explanations of their political system, to the Pohnpei Public Library.”			
62	2018	“In early 2018, a cash grant of US\$ 45,000 was approved by the Ministry of Foreign Affairs of the People’s Republic of China to the FSM Department of Foreign Affairs.”	D-PRC-Funded E-Grant Aid P-Strategic Partnership	Political	Lowy Institute
63	2012	“Chinese owned Exhibition and Travel Group (ETG) firm signed various 99-year leases to build Chinese owned resort properties in Yap. To date, no construction has been started but the leases remain. ETG claims it has no ties to the Chinese Government. The owner of ETG, Deng Hong was incarcerated at a Chinese detention facility for corruption in 2013 and was released in 2018. He has since visited Yap and has plans to move forward with the resort construction.”	E-Investment P-Strategic Partnership	Tourism	Pacific Island Times. Micronesia Forum.
64	2017	“In November 2017, the Chinese government ordered tour operators to stop selling package tours to Palau, with reports that doing so could lead to fines. Palauan tour operators and government officials bridle at suggestions the ban has brought Palau to its knees—there were still 9,000 visitor arrivals in July—but occupancy rates at hotels have dropped and businesses are hurting.”	E-Investment Reduction P-Strategic Partnership	Tourism	The Guardian. 2018.Global Development. https://www.theguardian.com/global-development/2018/sep/08/palau-against-china-the-tiny-island-defying-the-worlds-biggest-country .
65	2018	“The number of Chinese visitors to Palau had increased from just 634 people in the 2008 financial year to 87,000 during 2015, according to figures from Palau’s Bureau of Immigration and the South Pacific Tourism Organization. But by the end of 2017 — after China	E-Investment P-Strategic Partnership	Tourism	ABC Australia. 2018. https://www.abc.net.au/news/2018-08-26/china-tourist-ban-leaves-palau-tourism-in-peril/10160020 .

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		seemingly randomly banned state-run package tours from visiting the country — Chinese arrivals plummeted to 58,000. Analysts have suggested Palau’s diplomatic ties with Taiwan — being one of its 17 remaining allies worldwide — combined with Beijing’s ability to control and oversee its tourists have a lot to do with it.”			
66	2018	“Marshall Islands President Hilda Heine narrowly survived a vote of no confidence Monday, seeing off a challenge she alleges was orchestrated by Chinese-backed business interests’ intent on undermining the Pacific nation’s sovereignty. She said the no-confidence motion was prompted by her government’s refusal to back plans for an independently administered tax haven on an atoll within the Marshalls.”	P-Strategic Partnership	Government and Civil Society/Tourism	South China Morning Post. Marshall Islands Leader Survives No Confidence Vote. https://www.scmp.com/news/asia/australasia/article/2172775/marshall-islands-leader-survives-no-confidence-motion-says .
67	2018	“China reportedly has plans to turn Rongelap, an atoll that was close to U.S. nuclear test sites that is inhabited by just 20 people, into a special administrative zone that would include a tax-free port and offshore company registration.”	E-Investment P-Strategic Partnership	Government and Civil Society/Tourism	Nikkei Asian Review. Cryptocurrency and China. https://asia.nikkei.com/Politics/Cryptocurrency-and-China-influence-test-Pacific-island-s-presidency .
68	2018	“The Mayor of Rongelap atoll, James Matayoshi, addressed hundreds of entrepreneurs, government officials and politicians in Hong Kong. There, at the Asia World Expo in April, he unveiled his grand design for Rongelap, a remote coral atoll of 61 islets that sits just 3 meters above sea level. It would become the ‘Rongelap Atoll Special Administrative Region,’ a	P-Strategic Partnership	Government and Civil Society/Tourism	TV New Zealand. Marshall Islands Nuclear Wasteland to Become Next Hong Kong. https://www.tvnz.co.nz/one-news/world/could-remote-marshall-islands-nuclear-

ID	Date	Event Description (Excerpts from the Literature)	Instrument and Activities (D,P,M,E)	Primary Local Impact	Source
		utopia for foreign investment with relaxed tax and visa requirements.”			wasteland-become-next-hong-kong.
69	2009-2019	“Chinese mothers commonly visit Saipan to give birth to their children in hopes that their children will become U.S. citizens.”	P-Citizenship	Government and Civil Society	South China Morning Post. Chinese Mothers Flock to U.S. Territory to Give Birth. https://www.scmp.com/news/china-insider/article/1293005/saipan-new-hong-kong-chinese-mothers-flock-us-territory-give .
70		“Chinese casinos continue operating in Saipan, regardless of massive debts.”	P-Partnership E-Investment	Tourism	Forbes. Too Big to Fail U.S. Pacific Island Casino Keeps Failing. https://www.forbes.com/sites/muhammadcohen/2019/04/26/too-big-to-fail-u-s-pacific-island-casino-keeps-failing/#57442a5068f0 .

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