

# ISSUE BRIEF

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## Countering Chinese Inroads into Micronesia

*Dean Cheng*

As China's economy has grown and China has assumed the role of foremost global trading power, Beijing has extended its influence to the South Pacific. The latest development has been reports of a new mega-resort on the island of Yap in the Federated States of Micronesia (FSM).<sup>1</sup> The United States, which has generally played the dominant role in this area that straddles key sea lanes of communications to the western Pacific, needs to keep a close eye on Chinese efforts to make inroads there. Otherwise, Washington could find itself strategically outflanked.

### Current State of Affairs in Micronesia and the Pacific

While Yap and Truk (also part of the FSM) were major Japanese naval bases in World War II, the South Pacific has generally not been a point of great power contention since 1945. At the end of World War II, the U.S. assumed responsibility for the "Trust Territory of the Pacific Islands." In the 1980s, the Compact of Free Association (COFA) allowed the various Trust Territories to become independent states: the Federated States of Micronesia, the Republic of the Marshall Islands, Palau, and the Commonwealth of the Northern Mariana Islands.

Under the COFA, the U.S. maintains certain preferential policies towards the island nations, while also assuming responsibility for their defense. Citizens of the islands may join the U.S. military without first establishing permanent residency or citizenship. The U.S., in turn, can maintain strategic access through the waters that are encompassed by the various island nations. Some one-third of global trade and almost 50 percent of energy commerce passes through waters controlled by these island states.<sup>2</sup>

While the U.S. has been responsible for the island states' security, Washington has generally exerted limited economic effort in support of their development. (Much of U.S. aid in this case is administered via the Department of Interior, rather than the State Department.<sup>3</sup>) The largest source of aid to the states has been Australia (\$7 billion between 2006 and 2013).

Meanwhile, the People's Republic of China (PRC) has established relations with the Cook Islands, the Federated States of Micronesia, Fiji, Niue, Papua New Guinea (PNG), Samoa, Tonga, and Vanuatu, becoming a major donor and providing some \$1 billion in aid.

According to the Lowy Institute in Australia, China has grown as a source of aid to various South Pacific nations.<sup>4</sup> Although China's aid efforts remain behind Australia's, they have eclipsed Japan's.

### Chinese Investments and the Extension of Chinese Power

The extension of Chinese power has occurred even as Beijing no longer competes with Taipei for diplomatic recognition from the various South Pacific states. For many years, Beijing and Taipei sought to buy diplomatic recognition by offering large aid and investment packages to the various

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The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002  
(202) 546-4400 | [heritage.org](http://heritage.org)

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nations. Under Republic of China (ROC) President Ma Ying-jeou, an informal truce was reached whereby both the PRC and ROC refrained from trying to alter the state of recognition. Six states in the region currently recognize Taiwan (ROC), while eight recognize Beijing (PRC).

Ironically, the shift away from “checkbook diplomacy” between Beijing and Taipei has probably left the region more open to Chinese investment, as the PRC pursues commercial opportunities in the region. Indeed, Chinese trade with Pacific island countries rose by 60 percent between 2014 and 2015, reaching \$8.1 billion.<sup>5</sup>

As is the case with its investments in the Indian Ocean region, China’s economic investments in the South Pacific could eventually pose a security threat. After Australia, China is the largest source of aid to Samoa and Tonga. However, like the “string of pearls” of Chinese commercial investments and developments in the Indian Ocean, little evidence exists that Chinese business investments in the South Pacific are masks for a greater military presence.

In both instances, however, Chinese investments *do* serve the purpose of expanding China’s commercial, economic, and political footprint. This is arguably even more true in the South Pacific, where Chinese aid has transitioned from grants to concessional loans that will have to be paid back. Many of these island nations may find it difficult to meet the terms of these loans, given their limited economic resources. This, in turn, could open the door to other forms of Chinese presence, including military.

In some cases, China has clearly emphasized political and diplomatic considerations. When Fiji’s military staged a coup in 2006, many donor states, including Australia, reduced their commitments. The PRC, however, maintained its relations with the military government, and substantially expanded

its aid donations. Chinese bilateral aid rose to \$333 million by 2013, substantially outpacing Australian and Japanese aid.

### **Challenges Facing the U.S.**

For the U.S., the presence of the PRC in the South Pacific does not pose immediate military threats; rather, it promises longer term influence for Beijing, which is likely to erode regional support for the U.S. This longer term erosion *does* have potential military implications. Not only do key sea lanes of communications (SLOCs) transit the waters encompassed by these island nations, but they also offer potential sites for various bases, as was the case in World War II.

Anchorage and airfields in these islands would offer alternative sites for Guam—which is already densely covered with various American military bases and facilities—making it a lucrative target for Chinese missiles and other stand-off weapons. Dispersal to additional sites would complicate Chinese targeting, by both proliferating the number of sites that might have to be attacked and broadening the number of sovereign states that it would be attacking.

By contrast, if Beijing established a political foothold in these islands, it could persuade these states not to extend access to the U.S., as well as arrange for Chinese access. These need not be military bases; the ability to build space surveillance facilities and communications nodes, for example, would make these islands potential reconnaissance and surveillance sites for eavesdropping on Guam and the U.S. missile test facilities at Kwajalein in the Republic of the Marshall Islands.

### **Recommendations for the U.S.**

China’s efforts in the South Pacific are still at the nascent phase, so a relatively low-key American effort

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1. Ben Bohane, “Chinese Company Seeks to Build ‘Mega-Resort’ on Remote Micronesian Island of Yap,” ABC Australia, May 2, 2016, <http://www.abc.net.au/news/2016-05-02/chinese-company-seeks-to-build-mega-resort-on-island-of-yap/7300588> (accessed September 20, 2016).
  2. Thomas Matelski, “America’s Micronesia Problem,” *The Diplomat*, February 19, 2016, <http://thediplomat.com/2016/02/americas-micronesia-problem/> (accessed September 20, 2016).
  3. U.S. Department of State, Bureau of East Asian and Pacific Affairs, “U.S. Relations with the Federated States of Micronesia,” Fact Sheet, February 25, 2016, <http://www.state.gov/r/pa/ei/bgn/1839.htm> (accessed October 25, 2016)
  4. “Australian Foreign Aid,” The Lowy Institute for International Policy, <http://www.loyyinstitute.org/issues/australian-foreign-aid> (accessed October 12, 2016).
  5. Feng Zheng, “Should Australia Worry About Chinese Expansion in the South Pacific?” *The Strategist* (Australia), July 11, 2016, <http://www.aspistrategist.org.au/australia-worry-chinese-expansion-south-pacific/> (accessed September 20, 2016).
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would serve to limit Chinese inroads. However, if the U.S. neglects the region, then Chinese investments are likely to generate disproportionate benefits. Therefore, the U.S. should implement the following policies:

- **Develop a regional strategy for the South Pacific.** The first step is to recognize both the region's importance and its needs. In this regard, the U.S. should coordinate its efforts with Australia and New Zealand, which are physically closer and have far more expertise in the region. In addition, the three nations share a common perspective and a common democratic tradition, and have the Australia, New Zealand, United States Security Treaty as a foundation for their efforts.
- **Preserve the Compact of Free Association.** Part of the U.S. strategy for the South Pacific should be to preserve the COFA, which provides the legal basis for relations between the U.S. and several of the states in the region. Should the effort by the Federated States of Micronesia (FSM) succeed, then there would be the diplomatic equivalent of "open season" on the various states, which would ultimately be detrimental to U.S. interests. The FSM effort would end the COFA by the close of 2018, rather than 2023, severely curtailing the time available for renegotiation. Washington should seek to reverse the FSM's decision, while initiating talks now for revising the COFA. The U.S. should also consider moving the administration of COFA-related funds to the State Department, rather than the Department of Interior, so that it can be better integrated into a regional strategy.
- **Highlight and emphasize private investment and trade in the South Pacific.** The aid distributed to many South Pacific states has not resulted in a substantial growth in regional economies. Such growth is unlikely to occur so long as the various states depend on aid. Given their location on the equator, the states have a number of potential avenues for economic growth, including tourism and fishing, as well as space tracking and potentially even space launch. (The commercial space launch provider Sea Launch operated its maritime launch ship from equatorial waters in the Pacific.) The U.S. may want to also consider including the various states in free trade agreements.
- **Monitor Chinese efforts in the region.** Chinese efforts in the South Pacific, while mainly economic, undoubtedly have a political component and possibly a strategic one as well. Beijing is primarily oriented towards developing trade; however, as with much of East and South Asia, multiple political, diplomatic, and military considerations are in play. For these reasons, the U.S. needs to monitor China's efforts in the South Pacific, as well as keep watch on its efforts in the Indian Ocean or Latin America.

—*Dean Cheng is a Senior Research Fellow for Chinese Political and Security Affairs in the Asian Studies Center, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.*