**The Open Ocean: The Future of Foreign Aid in the Pacific**

The Caribbean is not the Pacific, as economists and foreign policy analysts might do well to remind themselves. Pacific Island nations, even in the best of circumstances, are barely [economically viable](http://www.eastwestcenter.org/publications/pacific-island-nations-how-viable-are-their-economies). In 2012, for instance, while all Pacific Island nations were able to support their government services, none with the exception of Fiji could do so without some measure of foreign aid. For the small island nations in the northern Pacific and those straddling the equator, foreign aid [constitutes](http://www.eastwestcenter.org/publications/pacific-island-nations-how-viable-are-their-economies) a significant part of their economy–from 24% in Palau to 74% in Tuvalu.

Development prospects remain dim for these small nations. First, these states lack the natural resources that a few of the larger Melanesian countries enjoy—a notable example is Papua New Guinea, where the gross value of gas, oil and mineral exports [totaled](http://www.eastwestcenter.org/publications/pacific-island-nations-how-viable-are-their-economies) nearly 80% of its GDP, even though only a fraction of this amount actually entered the island economy. Second, manufacturing and trade are severely limited by the small size, tiny population, scant resources, and distance from markets of these nations. Finally, tourism is very modest in nearly all of these places. Palau, with a resident population of 18,000 and an influx of over 160,000 tourists a year, is the only northern Pacific nation with a sizeable tourism industry, with tourism contributing to 23% of its [national GDP](http://www.pitiviti.org/news/wp-content/uploads/downloads/2016/11/RoP_EconReview_FY15_Final.pdf) in 2015.

Three Pacific Island nations—Federated States of Micronesia (FSM), Marshall Islands, and Palau—currently enjoy a Compact relationship with the United States. The Compact of Free Association, originally modeled on the free association of the Cook Islands with New Zealand, was understood as a political compromise between full independence and ongoing territorial status. It offered the island entity internal self-government as well as annual financial assistance from its partner on condition that the latter would manage all foreign affairs and defense. For small island nations without the wherewithal to support themselves, a compact of free association appeared to be an ideal political solution. Over the years of negotiations between the United States and its island wards, self-government for the island nations expanded to include foreign affairs while U.S. authority narrowed to defense-related matters. By 1986, when the Compact was finally implemented, the political status of free association had morphed into independence.

Five years ago Compact funds [represented](http://www.eastwestcenter.org/publications/pacific-island-nations-how-viable-are-their-economies) 24% of the total GDP of Palau, 34% of the total in FSM, and 45% in the Marshalls. Nevertheless, despite this assistance, FSM and the Marshalls might still be included in the ranks of the Pacific’s economically worse-off nations. Tourism potential is limited in FSM and the Marshalls, which have seen no measurable growth in the industry in the 30 years since independence, and even in Palau the existing tourism industry cannot be relied upon: the government has recently taken measures to [curtail](http://www.pitiviti.org/news/wp-content/uploads/downloads/2016/11/RoP_EconReview_FY15_Final.pdf) the recent Chinese tourist influx, which seems to have displaced the much more lucrative Japanese market. Thus, continued U.S. support remains a lifeline to the Compact nations’ future economic viability.

Yet, the other nations in this general area depend even more heavily on foreign aid to support their equally stagnant economies. In all likelihood, then, most other Pacific states, not only the Compact nations, will have to depend on foreign aid for a sizeable piece of their economies in the foreseeable future. For the Compact nations, this would mean continuing reliance on U.S. aid even after the current financial provisions run out in 2023. Those other nations in the region with no ties to the United States–especially Kiribati, Nauru and Tuvalu–will be forced to turn to other nations with whom they may or may not have similar historic ties for the same type of support. Hence, it can be argued that Compact funds are not the disincentive that prevents these countries from growing their own economies, but the remedy to a problem they share with other small Pacific nations.

Surprisingly, a few months ago, a resolution was introduced into the FSM Congress to terminate the nation’s Compact relationship with the United States in 2018, five years before the current funding agreement between United States and FSM expires. The resolution was perhaps the first formal expression of the frustration that has been building among island leaders in recent years. Their perception is that the United States regards itself as having the upper hand in the Compact relationship because of its financial support. The resolution has not been acted upon, but we might ask why was it introduced in the first place. Why should countries like FSM and the Marshalls, so heavily dependent on U.S. financial support, attempt to end their relationship with the US?

All things considered, they don’t want to, of course, as the short-term economic consequences could be disastrous. But the island nations can’t resist the urge to show the United States that they too have a voice in the matter. If you won’t take care of us over the long run, they seem to be telling the United States, we will find another power that will. Those of us who lived through the height of the political status debate in the late 1960s remember how often strident activists would make the threat that they could always turn to USSR if the United States were to shrug off island concerns. In the debate’s current form, however, Asia is now the threatened alternative instead of the Soviet Union.

Nonetheless, the Micronesian nations seem to recognize that even if China affords a convenient foil to the United States, it has never shown the nations of the north Pacific that it has deep pockets. Perhaps this is the reason that FSM is the only one of the three Compact nations to continue diplomatic relations with the People’s Republic of China. Palau and the Marshalls have long since switched to Taiwan, and Kiribati did so even earlier. Taiwan has rewarded the recognition of its sovereignty from these island nations by providing straight-out financial assistance. Meanwhile, China’s foreign aid to FSM has consisted of buildings, ships, and construction projects of limited cost, planned and built entirely with Chinese labor. Often enough, these projects were later found to have serious defects.

The United States could help its own case by developing a long-term strategy in the Pacific that looks to the deep future rather than focusing on simply the latest in an unending series of threats to U.S. security in the area. Such a long-range vision would entail working out what would be necessary to forge a permanent link with the Compact nations and the two U.S. territories (Guam and the Northern Mariana Islands). Bring these islands to the table and establishing a lasting link would guarantee the U.S. a permanent presence in the area and the access to East Asia that has time and again proven critical over the last two centuries or longer.

If the US were to benefit from this link, so would its Pacific partners—three island nations and two dependent entities with strong historical and political ties to the United States. Full economic self-reliance has been elusive thus far despite the progress made by some. A clear U.S. commitment to continue to provide monetary aid to its island partners, which has been so integral to the economies of struggling Pacific nations, would go long way to cement that link.

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