



Commonwealth of the Northern Mariana Islands

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**Oral Testimony of Governor Arnold I. Palacios
Commonwealth of the Northern Mariana Islands**

Oversight Hearing of the U.S. House Committee on Natural Resources
*“Peace Through Strength: The Strategic Importance of the Pacific Islands
to U.S.-led Global Security”*

August 24, 2023

Hafa Adai and Tiroow, Chairman Westerman and distinguished members of the House Committee on Natural Resources. To my fellow islanders on the committee, Congressman Sablan, Congressman Moylan, and Congresswoman Radewagen - welcome back to the Marianas.

Thank you for inviting me to speak with you today about some of the critical issues that are impacting our region. Today’s hearing is a testament to the significance and urgency of the role of the Pacific Islands in global geopolitics. That you have traveled thousands of miles to conduct this oversight hearing indicates that you indeed recognize the strategic value of the Pacific islands to securing peace and freedom in our nation and the world.

It is in the interests of national and global security for the United States government to protect and fortify its Pacific territories and allies of the Freely Associated States of Micronesia (FAS) against the growing threat of the Chinese Communist Party (CCP). America’s security architecture in the Pacific is not only founded upon military defense, but also on the pillars of economic, social, and political stability in the region. It is based upon economic prosperity, the health of people and ecosystems, and the rule of law. It is rooted in genuine, trustworthy

relationships, and shared commitments, backed by action, to a free and open Indo-Pacific.

As such, I am happy to see that the United States is at last close to completing negotiations to renew all of the Compacts of Free Association.

The U.S. territories of the Northern Marianas, Guam, and American Samoa firmly anchor America's position in the Pacific, and together with the Freely Associated States, create a vast corridor of peace and security that spans nearly three million square miles and connects to the seas of other allied nations.

Recognizing the strategic importance of America's territories and allies in Micronesia, the CCP moves aggressively to fill perceived voids in American assistance and to capitalize on the social and economic vulnerabilities of Pacific Island communities.

We see that aggression in massive investments in infrastructure and economic development. We see it in land grabs and fisheries expansions. We see it in unauthorized research vessels lurking around our undersea fiber optic cables. We see it in organized crime, public corruption, and political interference.

There is a strategic edge in all of the CCP's activities, and it destabilizes island communities and cuts against America's influence and security in the region.

In the Northern Marianas, during times of economic hardship and vulnerability, we too have turned to Chinese investment for solutions. In fact, for almost forty years now, the People's Republic of China (PRC) has had a firm foothold in our islands. Chinese investors were always conveniently there when we needed them, offering new industries and revenue sources that also directly or indirectly advanced the interests of the PRC in the Marianas.

From the 1980s through the early 2000s, we had a garment industry, primarily Chinese-owned, with more than 30 factories operating on the island of Saipan. There were many human rights and labor violations associated with the industry during these years.

When the garment industry shut down, the commonwealth lost a major source of revenue, and drastic austerity measures had a deeply destabilizing effect. To make up for the loss, we turned to Chinese tourism, and also to Chinese casino gaming. Prior to the Covid-19 Pandemic, tourists from the PRC comprised approximately 40 percent of all visitor arrivals in the Northern Marianas. The casino on Saipan at its peak reported billions of dollars in rolling chip volumes generated at just 16 VIP tables.

For a brief period, Chinese tourism and gambling revenues propped up the commonwealth's government and economy. But this was short-lived and had unfortunate consequences. Today, Chinese tourism has dried up and the casino has shut down. The commonwealth economy continues to struggle, and the government is in deep fiscal distress. These are conditions that make the commonwealth *again* acutely vulnerable to CCP exploitation.

Shortly after I was inaugurated as governor earlier this year, I announced the position of my administration that we would pivot away from the commonwealth's overreliance on Chinese investment, and seek to strengthen our relationships with our federal partners and allies in the region. I worried about the instability of the Chinese markets in light of shifting geopolitical currents. I also worried about the commonwealth's potential exposure to national security concerns.

Not everyone was pleased with this position. We are taking the hits for it, both economically and politically. To this day, we are continually asked to open up to Chinese investment once again. That same kind of pressure ripples across the Pacific in various ways. Whatever form this

pressure takes, it is always erosive to America's influence and security in the region.

To strengthen its security architecture in the Pacific, and to bolster our defenses against CCP threats, the United States should expand its engagement with all of the island jurisdictions, and increase support for the economic and social development of these communities.

I offer the following recommendations:

First, Congress can revisit the provisions of the Covenant between the United States and the CNMI, especially Section 702, which provides direct financial assistance for the CNMI Government for government operations, capital improvement, and economic development.

Secondly, we are currently facing a workforce shortage that threatens the CNMI's economic recovery. While we fully appreciate the federal government's considerable financial assistance for infrastructure improvements, we will not be able to carry out most of these projects because of the labor challenges we face. I therefore also ask for urgent congressional support for legislation to repeal or at the very least delay implementation of the touchback provision in our Commonwealth-Only Transitional Worker (CW) program, which would require a significant portion of our workforce to exit the commonwealth for an indefinite period while they wait for new work permits to be processed.

The touchback provision is due to go into effect next month and could not come at a worse time for us. Many businesses in the CNMI will be adversely impacted, and this will further deepen our economic vulnerability in the region.

Relative to this, I ask for your support of Congressman Gregorio Kilili Sablan's H.R. 560, the Population Stabilization Act, which aims to shore up the eroding population and workforce of the Northern Marianas

by providing stability and permanent residency to the commonwealth's long-term foreign workers.

Further, I ask Congress to pass legislation that recognizes the unique challenges that confront Pacific Island communities and make changes to federal policy that hinder our economic and social development.

For instance, while we understand and support the goals of the Build America, Buy America (BABA) Act, this policy is untenable for insular areas in the Pacific Islands when it makes the sourcing of equipment and supplies extremely cost-prohibitive and when it is exceedingly difficult for small island territories to compete with the bigger states in procurement. A blanket BABA waiver from Congress across the federal family would efficiently resolve the issue, and allow the territories to access closer markets with allied nations so that our projects can move forward.

In direct relation to this and other challenges, I also ask for your support of bipartisan H.R. 5001, which would place special advisors for the insular areas in every executive department of the federal government to ensure that the concerns of island communities are considered in federal-decision-making.

Finally, we ask Congress to establish the Northern Marianas as America's diplomatic center in Micronesia. The diplomatic center can be supported by a robust network of national security advisors across the territories and Freely Associated States. These networks would offer critical support for territorial governors and Micronesian heads of state, and build capacity to effectively respond to difficult and destabilizing problems, such as illegal, unreported, and unregulated (IUU) fishing and organized crime.

I have emphasized many of these points before in testimonies before the U.S. Senate Committee on Energy and Natural Resources,

before the Interagency Group on Insular Areas in February, and in conversations I have had with military and political leaders. The stability of America's territories and allies in Micronesia are inseparable from national security and peace in the region.

Help us help ourselves, so we are stronger partners in bolstering national security and ensuring that the Pacific remains a haven of peace, prosperity, and freedom.

Si Yu'us Ma'ase, Ghilisow, and Thank You for inviting me to testify before you today, and for coming all this way for this important field hearing. I invite the members of this committee to visit us in the Northern Marianas as well, so you can enjoy our hospitality and beautiful islands and see for yourselves the unique opportunities and challenges that we face.

May God bless the Northern Marianas and all the Pacific Islands.
May God bless the United States of America.