

Time to Act: Strategic Benefits of Funding the Compacts of Free Association (COFA)

THE ISSUE

For months, Congress has been unable to extend and update the Compact of Free Association (COFA) agreements with three island nations in the Pacific. The longer it takes for the U.S. to fund these critical national security arrangements with the Federated States of Micronesia, the Marshall Islands, and Palau, the more likely the Chinese Communist Party will take advantage of what would be a generational blunder. Renewing and funding the amended COFA agreements, estimated to cost \$7.1 billion over 20 years, offers significant and unique benefits to the United States' strategic posture in the region. The COFA agreements:

Give the U.S. Exclusive Defense Privileges. The COFA agreements grant the U.S. authorities over Freely Associated States (FAS) defense matters. Specifically, the U.S. has exclusive rights to establish and use military bases on COFA partner territory. For example, Palau is expected to host a radar system to support the U.S. Air Force's Agile Combat Employment concept, and the Marshall Islands host the Ronald Reagan Ballistic Missile Defense Test Site. The U.S. also possesses "strategic denial rights," which allow the U.S. to prevent any third-party military, namely China, from entering FAS territory without U.S. authorization. These privileges ensure that the U.S. can support Pacific military operations and prevent China from expanding into the Second Island Chain. Although these privileges do not expire, the FAS governments could each consider a vote to terminate them if the COFAs are not extended and funded.

Protect Strategic Geographical Access.

The FAS are in Micronesia, the same subregion of Oceania as U.S. territories Guam and the Northern Mariana Islands. In a [letter](#) to the U.S. Senate on February 6, 2024, FAS leaders noted that the COFA agreements "effectively expand the United States for defense purposes to cover an expanse of the Pacific larger than the 48 contiguous United States, stretching from west of Hawaii to the Philippines and Indonesia." Palau is [fewer](#) than 1,500 miles from Taiwan, while Hawaii and California—both of which host many U.S. military assets and vessels—are more than 5,000 miles and 7,000 miles away from Taiwan, respectively. Failure to renew the compacts risks America's free access in the Indo-Pacific and significantly complicates the United States' abilities to support its Armed Forces and allies during a potential military contingency. As one senior Chinese officer [proposed](#) to Navy Admiral Timothy J. Keating, "You take Hawaii east. We'll take Hawaii west." Inaction on Capitol Hill would serve that future and make conflict in Asia more likely.

Maintain U.S. Leadership in South Pacific Security Environment. The South Pacific is quickly becoming one of the world's most contested geopolitical regions. In 2022, China and the Solomon Islands [signed](#) a security deal. In early 2023, the U.S. and Papua New Guinea [concluded](#) a defense cooperation agreement. In late 2023, Australia and Tuvalu [signed](#) an agreement that included security components. In 2024, Cook Islands Prime Minister Mark Brown [proposed](#) a trilateral defense and security agreement with New Zealand

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and Australia. While the U.S. and the FAS have enjoyed strong defense ties since the 1980s, failure to sustain COFA funding could critically reduce U.S. security partnerships throughout the South Pacific and leave the FAS no choice but to consider new security partnerships, including with China.

Counter Chinese Diplomatic Pressure.

China is actively weaponizing Congress's inability to fund the compacts. Specifically, China is leaning on Palau and the Marshall Islands to break diplomatic ties with Taiwan and establish ties with China. For example, in a February 9, 2024, [letter](#) to a U.S. Senator, Palauan President Surangel Whipps, Jr., noted that China has offered to "fill every hotel room" in Palau's "tourism-based private sector" and "more if more are built." President Whipps, Jr., also warned that China has offered "\$20 million a year for two acres for a 'call center'" in Palau. In a February 13, 2024, [letter](#), Marshall Islands President Hilda Heine warned that China wanted to "develop one of [its] atoll municipalities" on the condition that "it were granted autonomy from [the] national government," reflecting a broader Chinese push for the Marshall Islands to discontinue support of Taiwan. Following the island of Nauru's recent decision to sever ties with Taiwan in favor of Chinese economic aid, China is actively pressuring Palau and the Marshall Islands to make the same decision that, without COFA funding, may be necessary to support their economies.

Strengthen U.S. Diplomatic Reputation.

After consecutive Administrations and Congresses have reaffirmed that China is America's most consequential strategic challenge, failing to renew the compacts raises significant

doubts about America's capacity to support Indo-Pacific priorities. Regional allies, such as Australia, New Zealand, and Japan, are closely monitoring COFA developments and [growing](#) concerned about Congress's funding shortcomings. Should Congress be unable to fund the compacts, the U.S. and its allies may be forced to reassess their Indo-Pacific operating environment and re-evaluate strategic initiatives that counter China.

Follow Fiscally Responsible Practices.

Extending the funding for the compacts is fiscally responsible—they save the U.S. tens of billions of dollars that would be needed to militarily [compensate](#) for losing access to the FAS. By not funding the compacts, Congress could be forced to ask for more taxpayer dollars than it originally needed.

RECOMMENDATIONS FOR THE UNITED STATES

Congress should renew and fund the COFA agreements with the Federated States of Micronesia, the Marshall Islands, and Palau as soon as possible. Doing so will sustain America's privileged position in a critical region of the Pacific, thereby eliminating the risk of uncertain U.S. support and stop-gap, short-term funding solutions.

The Departments of Defense, State, and the Interior, and the National Security Council should increase the frequency of high-level visits to the FAS. The Administration should demonstrate U.S. commitment to the FAS by sending additional officials to strengthen people-to-people relations and acquire eyewitness accounts of malign Chinese activities. In 2023, a congressional delegation [visited](#) all three FAS.