



Integrated Country Strategy

Federated States of Micronesia

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1. Chief of Mission Priorities

The Compact of Free Association (COFA) has been a force for stability and democracy in the FSM – and by extension, in the Indo-Pacific – since its inception in 1986. After 2023, however, when direct financial assistance will be replaced by the COFA Trust Fund, COFA funding is projected to fall by around 50%. Only five years remain before this monumental shift. Absent other countervailing factors, the reduction in US foreign assistance portends likely greater economic and political instability in the FSM after 2023. Developing and implementing a strategy to mitigate such potential instability is perhaps our Embassy's highest priority.

The future of many of the 50 plus USG components operating in the FSM also appears uncertain. Absent action from Congress, several will end their operations in 2024, including FAA, FDIC, the Post Office, and the hybrid COFA disaster response mechanism that is funded by FEMA and implemented by USAID. The presence in the FSM of the remaining 45 plus agencies after 2023 is also in question. It is critical that these other agencies continue operations in the FSM after 2023 to ease the difficult transition and reduce the FSM's vulnerability to economic and political instability and natural disasters.

In fact, the FSM is already in transition to the post-2023 era; preparations must begin now. The FSM needs to change its institutions and frames of reference to re-orient itself as a more economically independent country; and the US must produce a new USG development strategy that reflects this impending reality and that will reduce the FSM's vulnerability. These parallel strategies must be developed now, and in coordination. Towards those ends, the FSM has created a Joint Compact Review and Planning Committee, and the US has assembled its FAS Interagency Working Group. Both are still in the formative stages, but I have urged the two groups to begin a dialogue once they have reached a sufficient level of maturity, perhaps in six months to a year from now.

Private sector development in the FSM is critical to balancing the shrinking of the public sector that is sure to accompany the change in COFA financial assistance, as it is concentrated in funding public sector operations. Tourism is low hanging fruit that can be exploited especially in the eco-tourism sector, but the FSM needs technical assistance to plan and execute tourism plans. Small scale industry making niche products also needs to be emphasized; some of that is already happening, but much more can and should be done.

Mission FSM needs to craft a new development strategy for a new era; one which will support a stable FSM and reduce its vulnerability. The COFA development paradigm will no longer be operative after 2023, so the ground needs to be laid in advance for what follows. We need USAID expertise in the form of a USPSC assigned to our Embassy to begin developing the new strategy now. In addition, as a priority under the Indo-Pacific strategy, we need to work with

our allies, multilaterals, NGOs, and the United Nations to see how each of them can contribute to the FSM's transition.

We request that a regional PAO be established to improve our Public Affairs approach to COFA funding, and to assist with branding better the significant funding and other assistance we provide to the FSM. Other countries represented in the FSM market their assistance very well, while providing lesser amounts; we need to step up our game.

We also request that an Entry-Level Political Officer position be established to analyze and report on external political influences regionally across the FAS. Over the past year, forces not allied with the U.S. have noticeably stepped up their efforts to influence economic and political affairs in the FSM, especially at the state level, attempting to divert the nation away from U.S. interests. The U.S. government needs more sustained scrutiny of, and information about, these efforts.

The transition to the post-2023 era serves as backdrop to overarching US national security interests in the Indo-Pacific. During the Cold War, geopolitical considerations lent high prominence to the Northern Pacific; the region was at the center of USG attention at the highest levels. After the end of the Cold War, changed circumstances led to a lower profile, and the area slid from the view of many decision makers. More recent geopolitical changes are raising its profile once again, and the US is re-intensifying its engagement. To accommodate the recent greatly enhanced level of US military activity in the FSM, we ask that DOD assign a military liaison officer or Foreign Area Officer (FAO) to our Embassy.

The FSM serves as the center of a strategic bridge between Hawaii, Guam, and the Philippines. The future changes to our Compact financial assistance in the post-2023 era threaten the close security relationship that the US currently enjoys. There is a tangible risk that economic decline will attend the end of direct financial assistance after 2023, with possible associated increases in out-migration, and attempts by third parties to exploit security vulnerabilities through financial and other inducements.

It is critical that we focus strategic planning to create favorable economic conditions for the FSM as we approach the significant changes after 2023 in order to support the FSM's stability as well as enduring US national security interests.

2. Mission Strategic Framework

Mission Goal 1: Support economic and political stability in the FSM after 2023, which serves US national security interests and peace in the Indo-Pacific by ensuring that the FSM remains economically and politically stable and does not come under the influence of unfriendly foreign powers deriving from a potential economic downturn.

Mission Objective 1.1: Promote FSM government practices that enhance market competition, fair market access and environmental sustainability initiatives by 2023 to achieve improved economic performance.

Mission Objective 1.2: Assist the FSM government in crafting a new post-2023 development strategy by the end of 2019 that includes provisions for technical assistance to assist the FSM states in developing their business sector, especially tourism.

Mission Objective 1.3: Enhance FSM engagement each year for the next five years with bilateral donors, multinational organizations, the United Nations and NGO's to mitigate reduced Compact financial assistance after 2023 so that the FSM will not suffer a destabilizing financial downturn.

Mission Objective 1.4: Stimulate healthy, educated, and resilient populations through promoting sustainable economic and social systems that conserve natural resources and contribute to regional stability and prosperity.

Mission Goal 2: Strengthen FSM national security – and overarching US national security – through increased engagement with the US military, US law enforcement, aviation security agencies and other security agencies by the FSM that support the US Compact Title III role, whereby the US is solely responsible and has full authority for the security of the FSM, and defends the FSM as it would its own homeland.

Mission Objective 2.1: Every year for the next five years, (a) increase military/security capabilities and interoperability of regional partners to support and defend free, open, and rules-based order in the region, (b) strengthen law enforcement cooperation between the US and the FSM, including in the maritime and cyber domains, and (c) promote international aviation security standards.

Management Objective: Right-size mission human resources and capacity to strengthen public diplomacy outreach, support mission goals and objectives identified in the Integrated Country Strategy (including support of the more than 500 official visitors and temporary duty personnel assisted by post), serve and protect US citizen interests in the FSM and comply with the Department's security, fiscal, and reporting requirements.

3. Mission Goals and Objectives

Mission Goal 1: Support economic and political stability in the FSM after 2023, which serves US national security interests and peace in the Indo-Pacific by ensuring that the FSM remains economically and politically stable and does not come under the influence of unfriendly foreign powers deriving from a potential economic downturn.

Description and Linkages: After 2023, direct financial assistance to the FSM under the COFA will be replaced by income generated by the COFA Trust Fund. Direct COFA funding is projected to fall by around 50%. Only five years remain before this monumental shift. Absent other countervailing factors, the reduction in US foreign assistance portends likely greater economic and political instability in the FSM after 2023. Developing and implementing a strategy to mitigate such potential instability is perhaps Embassy Kolonia's highest priority. In tandem with USAID, DOI, USDA and many other USG agencies, Embassy Kolonia will foster economic and political stability in the FSM after 2023, thereby serving US national security interests and peace in the Indo-Pacific and ensuring that the FSM does not come under the influence of foreign powers inimical to the US. This goal reflects and advances overarching Indo-Pacific strategies and policies, such as the State/USAID 2018-2022 Joint Strategic Plan, the EAP/ASIA Joint Regional Strategy, the National Security Strategy, Presidential Policy Directives, and other national-level strategies.

Mission Objective 1.1 Promote FSM government practices that enhance market competition, fair market access and environmental sustainability initiatives by 2023 to achieve improved economic performance.

Justification: Working with the FSM government to achieve improved economic performance through market competition, fair market access and environmental sustainability initiatives will contribute to fundamental economic and political stability following the reduction of COFA financial support in 2023. Economic and political stability in the FSM will counterbalance the risk that (1) regional peer competitors will increase investment and activities in the FSM to secure increased state and national government influence and support, and (2) decreased government revenues could lead to economic and political instability and an FSM government more receptive to outside influences that are inimical to U.S. interests.”

Mission Objective 1.2 Assist the FSM government in crafting a new post-2023 development strategy by the end of 2019 that includes provisions for providing technical assistance to assist the FSM states in developing their business sector, especially tourism.

Justification: The decline in direct COFA financial support in 2023 will require new approaches to development and new approaches to accessing the resources of donors and lenders. Assisting the FSM in crafting a new post-2023 development strategy will enable the national and state governments to better mitigate the funding shortfalls that may accompany post-2023 changes in the COFA. Tourism, an economic sector that is under-developed in the FSM, can

become a vehicle to provide employment, markets for local vendors, construction opportunities, tax revenues, etc. Recrafting the FSM development strategy and assisting in the development of the private sector will help offset the losses in direct COFA financial support post-2023 and reduce the risk that (1) regional peer competitors will increase investment and activities in the FSM to secure increased state and national government influence and support, and (2) decreased government revenues could lead to economic and political instability and an FSM government more receptive to outside influences that are inimical to U.S. interests.

Mission Objective 1.3 Enhance the FSM engagement each year for the next five years with bilateral donors, multinational organizations, the United Nations and NGO's to mitigate reduced Compact financial assistance after 2023 so that the FSM will not suffer a destabilizing financial downturn.

Justification: In order to mitigate reduced Compact financial assistance after 2023, it will be necessary to forge new and expanded relationships with bilateral donors, multinational organizations, the United Nations and nongovernmental organizations (NGO's) that will help offset the funding shortfall. These relationships – aimed at post-2023 – need to be nurtured beginning immediately. Offsets in the loss of COFA funding by these organizations will help underpin post-2023 economic and political stability in the FSM. Going forward, the USG can help craft and guide these critical relationships, which will help avert the risk of economic and political instability post-2023 and reduce the risk that (1) regional peer competitors will increase investment and activities in the FSM to secure increased state and national government influence and support, and (2) decreased government revenues could lead to economic and political instability and an FSM government more receptive to outside influences that are inimical to U.S. interests.

Mission Objective 1.4 Stimulate healthy, educated, and resilient populations through promoting sustainable economic and social systems that conserve natural resources and contribute to regional stability and prosperity.

Justification: Healthy, educated and resilient people participating in sustainable economic and social systems will be fundamental to economic and political stability following the reduction of COFA direct financial support in 2023. Buoyant FSM economic and social systems will counterbalance the risk that (1) regional peer competitors will increase investment and activities in the FSM to secure increased state and national government influence and support, and (2) decreased government revenues could lead to economic and political instability and an FSM government more receptive to outside influences that are inimical to U.S. interests.

Mission Goal 2: Strengthen FSM national security – and overarching US national security – through increased engagement with the US military, US law enforcement, aviation security agencies and other security agencies in the FSM that support the US Compact Title III role, whereby the US is solely responsible and has full authority for the security of the FSM, and defends the FSM as it would its own homeland.

Description and Linkages: The US has critical strategic security interests in the FSM, which, as the center of a strategic bridge between Hawaii, Guam, and the Philippines that leans toward the US, is a key nexus in the Indo-Pacific region. In addition, under Title III of the COFA, the USG has sole responsibility and full authority for the security of the FSM, and defends the FSM as it would its own homeland. It is therefore very important that Embassy Kolonia increase the FSM engagement with PACOM, other DOD agencies, the US Coast Guard, US law enforcement agencies and other security agencies. This goal reflects and advances overarching Indo-Pacific strategies and policies, such as the State/USAID 2018-2022 Joint Strategic Plan, the EAP/ASIA Joint Regional Strategy, the National Security Strategy, Presidential Policy Directives, and other national-level strategies.

Mission Objective 2.1 Every year for the next five years, (a) increase military/security capabilities and interoperability of regional partners to support and defend free, open, and rules-based order in the region, (b) strengthen law enforcement cooperation between the US and the FSM, including in the maritime and cyber domains, and (c) promote international aviation security standards.

Justification: (1) Through the COFA, the US has a treaty obligation to defend the FSM. As direct financial assistance to the FSM under the COFA winds down and is replaced by reduced income generated by the COFA Trust Fund in 2023, a more robust US military engagement in the FSM will help to avert potential political and economic instability, protect overarching US national security interests in the Indo-Pacific region and thwart the risk that inimical efforts by third parties to meddle in the affairs of the FSM, especially at the state level, will harm the strong US/FSM link.

(2) There are a raft of overarching US national security interests in the Indo-Pacific region related to thwarting transnational crime (including trafficking and money laundering) and porous border security. The FSM, with its far-flung, remote, loosely governed island states strategically located between Hawaii, Guam and the Philippines is vulnerable to the threat of inimical third-parties who will try to exploit the nation for criminal purposes.

(3) United Airlines is the only U.S. air carrier providing service between the FSM and the U.S., and is critical to the quality of life and economy in FSM. The FSM Department of Transportation, Communication, and Infrastructure's (TCI) is the national authority responsible for ensuring aviation security and safety standards within FSM. The four FSM international airports (PNI, TKK, KSA, and YAP) are managed by the respective state governments. Each airport experiences funding challenges and TCI does not maintain a collaborative relationship with local airport authorities. As a DHS/TSA and USAF priority, promoting international aviation security standards will combat terrorism through intelligence and information gathering/sharing and through comprehensive collaboration in support of secure travel.

More robust US military engagement in FSM and stronger law enforcement cooperation between the US and the FSM and strengthening international aviation security standards will mitigate the risk that regional peer competitors, transnational crime syndicates and terrorists

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will increase investment and activities in the FSM to secure increased state and national government influence and support, and (2) decreased government revenues could lead to economic and political instability and an FSM government more receptive to outside influences that are inimical to U.S. interests.

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Approved: August 16, 2018

4. Management Objectives

Management Objective 1: Right-size mission human resources and capacity to strengthen public diplomacy outreach, support mission goals and objectives identified in the Integrated Country Strategy (including support of the more than 500 official visitors and temporary duty personnel assisted by post), serve and protect US citizen interests in the FSM and comply with the Department's security, fiscal, and reporting requirements.

Justification: A resilient management platform will provide the financial and human resources needed to achieve the mission's program goals and to contribute to realizing overarching US security and global concerns, and mitigate the risk that (1) regional peer competitors will increase investment and activities in the FSM to secure increased state and national government influence and support, and (2) decreased government revenues could lead to economic and political instability and an FSM government more receptive to outside influences that are inimical to U.S. interests.