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Surfing Tsunami Waves: Turbulent Geopolitical Risks and Micronesia

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Highlights

This policy brief explores the escalating geopolitical risks stemming from the United States' shift in policy under its 2025 administration, characterized by a combination of small government ideology, protectionist trade measures and reduced international security commitments. These shifts are reshaping the global political and economic order, with significant implications for Micronesia. While direct impacts may be limited due to low trade volumes and existing exemptions, the region remains highly vulnerable to second-order effects such as reduced aid, inflationary pressures and disruptions in tourism and remittances. The authors argue that Micronesia's structural fragility and dependence on external support leave it exposed to the ripple effects of global instability, likening its position to "surfing tsunami-like waves" with limited control.

Introduction

This article analyzes recent transformations in geopolitical risk, instigated primarily by the United States, which have the potential to destabilize the foundational structures of the post-World War II global political and economic order. The principal objective is to assess the ramifications of these shifts for Micronesia, with a particular emphasis on the three nations party to the "Compacts of Free Association" (COFA) – the Federated States of Micronesia (FSM), Marshall Islands and Palau – while also considering the consequences for Kiribati and Nauru, as well as the Pacific region as a whole.

The analysis is situated within a context characterized by sometimes contradictory and inconsistent information, reflecting the fluid and uncertain nature of the current geopolitical environment. As such, the article seeks to offer a synthesis of the authors' provisional conclusions. It is important to note that the perspectives presented herein are exclusively those of the authors, writing in their personal capacities, and do not represent the official stance of the United Nations.

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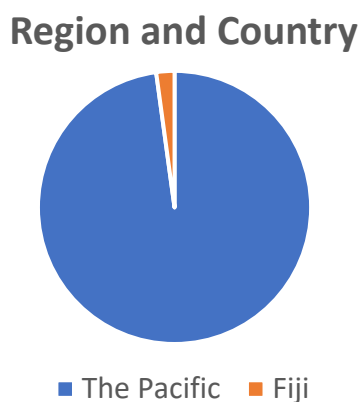
The policy directions adopted by the new American administration as of June 2025 can be encapsulated in three primary themes:

- (i) *Small government*: A deliberate move towards reducing the size and scope of federal governance, emphasizing decentralization and the curtailment of regulatory interventions;
- (ii) *Protectionism*: The adoption of measures intended to shield domestic industries from foreign competition, which include tariffs, import restrictions and a re-evaluation of trade agreements;² and
- (iii) *Reduction of international security commitments*: A strategic effort to decrease the commitments associated with international security obligations, potentially impacting defense arrangements and foreign military presence in regions such as Micronesia.

Small Government: Reduction of US Foreign Aid and Social Assistance

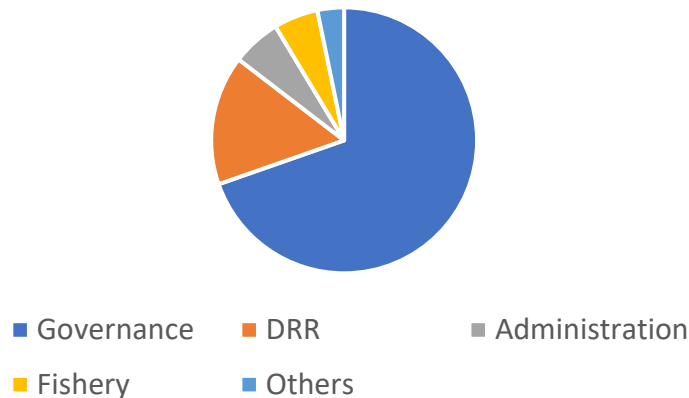
The transition in the United States toward a small government paradigm, as exemplified by the new US administration, has precipitated significant reductions in foreign aid and domestic social assistance programmes. Central to this shift is the scaling back of the United States Agency for International Development (USAID), signalling a broader trend of diminishing federal engagement in international development and emergency relief initiatives. In early 2025, the United States undertook a dramatic reduction in its foreign aid programmes, with more than 80 per cent of USAID initiatives worldwide being cancelled. This amounted to over 54 billion US dollars in cuts. The Pacific region was not spared, 18 USAID programmes, valued at nearly 60 US million dollars and focused mainly on the regional level, were terminated. These sweeping reductions reflect a broader shift in US policy toward smaller government and less international engagement, and they are already having a significant impact on the small island nations of the Pacific (see Figure 1).

Figure 1: USAID’s terminated aid in the Pacific, as of March 2025, US dollars



² Numerous commentaries on the current US trade policy have characterized it as “mercantilist” in nature.

Areas of Assistance



Source: DOGE (2025).

Note: DRR stands for disaster risk reduction.

Concurrently, the US government has initiated processes to suspend, review or abolish various domestic national social assistance schemes. Notably, programmes targeting socially vulnerable populations and minorities, including educational scholarships and welfare support, have experienced substantial cutbacks or outright elimination. There has also been a discernible movement to curtail the authority and operational scope of the federal government in the United States, as evidenced by proposals to dissolve the Department of Education and devolve educational administration to individual states, following constitutional provisions.

A critical area for examination is the United States' fiscal obligations under the COFA, which, while involving multiple sovereign states, remain under the purview of the US Department of the Interior³. The compacts are expected to persist barring extraordinary circumstances, given their strategic significance. The geopolitical context, marked by China's expanding influence in the Pacific, has accentuated the importance of the three COFA nations, which serve as strategic hinterlands to Guam, home to a major US military installation⁴. Thus, while the prominence of these relationships may increase, their foundational status is unlikely to be diminished.

Although US direct aid to Pacific Island nations is comparatively modest relative to other global regions, its reduction is poised to exert disproportionate adverse effects on the small states of Micronesia. Historically, the three COFA countries have benefited from privileged access to the US federal social assistance and financial support mechanisms. The current administration's assertive approach to scaling back these forms of assistance is already manifesting in tangible negative outcomes. For instance, there has been a contraction in scholarship opportunities for Micronesian students seeking higher education in the United States, alongside the dismissal of medical personnel previously funded through federal grants.

³ For more specific details on "The Compacts of Free Association" (COFA), please refer to the previous article of this series.

⁴ The Northern Mariana Islands, including Saipan and Tinian, which are parts of Micronesia and were a battlefield in the Pacific War became a US territory in 1975.

Protectionism: US Dollar Bloc versus the Global Market

In the aftermath of World War I and the Great Depression, persistent economic stagnation fostered the emergence of protectionist policies, culminating in the formation of economic blocs designed to secure resources and markets, stimulate domestic industries and implement insular financial regimes. Notable examples include the British Sterling Area, the CFA Franc Zone and the US Dollar Bloc. The international community, recognizing that such economic fragmentation contributed to the outbreak of World War II, subsequently established a multilateral free trade system anchored by the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO). This institutional framework facilitated the resolution of numerous crises and underpinned an era of unprecedented global economic growth.

Protectionism is typically characterized by elevated tariffs, targeted subsidies, restrictive trade and investment practices and exclusive business regulations that privilege domestic interests; measures often associated with interventionist or “big government” approaches. In contrast, a “small government” ideology tends to advocate for open, competitive markets with minimal state intervention, thereby rendering these two paradigms fundamentally incompatible in theory. However, in practice, most national policies represent some kind of hybrid of both approaches.

The new US administration has adopted a series of protectionist measures aimed at safeguarding its secondary industries. These include: (i) reciprocal tariff impositions; (ii) product-specific tariffs on automobiles, iron steel and aluminium; and (iii) elevated, country-specific tariffs targeting major trading partners such as Canada, China and Mexico. Should these policies be fully implemented, they threaten to undermine the free trade system that has evolved over the past eight decades. The WTO’s increasingly ineffectual response to unfair trade practices, coupled with a lack of substantive proposals to sustain the free trade regime, has further exacerbated concerns that the United States’ new tariff regime could destabilize the global trading order.

The potential impacts of these protectionist measures are complex and multifaceted. In the short term, the imposition of increased customs duties is likely to elevate inflation within the US market⁵. Tariff rates vary significantly, reaching up to 145 per cent for China (though reduced to 55 per cent by early June 2025), up to 30 per cent for Nauru, 10 per cent for FSM, Kiribati and Marshall Islands, while Palau is exempted from tariffs (see Table 1)⁶⁷. Over the longer term, these measures may disrupt global value chains, potentially spreading inflation internationally or causing deflation if excess exports saturate other markets. Such dynamics could ultimately trigger a global economic slowdown or recession. Despite historical tensions between the prewar US Dollar Bloc and other global markets, the current dominant role of the US economy and the US dollar as the principal global reserve currency make the possibility of complete US economic isolation highly unlikely.

⁵ An intriguing aspect of the current economic landscape is the absence of a discernible upward trend in inflation figures. Some analysts argue that it may be premature for the effects of recent tariffs to be reflected in consumer price index (CPI) data. Others contend that the tariffs may be exerting a dampening effect on economic activity, such as through rising unemployment, which, in turn, is helping to suppress inflationary pressures.

⁶ A customs duty rate is an additional fee that home country citizens, companies and public institutions pay to the government levying that duty, which directly leads to higher domestic prices.

⁷ The reason for Palau’s mutual tariff exemption may be because of its large trade deficit with the United States. For more details, explore: ITC (2025). *Trade Map*, at <https://www.trademap.org/Index.aspx>.

Table 1: The US reciprocal tariffs for the Pacific in 2025, as of June 2025

UN PICs	US Tariff	90-Day Pause
Cook Islands	10	10
Fiji	32	10
Kiribati	10	10
Marshall Islands	10	10
FS Micronesia	10	10
Nauru	30	10
Niue	<i>left out</i>	<i>left out</i>
Palau	<i>left out</i>	<i>left out</i>
Samoa	10	10
Solomon Islands	10	10
Tonga	10	10
Tuvalu	10	10
Vanuatu	23	10
Tokelau	10	10

Source: The United Nations in the Pacific (2025).

In a worst-case scenario, retaliatory tariffs imposed by US trading partners could trigger a contraction in global trade, potentially resulting in a worldwide recession reminiscent of the Great Depression. To avert such an outcome, mutual compromise and rapid policy adjustments between the United States and its trading partners are imperative although the capacity of the current US administration to effectuate such changes remains uncertain.

With regard to Micronesia, the region is subject to a range of tariff treatments but the modest scale of trade with the United States and the limited export base (primarily fish, coconuts and phosphate rock)⁸, means that immediate impacts are likely to be largely confined to inflationary pressures and logistical disruptions. However, should protectionist measures persist, Micronesia may experience significant indirect effects, including reductions in international aid, declines in tourism and diminished remittance flows, all of which would negatively affect its economic stability.

The US administration has proposed supplementary measures to support the domestic economy and stimulate exports and investment, such as lowering the official discount rate, also known as the primary credit rate, and pursuing a deliberate depreciation of the US dollar. Nevertheless, the complexity and interdependence of the real economy, financial markets and commodity markets may limit the efficacy of these interventions. While increased tariff revenues could be redirected toward public investment as an economic stimulus, such measures are generally less efficient and effective than private sector-led growth.

Reduction of International Security Commitments

As articulated by former US President Barack Obama in his September 2013 address, the notion that the United States' era as "the world's policeman" is drawing to a close has become a subject of considerable

⁸ Marshall Island's largest export "product" is reported to be ships; however, this only pertains to ships that operate under the country's flag of convenience and does not represent actual shipbuilding.

debate⁹. While the United States continues to possess formidable military capabilities and maintains a significant global presence, its role in managing international geopolitical crises remains critical. Nevertheless, since the end of the Cold War, there has been a growing discourse, particularly among US policymakers and the public, regarding the perceived inequity of security arrangements, with increasing criticism that allied nations, including the European Union, Japan and Republic of Korea, have benefited from a “free ride” on US security guarantees.

Consequently, the United States has increasingly sought to encourage its allies and quasi-allied states to assume a greater share of the financial and operational burdens associated with collective security¹⁰. This shift is evident in recent arbitration terms related to the Russian-Ukrainian conflict though security expenditures pertaining to China, viewed as the United States’ principal geopolitical rival, remain largely exempt from such cost-sharing expectations.

With regard to Micronesia, the three states party to the COFA are obligated under their respective agreements to provide military facilities and services to the United States. Historically, aside from the missile defense test site in Marshall Islands, US military presence in the region has been limited. However, current plans envision the construction of new observation and training facilities in Palau and on Yap Island in FSM. Both locations are strategically situated along the United States’ second island chain of defense, together with Guam, which hosts major US Navy and Marine Corps installations (Figure 2). In the context of escalating tensions between the United States and China, often characterized as the “Second Cold War”, these sites are assuming heightened strategic importance.

Figure 2: The United States’ second island chain of defense in the Pacific



Source: Nikkei Asia (2025).

⁹ The White House Office of the Press Secretary (2013). *Remarks by the President in Address to the Nation on Syria*. September 10.

¹⁰ A growing number of European Union member states, along with several other countries, are markedly increasing their defense budgets, with a particular emphasis on military hardware procurement. Given the already constrained nature of public finances, this reallocation of resources is likely to come at the expense of other expenditure areas, development assistance being a potentially prominent casualty.

Under the current US administration, there is a discernible trend toward reducing the overall global footprint of US military forces. In contrast, however, the United States is poised to increase its military presence and infrastructure within the three COFA countries, reflecting their growing significance in American defense strategy in the Pacific.

Conclusions

On 9 April 2025, the United States announced a 90-day suspension of mutual tariffs, marking a significant development in ongoing global trade tensions. This reprieve revealed two key dynamics. First, it demonstrated the willingness of many US trade partners to enter negotiations aimed at reducing tariff rates, thereby providing the United States with leverage, not only in customs duties but also in the formulation of regulatory standards, business practices, agricultural trade, currency exchange and cross-border investment and securities¹¹. For example, Japan has sought to avoid the imposition of direct trade quotas, instead preferring negotiated outcomes that preserve market access¹².

Second, the exclusion of China from the grace period, coupled with the imposition of a punitive 145 per cent import tariff, later reduced to 55 per cent, has effectively marginalized China within the US-led global trade framework. This escalation has contributed to the intensification of what is now widely referred to in both policy discourse and media narratives as the “US-China trade war”. The ramifications of this conflict are profound, with significant implications for global supply chains, cross-border investment flows and the broader architecture of international economic governance.

The policy orientation of the new US administration is marked by a simultaneous embrace of conservative, small government principles, emphasizing reductions in government spending and international security commitments, and interventionist, protectionist measures designed to bolster domestic secondary industries. This dual approach is reflected in the administration’s willingness to intervene in interest rates and foreign exchange markets, as well as its imposition of high tariffs across a range of sectors. The resulting policy mix has introduced considerable uncertainty regarding the sustainability of the global free trade regime and has exposed underlying vulnerabilities in the Western democratic economic model.

For Micronesia, the immediate direct impact of these developments is relatively limited, due primarily to the region’s modest trade volume with the United States and the tariff-exempt status afforded to certain states under the COFA. Nevertheless, Micronesia’s structural reliance on imported goods, international aid, remittances and tourism renders it highly susceptible to “second-order” consequences, including prolonged disruptions to global trade and potential reductions in development assistance at the global level.

Despite initial fears of a global depression or synchronized international recession, the measured responses of other major economies, coupled with the United States’ temporary suspension of reciprocal tariffs, have thus far prevented a systemic crisis. Nevertheless, significant uncertainty persists. Negotiations with major trading partners remain unresolved except for the United Kingdom, and the

¹¹ The term “non-tariff barrier” (NTB) is commonly used. But what appears to be an (unfair) barrier to trade by an exporter, may be considered a reasonable policy by an importing country, whether due to historical, cultural or institutional reasons. Therefore, the authors are unwilling to use this term.

¹² For many countries, the 90-day suspension may be further extended by the United States, largely due to administrative and logistical limitations that impede the timely progression of negotiations.

average US tariff rate has risen to approximately 15 per cent, a level not seen since the outbreak of World War II. While the global trade system established since 1945 has demonstrated a degree of resilience, the persistence of high US tariffs is likely to erode corporate profitability and dampen global economic growth over time.

In conclusion, Micronesia's exposure to evolving geopolitical risks is becoming increasingly pronounced amid ongoing global transformations. Sustained monitoring and rigorous analysis will be essential to assess the region's vulnerabilities and to inform pragmatic, context-sensitive policy responses aimed at mitigating adverse impacts and fostering economic resilience. Nevertheless, as small and structurally vulnerable states, the five Micronesian countries face significant constraints in their ability to shield themselves from, or effectively respond to, the cascading second-order effects of these global shifts. Their position is akin to "surfing tsunami-like waves", navigating turbulence with limited means of control or protection.

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