

GAO

Testimony

For Release
on Delivery
Expected at
1:00 p.m. EST
Tuesday
May 10, 1988

J.S. Defense Burden Sharing with Japan and
NATO Allies

Statement of
Joseph E. Kelley, Associate Director
National Security and International
Affairs Division

Before the
Defense Burden Sharing Panel
Committee on Armed Services
House of Representatives



135765

GAO/T-NSIAD-88-31/135765

Madam Chairwoman and Members of the Panel:

I am pleased to be here today to discuss our review of defense burden sharing with our North Atlantic Treaty Organization (NATO) allies and Japan. We initiated the review at the request of the House Armed Services Committee to assist in your review of U.S. worldwide defense commitments, their cost, and how the burden of providing for the common defense is shared among nations.

Specifically, we are addressing the following questions:

- What has the United States done to encourage its allies to assume a greater share of the total defense burden?
- How responsive have our allies been to those initiatives?
- Can our allies do more and, if so, in what areas? Also, what is the likelihood that the allies will increase their defense expenditures?
- Finally, what more, if anything, should the United States do?

I should point out that our review is still ongoing. We have not yet obtained all the information we have requested or fully performed the analysis necessary to complete our review.

The results of our work to date indicate that the issues related to defense burden sharing and the prospects for future initiatives

are quite different in these two areas of the world. When I discuss what we found in Japan, the picture will look pretty good in that Japan appears largely responsive to U.S. suggestions. Also, there are additional areas where the United States could seek greater assistance. Our review suggests that the NATO allies have not been as responsive to U.S. initiatives to improve their defense capabilities even though the United States has stressed these types of improvements over offsetting U.S. costs.

Overall, this implies a more positive picture for Japan than for our European allies. However, it should be noted that the NATO allies are spending a greater percentage of their gross domestic product on defense than Japan and, overall, make a greater sacrifice than Japan when defense spending is measured against their ability to pay. Also, in Japan, the U.S. representatives work with one executive branch and one Diet, or Congress. Although we speak of NATO as a single entity, it is a much more complex organization composed of 16 sovereign nations, each with its own self-interest and independent government. This complicates U.S. efforts to persuade NATO members to increase their expenditures for defense.

U.S.-NATO BURDEN SHARING

The United States has pursued numerous defense initiatives with its NATO allies in recent years, both bilaterally and multilaterally. It has done this principally through the Departments of Defense and State and their European commands and diplomatic posts. The initiatives have been of varied, but include weapons acquisition,

common defense planning and budgeting, and coordination with host nations in relation to U.S. forces stationed in NATO countries.

As part of our review, we are examining the progress made in meeting certain major initiatives and commitments negotiated between the United States and the NATO allies. Major recent U.S. initiatives have mainly been related to improving the allied defense capability rather than offsetting U.S. defense costs. This represents a continuation of U.S. policies. Since the mid-1970s, the U.S. government has placed less emphasis on trying to gain direct cost offsets for U.S. stationing of forces in countries such as the United Kingdom and West Germany. Rather, the general approach has been to encourage all members of the NATO alliance to do more to improve the common defense.

The most recent major U.S. efforts to seek greater allied participation in helping to pay U.S. peacetime stationing costs were made with West Germany and the United Kingdom in the early 1980s. We reported in 1984 that these efforts were not very successful. For example, a comprehensive eight-point Stoessel Demarche to West Germany in 1980 resulted in an important 1982 host-nation support agreement. Although this accord should produce cost avoidance for the United States in the event of war, it actually increased U.S. peacetime stationing costs by committing the United States to pay for some ongoing implementation activities. Similarly, progress to offset costs in the United Kingdom has been slow.

Over the past two decades, various proposals have been made by members of the Congress that have had burden-sharing implications. For example, the Mansfield resolutions, which proposed troop withdrawals, helped influence West Germany to conclude stationing cost offsetting agreements with the United States in the late 1960s and early 1970s. More recently, there are indications that the Nunn-Roth initiative of 1984, which tied allied performance on improving conventional defense to possible troop withdrawals, influenced NATO to plan to do more for its conventional defense.

Considering both congressional and administration initiatives, the message to the European allies has been mixed. On one hand, various congressional proposals to withdraw troops have been a signal of dissatisfaction with the allies' performance. On the other hand, the administration has, over the years, sent a message that the substantial contribution made by the European allies is often underestimated and that a U.S. presence in Europe is in the best interest of the United States. Thus, the European allies probably have not had a clear message from the United States in the 1980s to take major steps to ease the U.S. defense burden.

Many recent agreements related to NATO's defense have been concluded among the NATO allies. The commitments range from numerous "nuts-and-bolts" understandings concluded at the staff level to a smaller number of higher-level defense commitments among the allies. Most of the latter were multilateral agreements, and several resulted from major U.S. initiatives. Several examples follow:

(1) A major NATO commitment of the 1980s was to implement the 1979 dual-track intermediate-range nuclear force (INF) decision. The allies followed through with it, in some cases in the face of important domestic political risks, while the United States assumed billions of dollars of development and production costs related to the weapons systems involved. The NATO Secretary General considers the dual-track effort to have been a particularly successful strategy that has led to the proposed INF treaty.

(2) About half of the major commitments we are examining are directly linked to improving NATO conventional defenses. These include the Long-Term Defense Program (LTDP) in 1977, the Weinberger Initiative on sustainability in 1983, the NATO infrastructure funding increase of 1984, and the Conventional Defense Initiative (CDI) of 1984. But long-documented conventional defense deficiencies addressed by these commitments have still not been fully corrected. Progress has been relatively slow but NATO is continuing efforts to highlight ammunition and other sustainability shortfalls through CDI.

A less than enthusiastic allied response to conventional defense improvements is not new. For example, a 1981 House Committee on Government Operations report noted that overall progress under LTDP was slow and disappointing and that areas of progress had generally occurred in low-cost non-procurement areas. In our 1984 report on the LTDP, we found the same thing.

(3) One NATO commitment that has frequently been used as a gross indicator of members' burden-sharing performance is the 3-percent real defense growth goal agreed to in 1978. Without trying to determine how much defense spending was attributable to NATO requirements, no NATO country except for the United States has consistently met the goal since it went into effect in 1980. Other countries have shown sizable percentage increases, but they started from a lower defense spending base. In a couple of countries, the most recent real defense spending trend has been downward. The U.S. and allied defense budgets may continue to level off or drop in the next few years.

(4) Two other commitments involved a role for U.S. forces out of the NATO area, along with a request to support U.S. deployment. In 1981, the United States asked NATO to develop a strategy to compensate for possible deployment of NATO-committed U.S. forces to Southwest Asia. NATO ministers have agreed that this matter must be addressed. It has been studied for the past several years, and land and air capability improvements are being planned. However, NATO is far from ready to compensate for U.S. forces' absence from Europe in a contingency.

In 1987, the United States asked NATO to help with mine-sweeping and other security operations in the Persian Gulf to protect shipping lanes. NATO as a body did not respond. However, individual allies, all members of the Western European Union,¹ have

¹The Western European Union members are Belgium, France, West Germany, Italy, Luxembourg, the Netherlands, and the United Kingdom.

sent ships to the Gulf. Others have moved ships to locations such as the Mediterranean Sea to compensate for the moves of other countries to the Gulf.

(5) With the support of the Congress (through the Nunn and Quayle Amendments), new steps have been taken since 1985 to fund better planned and coordinated allied cooperative armaments acquisition efforts. Programs include the Armaments Cooperation Improvement Strategy and the Conventional Armaments Planning System. Memorandums of Understanding on specific projects have been signed. The challenge now is for NATO to sustain and advance these steps toward better standardization of weapons, which should result in less duplication and waste.

Although we have not completed our analysis, the record appears to show that the allies' performance in implementing major agreements has been mixed.

Some of the NATO allies appear to have the economic ability to do more. Theoretically, these allies could do more in wide-ranging areas from providing foreign economic and security assistance to improving their conventional defense capabilities. Realistically, each country has a sovereign view of the threat, what the proper mix of social and defense priorities is, and what it can politically afford to spend on defense. We do not anticipate that our NATO allies will substantially increase defense spending in the next few years. Nor, based on our previous and current work, do we anticipate that efforts to increase allied sharing of U.S.

peacetime stationing costs will result in significant new contributions. Considering NATO's many deficiencies in conventional defense capability, the United States might have greater success continuing to encourage the allies to address these deficiencies than in initiating new efforts to offset U.S. costs.

U.S.-JAPAN DEFENSE BURDEN SHARING

The Status of Forces Agreement (SOFA) signed in 1960 between Japan and the United States is the legal basis of Japan's support for the U.S. forces in Japan. Under this agreement, Japan furnishes, without cost, all facilities, areas, and rights of way, and the United States is supposed to bear all expenditures related to the maintenance of U.S. troops in Japan. Japanese support in these categories in 1981 amounted to \$182 million in cash outlays and \$289 million in "opportunity" costs, such as exempted tolls and duties and the rental value of land owned by the Japanese government. In 1987, the amounts were \$346 million and \$654 million, respectively.

In 1977, rising labor costs and the falling value of the dollar prompted the United States to hold cost-sharing discussions with Japan. In late 1977, Japan signed the first labor cost-sharing agreement, which took effect on April 1, 1978. Japan assumed the costs of several categories of allowances paid to Japanese working for the U.S. forces in Japan. In 1979, Japan signed a second agreement, assuming costs of more categories of allowances. Japan considered these two agreements to be within the existing SOFA

provisions and therefore the agreements did not require ratification by the Japanese Diet.

Continued cost-sharing discussions led to Japan's initiation of a Facilities Improvement Program (FIP). This program began in 1979 and was designed to fund quality-of-life-type new construction on U.S. bases such as family housing. Japan initiated this program instead of increasing labor cost sharing because it did not believe increased labor cost sharing was politically possible at the time. FIP started in 1979 with a budget of about \$100 million. By 1987 the budget had grown to about \$560 million. In contrast, the U.S. military construction funding in Japan was \$13 million for 1979 and \$37 million for 1987. No formal agreement exists between Japan and the United States for this program.

Subsequently in 1980, 1981, 1982, and 1984, the United States suggested that Japan further increase its labor cost sharing, but Japan declined. Japan did not believe that increased labor cost sharing could be accommodated within the existing SOFA provisions.

In 1986, when the dollar was falling rapidly against the yen, the United States again approached Japan for increased labor cost sharing. In 1987, Japan signed a new labor cost-sharing agreement. Japan assumed up to 50 percent of the costs of additional allowances for a period of 5 years. Japan considered this agreement outside the SOFA provisions. The agreement was ratified by the Diet in June 1987.

In October 1987, Japan pledged more financial assistance for U.S. forces in Japan as a response to the U.S. call for allied assistance for its Persian Gulf efforts. Japan made the pledge as a substitute for sending ships or minesweepers to the Persian Gulf. The United States took the opportunity to suggest that Japan assume all yen-based costs, such as base pay for Japanese workers, utilities, and ship repairs. (Yen-based costs are those that the U.S. forces in Japan have to pay in yen as opposed to dollars.) Japan declined, but instead offered to amend the 1987 labor cost-sharing agreement from assuming "up to 50 percent" to assuming "up to 100 percent" of allowances by 1990. The United States agreed and signed a protocol in March 1988 to effect the amendment.

Japanese labor cost sharing amounted to \$31 million in 1978. In 1987, Japan's share had grown to \$260 million. By 1990, when the latest amendment is fully implemented, Japan's share will amount to about 53 percent of the total labor costs. Table 1 shows the size of Japan's contributions for stationing costs² of U.S. forces in Japan.

²Stationing costs are primarily made up of personnel costs; operations and maintenance costs; bulk petroleum, oil, and lubricants; and military construction. U.S. investment costs in weapon systems and costs of other Pacific regional activities that support the U.S. forces in Japan are not included.

Table 1: U.S. Stationing Costs in Japan

<u>Paid By</u>	<u>1981</u>	<u>1987</u>
	- - (millions) - -	
United States	\$2,278	\$3,659
Japanese cash contributions	596	1,485
Japanese opportunity costs	<u>289</u>	<u>654</u>
Total	<u>\$3,163</u>	<u>\$5,798</u>

Percentage Share

United States	72	63
Japan	28	37

Excluding opportunity costs

United States	79	71
Japan	21	29

Concerning Japan's self defense, in 1976, Japan established its National Defense Program Outline, which defined the force levels needed for Japan to repel a small-scale attack.

In 1978, Japan drew up its first 5-year defense plan (1980-84) to achieve the force levels stipulated in the Outline. In 1980, the United States suggested that Japan increase its 1981 defense budget and complete its 5-year defense plan into 4 years. Japan's 1981 defense budget fell short of U.S. expectations and Japan did not accelerate its 5-year defense plan. Rather, Japan's defense spending has grown at about 5 percent (in real terms) since 1980 and has stayed at about one percent of its gross domestic product each year. Japan currently is on its third 5-year defense plan.

In 1981, the administration decided to emphasize roles and missions instead of defense spending amounts. It suggested a division of responsibilities under which the Japanese Self Defense

Force would be responsible for defending its homeland, its surrounding sea and air space, and sea lanes north of the Philippines and west of Guam. Later that year, Japanese Prime Minister Suzuki agreed to that role and publicly announced that Japan would defend its sea lanes out to 1,000 miles. According to U.S. military officials in Japan when the current 5-year plan is completed, Japan will be able to defend its homeland and surrounding sea and air space. However, additional assets will be needed to protect the 1,000 miles of sea lanes.

Japan has also addressed other U.S. initiatives that have burden-sharing implications.

In 1980, in response to urging from the United States, Japan increased its foreign economic aid to Turkey, a country of strategic importance to the western alliance. Subsequently, Japan increased its foreign aid to other strategically important countries such as Egypt, Pakistan, South Korea, and Oman. Japan's foreign aid budget increased from over \$1.6 billion in 1980 to over \$4.7 billion in 1987.

In 1981, the United States suggested that Japan reciprocate in military technology transfers. Japanese policy prohibits transfer of military technology to foreign countries. In 1983, Japan signed an agreement exempting the United States from Japan's ban on the transfer of military technology.

In 1985, the United States requested Japan to participate in the research and development of the Strategic Defense Initiative. In 1986, Japan agreed to participate.

Japan is planning to develop a new fighter aircraft using certain new technologies it possesses in electronic warfare and composite materials. In 1987, the United States suggested that Japan use the F-16 airframe as a baseline for its fighter development and to coproduce it with the United States. The suggestion was made to enhance interoperability and maximize cost-effectiveness. Japan has agreed with the U.S. suggestion.

Also in 1987, the United States called for assistance toward the U.S. effort in the Persian Gulf. In response, Japan provided \$200 million in economic aid to Jordan and \$300 million to Oman in an effort to help stabilize the region. It also funded \$17 million in precision navigation equipment to be installed in Gulf countries to enhance safety of shipping in the region.

While there are areas where Japan could potentially contribute more, a rapid Japanese defense buildup does not appear to be one of those areas. Such a buildup of Japan's Defense Forces would not have the support of the Japanese public and could arouse the fears of its Asian neighbors of a remilitarized Japan. Japan's latest defense policy formulated in January 1987 states that Japan shall continue to respect the spirit of a 1976 decision to exercise moderation in the buildup of defense capabilities. It further

states that the same policy will apply after Japan's current 5-year defense plan ends in 1990.

U.S. officials told us that Japan could increase its financial support to U.S. forces in Japan by assuming additional yen-based costs. We estimate these to total an additional \$500 million. While Japanese officials indicate this is possible, they also believe that the SOFA would have to be renegotiated to provide Japan a legal basis for paying these costs. U.S. military officials in Japan are reluctant to renegotiate the SOFA for fear they would jeopardize some of its favorable provisions, such as the freedom to train anywhere in Japan.

Both Japanese and U.S. officials stated that Japan could increase its foreign aid as a form of burden sharing. However, Japanese foreign aid is usually "tied," that is, the aid recipient has to spend the aid on Japanese goods or services. Although recent statistics showed that Japan has a higher percentage of "untied" aid than the United States, the numbers do not reflect the complete picture. Much of Japan's aid should be qualified as "limited untied" rather than purely untied. Oftentimes, even though the aid projects themselves are untied, feasibility studies are required to be done by Japanese firms and eventually lead to procurement from Japanese firms during the implementation phase.

Japan appears to have been largely cooperative and receptive to U.S. burden-sharing initiatives over the years. The only exception appears to be in its defense buildup. Japanese defense policy has

been one of a steady but moderate buildup and is not likely to change. Increased Japanese foreign economic aid, on the other hand, if it is untied, could yield direct benefits to the United States. Another promising area appears to be having Japan assume other yen-based costs.

This concludes my statement. I will be happy to respond to any questions.