

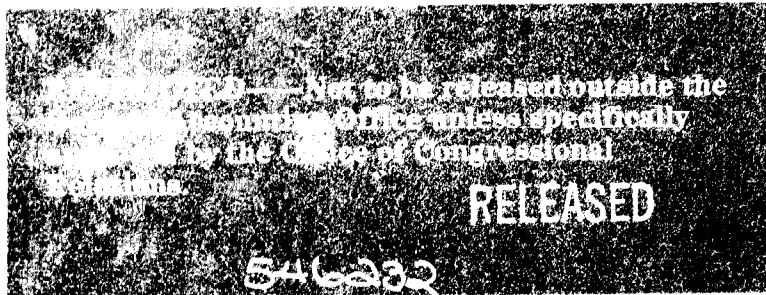
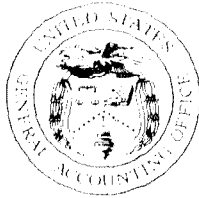
GAO

Report to the Chairman, Committee on
Armed Services, House of
Representatives

August 1989

U.S.-JAPAN BURDEN
SHARING

Japan Has Increased
Its Contributions but
Could Do More



■



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-234472

August 15, 1989

The Honorable Les Aspin
Chairman, Committee on Armed
Services
House of Representatives

Dear Mr. Chairman:

This report is the unclassified version of our classified report, which responds to your request that we review the efforts of U.S. NATO allies and Japan to share the common defense burden (C-NSIAD-89-25).

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from the date of issue. At that time, we will send copies to appropriate congressional committees and members of the Congress; the Secretaries of Defense and State; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be reached on (202) 275-4128 if you or your staff have any questions. Other major contributors are listed in appendix III.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

Congress has become increasingly concerned over defense burden sharing as the cost of U.S. worldwide military commitments continues to increase while its economic strength vis a vis its allies declines. Although defense burden sharing lacks a commonly accepted definition, it is often associated with the financial contributions made by the United States and each of its allies toward the common defense of the free world. This definition not only includes what U.S. allies spend directly on their own defense but also that spent on behalf of U.S. forces as well.

The Chairman, House Committee on Armed Services, requested that GAO determine

- the status of U.S. burden sharing initiatives proposed to the North Atlantic Treaty Organization (NATO) and Japanese allies since 1980 and their responsiveness to those initiatives and
- the allies' record in meeting their military commitments.

GAO's report examines burden sharing with Japan; NATO burden sharing will be discussed in a separate report.

Background

The U.S.-Japan security arrangement in the 1950s and 1960s clearly indicated U.S. interests in the Pacific and a willingness to share the financial burden of defending Japan. Under the arrangement, Japan agreed to provide military bases and the United States agreed to pay the costs of stationing U.S. troops.

In 1976, Japan established a National Defense Program Outline that sets force goals but is strictly defensive in nature. In 1981, Japan announced that, in addition to adopting these force goals, it would be responsible for defending its surrounding air space and seas out to 1,000 nautical miles east to west from Japan. The United States, in turn, would continue to provide the nuclear umbrella and offensive forces in the North-west Pacific.

Results in Brief

Japan has made steady progress in strengthening its defense capabilities during the last 4 years, after significantly underfunding its defense program during 1980-85. According to U.S. military officials, the current Japanese defense program, if fully funded, will provide Japan with the minimum capability necessary to meet most of its defense responsibilities by 1991, including sea lane protection.

Japan increased its share of the costs to station U.S. troops in Japan from \$711 million, or 24 percent, in 1981 to \$1.7 billion, or 31 percent, in 1987 (Japan's contributions were made in yen and are converted here to then-year dollars). If Japan were to assume additional yen-based costs (that is, other expenses currently paid by the United States in yen), U.S. costs would be reduced by at least \$600 million annually. Japan's assumption of costs in other areas might not directly reduce U.S. stationing costs.

Principal Findings

Japan's Self-Defense Efforts

The United States has urged Japan to increase defense expenditures and accelerate the completion of its 5-year defense program, which was originally designed to give Japan the ability to repel what Japan refers to as limited and small-scale invasions by 1984. However, it was not until 1986, after several U.S. requests, that Japan began to spend at a level necessary to address its minimum defense requirements. After two earlier underfunded defense programs, Japan is now 4 years into a 5-year defense program and has fully funded it thus far. Department of Defense (DOD) officials are generally pleased with Japan's current efforts to meet defense commitments but believe that Japan needs to further strengthen its capabilities in the areas of air, invasion, and anti-submarine defense and warfighting sustainability. DOD does not consider Japan's self-defense efforts as a way to reduce U.S. responsibilities or to decrease U.S. defense costs. According to DOD, a more capable Japanese Self-Defense Force reduces the risks to security and stability in Northeast Asia and gives the United States greater flexibility in meeting its regional commitments.

Cost Sharing Agreements

The Status of Forces Agreement, signed in 1960 between the United States and Japan, provides the legal basis for stationing U.S. forces in Japan and assigns to the parties financial responsibilities for related costs. Japan has responded to some U.S. initiatives to assume additional U.S. stationing costs that are not required by the agreement. Total Japanese cash contributions for U.S. support were reported as having increased from \$711 million in 1981 to \$1.7 billion in 1987.

Although the increase in Japanese support from 1981 to 1987 is impressive when measured in U.S. dollars, much of it can be attributed to the

decline of the dollar's value against the yen. When expressed in dollars, Japan's cash contributions to U.S. stationing costs over that period increased by 137 percent. However, because the contributions were made in yen, the actual increase was 44 percent (see ch. 3).

Major U.S. Cost Sharing Initiatives

In 1977, rising labor costs for Japanese workers and the falling value of the dollar prompted the United States to discuss with Japan additional cost sharing initiatives. Later that year, Japan signed the first labor cost sharing agreement with the United States. Subsequently, three additional labor cost sharing agreements were signed, the latest in March 1988. When this agreement is fully implemented (by 1990), Japan will be paying about half of the total Japanese labor costs associated with the support of U.S. forces.

In response to another initiative, Japan started a Facilities Improvement Program in 1979 to fund building projects—for example, new family housing—to improve the quality of life for U.S. forces. By 1987, the program's costs had grown to 78.2 billion yen (over \$560 million) annually from its 1979 level of 32.7 billion yen (over \$100 million), and it continues to increase every year by more than \$50 million.

Potential Areas for Japan to Increase Its Contributions

Japan has increased its contributions to U.S. forces and in other programs, but given its impressive economic growth, Japan could do more. If Japan were to assume additional yen-based costs—such as those related to utilities, routine maintenance, contracted ship repair, and the salaries of Japanese workers on U.S. bases,¹ U.S. costs could be reduced by at least \$600 million annually (based on 1987 costs and exchange rates). This would represent a 42-percent increase over the total 1987 Japanese cash contribution of 234.0 billion yen (\$1.7 billion).

According to Japanese officials, a renegotiation of the Status of Forces Agreement would be required to permit Japan to assume these costs. U.S. officials told GAO that if the agreement were opened to renegotiation, certain privileges, such as training rights, might be jeopardized. However, they also believed that the agreement does not preclude the Japanese from assuming additional costs.

In the area of wartime host nation support, Japanese assistance is more likely to benefit the United States during a crisis rather than to result in

¹All non-salaried costs, which are about 50 percent of total labor costs, are now paid by Japan.

peacetime savings. Both Japan and the United States recently agreed to conduct contingency requirements studies. At the time of our review, however, the studies had not been completed, no cost estimates were available, and no agreement had been reached on the type of support to be provided.

U.S. officials believe that significant future increases in Japan's defense spending are unlikely and perhaps undesirable because of their effect on regional stability. However, they noted that Japan could contribute more in two nondefense-related areas—United Nations' peacekeeping efforts and development assistance. Japan has budgeted an equivalent of \$280 million in 1989 to fund peacekeeping operations. Involvement in peacekeeping operations is widely supported by the Japanese public and, according to U.S. officials, does not have the political and commercial implications of Japanese aid programs.

Japan has pledged to increase its development assistance disbursements and announced a 1989 foreign aid budget equivalent to \$11.1 billion, which will make it the largest donor and lender of nonmilitary aid in the world. Although the United States encourages increased Japanese development assistance, U.S. officials recognize that it could have a negative impact on U.S. exports and might enhance Japan's influence in international affairs. Further, these officials pointed out that increased Japanese aid might lower U.S. exports to those recipients. Also, as a result of increased aid, Japan could gain more political and economic influence in some recipient countries than that of the United States.

Recommendations

GAO's report makes no recommendations.

Agency Comments and Our Evaluation

DOD fully or partially concurred with all of GAO's findings but made three broad observations (see app. II). DOD felt that GAO's report placed too much emphasis on the financial aspects of defense burden sharing. DOD expressed the view that burden sharing is more appropriately defined as the equitable sharing of roles, risks, and responsibilities. GAO believes that its report, which devotes a chapter to describing Japan's self-defense efforts, adequately discusses Japan's defense role and its relationship to U.S. defense efforts.

DOD also pointed out that Japan is building a high quality force on a par with other major allies and will soon have the third largest defense

budget in the world. GAO's report notes that although Japan's defense burden, when measured as a percent of gross national product, is low relative to the United States and other major European allies, in absolute terms Japan's defense expenditures are similar to those of West Germany and the United Kingdom.

DOD noted that GAO's report excluded foregone revenues (for example, rental value of land occupied by U.S. forces and exempted tolls and taxes) in calculating Japan's support of U.S. forces. DOD believes that these amounts should be included in determining Japan's contribution. While GAO did not include these costs in calculating Japan's support, foregone revenues are identified and discussed in GAO's report. GAO chose to use this methodology because it is the one used by NATO in calculating contributions of its members; that is, only actual budgetary outlays are included as defense expenditures. The approach used by GAO will therefore facilitate comparison with NATO.

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Abbreviations

DOD	Department of Defense
FIP	Facilities Improvement Program
GNP	Gross National Product
NATO	North Atlantic Treaty Organization
SOFA	Status of Forces Agreement
USFJ	United States Forces, Japan

Introduction

The U.S.-Japan security arrangement in the 1950s and 1960s clearly indicated U.S. willingness to assume the financial burden of defending Japan and maintaining regional security in the Far East. Under the arrangement, Japan agreed to provide military bases and facilities, and the United States agreed to provide troops and pay for all related expenses. Even though this formal arrangement has remained unchanged, the character of the U.S.-Japan defense relationship has become more complex since the 1970s because of Japan's economic progress and the growing Soviet presence in the Pacific.

An issue that emerged toward the end of the 1970s and that has increasingly captured the attention of the Congress in the 1980s is defense burden sharing. Although defense burden sharing has no commonly accepted definition, it is most often associated with the financial contributions made by the United States and each of its allies toward the common defense of the free world. Burden sharing expenses include what U.S. allies spend directly on their own defense as well as what they spend on behalf of U.S. forces. Japan's economy is growing progressively stronger, while the United States is dealing with economic problems that limit its resources to meet global commitments. Japan's economic growth can, at least in part, be attributed to the peace and stability fostered by the U.S. presence in the Pacific.

U.S.-Japan Defense Relationship

Following World War II, the U.S.-Japan defense relationship consisted principally of the U.S. commitment to defend Japan. On January 19, 1960, Japan and the United States signed a Treaty of Mutual Cooperation and Security. One of the objectives of this treaty is to provide for coordinated joint response by Japan and the United States in the event of an armed attack against Japan.

Japan believes that the Soviet Union is strongly interested in expanding its influence in the Pacific region. The Soviet Union has continued to augment its military forces in the Far East, both qualitatively and quantitatively. It has increased movements of Soviet ships and aircraft in the Pacific and East China Sea regions and has deployed about 48 divisions, or 390,000 troops; 840 ships; and from one-fourth to one-third of its strategic nuclear missiles to the Far East. According to U.S. Embassy analysts in Tokyo, the Japanese public believes that the Soviet buildup is an increasing threat to Japan.

The 1960 treaty states that, for the purpose of contributing to the security of Japan and the maintenance of international peace and security in

the Far East, the United States may use Japan's facilities and areas for U.S. land, air, and naval forces. The United States stations its forces in Japan under this treaty. The United States maintains a presence in Japan not only to defend Japan but also to

- deter Soviet aggression in the Far East;
- maintain a base structure that can meet regional contingencies, including bases within 500 nautical miles of the Soviet Union; and
- ensure that Japan remains a close ally.

The U.S.-Japan security arrangements constitute the basis of Japan's defense and are an indispensable element for its security. Although Japan maintains self-defense forces, its constitution limits the capability of those forces to engage in war or use force to settle international disputes. Japan has concentrated on conventional defense capabilities designed to repel limited, small-scale invasion of its territory. Japan depends on the United States for the defensive and offensive capabilities that it lacks, such as the capability to deter nuclear threats and counterattack against a large-scale invasion with conventional forces.

Burden Sharing Has Increasingly Become an Issue

Since the years of reconstruction following World War II, Japan's economy has become substantially stronger, and thus, Japan is capable of paying more for its own defense. Since 1976, Japan has limited its defense spending growth by capping expenditures at one percent of its gross national product (GNP). Japan changed the 1976 cabinet decision that established the one percent barrier and broke through this ceiling when, in 1987, it budgeted an amount equal to 1.004 percent of GNP for defense. These low rates of spending, relative to GNP, have reinforced the perception that Japan is not contributing its share for the common defense. As a result, some members of Congress have urged Japan to bear a greater share of the defense burden.

In a 1982 letter to the Japanese Prime Minister, 66 members of Congress urged Japan to spend a greater percentage of its GNP for defense in order to counter the increased Soviet threat. In 1983, 1985, and 1987, members of the U.S. House of Representatives proposed that Japan either increase its defense spending or face U.S. penalties. The penalties proposed included levying tariff surcharges or a security tax on Japanese imports and relocating some of the U.S. troops in Japan to other areas of the Western Pacific.

Objectives, Scope, and Methodology

On December 18, 1987, Representative Les Aspin, Chairman of the House Committee on Armed Services, appointed a Defense Burden Sharing Panel to review, among other things, how the defense burden is being shared by our North Atlantic Treaty Organization (NATO) and Japanese allies. To assist the Panel, the Chairman requested that we obtain information on defense burden sharing in Japan. We presented preliminary results of our review to the Panel in testimony on May 10, 1988.

Our objectives were to determine

- what burden sharing initiatives the United States has proposed to Japan since 1980 and Japan's responses,
- what Japan's burden sharing contributions have been since 1980,
- how well Japan has met its defense goals, and
- in what areas Japan could increase its burden sharing contributions.

We interviewed officials and reviewed records at the Department of State and the Department of Defense (DOD). We reviewed applicable legislation, treaties, and congressional reports and testimony. We also reviewed government of Japan, Congressional Research Service, and previous GAO reports pertaining to burden sharing and the defense of Japan. In addition, we interviewed officials of the Headquarters, U.S. Pacific Command; U.S. Pacific Air Forces Command; and the U.S. Fleet Marine Force, Pacific, in Hawaii. In Japan, we interviewed officials and reviewed records at the U.S. Embassy, Tokyo; U.S. Forces, Japan (USFJ); U.S. Army, Japan; U.S. Naval Forces, Japan, and interviewed officials of Japan's Defense Agency and Ministry of Foreign Affairs.

We collected information on the costs of maintaining U.S. forces in Japan, obtained statistics on U.S. and Japanese defense spending and Japanese host-nation support, compiled a chronology of U.S.-Japan burden sharing initiatives, obtained assessments on how well Japan is meeting its defense commitments, and investigated what Japan could do to increase its defense burden sharing contributions. The figures on Japanese host-nation support do not account for Japanese inflation—which was negligible during the period—because we did not have information related to price indexes and deflators for the relevant categories of expenditures. Overall, Japanese inflation during the period was very low.

We conducted our review from February to December 1988 in accordance with generally accepted government auditing standards.

Japan's Self-Defense Efforts

Japan's defense policy is oriented toward self-defense of Japanese territory; Japan has no other area or regional defense commitments. The mission of Japan's Self-Defense Forces is to defend the nation, including airspace and waters, against aggression. Defensive operations are to be initiated only when Japan is attacked by a foreign power, and those operations are to be kept to the minimum required for Japan's self-defense. Dispatching armed forces to foreign territories has been viewed by the government of Japan to be inconsistent with its passive defense strategy and its constitution. Japan's concept of defense capability improvement or buildup is based on a strict civilian control system designed to prevent Japan from evolving into a military power that may threaten neighboring countries. Japan's defense strategy is further limited by "three non-nuclear principles," which are considered official policy. That is, Japan may not possess, produce, or allow the introduction of nuclear weapons into Japan.

Japan is working toward achieving the force levels originally stipulated in its 1976 National Defense Program Outline and the capability to meet its 1981 commitment of defending Japanese sea lanes out to 1,000 nautical miles (or about 1,150 statute miles). According to DOD officials, Japan's 1981 commitment has been incorporated within its current Defense Outline. In this chapter, we discuss the progress made and shortfalls in addressing these programs. In addition, we discuss the future direction of Japan's self-defense efforts as well as U.S. officials' opinions on Japan's defense efforts.

National Defense Program Outline

In October 1976, Japan formulated the National Defense Program Outline, which stipulates the level of defense forces to be maintained in peacetime. The Outline is based on the concept that Japan should possess a defense force capable of countering limited and small-scale aggression. The Outline provides guidelines for the annual execution of national defense policies, including the buildup, maintenance, and operation of the defense forces. The goals specified in Japan's Defense Outline are listed in table 2.1.

Table 2.1: National Defense Program Outline

Force	Classification	Unit of measurement	Number of units upon completion of the Program	
Ground self-defense	Authorized number of self-defense forces personnel	1 Unit: 10,000 personnel	18	
	Units deployed regionally in peacetime	Divisions	12	
		Composite brigades	2	
	Mobile operation units	Armored division	1	
		Artillery brigade	1	
Airborne brigade		1		
Training brigade		1		
Helicopter brigade		1		
Low-altitude surface-to-air missile units	Antiaircraft artillery groups	8		
Maritime self-defense	Antisubmarine surface-ship units (for mobile operations)	Escort flotillas	4	
	Antisubmarine surface-ship units (regional district units)	Divisions	10	
	Submarine units	Divisions	6	
	Minesweeping units	Flotillas	2	
	Land-based antisubmarine aircraft units	Squadrons	16	
	Main equipment:	Antisubmarine surface-ship	Ships	62
		Submarines	Submarines	16
Combat aircraft		Aircraft	About 214	
Air self-defense	Aircraft control and warning units	Aircraft control and warning units	28	
	Interceptor units	Flight squadrons	10	
	Support fighter units	Flight squadrons	3	
	Air reconnaissance units	Flight squadrons	1	
	Air transport units	Flight squadrons	3	
	Early warning units	Flight squadrons	1	
	High-altitude surface-to-air missile units	Antiaircraft groups	6	
	Main equipment:			
Combat aircraft	Aircraft	415 ^a		

^aThis figure may change as a result of the U.S.-Japan FS-X codevelopment program to replace Japan's current support fighter (F-1).

Japan's Achievement of Defense Goals Delayed

After formulation of the Defense Outline in 1976, Japan sought early attainment of the Outline's stated level of defense capabilities while trying to abide by its policy of limiting defense spending to one percent of GNP. However, it was not until 1986, after several U.S. requests, that Japan began to spend at a level necessary to address its minimum defense requirements.

In 1978, Japan adopted its first defense program designed to address the Defense Outline's goals for a 5-year period (1980-84). However, it was severely underfunded from the beginning, causing Japan to replace it with a new 5-year defense program (1983-87). This program was also underfunded and was replaced by a third 5-year defense program, which is currently in effect (1986-90).

During the period covering both of Japan's initial defense programs, the United States suggested that Japan accelerate completion of its defense goals. Included within the U.S. suggestions were that Japan accelerate its plans to augment ammunition stocks; improve warfare readiness; and procure additional aircraft, escort ships, and tanks, among other items. The United States sharply criticized Japan when it not only failed to accelerate its defense programs but also did not meet its original 5-year targets. Japan underfunded its programs because of a desire to maintain its defense budgets below the self-imposed limit of one percent of its GNP.

Japan is now in its third 5-year program to achieve the 1976 Defense Outline goals. This program has been budgeted for 18.4 trillion yen (\$132 billion at 1987 exchange rates) for the period 1986-90. Japanese officials stated that at this funding level the force levels stipulated in the Outline will be achieved by 1991. Japan has fully funded the first 4 years of this current plan, and it therefore appears that Japan is committed to fulfilling the Defense Outline's self-defense missions. According to U.S. officials, Japan must fully fund the remaining year of the current program (1990) to attain the minimum force levels required to address its commitments.

Japan Committed to Defending Sea Lanes

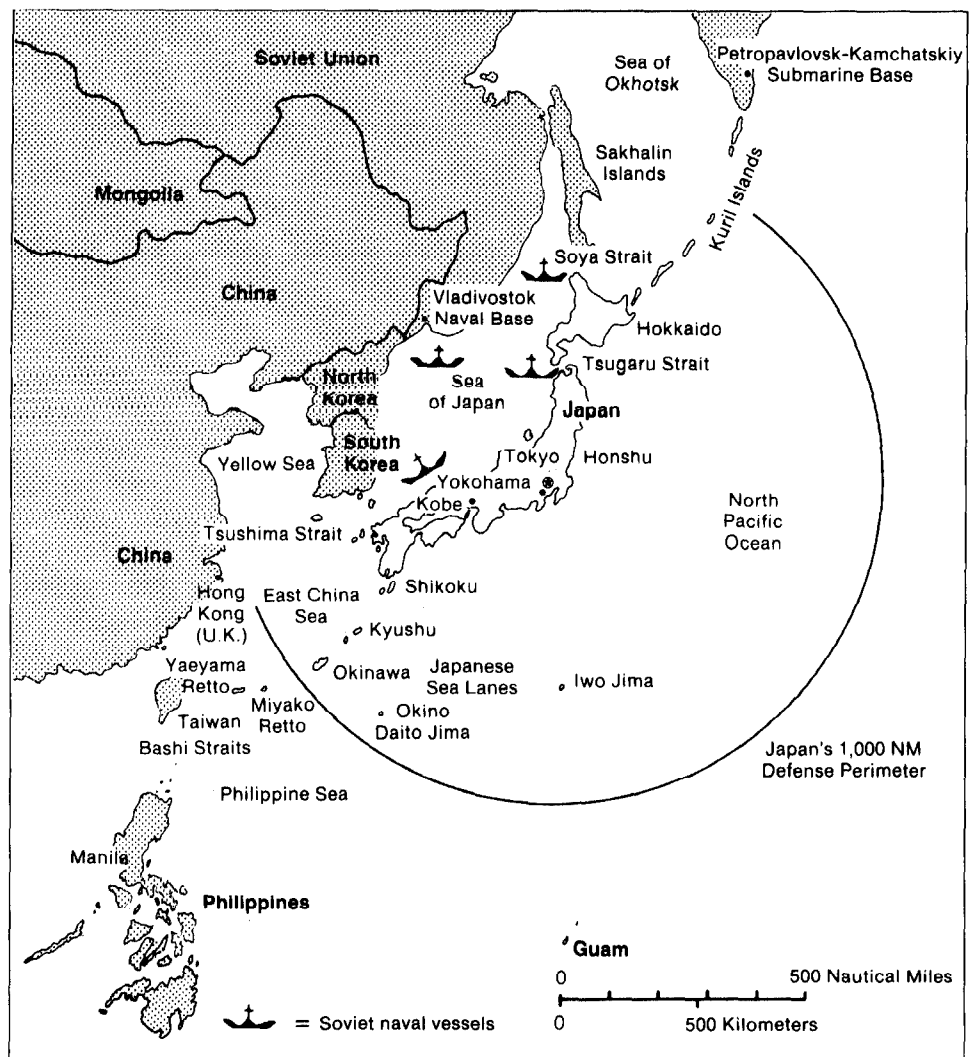
In 1981, the Reagan administration announced that it would emphasize a sharing of defense roles, responsibilities, and missions between Japan and the United States. The administration proposed a division of responsibilities under which Japan would be responsible for defending its homeland and its surrounding sea and air space. The United States, in turn, would continue to provide the nuclear umbrella and offensive forces in the Northwest Pacific. In a joint communique issued during a summit meeting between President Reagan and Prime Minister Suzuki in May 1981, the Prime Minister, acknowledging Japan's desire to share defense with the United States, stated:

"Japan, on its own initiative and in accordance with its constitution and basic defense policy, will seek to make even greater efforts for improving its defense

capabilities in Japanese territories and in its surrounding air and sea space, and for further alleviating the financial burden of U.S. forces in Japan."

Prime Minister Suzuki elaborated on this announcement, stating that Japan would defend the air space around Japan out to several hundred miles from the shoreline and the sea lanes out to 1,000 nautical miles. This commitment is illustrated in figure 2.1.

Figure 2.1: Japan's 1,000 Nautical Mile Defense Perimeter



For Soviet naval forces to have access to the Pacific Ocean from the Soviet Union's largest naval base at Vladivostok on the Sea of Japan, they must go through several straits adjacent to Japan and through the

broad perimeter that the Japanese defend. The two sea lanes from Japan to the Philippines and to Guam are especially important for Soviet submarine activity because the depth of the lanes makes it difficult to detect the submarines. According to DOD officials, Japan's sea lane defense commitment complicates Soviet planning which, in turn, enhances deterrence.

Japan recognized that its new responsibilities require more assets than those originally required to meet its 1976 Defense Outline goals. Thus, Japan has procured or plans to procure additional escort ships, submarines, minesweepers, missile boats, supply ships, fixed-wing antisubmarine patrol aircraft, antisubmarine helicopters, and minesweeping helicopters.

Japan's 1981 commitment, according to Japanese and DOD officials, is addressed within the current 1986-90 defense program; therefore, minimum capability necessary for sea lane defense should be achieved by 1991. According to DOD, the broad goals in the 1976 Defense Outline have not changed, but the composition of forces has been modified to include a defensive structure capable of addressing the sea lane defense commitment. For example, although the number of airplane squadrons has not increased, the number of planes in a squadron has. Also, Japan is replacing aging maritime patrol aircraft, surface ships and submarines, and helicopters. Thus, Japan is increasing its capability without changing the Defense Outline.

This also appears consistent with Japanese statements that "the Outline has its own built-in mechanism which enables it to cope with changes in the circumstances." In its 1987 Defense White Paper,¹ Japan stated that it had no intention of revising the fundamental concept of the Defense Outline and could make both qualitative and quantitative improvements to accommodate changes required by the trends of military buildup and technological standards in other countries.

Japan's Sea Lane Commitment Does Not Reduce U.S. Commitments

According to DOD officials, Japan's commitment to sea lane defense will not offset the U.S. responsibilities within the area. While Japan has promised to provide defensive capability (such as anti-air, antisubmarine, and anti-invasion capability), the United States is to provide offensive strike forces against an invading enemy. Japan's sea lane defense commitment, when fulfilled, will enhance deterrence by complicating

¹Formally titled "Defense of Japan," 1987, Japanese Defense Paper.

Soviet planning in the area. By significantly improving its air defense and antisubmarine capabilities, Japan could delay Soviet advances and allow U.S. forces to operate offensively within Japan's defense perimeter. Japan maintains more than 60 antisubmarine warfare ships and plans to have maritime patrol aircraft soon. In comparison, during peacetime, the U.S. Seventh Fleet deploys approximately 18 surface combatants, two aircraft carriers, and 25 P-3 maritime patrol aircraft to the area.

Adequacy of Japan's Defense Efforts

Although the United States would have liked Japan to have built up its defense capabilities at a faster pace, DOD officials told us they are generally pleased with Japan's current efforts to meet its defense commitments. DOD's view is that if Japan continues to completely fund its current defense plan, it will have the minimum capability to address its defense commitments, including sea lane defense. However, DOD has requested that Japan acquire assets which would be additional to those already committed under its current defense plan to further enhance its sea lane defense capability; Japan has expressed its intention to do so. Such additional items include an over-the-horizon radar system, three to four additional squadrons of interceptors, 18 to 20 refueling aircraft and 12 to 16 long-range early warning aircraft, Aegis-capable escorts, and 15 to 20 large air transport and minelaying-capable aircraft.

These items are not provided for under the current plan, but, according to DOD, if Japan continues its current trend of defense spending, it should be able to acquire these assets under the next defense plan. Also, Japan has already indicated some of its intentions for the next planning cycle. For example, Japan is expected to take delivery of two Aegis-capable escorts during the next defense plan period and has an option to procure two more. DOD officials also noted that in addition to acquiring these assets, Japan will need to continue correcting recognized defense shortfalls, such as improving its sustainability, command and control, and anti-air capability.

DOD does not expect Japan's self-defense efforts to permit a reduction of U.S. responsibilities or defense costs. According to DOD, a more capable Japanese Self-Defense Force reduces the risks to security and stability in Northeast Asia and gives the United States greater flexibility in meeting its regional commitments.

Trends and Future Direction of Japan's Defense Spending

In terms of absolute monetary expenditures, Japan's level of defense spending recently reached a level commensurate with other major U.S. allies. However, Japan's level of defense spending does not place a burden on Japan's economy which approaches that of other allies. When measured in terms of proportion of GNP, Japan's defense spending has been moderate. Although Japan is likely to continue to increase its defense spending at about 5 percent annually, the increases are applied to a low GNP base. Therefore, the total defense burden on Japan's economy does not equate to that of the United States or other major allies.

In January 1987, Japan issued a new set of guidelines concerning its defense buildup. The guidelines provide that Japan will continue to respect the spirit of the 1976 decision of a moderate defense buildup. The Japan Defense Agency expects that the same policy will continue to apply after Japan's current 5-year defense plan ends in 1990. Although Japan's 1987 defense budget, at 1.004 percent of GNP, broke through the one percent GNP limit, it is not likely to increase significantly.

U.S. officials in Japan are concerned about congressional criticism that Japan's spending on defense is too low. Several U.S. military and Embassy officials stated that a significant increase to what is currently planned for Japan's military capabilities could create instability in the Pacific region and would likely be opposed by the Japanese people. These officials commented that Japan's defense buildup must be accomplished within the constraints of Japan's internal politics and in consideration of its Pacific neighbors, who fear an appreciable increase in Japanese military capability.

According to DOD, Japanese domestic concerns are compounded by regional East Asian fears of reascent Japanese militarism. Memories of the 1937-45 war in Asia are quite fresh in the countries conquered or threatened by the Japanese. Japan's neighbors would likely react with alarm to clear evidence of a concerted, drastic Japanese military buildup. DOD noted that Japan's drive and competitiveness so far have been focused toward peaceful economic pursuits. However, South Korea, Taiwan, the Philippines, Malaysia, Singapore, Thailand, and China—all erstwhile friends and trading partners, and all occupied by Japan during the Second World War—watch closely for any shift in the emphasis of Japan's competitive focus. Also, Australia and New Zealand would be concerned over any perceived revival of Japanese nationalistic militarism. Even the Soviet Union, whose own military buildup has fueled a concerted Japanese-American response in kind, has protested the dangers of revitalized Japanese defense efforts.

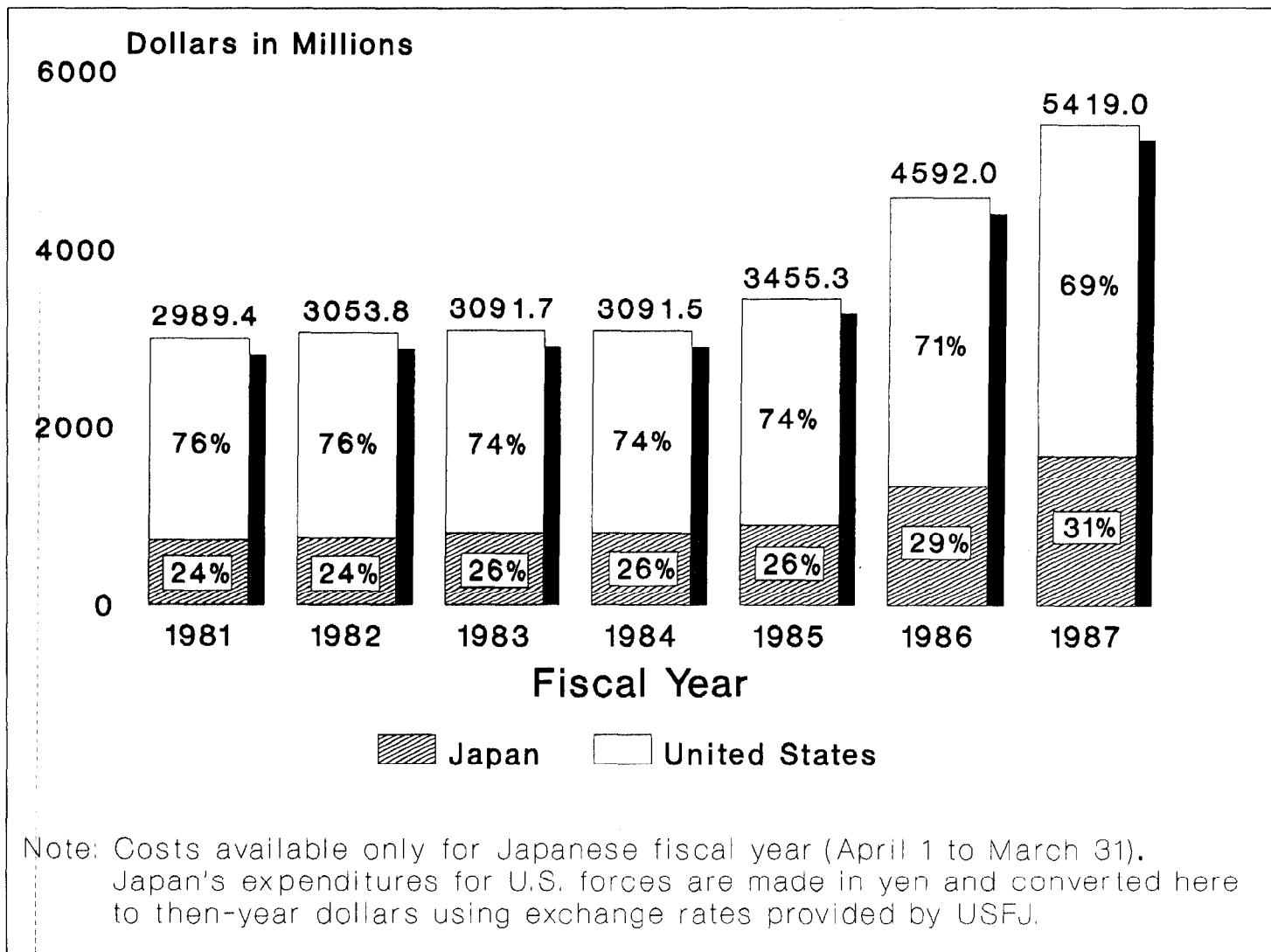
In addition, according to both DOD and the Department of State, an overly strong Japanese defense force may not be in the United States' best interests. In 1988 testimony before a Senate subcommittee,² the Assistant Secretary of Defense for International Security Affairs questioned the wisdom of advocating that Japan spend 3 percent of its GNP on defense. He questioned whether the United States would want to see Japan become a regional power possessing nuclear and offensive capabilities.

²Statement of Richard L. Armitage, Assistant Secretary of Defense (International Security Affairs), before the Subcommittee on Military Construction, Senate Committee on Appropriations, March 21, 1988.

Japanese Burden Sharing Efforts to Offset U.S. Defense Costs

The cost of stationing U.S. forces in Japan increased from \$2,989 million in 1981 to \$5,419 million in 1987.¹ During that same period, Japan increased its share of those costs from 24 to 31 percent. The U.S. and Japanese portions of U.S. stationing costs in Japan from 1981 through 1987 are shown in figure 3.1.

Figure 3.1: U.S. and Japanese Shares of U.S. Stationing Costs in Japan



Source: DOD figures.

¹Stationing costs are primarily in the areas of personnel; operations and maintenance; bulk petroleum, oil, and lubricants; and military construction. These costs include base rental when it is budgeted by Japan but do not include estimates of rent for government lands provided by Japan.

Most of the increases in Japan's contributions to U.S. forces are a result of U.S. initiatives to persuade Japan to assume a greater share of the U.S. stationing costs in Japan. However, U.S. and Japanese officials pointed out that Japan also assumes costs in the form of foregone revenues (such as exempted tolls and duties and the rental value of land owned by the Japanese government), which are not included in figure 3.1. These costs, when converted to dollars, amounted to \$654 million in 1987. In response to other U.S. initiatives, Japan has also increased its development assistance and cooperation on U.S. defense-related efforts and technologies. In addition, Japan has responded to U.S. requests for assistance to Persian Gulf countries.

Basic Cost Sharing Agreement

The 1960 Status of Forces Agreement (SOFA) between Japan and the United States provides the legal basis for Japan's support of U.S. forces. Under the SOFA, Japan agreed to furnish, without cost to the United States, all facilities, land, and rights of way for U.S. troops in Japan, while the United States agreed to bear all other expenditures.

In 1977, the United States began bilateral discussions to urge Japan to assume more of the burden of stationing U.S. forces in Japan. The United States has proposed a number of burden sharing initiatives to Japan since then, and Japan appears to have been largely responsive.

Japanese Contributions Toward U.S. Stationing Costs in Japan

To date, the bulk of Japanese direct support to U.S. forces has been through the lease and rental of land, base vicinity countermeasures (such as noise abatement and dwelling relocation), labor cost sharing, the Facilities Improvement Program (FIP), and other contributions for relocation construction and miscellaneous expenses. Japan also considers foregone revenues as part of its support for U.S. forces. As shown in table 3.1, including these "opportunity costs" increases the Japanese contribution in Japanese fiscal year 1987 from 234 billion yen to 325 billion yen or, when measured in dollars, from \$1.7 billion to \$2.3 billion.

Chapter 3
 Japanese Burden Sharing Efforts to Offset
 U.S. Defense Costs

Table 3.1: Japan's Contributions to U.S. Stationing Costs

Dollars in millions		
	Japanese fiscal year	
	1981	1987
Cash outlay		
Lease and private land rental	\$182.0	\$346.0
Base countermeasures	201.3	317.3
Labor cost sharing	69.7	259.7
Facilities Improvement Program	143.4	562.6
Relocation and miscellaneous expenses	115.0	197.9
Total cash outlay	\$711.4	\$1,683.5
Total in yen (billions)	162.2	234.0
Opportunity cost (foregone revenue)		
Rents	\$203.0	\$412.0
Tolls and taxes	86.0	242.0
Total opportunity cost	\$289.0	\$654.0
Total in yen (billions)	65.9	90.9
Total contribution	\$1,000.4	\$2,337.5
Total contribution in yen (billions)	228.1	324.9

Note: Japan's contributions are made in yen and converted here to U.S. dollars using exchange rates provided by USFJ for 1981 and 1987.

Although the rise in Japanese support since 1981 appears impressive, much of the increase is due to the decline of the purchasing power of the dollar against the yen. For example, Japan's cash contributions to U.S. stationing costs when expressed in dollars increased by 137 percent from 1981 to 1987 (from \$711.4 million to \$1,683.5 million). However, the actual contributions were made in yen, which rose from 162.2 billion yen to 234.0 billion yen, an increase of about 44 percent. While the yen increase over the 1981 level is substantial, Japan's financial burden is not as great as that implied when its support is expressed in dollars.

U.S. officials in Japan are generally pleased with the level of Japanese support but believe Japan could do more. The Japanese view is that Japan has already contributed more than it has been given credit for. The major components of Japanese support as well as the Japanese view of their contributions are discussed below.

Cost of Private Land and Employment of Base Countermeasures

According to information provided by U.S. officials, Japan's 1987 costs to provide privately owned property for U.S. military use and to undertake projects to improve the areas surrounding bases, known as base countermeasures, amounted to 92.2 billion yen, or when converted to dollars, \$663 million. Japan pays for the leasing and rental of privately owned land, which it then provides free of charge to the United States for its military bases. This land amounts to approximately 42,847 acres, which is about 52 percent of the total acreage provided exclusively for U.S. use. The remaining 48 percent, or 39,221 acres, is owned by the Japanese government.

Although not directly required under the SOFA, Japan also pays for base countermeasures to improve the local environment around U.S. bases. Examples of such measures are noise abatement, dwelling relocation, disaster prevention, and environmental improvements. According to U.S. officials, such countermeasures help build local support for U.S. presence at the bases and thereby contribute to mutual defense efforts. Table 3.2 shows the trend of Japanese payments for land and base countermeasures.

Table 3.2: Japan's Land and Base Countermeasures Contributions

Japanese fiscal year	Dollars (millions)	Yen (billions)	Exchange rate ^a (yen equal to \$1)
1981	\$383.3	87.4	228
1982	371.6	92.9	250
1983	385.2	90.0	236
1984	358.6	87.5	244
1985	407.2	89.6	220
1986	595.0	94.6	159
1987	663.3	92.2	139

^aAverage annual rate supplied by USFJ.

Table 3.2 clearly illustrates the dramatic effect that exchange rates have on Japan's contribution to U.S. stationing costs. Japanese contributions toward land and base countermeasures, when converted to dollars, rose from \$383 million in 1981 to \$663 million in 1987—an increase of 73 percent. However, the actual increase was only 5 percent because contributions were made in yen.

Labor Cost Sharing Initiatives

Since the late 1970s, the United States has entered into three agreements in which Japan increased its share of the costs of employing Japanese workers to support U.S. forces. In 1977, rising labor costs and the

falling value of the dollar versus the yen prompted the United States to initiate cost sharing discussions with Japan. In late 1977, Japan signed the first labor cost sharing agreement, which took effect on April 1, 1978. Japan agreed to pay the costs of seven categories of benefits (such as health and medical expenses) to Japanese workers assigned to the U.S. forces in Japan. In late 1978, Japan signed a second agreement to pay for additional categories of benefits, such as a language allowance. Japan considered these two agreements to be within the existing SOFA provisions.

In 1981, 1982, and 1984, the United States proposed that Japan further increase its labor cost sharing, but Japan declined. In 1986, with the continuing decline of the dollar against the yen, the United States again suggested that Japan increase its labor cost sharing. Specifically, the United States asked Japan to pay the costs of additional categories of Japanese employee allowances, such as housing, and to pay salaries for fire fighters and security guards employed by the United States on its bases. In response to the U.S. proposal, Japan signed a third labor cost sharing agreement in January 1987. Japan agreed to pay, for the next 5 years, up to 50 percent of the costs of six additional categories of Japanese employee allowances (such as family and housing allowances). Japan declined, however, to pay the salaries of fire fighters and security guards.

Japan considered this proposal to be outside the SOFA provisions and called it a "Special Measure." The proposal was therefore considered a new treaty requiring ratification by the Japanese Diet. The Diet ratified the agreement in June 1987. Japanese officials told U.S. military and Embassy officials that the agreement was meant to cover up to 50 percent of the allowances, saving the United States an estimated \$125 million per year, and would be extended beyond the 5-year term. According to a U.S. Embassy official, the "up to 50 percent" clause and the expiration provision were needed to gain the Diet's approval.

Other labor cost sharing initiatives were undertaken in the summer of 1987, after the U.S. Navy started escorting Kuwaiti ships in the Persian Gulf. At that time, some members of Congress questioned why the United States was assuming this entire burden when 65 percent of Japan's oil supply comes from the Gulf region. The administration then solicited assistance in the Gulf from U.S. European allies and Japan. France, the United Kingdom, and Italy responded by sending patrol ships and minesweepers to the Gulf. Japan believed that it would be politically unwise to send minesweepers to the Gulf but offered financial

help. Japan announced that it would provide financial support to several Persian Gulf countries and international efforts and would increase its financial support for U.S. forces in Japan. Japanese contributions to Persian Gulf efforts are described later in this chapter.

In response to Japan's offer to increase its financial support to U.S. forces, the United States asked Japan to increase its payments to include all yen-based costs incurred by U.S. forces in Japan. Japan replied that this proposal would require renegotiation of the SOFA, which might strain relations between the two countries. As an alternative to the U.S. proposal, Japan offered to increase its payments from 50 percent to 100 percent by 1990 for those allowances paid by Japan under the 1987 labor cost sharing agreement. A protocol was signed in March 1988 to amend the special measure by changing "up to 50 percent" to "up to 100 percent." According to a DOD official, at 100 percent, this agreement will save the United States an additional \$125 million per year.

Under labor cost sharing, Japan paid 6.2 billion yen, or when converted to dollars, \$31 million in Japanese fiscal year 1978. By Japanese fiscal year 1987, the amount had increased to 36.1 billion yen, or \$260 million. Table 3.3 shows the trend of Japanese support in terms of labor cost sharing since 1981.

Table 3.3: Japan's Labor Cost Sharing Contributions

Japanese fiscal year	Dollars (millions)	Yen (billions)
1981	\$69.7	15.9
1982	65.6	16.4
1983	71.6	16.9
1984	73.8	18.0
1985	87.7	19.3
1986	120.1	19.1
1987	259.7	36.1

Facilities Improvement Program

U.S.-Japan cost sharing discussions also led to Japan's initiation of a Facilities Improvement Program in Japanese fiscal year 1979. This program was designed to fund new construction, such as family housing, on U.S. bases to improve the quality of life. Recent Japanese budgets, however, have also included operational support facilities, such as hardened aircraft shelters.

Japan initiated this program in lieu of making additional labor cost sharing contributions because it did not believe further increases were politically feasible at the time. FIP started in 1979 with a budget of 22.7 billion yen, or about \$100 million. By 1987, the FIP budget had grown to 78.2 billion yen, or over \$560 million. Table 3.4 shows the trend of Japanese support through FIP since 1981.

Table 3.4: Japan's FIP Contributions

Japanese fiscal year	Dollars (millions)	Yen (billions)
1981	\$143.4	32.7
1982	163.6	40.9
1983	213.1	50.3
1984	257.8	62.9
1985	287.3	63.2
1986	445.3	70.8
1987	562.6	78.2

Other Contributions

In addition to the contributions previously mentioned, Japan pays relocation construction costs for U.S. forces and other miscellaneous expenses. Japan's costs in these categories have increased from 26.2 billion yen, or \$115 million in 1981, to 27.5 billion yen, or \$198 million in 1987.

Under the relocation construction program, which began in 1965 (as the predecessor to the FIP), Japan constructs new facilities for U.S. forces when Japan requires the land being occupied by the United States. According to DoD officials, most of the relocation programs agreed to by Japan and the United States are near completion. Construction of new facilities is now being funded under the FIP. Under miscellaneous expenses, Japan pays the expenses related to losses incurred by Japan's fishing industry as a result of the U.S. naval presence and pays for property damages. Table 3.5 shows Japan's payments for relocation construction and miscellaneous expenses.

**Table 3.5: Japan's Relocation
 Construction and Miscellaneous
 Expenses Contributions**

Japanese fiscal year	Dollars (millions)	Yen (billions)
1981	\$115.0	26.2
1982	117.5	29.4
1983	125.4	29.6
1984	124.6	30.4
1985	121.0	26.6
1986	154.1	24.5
1987	197.9	27.5

Foregone Revenues

In addition to the direct support items described above, Japan also considers its foregone revenues (exempted tolls, taxes, and land rents) as part of its support for U.S. forces in Japan. Japan reported 65.9 billion yen, or \$289 million, in foregone revenues in Japanese fiscal year 1981 and 90.9 billion yen, or \$654 million, in 1987.

Japan exempts the United States from taxes on petroleum products procured from Japanese refineries and on other local supplies and equipment. Japan also exempts the United States from customs duties on official imports and highway tolls on official travel. These exempted tolls, taxes, and duties amounted to \$86 million (20 billion yen) in Japanese fiscal year 1981 and increased to \$242 million (34 billion yen) in Japanese fiscal year 1987. The estimated rental value of land owned by the Japanese government (in contrast to the earlier discussion of private land rented by Japan) and provided free to U.S. forces amounted to \$203 million (46 billion yen) in 1981 and \$412 million (57 billion yen) in 1987. Land under this category represents about 48 percent, or 39,221 acres, of the total land made available to the United States in Japan.

Other Burden Sharing Initiatives

In addition to the cost sharing initiatives, Japan responded to several U.S. initiatives in other areas, such as increasing its development assistance, cooperating on U.S. defense-related technologies, and assisting Persian Gulf countries, which, according to U.S. officials, could also be considered as burden sharing efforts.

Development Assistance

In 1980, in response to urging from the United States, Japan increased its official development assistance to Turkey, a country considered to be of strategic importance to the western alliance. Subsequently, Japan

increased its assistance to other strategically important countries, such as Egypt, the Philippines, Pakistan, South Korea, and Oman. Japan's development assistance budget, when converted to dollars, increased from \$1.6 billion in Japanese fiscal year 1980, to \$11.1 billion in Japanese fiscal year 1989.

Cooperation on Defense-Related Technologies

The United States is seeking ways to expand the exchange of defense technology and promote cooperative research and development with Japan. To this end, the United States has asked that Japan reciprocate in military technology transfers, participate in the research programs of the Strategic Defense Initiative, and develop a new fighter aircraft using an existing U.S. airframe.

Military Technology Transfers

In 1981, the United States requested that Japan reciprocate in military technology transfers because the flow of defense technology had been entirely from the United States to Japan. According to DOD officials, although Japanese national defense policy prohibits transfer of military technology to foreign countries, Japan responded to the U.S. request by signing an agreement in 1983 allowing the United States to receive Japanese military technology.

Thus far, only three technology items—the Keiko-SAM (surface-to-air missile) dual/infrared image seeking system, shipbuilding technology to manage overhaul of the carrier Kitty Hawk, and shipbuilding technology to construct oiler tankers—have been approved for transfer. DOD suspended the decision to transfer the Keiko-SAM, whose patent rights are held by Toshiba Corporation, because a Toshiba subsidiary was implicated in the illegal export of sensitive technology to the Soviet Union.

U.S. Embassy officials stated that several U.S. organizations² monitor science, technology, and research events in Japan. Japan is researching areas that could be applicable to the U.S. Strategic Defense Initiative. Embassy officials also said that although technology developments are being monitored, there is no established U.S. procedure to coordinate the collection and analysis of information on Japanese emerging technologies that might be good candidates for the military technology transfer program.

²These organizations include the Science and Research Office, Japan (includes Army, Air Force, and Navy); U.S. Army Science and Technology Center, Japan; U.S. Air Force Science and Technology Center, Japan; and the Office of Technology Assessment, Washington, D.C.

According to several military officials, cooperative development of mutually beneficial defense technology could be a lucrative form of defense burden sharing between the United States and Japan. U.S. officials estimated that cooperative development paid for by both Japan and the United States could yield research and development avoidance costs of up to \$50 million a year.

Strategic Defense Initiative

In 1985, the United States asked Japan to participate in the Strategic Defense Initiative research programs. In 1986, Japan agreed to participate, partly because it might reap technological benefits. The extent of Japan's involvement has not yet been determined.

Development of a New Fighter Aircraft

In 1987, the United States proposed that Japan consider using an existing U.S. airframe as a baseline for its new fighter aircraft—the Fighter Support Experimental, or FS-X—instead of designing one of its own. According to DOD, although the United States would have preferred that Japan purchase a U.S. airplane “off-the-shelf,” Japan refused to do so. The United States then proposed that Japan jointly develop this aircraft with the United States to enhance interoperability and maximize cost-effectiveness. Japan agreed with the U.S. proposal. A Memorandum of Understanding for the development phase of the aircraft was signed in November 1988, and an agreement between the principal Japanese and U.S. contractors was signed in January 1989.³

The development program will be funded entirely by the Japanese government. According to DOD, the United States will obtain access to two types of technology: (1) technology flowback—that is, technology developed using U.S. technology as its base and provided to the United States free of charge—and (2) technology developed exclusively by the Japanese and available to the United States at a price to be determined between Japan and U.S. companies. An example of the first type is composite wing technology⁴; an example of the second is phased array radars.⁵ DOD officials have emphasized the potential value of these technologies in a general sense and are impressed with Japan's overall manufacturing capabilities, particularly its cost-effective electronics production.

³We performed a separate review of the U.S.-Japan agreement on the FS-X development and testified on this program on May 11 (GAO/T-NSIAD-89-31), and May 16, 1989 (GAO/T-NSIAD-89-32).

⁴Composite technology is a technology that produces a primary structure by the use of composite materials such as fiber reinforced plastics, making the end product lighter in weight.

⁵With this technology, the phased array radar can change the beams that are emitted from its antenna modules without moving the antenna, thus enhancing the aircraft's tracking capabilities.

Persian Gulf Initiatives

As noted earlier, in 1987 the United States approached its European and Japanese allies to solicit assistance for U.S. Persian Gulf efforts. However, because Japan believed it would be politically unwise to become militarily involved in the Gulf, it offered to provide financial assistance. Japan announced that it would do the following:

- Purchase a \$10 million precision navigation system from the United Kingdom to be installed in Oman, the United Arab Emirates, Saudi Arabia, Qatar, Bahrain, and Kuwait. Japan budgeted an equivalent of \$10 million in 1988 for this purpose. Installation is almost complete in Kuwait and about to begin in Saudi Arabia. Negotiations are still in progress in Qatar, Oman, Bahrain, and the United Arab Emirates.
- Increase its economic aid to Jordan and Oman by a yen equivalent of \$500 million. The yen equivalent of a \$300 million loan has been negotiated with Jordan, and a \$200 million loan to Oman is still under bilateral discussion.
- Provide support for United Nations peace efforts in the Gulf. The Japanese Foreign Ministry has established a cadre of former military officers to serve in the United Nations peacekeeping forces and has pledged funding support for peacekeeping efforts.

Adequacy of Japan's Support

U.S. officials told us that Japan is not obligated under the SOFA to pay for anything other than land and facilities. Therefore, they are somewhat satisfied with Japan's efforts to provide more support to U.S. forces in Japan than what a strict Japanese interpretation of the SOFA would allow. However, they also believe that Japan could provide more financial support. In particular, they believe Japan could assume the remaining yen-based costs, such as those related to utilities, base pay for Japanese workers, and ship repairs.

A U.S. Embassy official said that Japan's assumption of these costs would help to relieve U.S. forces from budgetary pressures resulting from the drastic fall of the dollar. It would also increase Japan's contributions to 42 percent of total stationing costs versus the 31 percent paid in 1987.

A Japanese official told us that under the existing SOFA, Japan is not legally obligated to make the financial contributions it has made through FIP and the labor cost sharing programs and that any further increase in financial support would require an amendment to the SOFA. He said that Japan's opposition party members often complain that Japan is already contributing too much when compared with NATO countries. The same

official also acknowledged, however, that the United States should be able to station troops in Japan at minimal cost. He said Japan is considering increases in its burden sharing contributions in ways that will be politically acceptable to the Japanese public.

While Japan makes substantial contributions toward offsetting U.S. stationing costs, comparing Japan's expenses in this category only to those of NATO allies is problematic, since such costs address only one element of many that make up any U.S. ally's total defense burden. While Japan can build toward an adequate defense posture and support U.S. forces by spending only about one percent of its GNP, NATO countries are consuming far greater percentages of their national budgets for burden sharing expenses while trying to address adverse domestic economic conditions.

Also, although Japan may not be legally obligated under the SOFA to pay for many of the financial contributions it currently makes or for others proposed by the United States, the economic conditions in Japan have changed dramatically since the SOFA was negotiated in 1960. The arguments made by the United States are based more on equity, given the current economic situation, than on the SOFA.

Japan's Potential Contributions in Other Areas

U.S. officials believe that Japan could increase its defense burden sharing contributions in several areas, some of which would reduce U.S. stationing costs. These areas include yen-based stationing costs, wartime host nation support, and quality-of-life initiatives for U.S. service members in Japan. In addition, U.S. officials believe that Japan could significantly increase its official development assistance to other nations and increase its contributions to United Nations' peacekeeping operations. Some increases, such as Japan's assumption of additional yen-based costs, would yield direct budgetary savings to the United States. Other areas, such as the provision of wartime host nation support and increased official development assistance, would not likely directly affect the U.S. budget. U.S. officials believe, however, that Japanese development assistance fills a widening gap caused by the decline in U.S. development aid.

Yen-Based Costs

Yen-based costs include salaries for Japanese citizens who work at U.S. bases, utilities, routine maintenance, and contracted ship repair costs. We estimate the total dollar value of these additional yen-based items to be at least \$600 million, based on projected 1990 salary costs for Japanese workers and other yen-based costs paid by USFJ. The additional \$600 million would represent a 42-percent increase over the 1987 Japanese cash contribution of 234.0 billion yen (\$1,684 million).

While Japanese officials indicated that additional financial support for U.S. forces in Japan is possible, they said that a SOFA amendment may be needed to provide the basis for paying the additional costs. Any amendment, they contend, could lead to a Japanese decision to request renegotiation of the SOFA. Both U.S. and Japanese officials told us that the United States could encounter difficulties in renegotiating the SOFA to require Japan to pay for more yen-based costs.

U.S. concerns center around the potential loss of certain advantages under the SOFA. For example, Japanese officials told us that the United States has unrestricted access to Japan's ports and training areas. These officials said that Japanese political opposition parties would move to restrict these rights should the SOFA be opened to renegotiation because they consider some of these rights as remnants from the occupation period. According to DOD officials, a lack of access to Japanese ports and training areas would affect U.S. force readiness. They added that U.S. forces stationed in Japan have no other appropriate training locations nearby.

According to U.S. officials, Japan could assume all yen-based support costs for U.S. forces without renegotiating the entire agreement. Alternatively, Japan could provide this additional support through a separate agreement as it did in 1987 when it agreed to assume some of the yen-based labor costs.

Although the SOFA obligates Japan to furnish only the facilities and areas for U.S. forces while the United States bears all other costs, nothing within the agreement prohibits Japan from paying additional costs. Article VI of the Mutual Cooperation Treaty, which directed that a SOFA be entered into, also permits other arrangements between the United States and Japan. Also, article XXVII of the SOFA permits either government to request revision of any article at any time, thereby indicating that amendment or revision of one article need not affect the entire agreement. These articles seem to allow other arrangements that could encompass agreements such as the Labor Cost Sharing Agreement of 1987 and any other agreements providing for Japan to pay additional yen-based costs without renegotiating the SOFA.

Wartime Host Nation Support

Japan could potentially provide wartime host nation support to the United States, as many NATO nations have already agreed to do. In February 1988, DOD and the Japanese Defense Agency agreed to study contingency requirements.

Facilitative assistance was originally called for under the terms of the U.S.-Japan Mutual Security Treaty signed in 1960. In 1978, guidelines for such defense cooperation were adopted by the United States and Japan and led to studies on the defense of Japan and on what kinds of facilitative support Japan might provide the United States in the event of a regional contingency outside of Japan. In 1982, USEJ reported that the major wartime support accomplishment to date was the formation of a deliberative body charged with conducting detailed studies. About 30 projects were identified for possible study by the group and included the use of Japanese sea, ground, and air transportation assets for transporting U.S. personnel, supplies, and material; provision of storage facilities for war reserve material; support for noncombatant evacuation; in-transit support of U.S. forces; and maintenance of major items of equipment in Japan.

According to DOD, such studies may not result in peacetime savings to the United States but are valuable in that they provide both sides with a clear understanding of what support might be required and available in

a contingency and the logistics of providing such support. At the time of our review, the studies to establish the basis for support requirements had not yet been completed, no cost estimates were available, and no agreements had been reached.

Quality-of-Life Initiatives for U.S. Service Members

USFJ officials in Japan told us that Japan could increase its burden sharing efforts to benefit U.S. service members. For example, they would like to see Japan pay for tolls, road taxes, and inspection fees on vehicles of service members stationed in Japan. Japan could also provide discount prices for Japan's rail system and domestic flights and pay move-in costs (such as security and utility deposits) for service members who must live off base. At the time of our review, no estimate had been made of the potential cost to Japan or the savings to the individual service member or USFJ.

Official Development Assistance and United Nations' Peacekeeping Operations

As previously discussed, significant future increases in Japan's defense spending are unlikely and perhaps undesirable because of their effects on regional stability (see ch. 2). However, U.S. and Japanese officials believe that Japan could potentially contribute more in two nondefense related areas—development assistance and United Nations' peacekeeping efforts.

Official Development Assistance

Japan has pledged to increase its development assistance disbursements to the equivalent of at least \$50 billion from 1988 to 1992 and has announced a Japanese fiscal year 1989 foreign aid budget equivalent to \$11.1 billion. As a result of this increase, Japan has displaced the U.S. position as the largest donor of nonmilitary aid in the world (the U.S. fiscal year 1989 foreign economic aid budget is approximately \$9.0 billion).

State Department and DOD officials noted that the United States encourages Japan to increase its assistance to make its contribution to international stability and development commensurate with its international economic stature. An increase in Japanese development assistance, however, could result in some disadvantages to the United States. For example, according to U.S. Embassy and USFJ officials, increased Japanese assistance could give Japan more political and commercial influence than the United States in some recipient countries.

According to DOD and Agency for International Development officials, the direct impact of Japanese political and commercial interests on recipient nations could be lessened if Japan were to increase its assistance to international organizations, such as the International Monetary Fund or the Asian Development Bank. However, in return for increasing its contributions, Japan will likely require an increased voice, as a member of the international organizations, in determining how such aid is administered and to whom it is provided.

United Nations' Peacekeeping Operations

Increased Japanese contributions to United Nations' peacekeeping operations is another area identified by U.S. officials as potentially promising for an increase in Japan's contribution to global security. Japan has budgeted the equivalent of about \$280 million in fiscal year 1989 for peacekeeping operations.

The peacekeeping concept encompasses not only traditional United Nations' peacekeeping activities, such as dispatching multinational forces overseas, but also a wide variety of international efforts to observe truces, monitor elections, assist and repatriate refugees, and support economic reconstruction and development in war-torn areas.

U.S. officials anticipate steady growth in Japan's financial support for various peacekeeping activities over the next decade, especially since involvement in peacekeeping activities appears to be widely supported in Japan. DOD pointed out that the United States has political, diplomatic, and security reasons for a commitment to United Nations' peacekeeping operations.

Views on Increased Japanese Support

In their discussions of burden sharing, some members of Congress and other U.S. officials point out that Japan, when compared to the United States or other NATO allies, spends a small amount on defense as a percent of its GNP. No solutions to this imbalance are apparent. At one percent of its GNP, Japan spends the equivalent of more than \$30 billion on defense, which is roughly the same monetary amount as France, West Germany, and the United Kingdom. According to DOD, other expenses usually included in Western computations of defense spending, such as pensions and benefit payments, are not included in Japan's computations. If they were included, Japan's defense spending would rise to the equivalent of over \$36 billion and be the third highest worldwide, behind the Soviet Union and the United States. While continued annual

increases are important, significant increases in Japan's military spending are generally considered unlikely and even regionally destabilizing.

It is for this reason that the only areas U.S. and Japanese officials perceive as promising in terms of significantly increasing Japan's contributions are development assistance and United Nations' peacekeeping operations. Japan has asked that its development assistance be considered as part of the burden it shares with other free world nations.¹ If added to military spending, however, this would do little to increase its overall expenditures relative to GNP. At .3 percent of GNP (the equivalent of about \$11 billion in 1989), Japan could be the world's largest donor of nonmilitary foreign aid. Even if Japan tripled its development assistance, its combined defense and development expenditures, at roughly 2 percent, would still fall far short of the relative levels spent by the United States and NATO allies. Similarly, even though contributions to United Nations' peacekeeping efforts would be valuable, they would not significantly increase defense-related spending as a percentage of GNP.

Conclusions

U.S. officials identified five areas in which Japan could further assist the United States—assumption of all yen-based costs for U.S. forces in Japan, provision of wartime host nation support, quality-of-life improvements for U.S. service members, increased development assistance, and contributions to United Nations' peacekeeping efforts. Some of the areas would have a more direct impact than others on the U.S. budget.

Japan's assumption of the remaining yen-based costs paid by the United States could result in a U.S. budgetary savings of at least \$600 million per year. U.S. officials have pursued this issue rather cautiously, however, fearing that, in pressing Japan to pay these additional costs, they could jeopardize other favorable benefits the United States enjoys under the SOFA.

Quality-of-life improvements could directly decrease costs to USFJ or to individual service members, depending on who incurred the expense. The benefits derived from Japanese assistance in the area of wartime host nation support are more likely to be realized during a crisis rather than in peacetime, although through greater equipment prepositioning

¹The United States, however, does not count development assistance contributions made by its allies (for example, NATO) as defense burden sharing.

in Japan, U.S. requirements for additional transportation assets would decrease.

Japan has made significant increases in its development assistance programs. Even so, Japan could do more. The United States, however, must be prepared to accept increased Japanese political and commercial influence in recipient countries as a result of these increases.

Funding of United Nations' peacekeeping operations appears to be another area in which Japan could increase its contributions. Japan has pledged substantial financial support already, and U.S. officials expect a steady growth in Japan's financial contributions in the next decade. Involvement in these operations is supported by the Japanese public and does not have the commercial implications connected with Japanese developmental aid programs.

While Japan has increased its contributions to U.S. forces and in other programs, given its impressive economic growth, Japan could do more.

Comments From the Department of State



United States Department of State

Washington, D.C. 20520

May 1, 1989

Dear Mr. Conahan:

I am replying to your letter of March 29, 1989 to the Secretary which forwarded copies of the draft report entitled "U.S.-Japan Burden Sharing: Japan Can Contribute More In Several Areas" (GAO Code 467323) for review, comment and a security determination.

Department officials have reviewed the report and have no substantive comments. Regarding the security determination, we understand that DOD will do a line-by-line security review. We are prepared to concur with that review once it is completed.

We appreciate having the opportunity to review the draft report.

Sincerely,

A handwritten signature in black ink that reads "Roger B. Feldman". The signature is written in a cursive style with a long horizontal flourish at the end.

Roger B. Feldman

Mr. Frank C. Conahan
Assistant Comptroller General,
National Security and
International Affairs Division,
U.S. General Accounting Office,
Washington, D.C. 20548

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



INTERNATIONAL
SECURITY AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-2400

7 JUN 1989

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "U.S.-JAPAN BURDEN SHARING: Japan Can Contribute More in Several Areas," dated March 29, 1989 (GAO Code 467323), OSD case 7685-A. The Department of Defense concurs or partially concurs with all of the draft report findings. The DoD position on each finding is provided as an enclosure. There are three areas of the report, however, that require brief comment.

The GAO approaches burdensharing from the standpoint of financial contributions made by the United States and each of its allies toward the common defense of the free world. The DoD position is that burdensharing is more appropriately defined as the equitable sharing of roles, risks and responsibilities. The latter approach is better suited to the complexities of security relationships and the differing geopolitical realities involved.

Secondly, the GAO states that Japan's defense spending as a percentage of the gross national product has remained fairly constant over the past several years (at about 1 percent). However, it places too much emphasis on this point, obscuring the fact that Japan's defense spending and capability (in real terms) have increased dramatically in the same period, to the extent that Japan's defense spending is now on a par with that of our major European allies. Japan will soon have the third largest defense budget in the world and is building a high quality force structure defensively oriented and complementary to that of the United States.

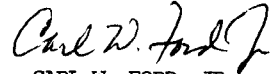
Appendix II
Comments From the Department of Defense

A third observation concerns the exclusion of "forgone revenues" in calculating Japan's support of U.S. Forces stationed in Japan. It is the DoD position that estimated rental costs of state owned land provided by Japan for U.S. bases and tolls and taxes not levied on U.S. Forces be included in determining Japan's level of support. These would be significant financial burdens, amounting to more than \$700 million annually, if Japan did not provide for them by foregoing its own revenue opportunities.

The relationship between the U.S. and Japan is broad and very complex. It is an essential part of the foundation upon which U.S. Pacific strategy for the defense of the United States is based. Japan's contribution to its own security and the contributions Japan provides to the support of U.S. Forces stationed in Japan are what make the Pacific forward deployed strategy viable. U.S. presence in northeast Asia has, in turn, been the key to deterrence of war and stability in that vital region for more than 30 years. It is safe to say that, without Japan's important contributions, the cost to the American taxpayer of maintaining the same level of security for the United States would be significantly higher. It is important that recognition and credit be given to these contributions, not only in terms of their budgetary impact, but also within the broader context of U.S. national security.

The detailed DoD comments on the report findings are provided in the enclosure. (Suggested technical changes were separately provided to the GAO staff at the May 25 meeting on the draft report.)

Sincerely,



CARL W. FORD, JR.

Acting Assistant Secretary of Defense
International Security Affairs

Enclosure:
a/s

Appendix II
Comments From the Department of Defense

GAO DRAFT REPORT - DATED MARCH 30, 1989
(GAO CODE 467323) OSD CASE 7685-A

"U.S. JAPAN BURDEN SHARING:
JAPAN CAN CONTRIBUTE MORE IN SEVERAL AREAS"

DEPARTMENT OF DEFENSE COMMENTS

FINDINGS

FINDING A: U.S.-Japan Cost-Sharing Arrangements. The GAO reported that the U.S.-Japan security arrangement in the 1950s and 1960s clearly indicated U.S. security interests in the Pacific and a willingness to share the financial burden of defending Japan. The GAO found that the Status of Forces Agreement (SOFA), signed in 1960 between the United States and Japan, provides the legal basis for stationing U.S. Forces in Japan and assigns to the parties financial responsibilities for related costs. The GAO also found that, under the arrangement, Japan agreed to provide military bases and the United States agreed to pay the costs of stationing U.S. troops. The GAO observed that, since the 1970s, the U.S.-Japanese relationship has become more complex because of Japan's economic progress and the growing Soviet presence in the Pacific; however, the formal arrangement has remained unchanged. (p. 2, p. 5, pp. 11-13/GAO Draft Report)

DOD RESPONSE: Concur.

FINDING B: Burden Sharing Increasingly An Issue. The GAO reported that the Congress is increasingly concerned over defense burden sharing, especially as the cost of U.S. worldwide military commitments continues to increase while its economic strength vis-a-vis its allies declines. The GAO observed that, although defense burden sharing lacks a commonly accepted definition, it is most often associated with the financial contributions made by the United States and each of its allies towards the common defense of the free world. (This definition not only includes what U.S. allies spend directly on their own defense but what is spent on behalf of U.S. Forces as well.)

The GAO noted that, in recent years, members of the Congress have urged Japan to assume a greater share of the defense burden. The GAO found, however, that historically, Japan has limited its defense spending to no more than one percent of its gross national product. The GAO reported that Japan broke through this ceiling when, in 1987, it budgeted an amount equal to 1.004 percent of the gross national product for defense. The GAO observed that these low rates of spending, relative to the gross national product, have reinforced the perception that Japan is not contributing its share for the common defense,

enclosure

Now on pp. 2-3, 10.

Now on pp. 2, 10-11.

See comment 1.

military commitments as it faces domestic economic problems.
(p. 1, p. 3, pp. 13-14/GAO Draft Report)

DOD RESPONSE: Partially Concur. The GAO associates burdensharing with financial contributions. While this may be how it is viewed by the Congress, it is by no means a "commonly accepted definition." The DoD views burdensharing as the equitable sharing of roles, risks and responsibilities (see the DoD Report, "Report on Allied Contributions to the Common Defense," April 1989). To examine burdensharing only in terms of "what is spent" is oversimplistic.

Concerning U.S. economic strength and Japanese defense expenditures, U.S. economic strength may have declined in relative terms since World War II, but it is not declining in real terms. Allied economies have grown, and are growing, in real terms. Japan does spend about 1 percent of the gross national product on defense; however, this amount is significant and is comparable to what major European allies spend on defense.

FINDING C: Japan's National Defense Program Outline. The GAO reported that Japan's defense policy is oriented towards self-defense of Japanese territory; Japan has no other area or regional defense commitments. The GAO found that the mission of Japan's Self-Defense Forces is to defend the nation, including its airspace and waters, against aggression. Accordingly, the GAO noted that defensive operations are to be initiated only when Japan is attacked by a foreign power, and dispatching armed forces to foreign territories is generally believed to be inconsistent with Japan's passive defense strategy and its constitution. The GAO also found that, in 1976, Japan established a National Defense Program Outline, stipulating force goals for its Self-Defense Forces. The GAO noted that, in 1981, Japan announced that, in addition to those force goals already adopted, it would be responsible for defending its own territory, its surrounding air space, and its seas out to 1,000 nautical miles East to West from Japan. The GAO noted that the Outline provides guidelines for the annual execution of national defense policies, including the buildup, maintenance, and operation of the defense forces. The goals specified in Japan's Defense Outline are listed by the GAO in table 2.1, on page 19, of the draft report. (p. 2, pp. 17-19/GAO Draft Report)

Now on pp. 2, 13-14.

See comment 2.

DOD RESPONSE: Partially Concur. Japan's defense program is defensive in nature because of its constitution, which was drafted during the Occupation with U.S. influence. Article 9 of the Japanese constitution renounces war and the threat or use of force as a means for settling international disputes. Additionally, it does not recognize the right of belligerency of the state. The DoD recommends that the report more clearly state the constitutional basis on which the National Defense Program Outline is based.

FINDING D: Japan's Achievement of Defense Goals Delayed. The GAO reported that Japan sought early attainment of the Outline's stated level of Defense capabilities while trying to abide by its policy of limiting defense spending to one percent of the gross national product. The GAO found that, in 1978, Japan adopted its first defense program designed to address the Defense Outline's goals for a 5-year period (1980-1984), but this was severely underfunded from the beginning. The GAO also found that this caused Japan to replace it with a new 5-year defense program (1983-87), which was also underfunded. The GAO noted that the U.S. suggested that Japan accelerate completion of these goals, and sharply criticized Japan when it not only did not accelerate but failed to meet its original 5-year targets. The GAO found that, in addition, Japan replaced these goals by a third 5-year defense program, which is currently in effect (1986-1990). The GAO observed that this program has been budgeted for 18.4 trillion yen (\$132 billion at 1987 exchange rates) for the period. The GAO noted that Japanese officials stated that, at this funding level, the force levels stipulated in the Outline will be achieved by 1991. The GAO also noted that, according to U.S. military officials, the current Japanese defense program, if fully funded, will provide Japan with the minimum capability necessary to meet most of its defense responsibilities by 1991 (including sealane protection). The GAO observed, however, that Japan's self-defense measures are not considered by the Department of Defense as a means of decreasing U.S. defense costs but, rather, as an opportunity to give the United States greater flexibility in meeting its regional commitments. (pp. 3-5, pp. 20-21/GAO Draft Report)

DOD RESPONSE: Concur. The process described represents the essential success of the Administration's security policy towards Japan over the past nine years. By 1985, Prime Minister Nakasone was able to raise the status of Defense Agency budget requests to that of government policy. This change, prompted and enabled by close bilateral cooperation and coordination, has ensured the relatively rapid achievement of Defense Program Outline goals since the decision was made.

FINDING E: Japan's Defense Outline Includes Sealanes Defense Commitment. The GAO reported that, in 1981, the Reagan Administration publicly emphasized a sharing of defense roles between Japan and the U.S., under which Japan would be responsible for defending its homeland and its surrounding sea and air space--a division which Prime Minister Suzuki espoused. The GAO noted that Japan's commitment included the defense of sea lanes out to 1,000 nautical miles. The GAO observed that, for Soviet naval forces to have access to the Pacific Ocean from the Soviet Union's largest naval base at Vladivostok, they must go through several straits adjacent to Japan and through the broad perimeter which the Japanese defend. The GAO found that

Now on pp. 2-3, 14-15.

Japan recognized that its new responsibilities would require additional assets including the procurement of additional ships and aircraft. The GAO noted that these, according to Japanese and DoD officials, are addressed within the current program. The GAO noted that, according to DoD officials, Japan's commitment to sea lane defense will not offset the U.S. responsibilities within this area but, by significantly improving its air defense and anti-submarine capabilities, Japan can delay Soviet advances and allow U.S. forces to operate offensively within Japan's defense perimeter. (pp. 21-25/GAO Draft Report)

DoD Response: Concur.

FINDING F: Adequacy of Japan's Defense Efforts. The GAO reported that, although the United States would have liked Japan to have built up its defense capabilities at a faster pace, DoD officials stated they were generally pleased with Japan's current efforts to meet its defense commitments. The GAO found that, in addition to the current plan, the DoD has requested and Japan has expressed its intention to acquire assets in order to further enhance its sealane defense capability. (The GAO noted that this includes an over-the-horizon radar system, three to four additional squadrons of interceptors, 18 to 20 refueling aircraft, 12 to 16 long-range early warning aircraft, AEGIS-capable escorts, and 15 to 20 large air transport and minelaying-capable aircraft.) The GAO also reported that, in January 1987, Japan issued a new set of guidelines concerning its defense buildup, which provide that Japan will continue to respect the spirit of the 1976 decision of a moderate defense buildup. The GAO noted that the Japan Defense Agency expects that the same policy of a moderate buildup will continue to apply after Japan's current 5-year defense plan ends in 1990. The GAO also noted that U.S. officials in Japan stated that Japan's spending on defense is low, but several stated that an increase in Japan's military capabilities significantly beyond what is currently planned could create instability in the Pacific region and would likely be opposed by the Japanese people. In addition, the GAO noted testimony from the Assistant Secretary of Defense (International Security Affairs) questioning the wisdom of advocating that Japan spend 3 percent of the gross national product on Defense or the desirability of Japan's becoming a regional military power. The GAO concluded that an overly strong Japanese defense force may not be in the United States' best interests. The GAO also concluded that, although Japan's 1987 defense budget, at 1.004 percent, broke through the one percent GNP limit, it is not likely to increase significantly. (pp. 25-27/GAO Draft Report)

DoD RESPONSE: Partially Concur. The GAO concludes that Japan's defense budget is not likely to increase significantly. This is true as a percentage of the gross national product, but in real terms Japan's defense budget has increased, and is expected to

Now on pp. 15-18.

Now on pp. 18-20.

See comment 3.

continue to increase, significantly. Over the last 10 years, Japan has increased its defense spending at a rate greater than the U.S. or other major allies. Today, Japan's defense spending is comparable to that of major European allies.

FINDING G: Japanese Contributions Toward U.S. Stationing Costs in Japan. The GAO reported that the cost of stationing U.S. forces in Japan increased from \$2,989 million in 1981 to \$5,419 million in 1987, and during that same period Japan increased its share of these costs from 24 to 31 percent. The GAO found that, to date, the bulk of Japanese direct support has been through the lease and rental of land, base vicinity countermeasures, labor cost sharing, the Facilities Improvement Program and contributions for relocation and miscellaneous expenses. The GAO listed the cash outlays for each of these in the Japanese fiscal years 1981 and 1987 (totaling \$711.4 million and \$1,683.5 million, respectively). The GAO observed that, in 1977, the U.S. began bilateral discussions to urge Japan to assume more of the burden of stationing U.S. forces, and that most of Japan's increases are the result of these initiatives. The GAO provided additional information on these programs as follows:

- Cost of Private Land and Employment of Base Countermeasures. The GAO found that Japan leases and provides to the U.S., free of charge, approximately 44,824 acres. The GAO found that Japan also pays for countermeasures to improve the local environment around U.S. bases, to help ensure support for the bases.
- Labor Cost-Sharing Initiatives. The GAO reported that, since the late 1970s, the U.S. has entered into three agreements in which Japan increased its share of the costs of employing Japanese workers to support U.S. forces (in 1977, 1978, and 1987). The GAO noted that, while Japan considered the first two to be within the terms of the Status of Forces Agreement, it considered the last to be a "Special Measure" outside that agreement. The GAO reported that further labor cost-sharing initiatives were undertaken in the summer of 1987, after U.S. Navy ships began escorting Kuwaiti ships in the Persian Gulf. The GAO noted that Japan believed it would be politically unwise to send ships to the Gulf, in response to the U.S. request for assistance from its allies. Instead, the GAO found that Japan increased its financial support for U.S. forces in Japan. The GAO also found that, while Japan rejected the U.S. proposal that Japan increase its payments to include all yen-based costs (as requiring renegotiation of the Status of Forces Agreement), Japan offered to increase its payments from 50 percent to 100 percent, by 1990, for those allowances paid by Japan under the 1987 agreement.
- Facilities Improvement Program. The GAO reported that U.S.-Japanese cost sharing discussions led to initiation of a

Facilities Improvement Program (FIP) in 1979--when it started with a budget of about \$100 million. The GAO listed the program's cost for Japanese fiscal years 1981 through 1987, and observed that it had grown to over \$560 million.

- Other Contributions. The GAO reported that Japan also pays construction costs for the relocation of U.S. forces in Japan and for other miscellaneous expenses, such as those related to losses to Japan's fishing industry from the presence of U.S. bases. (The costs listed by the GAO remained relatively stable from 1981 through 1987, when denominated in yen.)
- Foregone Revenues. Finally, the GAO reported that Japan also considers foregone revenues--such as (1) rental value for land owned by the Government of Japan and provided for U.S. use and (2) exempted tolls and taxes, as part of its support for U.S. forces. The GAO listed these as totaling \$289 million in Japanese fiscal year 1987.

The GAO concluded that Japan has been more responsive to U.S. initiatives in areas relating to offsetting some yen-based U.S. stationing costs than in building up its own defense capability. The GAO also concluded that Japan's assumption of the remaining yen-based costs paid by the U.S. could result in a U.S. budgetary savings of at least \$600 million a year. Finally, the GAO concluded that U.S. officials have pursued this issue rather cautiously, fearing that they could jeopardize other favorable benefits the U.S. enjoys under the SOFA. (pp. 3-4, p.6, pp. 29-39/GAO Draft Report)

DoD RESPONSE: Partially Concur: It is the DoD position that rental value of land owned by the Government of Japan and provided for U.S. use, and some exempted tolls and taxes should be included in determining support for U.S. Forces. The GAO terms these "foregone revenues" and does not include them. Nevertheless, these are significant contributions and are costs that DoD would have to pay if they were not "foregone" by Japan.

FINDING H: Other Burdensharing Initiatives. The GAO reported that, in addition to the cost sharing initiatives discussed, Japan responded to U.S. initiatives in other areas, as follows:

- Development Assistance. The GAO reported that, in 1980, in response to urging from the United States, Japan increased its official development assistance to Turkey, a country considered to be of strategic importance to the western alliance, and subsequently increased its assistance to other strategically important countries
- Cooperation on Defense-Related Technologies. The GAO reported that Japan has responded to the United States' requests that Japan reciprocate in military technology

Now on pp. 3-4, 21-28, 37.

See comment 4.

transfers, participate in the research programs of the Strategic Defense Initiative, and develop a new fighter aircraft using an existing U.S. airframe.

- Military Technology Transfers. The GAO reported that, in 1983, Japan responded to a U.S. request to reciprocate in military technology transfers by signing an agreement allowing the United States to receive Japanese military technology.
- Persian Gulf Initiatives. The GAO reported that, in 1987, Japan offered to provide financial assistance in the following areas, among others suggested by the U.S. :
 - Purchase of a \$10 million navigation system to be installed in friendly Gulf countries;
 - Increase in economic aid to Jordan and Oman by \$500 million; and
 - Provision of support for United Nations peace efforts in the Gulf. (pp. 39-45/GAO Draft Report)

DoD RESPONSE Concur.

FINDING I: Adequacy of Japan's Support. The GAO noted that U.S. officials stated that, Japan, under the Status of Forces Agreement, is not required to pay for anything other than land and facilities and, therefore, they are somewhat satisfied with the efforts Japan has made to contribute more than what a strict Japanese interpretation of the Status of Forces Agreement would allow in support of U.S. forces in Japan. The GAO also noted, however, that these officials believe that Japan could provide more financial support. The GAO also reported that a Japan Ministry of Foreign Affairs official stated that any further increase in financial support would require an amendment to the Status of Forces Agreement. The GAO observed that, while Japan makes substantial contributions towards offsetting U.S. stationing costs, comparing Japan's expenses in just this category to those of North Atlantic Treaty Organization allies addresses only a small part of the defense burden. The GAO pointed out that Japan can build toward an adequate defense posture and support U.S. forces by spending about one percent of its GNP, while other countries are consuming far greater percentages of their national budgets for burden sharing expenses in the face of adverse domestic economic conditions.

The GAO also found that the economic conditions in Japan have changed dramatically since the Status of Forces Agreement was negotiated in 1960, and arguments made by the United States are based more on current economic equity than on the provisions of that agreement. (pp. 45-47/GAO Draft Report)

Now on pp. 28-31.

Now on pp. 31-32.

DoD RESPONSE: Concur.

FINDING J: Japan's Potential Contributions to Yen-Based Costs. The report stated that the remaining yen-based costs for U.S. forces in Japan include salaries for Japanese citizens who work at U.S. bases, utilities, routine maintenance, and contracted ship repair costs. The GAO estimated the total value of these additional items to be at least \$600 million, based on projected 1990 salary costs for Japanese workers and other yen-based costs. The GAO noted that Japanese officials indicated that any amendment to the Status of Forces Agreement could lead to a Japanese decision to request renegotiation, while both U.S. and Japanese officials said the United States could encounter difficulties in renegotiating the Status of Forces Agreement to require Japan to pay for more yen-based costs. The GAO observed that U.S. concerns center around the potential loss of certain advantages under the Status of Forces Agreement (for example, unrestricted access to Japan's ports and training areas). The GAO noted the views of DoD officials that a lack of access to Japanese ports and training areas would affect U.S. force readiness. The GAO observed, however, that according to U.S. officials, Japan could assume all yen-based support costs for U.S. forces without renegotiating the entire agreement or, alternatively, provide this additional support through a separate agreement, as it did in 1987. The GAO concluded that Japan's reluctance to assume greater U.S. stationing costs appears to be politically rather than legally motivated. (pp.6-7, pp. 48-50/GAO Draft Report)

Now on pp. 4, 33-34.

See comment 5.

DoD RESPONSE: Partially Concur. The GAO conclusion that Japan's reluctance to assume greater U.S. stationing costs appears to be politically rather than legally motivated is an oversimplification. There are some elements of the Japanese bureaucracy (notably, at the Ministry of Foreign Affairs and within the Prime Minister's Office) who politically would like to increase Japan's contribution to U.S. stationing costs. There are, however, legal interpretations of Japanese law which require that further significant increases can not be accomplished without legislative action on the part of the Japanese Diet.

FINDING K: Other Potential Japanese Contributions to U.S. Forces. Other areas that the GAO identified as having potential for increased Japanese defense burdensharing contributions in support of U.S. forces include wartime host nation support and quality-of-life initiatives for U.S. service members in Japan. The GAO observed that, in the area of wartime host nation support, Japanese assistance is more likely to benefit the United States during a crisis than result in peacetime savings.

The GAO also found that Japan could increase its burden sharing efforts to benefit U.S. service members. (For example,

exemption from tolls, road taxes, and inspection fees on vehicles of service members stationed in Japan, discount prices for Japan's rail system and domestic flights, and payment of move-in costs for service members who must live off base.) The GAO observed that too little is known of this initiative to determine what U.S. savings might occur. (p.7, pp. 50-52/GAO Draft Report)

Now on pp. 4-5, 34-35.

DoD RESPONSE: Concur.

FINDING L: Japan's Potential Contributions to Official Development Assistance and United Nations Peacekeeping Operations. The GAO noted that U.S. officials believe that Japan could increase its official development assistance to countries of strategic importance to the United States and increase its contributions to United Nations' peacekeeping operations. The GAO found that both U.S. and Japanese officials perceive these as promising in significantly increasing Japan's contributions.

The GAO reported that Japan has pledged to increased its development assistance disbursements and has announced a 1989 foreign aid budget of \$11.1 billion, which will make it the largest donor and lender of non-military aid in the world. The GAO noted, however, that U.S. officials told the GAO that increased Japanese development assistance could have a negative impact on U.S. exports and enhance Japan's influence in international affairs. According to the GAO, these officials further pointed out that increased Japanese aid, especially if offset by decreased U.S. assistance, might lower U.S. exports to those recipients and Japan could gain more political and economic influence in some recipient countries than that of the United States. The GAO also reported that Japanese contributions to United Nations' peacekeeping operations appear to be another area that could potentially decrease U.S. contributions for similar efforts. (Japan has budgeted \$280 million in 1989 to fund peacekeeping operations. The United States budgeted \$32 million for its 1989 contributions to such operations.)

The GAO concluded that Japan has made significant increases in its development assistance programs but, even so, could do more. The GAO cautioned, however, that while the United States should experience positive budgetary benefits from these increases, it must be prepared to accept increased Japanese political and commercial influence in recipient countries. The GAO also concluded that the involvement in peacekeeping operations enjoys wide support by the Japanese public and, according to U.S. officials, does not contain the political and commercial implications of Japanese aid programs. (p. 4, p. 8, pp. 52-58/GAO Draft Report)

Now on pp. 5, 35-38.

See comment 6.

DoD RESPONSE: Partially Concur. The GAO reports that United Nations' Peacekeeping operations appear to be another area that could potentially decrease U.S. contributions. It is the DoD position that U.S. contributions for United Nation peacekeeping operations should be made on their own merits and should not be viewed as a zero-sum proposition--i.e., that if Japan pays more, the U.S. should pay less. There are political, diplomatic and security reasons for maintaining or even increasing the present level of U.S. commitment to United Nations peacekeeping operations.

The following are GAO's comments on DOD's letter dated June 7, 1989.

GAO Comments

1. We believe that chapter 2, which describes Japan's self-defense efforts, including a discussion of its defense role in relation to the United States, adequately portrays Japan's defense roles, risks, and responsibilities. These efforts, however, do not diminish the importance of financial contributions. The proportion of a country's national product spent on defense affects the resources remaining for all other sectors of its economy. Defense spending as a percentage of gross national product is the indicator most often referred to when discussing the burden of defense.
2. We added a statement to the report regarding the defensive nature of Japan's forces; that is, we note that Japan has concentrated on conventional defense capabilities designed to repel limited, small-scale invasions of its territory.
3. We believe that DOD's points are adequately addressed in the report. Specifically, the report notes that, (1) as a percentage of GNP, Japan is not expected to increase its defense spending significantly, and (2) in terms of absolute monetary expenditures, Japan's defense spending is comparable to that of major European allies.
4. While DOD is correct in noting that we did not include foregone revenues in calculating Japan's support, these revenues are identified and recognized in the report. The approach we used to calculate U.S. defense expenditures is the methodology required by NATO; that is, only actual budgetary outlays are included as defense expenditures.
5. We recognize that a decision to increase Japan's contributions toward U.S. stationing costs is a complex and sensitive subject and may require Japanese legislation. As noted by DOD, there are some elements within the Japanese bureaucracy that favor increased contributions to U.S. forces' stationing costs. We have modified our report to reflect this complexity.
6. We agree that there may be political, diplomatic, and security reasons for continued U.S. contributions to United Nations' peacekeeping operations and have modified the report to reflect DOD's position.

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