

UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT FOR
THE RECORD
BY THE
INTERNATIONAL DIVISION
U.S. GENERAL ACCOUNTING OFFICE
SUBMITTED TO THE
SUBCOMMITTEE ON DEFENSE
COMMITTEE ON APPROPRIATIONS
U.S. SENATE
ON
DEFENSE BURDENSARING BY JAPAN



Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present GAO's views on defense burdensharing by Japan. We first reported on Japan's defense spending and the issue of equitable sharing of the defense burden between the United States and Japan in 1977. We recommended joint action by the Departments of State and Defense to identify cost sharing objectives and approaches in Japan. Since then, we have issued three other reports on this subject, two of them at the specific request of congressional committees. In 1978, we reported that pay practices for Japanese nationals employed by U.S. forces in Japan needed to be changed because Japanese employed by the United States military were earning more than their counterparts working for the Japanese Government or in private business. In 1980, at the request of the House Appropriations Committee,

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we assessed Japan's efforts to share U.S. stationing costs, identified spending by Japan that reduced U.S. costs and traced the background of Japan's defense spending levels. We also suggested ways in which cost sharing could be increased. Our most recent report was issued in February 1982 in classified form, with an unclassified version issued in March. It was done for the House Ways and Means Committee, Subcommittee on Trade. The report dealt with Japan's coproduction of military aircraft and the impact that program has on Japan's defense costs and on the modernization of its civil aircraft industry. Our statement today briefly summarizes the message and recommendations of these reports, relating them to the overall burdensharing issue. While Japan has made some efforts to increase burdensharing, significant opportunities exist for increases in Japan's support of U.S. forces.

Our 1977 report, "The United States and Japan Should Seek A More Equitable Cost Sharing Arrangement" (ID-77-8, June 15, 1977), pointed out that Japan had prospered under the security provided by the U.S. defense umbrella and had developed into an economic superpower capable of assuming a greater share of common defense costs. However, political, constitutional, and psychological constraints limited Japan's ability to expand or use military power. National policy prohibits the manufacture, possession, or introduction of nuclear weapons into Japan. Its constitution--written under U.S. supervision after World War II--prohibits any overseas security role and provides only for a self-defense military force. The Government of Japan faces domestic political

difficulties in increasing the size of the Self Defense Force or increasing defense spending beyond a self-imposed limit of approximately 1 percent of its gross national product.

At the time of our 1977 report, the major cost sharing by Japan for U.S. forces was the provision of land and facilities, some of which the Japanese Government had to rent from private owners. This amounted to a little over \$100 million yearly. Japan also incurred costs for support to communities near U.S. bases and for various administrative activities. In addition, the Japanese had undertaken a program to consolidate and relocate many U.S. facilities, and the government spent about \$160 million on this program in 1976. In our report, we cited three potential cost sharing areas that the United States and Japan could pursue-- local national labor costs, joint use of facilities, and complementary force development. The most promising of these areas was labor cost sharing. Japan proposed a plan, largely as a result of our emphasis in the report, under which it paid some of the benefits received by Japanese nationals that exceeded prevailing practices. These costs were estimated at about \$26 million annually.

In our 1978 report, "Department of Defense Pay Practices For Japanese Nationals Should Be Changed" (FPCD-78-47, May 31, 1978), we found that the \$26 million was only a small portion of the excess payroll costs, and we recommended that the United States urge Japan to eliminate these excess costs or pay them for the U.S. forces. In 1979, Japan began paying many of these costs as well, and increased its total labor cost sharing to about \$57 million that year.

In 1979, the House Appropriations Committee asked us to follow up on our previous reports to quantify support provided by Japan and discuss other potential cost sharing areas. Our November 1980 report, "Host Nation Support of U.S. Forces--Our Experiences With Japan" (C-ID-81-1, Nov. 14, 1980), was classified and it is difficult to discuss in any detail our findings and recommendations. In general, we found that Japan was still spending only about nine-tenths of one percent of its gross domestic product on defense--much lower than any other industrialized nation. Also, because of Japan's rapidly expanding economy, the government has been able to increase defense spending while staying within its 1-percent guideline. Defense spending in 1980 was about 2.2 trillion yen (just under \$9 billion), an almost fourfold increase over the 1970 defense budget of about 570 billion yen. Still, that level of spending in 1980 represented only about 7 percent of the U.S. defense budget and left Japan's defense spending behind such nations as China, Germany, Britain, France, and Saudi Arabia.

U.S. policy has been to encourage Japan to make steady and significant increases in its defense spending to augment the mutual defense capabilities in the Pacific, provide for a more equitable burdensharing arrangement, and reduce U.S. costs. Defense officials have taken the twin-pronged approach of urging improvements in Japan's defense forces and, at the same time, increasing the amount of host nation support provided to U.S. forces in Japan.

The basis for host nation support in Japan is set forth in the Status of Forces Agreement. The Agreement obligates Japan to

furnish the "facilities and areas" needed by U.S. forces while the United States will "bear all [other] expenditures incident to the maintenance of the United States armed forces in Japan." Japan's responsibility has been interpreted to include the land and the basic structures for U.S. bases but exclude labor, facility maintenance, furniture, and equipment (except furnishings, equipment, and fixtures existing in the facilities initially transferred from Japan). U.S. responsibility has been interpreted to include all operation and maintenance costs for the bases in addition to the costs to staff, equipment, supply, and transport U.S. forces.

Within the terms of this Agreement, Japan has made increases in its cost sharing for U.S. forces in recent years. In construction, the initiation of the Facilities Improvement Program provided about \$100 million in 1979 and \$123 million planned in 1980. The program is continuing to provide modern, comfortable facilities for housing U.S. military personnel, replacing old, inadequate buildings and sometimes increasing the inventory of housing available to the United States. Very little U.S. military construction money is used in Japan, largely as a result of this program.

Despite these increased Japanese efforts toward sharing U.S. costs in recent years, U.S. officials generally agree that opportunities exist for greater Japanese cost sharing. Although Japan pays for some labor costs, the United States, for example, still had a payroll totaling \$300 million for Japanese nationals in 1980. Total U.S. operations and maintenance costs in Japan are at least \$700 million annually, and Japanese sharing of some or all of those

costs would represent a clear budgetary savings to the United States. In an official statement prepared for our 1980 report, officials of U.S. Forces Japan stated that the Status of Forces Agreement "clearly does not impose an obligation on Japan to pay for the maintenance of U.S. forces; however, [the Agreement] does not prohibit any other party or Japan from contributing to the maintenance." Another cost sharing potential is increased facilities construction, including priority facility needs other than housing.

Our most recent report on defense issues in Japan is titled "U.S. Military Coproduction Programs Assist Japan In Developing Its Civil Aircraft Industry" (ID-82-23, March 18, 1982). As the title indicates, the report was not specifically aimed at burden-sharing, but the issue of coproduction in this case is closely tied to Japan's defense spending, trade imbalances, and willingness to share U.S. costs.

The United States enters into military coproduction arrangements primarily to achieve national security objectives, but it also receives economic benefits in the form of licensing and technical assistance fees, research and development recoupment, and the sale of equipment, tools, and weapons systems components. Through military coproduction programs the Department of Defense sees an opportunity to (1) improve U.S. allies' military readiness through expansion of their technical and military support capability and (2) promote U.S. allies' standardization and interoperability of military equipment. Japan, and other purchasing

countries, see military coproduction arrangements as a way to obtain advanced technology, enhance their high-technology employment base, develop future export industries, and increase their military self-sufficiency. Japan has used the coproduction of various U.S. military aircraft to enlarge and develop its civil aircraft industry. Today, Japan is involved in a number of military and civilian aircraft coproduction programs using advanced technology acquired from the United States, as well as European countries. The major civil aircraft program is the Boeing 767. Military coproduction--including current coproduction of the F-15--is clearly one of the contributors to the development of Japan's civil aircraft industry. As a result of Japanese efforts to develop a viable aircraft industry through coproduction programs, Japan could one day be a competitive force in the worldwide civil aircraft market--a clear goal of the Japanese Government.

Our report points out that the United States has not devoted adequate attention to these economic issues in initiating and approving military coproduction projects. We do not take exception to the national security objectives pursued through coproduction, but we believe that the Departments of State and Defense have too narrow a perspective to adequately address the attendant domestic and international economic, industrial, and labor interests and perspectives. We recommended that agencies such as Commerce, Treasury, Labor, and the Special Trade Representative be involved in developing a clear policy on military coproduction and have a role in approving coproduction requests involving high-technology items.

Another aspect of the F-15 coproduction program in Japan which relates to U.S. concerns over burdensharing is the additional cost Japan incurs to coproduce the aircraft rather than making an outright purchase from the U.S. contractor through normal foreign military sales procedures. Some coproduced items cost Japan two to three times the purchase cost from U.S. production lines. Japanese defense production is inefficient, relative to the United States, because of the far shorter production runs. Japan's self-defense force has limited requirements and Japan's national policy prohibits military exports. Also, under coproduction arrangements, costs are higher because Japan must pay licensing and technical assistance fees to the U.S. companies that developed the equipment initially. Moreover, coproduction affects the price the U.S. military pays for the item, because if the item were purchased from U.S. production runs, the unit cost would be lower for all items produced, including those bought by U.S. forces. Not only would Japan save, but the United States would also save. The cost figures involved in the F-15 program are classified and are outlined in the classified version of our report.