

A Challenge for the ROK-U.S. Alliance: Defense Cost-Sharing

Won Gon Park
Handong Global University

July 2013

Knowledge-Net for a Better World

The East Asia Institute(EAI) is a nonprofit and independent research organization in Korea, founded in May 2002. The EAI strives to transform East Asia into a society of nations based on liberal democracy, market economy, open society, and peace.

The EAI takes no institutional position on policy issues and has no affiliation with the Korean government. All statements of fact and expressions of opinion contained in its publications are the sole responsibility of the author or authors.

 **EAI** is a registered trademark.

© Copyright 2013 EAI

This electronic publication of EAI intellectual property is provided for non-commercial use only, as long as it is unaltered and complete. Copies may not be duplicated for commercial purposes. Unauthorized posting of EAI documents to a non-EAI website is prohibited. EAI documents are protected under copyright law.

The East Asia Institute
#909 Sampoong B/D, Eulji-ro 158
Jung-gu, Seoul 100-786
Republic of Korea
Tel 82 2 2277 1683
Fax 82 2 2277 1684



A Challenge for the ROK-U.S. Alliance: Defense Cost-Sharing

Won Gon Park
Handong Global University

July 2013

I. Introduction

In 1991, the Republic of Korea (ROK) and the United States (U.S.) agreed to sign a Special Measures Agreement (SMA) on Article V of the Status of Forces Agreement (SOFA) as a consequence of the Mutual Defense Treaty between the ROK and the U.S. Through this agreement, the ROK provides financial support for the expenses incurred in the stationing of United States Forces Korea (USFK). Since 1991, the ROK and the U.S. have signed eight SMAs, the last of which was the 8th SMA with a validity period of five years, from 2009 through 2013, which was ratified by the ROK National Assembly in March 2009. Negotiations between the ROK and the U.S. for the 9th SMA began in 2013 when negotiators from the ROK and the U.S. met for the first round of talks in Washington in early July.

As one of the key agendas of the ROK-U.S. alliance, defense cost-sharing functions as an important influence factor in the continuation of this bilateral alliance. This is because the process and the outcome of cost-sharing negotiations have profound implications on the parliaments of both countries and on domestic public opinion. Moreover, defense cost-sharing presents a considerable burden on the ROK's national finance and there are key issues that generate differences of opinion between the ROK and the U.S. Particularly among South Koreans, there is a "bandwagon effect" on cost-sharing. They acknowledge the necessity and importance of the ROK-U.S. alliance but show a rather negative attitude toward the shouldering of costs.



In particular, in the 9th SMA negotiations to take place from 2013, the U.S. is likely to reflect its changes in foreign policy strategies in the aftermath of the 2008 economic crisis. As the U.S. has been emphasizing the cost-sharing responsibilities of its allies due to its economic difficulties, negotiations for ROK-U.S. defense cost-sharing are not likely to be easy. In June 2012, Carl Levin, chairman of the Senate Armed Services Committee, during a press conference mentioned the need for a readjustment of the ROK's defense cost-sharing contribution due to the overwhelming costs of stationing the USFK.

This paper was devised with an aim to suggest more productive and efficient negotiations between the ROK and the U.S., ahead of the ninth ROK-U.S. defense cost-sharing negotiations in 2013. The issue of defense cost-sharing was considered a symbol of the ROK-U.S. alliance, and in particular, the U.S. has shown a tendency to perceive the host nation's economic support as a yardstick by which to measure the cohesion of the bilateral alliance. Therefore, in case differences of opinion between the ROK and the U.S. grow increasingly acute during defense cost-sharing negotiations, it cannot be ruled out that the overall stability of the bilateral alliance may be harmed.

In particular, I would like to emphasize that ROK-U.S. defense cost-sharing negotiations shall be pursued from a more holistic approach, taking into account its benefits for the ROK-U.S. alliance in general, not merely for accounting purposes. The issue of defense cost-sharing shall consider various factors, including the economic situation and changes in the security environment of both the ROK and the U.S., besides other detailed requirements. However, at the same time, for its objective improvement, problems in the existing ROK-U.S. defense cost-sharing negotiations shall also be addressed.

Therefore, this paper first seeks to analyze the background and history of ROK-U.S. defense cost-sharing and, after differentiating key relevant issues related to ROK-U.S. defense cost-sharing negotiations, suggest key factors to consider and future directions for ROK-U.S. defense cost-sharing, from the perspective of the ROK.



II. Background and History of ROK-U.S. Defense Cost-Sharing

1. Defense Cost-Sharing System

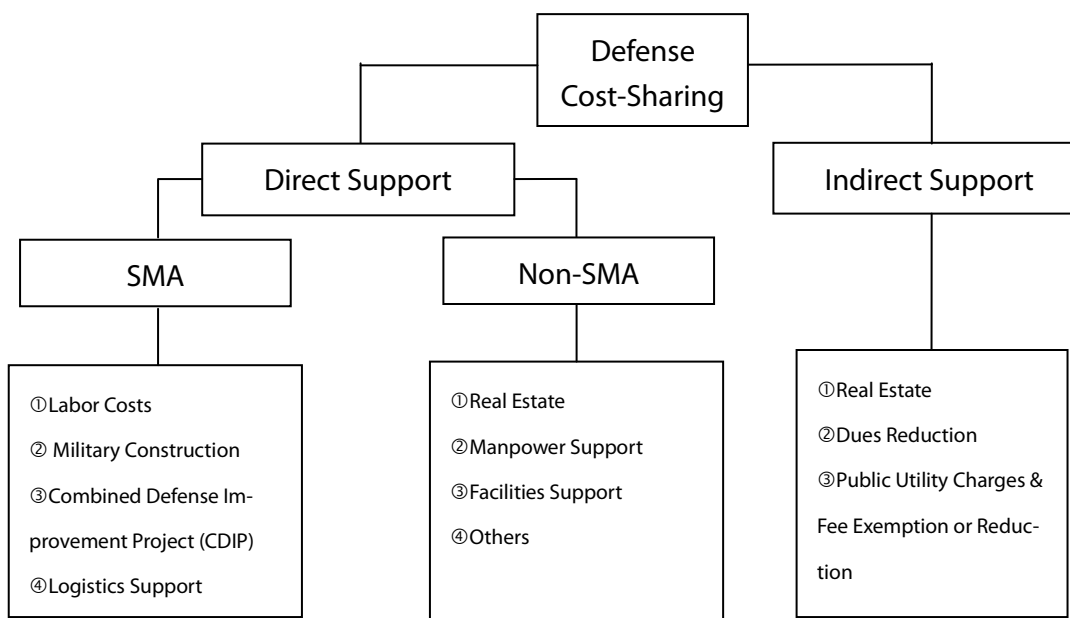
Defense cost-sharing, as a form of “defense burden-sharing” with a broader meaning, refers to the burden-sharing of various resources (territory, facilities, personnel, etc.) and monetary, financial costs that are required for common defense activities by more than two countries (trade alliance) in pursuit of their common military objective—joint defense.

Of the above common resources, those that focus on the monetary, financial costs refer to “cost-sharing,” and in particular, those that focus on the stationing costs of foreign troops refer to “stationing cost-sharing.”

Among economic resources, monetary cost-sharing refers to “direct cost-sharing” and cost-sharing in which cash is not directly paid, such as reduced real estate, tax, and public utility charges, and manpower support refers to “indirect cost-sharing.”

The current ROK-U.S. defense cost-sharing division system is as follows:

<Figure 1> Current Defense Cost-Sharing Division System





Defense cost-sharing can be divided into direct and indirect support. Direct support usually consists of monetary support in order to offset stationing costs, whereas indirect support centers around real estate and taxes and public utility charges reduction. Direct support can be divided into the core of ROK-U.S. defense cost-sharing, namely, SMA cost-sharing and non-SMA cost-sharing. Non-SMA cost-sharing includes facilities and manpower support that were implemented before the signing of the SMA.

SMA cost-sharing within direct support can be categorized into four types: labor costs, military construction, Combined Defense Improvement Project (CDIP), and logistics support. Labor costs refer to payment support such as basic pay and benefits paid to Korean employees working in USFK bases. The SMA states that support cannot exceed 71 percent of the total amount of labor costs. Labor costs are supported entirely through cash, accounting for about 40 percent of defense cost-sharing contributions.

Military construction costs aim to support the construction of noncombat facilities of USFK, such as military personnel barracks, environmental facilities, and sewage disposal facilities. Since the 7th SMA, the ratio of in-kind projects was adjusted to over 10 percent and was entirely switched to in-kind from 2011. However, mapping and construction costs (12 percent) are still paid in cash. The proportion of military construction costs has gradually risen to account for the highest (41 percent) among all cost-sharing contributions since 2007.

Combined Defense Improvement Project (CDIP) refers to a project that supports facilities for battle and battle operations that can be jointly used by both the ROK and the U.S., such as landing strips, ammunition dumps, wharves, and airplane hangars. It had accounted for about 10 percent of defense cost-sharing contributions but it was agreed from 2007 that only existing projects, as opposed to new projects, would be executed.

Lastly, logistics support includes services and goods such as ammunition storage, aircraft maintenance, and railroad and vehicle transportation and is being entirely supported through cash.

On the one hand, ROK-U.S. defense cost-sharing negotiations cover other types of direct support and indirect support besides the four areas of direct support as a consequence of the SMA. Many countries in which U.S. troops are stationed besides the ROK implement various types of support to stationed U.S. troops according to special articles in the SOFA, even in the absence of the SMA. Defense cost-sharing negotiations on direct support take place in the form of cash, reflecting government budget, in-kind, and services support as a consequence of indirect support, in which the direct government budget is not used, such as provision of real estate, tax exemption, and fee reduction.



2. History

The history of ROK defense cost-sharing dates back to when, after defeating Japanese troops, U.S. troops in September 1945 established a military government and stationed forces in the south part of the Korean peninsula by taking control of the Japanese base. Providing territory and facilities free of charge for U.S. troops centered around Japanese stationing bases is said to be the beginning of defense cost-sharing. Manpower support began with the establishment of the Korean Augmentation to the United States Army (KATUSA) in August 1950, consisting of 20,000 soldiers who were assigned to the U.S. Army to support war execution, which has continued until today.

The ROK and U.S. officially engaged in defense cost-sharing based on their combined defense posture in 1974 after reaching an agreement on the supply of conventional ammunition within the ROK. According to this agreement, the ROK would start with cost-sharing related to War Reserve Stocks Ammunition (WRSA), exclusive storage management of U.S. troops, and Combined Defense Improvement Projects (CDIP). In 1976, the ROK began its cost-sharing of Joint U.S. Military Affairs Group-Korea (JUSMAG-K)'s management costs, and from 1983 also began its cost-sharing of a part of Combined Forces Command (CFC)'s management costs.

The ROK first started negotiations with the U.S. on the existing defense cost-sharing arrangements back in 1991. Suffering from budget and trade deficits, the U.S. began to officially request an increase in defense cost-sharing contribution by its allies from the latter half of 1980. The ROK could not be an exception. Since a resolution of the U.S. Congress calling for an increase in defense cost-sharing contribution associated with a reduction of USFK, the U.S. government exerted pressure on the ROK regarding its defense cost-sharing contribution. The ROK accepted this U.S. request in 1989, leading the ROK to adopt the package of defense cost-sharing that exists today.

The U.S. first signed the SMA relating to the SOFA agreement with Japan, requesting an increase in defense cost-sharing contribution and later made the same request to the ROK. Feeling pressure of the withdrawal and reduction of USFK, the ROK signed an Agreement concerning Special Measures relating to SOFA in 1991, as seen below, calling for the ROK to shoulder part of the expenditures for direct stationing costs of U.S. troops, including part of the expenditures for Combined Defense Improvement Projects (CDIP), logistics cost-sharing, labor cost-sharing, and ROK-funded construction costs.



- Article 1: The Republic of Korea shall bear, as a Special Measure relating to Article V of the Status of Forces Agreement (SOFA), a part of the expenditures for the employment of Korean employees of the USFK and of other expenditures associated with the stationing of the USFK. The contribution of the Republic of Korea shall be categorized into labor cost-sharing, military construction, Combined Defense Improvement Projects (CDIP) and logistics support. (Agreement concerning Special Measures relating to Article V of SOFA (1991))

The ROK-U.S. SMA on defense cost-sharing that entered into force in 1991 has reached its eighth round. Negotiations for the 8th SMA on Article V of SOFA began in July 2008, taking effect after its official signing in January 2009 by the representatives of both countries after a series of five high-level talks. As the 8th SMA will expire by 2013, the ROK and the U.S. are likely to begin consultations for the 9th SMA beginning in 2013.

Meanwhile, the ROK Ministry of National Defense (MND) oversaw the five rounds of negotiations that took place until 2004, while the ROK Ministry of Foreign Affairs and Trade ran negotiations starting from the 6th SMA. The ROK has changed its main organizer, for it ruled that as the U.S. negotiating organization is the U.S. Department of State, a government branch of similar characteristics, namely, the ROK Ministry of Foreign Affairs and Trade, would be able to carry out negotiations more smoothly. Currently, the senior representatives of both countries are the chief government negotiator for defense cost-sharing of the ROK Ministry of Foreign Affairs and Trade and the U.S. Ambassador for defense cost-sharing within the U.S. Department of State.

III. Key Issues Related to ROK-U.S. Defense Cost-Sharing Negotiations

1. Method for Determining Defense Cost-Sharing Contributions

ROK-U.S. defense cost-sharing contributions are basically determined according to the lump-sum method. The lump-sum method refers to a process in which the total amount is fixed first and then a budget is allocated for each category, irrespective of expenditures or expense account. Any increase in the total amount is determined through negotiations, considering the total amount of support in the previous year as rationale. The total



amount of defense cost-sharing contributions is stated according to Article II of the SMA and the share per category is decided after the signing of the agreement, through a separate implementation arrangement and consultations within the defense cost-sharing joint committee.

In the case of the 1st and 2nd SMA, enforced from 1991 until 1995, defense cost-sharing gradually increased to reach one-third of the stationing costs, amounting to \$300 million in 1995. In the case of the 3rd SMA, enforced from 1996 to 1999, the goal was a 10 percent increase in dollars each year. After the 4th SMA in 1999, the contributions were allocated based on the economic growth rate and the inflation rate.

<Table 1> Defense Cost-Sharing Per Year

Year	SMA (Round)	Amount of Agreed Contribution (in billion dollars)	Share with-in Defense Budget (%)	Method for Determining Defense Cost-Sharing Contributions
1991	1 st and 2 nd SMA	1.5	1.4	-Cost-sharing goal amounting to \$300 million in 1995, through gradual increase -Conducted negotiations each year
1992		1.8	1.6	
1993		2.2	1.8	
1994		2.6	2.1	
1995		3.0	2.2	
1996	3 rd SMA	3.3	2.0	-Annual 10 percent increase in dollars -Determined 3-year cost-sharing contributions for the first time
1997		3.63	2.1	
1998		3.99 *(3.14)	2.6	
1999	4 th SMA	3.39	2.9	-Economic growth rate+inflation rate -Began payment in Korean won
2000		3.90	2.9	
2001		4.44	3.2	
2002	5 th SMA	4.72	3.5	-8.8 percent+GDP deflator fluctuation rate -Increased rate of payment in Korean won
2003		5.52	3.8	
2004		6.22	3.9	
2005	6 th SMA	6.8	3.3	-Freeze rate of increase -Payment of total amount in Korean won
2006		6.8	3.0	
2007	7 th SMA	7.25	2.9	-2008 reflected only inflation rate on 2007 contributions (froze actual contributions)
2008		7.41	2.7	
2009 ~ 2013	8 th SMA	7.60		-2.5 percent increase year-on-year -Reflected only inflation rate (maximum of 4 percent)

Sources: Korea National Assembly Budget Office, "The Analysis of Budget of Fiscal Year of 2007"; ROK Ministry of National Defense, "Defense Budget 2008"; National Assembly Research Service, "ROK-US Cost-sharing, Issues and Agendas," *Report for Pending Issues*, No. 4, August 28, 2008; "The Defense Burdensharing of South Korea: The Present Conditions, Issues, and Policy Improvement," *The Studies of International Affairs*, Spring 2009.



During the most recent 8th SMA, it was ultimately agreed that the total amount of defense cost-sharing contributions in 2009 would amount to 760 billion won, as a reflection of the 2.5 percent inflation rate of 2007 on the total amount of defense cost-sharing contributions in 2008, which stood at 741.5 billion won. This increase in defense cost-sharing contributions is a drastic reduction when compared to the amount agreed in the 7th SMA (2007–2008), that of an approximately 6.6 percent increase amounting to 725.5 billion won year-on-year. It was agreed that from 2009 until 2013, the amount of defense cost-sharing contributions would be determined by reflecting the consumer price index by a maximum of 4 percent. The maximum of 4 percent was aimed at controlling an excessive increase in defense cost-sharing contributions due to exceptionally high inflation.

ROK-U.S. defense cost-sharing contributions continued to be determined according to the lump-sum method, only by determining the categories and total amount. The rate of increase in the total amount was a key criterion during negotiations. Once the total amount is determined, actual implementation takes place based on an implementation arrangement between the ROK Ministry of National Defense and the USFK.

Some raise the issue of such a lump-sum method. The U.S. Department of Defense (DoD) opens to the public the total amount and the main categories of its military budget through its Annual Defense Report but not detailed categories such as the USFK budget. Moreover, the U.S. does not provide information on the costs nor standards of calculation of the detailed categories of USFK's stationing costs. On this account, there has been criticism that the current method for determining ROK-U.S. defense cost-sharing contributions is not based on the actual projected costs of calculation. In particular, it is argued that problems exist in the ROK's method for determining defense cost-sharing contribution when compared with that of Japan. In Japan's case, only areas of support such as "Program-Project Based Cost (PBC)" are stated without the total amount. The advantage is that contribution based on stationing costs can be determined on the basis of the actual stationing costs and the principal agent for defense cost-sharing contributions is the Japanese government.

In addition, there has also been criticism that the current ROK-U.S. defense cost-sharing negotiations violate the deliberation and voting rights of the ROK National Assembly. That is, according to the method of determining the total amount, the ROK National Assembly does not have access to the detailed amount of support by project category, only the total amount in the process of ratifying the SMA, which raises the problem of having to verify the amount of expenses after their execution upon settlement of accounts each year.



Recognizing such problems, the ROK and U.S. agreed on the need for a new formula to enhance negotiations and the execution system for defense cost-sharing following the 7th SMA, but this was not reflected even during the eighth agreement; rather, the existing lump-sum method was applied.

2. Evaluation of ROK's Support (NPSC)

Another issue of controversy in relation to ROK-U.S. defense cost-sharing contributions is that a clear evaluation of the ROK's contribution has not been made. The U.S. attempts at negotiations on defense cost-sharing contributions are based on Non-Personnel Stationing Costs (NPSC). NPSC is a term used by the U.S. Department of Defense (DoD) to evaluate the amount of contributions of its allies, which refers to costs incurred when U.S. troops are stationed in foreign countries, with the exception of labor costs of stationed U.S. troops. The U.S. calculates the share of defense cost-sharing contributions to be shouldered by the host nation according to how much direct and indirect support provided by the host nation is accounted for within NPSC.

During the 8th SMA negotiations in 2008, stating that the ROK's share of contribution is 42 percent, the U.S. requested that the ROK contribute 50 percent of costs for stationing U.S. troops. However, the problem lay in that the NPSC was merely a standard set by the U.S.—a one-sided concept that was not consulted on with any other ally in the world, including the ROK. At the same time, the division of categories and evaluation method of NPSC, which form the basis of the ROK's share of 42 percent that had been proposed by the U.S., remain unclear.

Therefore, there is a high possibility that a difference in the level of cost-sharing contributions could arise in the calculation process. For instance, there had been a large difference in the calculation of the share of contributions of both countries during negotiations for the 8th SMA. Basically, while the U.S. has a tendency to evaluate a reduced amount of support, the ROK tends to make an expanded evaluation.

In particular, there is a large difference in the calculation of the share of contributions of both the U.S. and the ROK in the area of indirect support, such as tax exemption (discount in public fees), exemption of infrastructure use, and evaluation of real estate rent. In the past, during 2000~2002, the ROK evaluated that it provided \$773 million, \$640 million, and \$683 million each accordingly for the above-mentioned areas of indirect support, while the U.S. evaluated that it provided half of that of the ROK, namely, \$363 million, \$385 million, and \$357 million.



The 50:50 cost-sharing request based on the NPSC was to be used as a method for achieving an increase and leadership domination in defense cost-sharing negotiations. However, as the U.S. since 2004 has not been publishing its Allied Contribution Report (ACR), which evaluated the amount of contributions by its allies based on the NPSC, it could be seen that the U.S. is aware of problems with NPSC. Nonetheless, in case a budget-sensitive U.S. Congress exerts pressure to enumerate and negotiate defense cost-sharing contributions of its allies through the U.S. Department of Defense, one cannot entirely exclude the possibility of the resurfacing of the NPSC.

3. Evaluation of the 8th SMA

The issue of the method for providing defense cost-sharing contributions, one of the key issues that has been raised with relation to ROK-U.S. defense cost-sharing, was greatly resolved through the 8th SMA. Defense cost-sharing provided by the ROK is categorized into cash and in-kind contributions. As stated above, labor costs are paid entirely in cash (Korean won) in three equal payments during the relevant year. Payment for military facilities had been made in two equal installments in cash and in-kind. Through the 5th SMA (2002~2004), 5 percent of payment of military construction costs was done through in-kind contribution, and since the 7th SMA (2007~2008), the proportion of in-kind projects among military construction costs was readjusted to 10 percent.

Under the 8th SMA, the proportion of in-kind contributions among military construction costs greatly increased, and from 2011, it was agreed that payment would be switched to in-kind support in general. In case the U.S. agrees with the ROK to make military requirements according to military needs, the ROK would be responsible for construction. Considering only that facilities are used by U.S. troops, the U.S. (Far East Army Corps of Engineers) would be in charge of design and construction supervision, while the ROK would be responsible for project orders, contracts, and construction. Design and construction supervision costs would be paid in cash by the ROK. In addition, considering the nature of the construction project, the unexecuted parts could be carried over to the following year. From 2011, except for 12 percent of design and construction supervision costs, payment was switched entirely to in-kind. In-kind payment can be a fairer cost-sharing method than cash in that the supporting side can reflect its opinion on the details of support.

In terms of the period of agreement, as opposed to the past, the 8th SMA would be valid for a period of five years (2009–2013). Both the ROK and the U.S. agreed to a five-year period as opposed to two years as in the past, considering stable budget planning



and implementation and the need to reduce unnecessary administrative costs due to frequent negotiations. The fact that an SMA for Japan's defense cost-sharing is reached every five years was also taken into consideration.

In conclusion, choosing a maximum ceiling and extending the period of agreement was in the ROK's favor. This was due to the inevitability of a request for an increase in the costs of stationing U.S. troops, considering the U.S. financial crisis in 2008 and the subsequent U.S. government's budget reduction efforts. Although the U.S. has a maximum ceiling, it could not request an increase from the ROK despite its financial crisis. Moreover, as the period of agreement is extended to five years, a request for an increase is only possible within the maximum ceiling.

IV. Defense Cost-Sharing Negotiations: Matters to Consider and Measures to Improve

Basically, although calculation/accounting of ROK-U.S. defense cost-sharing negotiations is important, benefits in terms of the overall ROK-U.S. alliance also need consideration. With the transfer of wartime operational control to the ROK in 2015, the ROK will take charge of its own defense and the U.S. will play the role of a supporter. However, the U.S. and, in particular, USFK are of great importance in the ROK's defense. This is because as U.S. forces are stationed in the ROK, they function as a deterrent against North Korea as well as a balancer in Northeast Asia. Therefore, if the ROK maintains its security and defense policies based on a robust ROK-U.S. alliance, cost-sharing for stationing U.S. troops is inevitable. In particular, the ROK shall also consider various methods for cost-sharing to secure safe stationing conditions for USFK. Thus, although the detailed requirements of ROK-U.S. defense cost-sharing negotiations shall not be neglected, factors such as the overall ROK-U.S. alliance conditions and changes in the security environment shall also be regarded as important.

Additionally, the ROK is not disadvantaged, even when taking into consideration the economic effects of USFK. Particularly, the information asset values of USFK are approximately \$2.2~\$2.5 billion and the value of wartime increase in personnel stands at \$250 billion. Although it is difficult to judge precisely, USFK's equipment asset values are estimated at 25 percent of ROK-U.S. equipment asset values.



<Table 2> Assessment of Substitute Equipment Costs of USFK

Category	Equipment Value	Substitute Costs	Defense Costs in Contrast to GDP
National Assembly Material	\$14~\$25.9 billion	\$30 billion	
Korea Institute for National Unification (KINU)	\$23.5 billion	\$29 billion	
Korea Institute for Defense Analyses (KIDA)		\$20 billion	5~6%
Federation of Korean Industries (FKI)		\$19.2 billion	2.91~3.57%

When looking at the U.S. ammunition war reserve, there is a cost reduction effect of 60 percent of the required amount of \$5 trillion. In case U.S. troops withdraw from the ROK, the ROK's share of national defense spending will increase about 1.43 times and will cost approximately 11 trillion won as of 2008. Therefore, the ROK's current contribution for stationing USFK is not a loss in terms of the economic effects of USFK.

In general, basically defense cost-sharing shall be understood as a "joint ROK-U.S. fund" to be used for the ROK-U.S shared goals of defense and peace on the Korean peninsula. The binary calculation that ROK funds were proposed by the ROK government or that once paid, they are U.S. funds, shall be discarded. It shall be recognized that upon financing from joint funds for defensive peace on the Korean peninsula, the ROK is providing the ROK's additional share.

However, at the same time, there clearly are improvement requirements for ROK-U.S. defense cost-sharing negotiations. First, improvements in the method of conducting defense cost-sharing negotiations based on NPSC are necessary. There are many obstacles in adopting defense cost-sharing criteria as there is an inaccurate aspect in the calculation process itself and, in particular, there is also a large difference in the amount of indirect support calculated between the ROK and the U.S. Nonetheless, if the U.S. wishes to continue negotiations based on NPSC, consultations with the U.S. on key categories are necessary. This is because it would be extremely difficult to carry out negotiations when the U.S. does not reveal the selection criteria and evaluation methods of the NPSC categories.

The method of repeating negotiations for determining the total amount, as opposed to the actual required amount in detail, shall also be improved. It would be desirable to convert the method of determining cost-sharing contributions to one that satisfies re-



quirements, but it does not seem easy as of now. First, there seems to be a problem in reaching a consensus as to the detailed requirements between the ROK and the U.S. It is relatively easy to find out the requirements of personnel costs and ammunition support costs, but in the case of military construction costs, it is possible that differences of opinion may occur between the ROK and the U.S. on detailed requirements, as there are large-scale projects such as the relocation of the 2nd Infantry Division and of U.S. bases to Pyongtaek.

A few argue that, as in the case of Japan, the ROK shall immediately convert its method of determining cost-sharing contributions to one that satisfies requirements, but benchmarking Japan does not certainly mean that it would be unconditionally favorable for the ROK. The reason behind the ROK's benchmarking of Japan is mainly due to the issue of personnel costs. Currently, Japan takes the lead when providing support according to its actual requirements through its contribution by determining a maximum ceiling for the support of Japan's employees and the role of Japan's Ministry of Defense as a legal employer. However, at the same time, Japan's government provides support of high-burden categories such as base facility rent fees and includes such categories within defense cost-sharing. Therefore, Japan's direct and indirect amount of support that the U.S. is estimating far exceeds that which is shouldered by the ROK. Thus, if the ROK requests a conversion to a method of determining cost-sharing contributions that satisfies requirements, it cannot be excluded that the U.S. would raise the issue of large-scale requirements to the ROK.

In the present situation, an area that has a margin of improvement between the ROK and the U.S. is creating a verification procedure related to the execution and settlement of accounts of defense cost-sharing. This system needs improvement that leads toward joint auditing and follow-up service on defense spending. At the moment, it is not easy to check the actual execution of defense cost-sharing contributions because the verification procedure is inadequate. It is necessary to create a feedback system of requirements-execution-analysis. For instance, as was pointed out by the ROK National Assembly, in terms of settlement of accounts of labor costs, there should be institutional measures for the verification of the accuracy of the number of people and appropriateness of calculation and execution of labor costs that were offered by the U.S.

In the case of military construction or CDIP, it has been highly criticized for projects being carried out after receiving contribution beforehand without basing them on detailed requirements through a "support first, project selection after" method. However, since 2011 through the 8th SMA, as CDIP has been included in military construction costs and contribution has been entirely switched to in-kind, transparency has been



sharply enhanced. Although it is possible to carry over unexecuted funds to the following year, the fact that the ROK would be responsible for construction by posing construction requirements as a consequence of military needs through ROK-U.S. consultation is enormous progress. In this manner, defense cost-sharing negotiations shall be geared toward greater transparency and efficiency.

V. Conclusion

Negotiators from the ROK and the U.S. met in Washington in early July for the first consultation meeting for the 9th SMA. Both sides tentatively agreed to finish negotiations by October, considering ratification procedures in the National Assembly.

Negotiations for the 9th SMA are not likely to be easy in various aspects. First, the U.S. government's difficult financial situation will affect the ROK's share of contributions. According to federal spending "sequester" cuts, which took effect last March, the U.S. projects a defense budget cut of \$950 billion over the next ten years. Although it is said that essential functions such as immediate crisis management capabilities, including constant combat readiness on the Korean peninsula, will be made exceptions by the U.S., there is a high possibility that in overall negotiations, sequester cuts will act as factors that will press for an increase in cost-sharing contributions. In particular, the U.S. Congress, which manages the budget, is strongly demanding a raise in allies' cost-sharing.

Moreover, the fact that the U.S. is still demanding a cost-sharing contribution amount according to the stationing of USFK based on the NPSC is a problem. The U.S. Congressional Research Service (CRS) showed in a report on ROK-U.S. relations last February that U.S. DoD officials requested an increase of over 50 percent in the ROK's cost-sharing rate. The U.S. Senate Armed Services Committee also noted in a report on cost-sharing for U.S. troops stationed in foreign countries in April that USFK's stationing costs are increasing but that the ROK's share of cost-sharing contributions did not match the increase. The U.S. Congress is requesting 75 percent of the total cost of maintaining U.S. troops from its allied countries, according to the NPSC.

On the other hand, the ROK government takes the stance that the cost-sharing rate shall be determined "in a reasonable manner" considering in general the ROK's financial capacity and the provision of safe stationing conditions for USFK. To be more specific, the ROK government's basic policy is that it could accept an amount that exceeds the cur-



rent cost-sharing rate by linking last year's cost-sharing contribution (869.5 billion won) with an inflation rate of 4 percent but that accepting a drastic increase would be difficult.

Besides difficulties due to differences in detailed stances between the ROK and the U.S. regarding negotiations for defense cost-sharing, the current 9th SMA is a sensitive issue in terms of the ROK-U.S. alliance in general. The Lee Myung-bak government, which was inaugurated in 2009, suggested that its goal would be to “restore” the ROK-U.S. alliance, judging that it had been “damaged” in previous governments. As such, a new vision for the ROK-U.S. alliance was announced in conjunction with the U.S., Operational Plan 5029 was developed in detail, transfer of wartime operational control was postponed, and an ROK-U.S. joint plan for countering local provocation were among some measures for strengthening the bilateral alliance. Thus, ROK and U.S. experts made the assessment that the ROK-U.S. alliance was the strongest ever. Paradoxically speaking, the newly inaugurated Park Geun-hye government was inaugurated under increasing pressure in terms of the ROK-U.S. alliance. This is due to the fact that eventually a relationship that is at its best is bound to deteriorate. The Park Geun-hye government has but to solve difficult issues with the U.S., including ROK-U.S. mutual cooperation on North Korea's provocation and nuclear issues since December 2012, transfer of wartime operational control in 2015, and continuous delay in the transfer of USFK bases. At the same time, the ROK also carries the burden of having to maintain a delicate balance between China's influence in Northeast Asia and the ROK-U.S. alliance. In this situation, the ROK has to address negotiations on defense cost-sharing, which deals with one of the most sensitive and difficult issues of money.

This situation is also not that much in favor of the U.S. The U.S. is facing problems such as financial woes, fatigue from the “War on Terror” in the past ten years, and minimization of intervention, as well as U.S. cooperation and hedging from China's rise. Accordingly, expectations are higher than ever for the expansion of the role of allied countries.

Thus, negotiations for the 9th SMA on ROK-U.S. defense cost-sharing requires wiser, more detailed and prudent approaches. For this, I propose the following policies to both the ROK and the U.S.:

- A clear stance on the part of the ROK and the U.S. on NPSC is necessary. It may be burdensome to apply the NPSC concept in a situation where both sides have not yet agreed upon a denominator (NPSC component) nor an element (reflection of direct and indirect contribution by the ROK). Therefore, in case the U.S. would like a continuous increase in cost-sharing based on the NPSC, it shall disclose clearer categorization and evaluation criteria and draw up an agreement through in-depth discussions with the



ROK. Or else, negotiations may become difficult in a situation where Korean public opinion is already raising problems on NPSC.

- Joint research by the ROK and the U.S. regarding defense cost-sharing is necessary. Although both the ROK and the U.S. have agreed in the past to jointly discuss converting from a lump-sum method to a requirements-based method, this has not been realized. In addition, although problems related to the absence of verification procedures on the execution of defense cost-sharing and settlement of accounts were constantly raised, both countries have not been able to arrange improvement measures. Accordingly, in the process of these negotiations, a more detailed agreement would be necessary for improving defense cost-sharing by fundamentally performing joint research prior to the start of the 10th SMA. Merely holding five or six high-level talks and finishing consultations hastily with a sense of urgency would be inappropriate. If the ROK and the U.S. had tentatively agreed to finish negotiations for the 9th SMA from July until October, it seems impossible for appropriate alternatives and countermeasures to be suggested in merely four months. Thus, in these negotiations, institutional measures to fundamentally generate improvements in ROK-U.S. defense cost-sharing need to be in place.

- The ROK and the U.S. governments shall persuade their peoples that the concept of defense cost-sharing is not merely the sharing of costs but rather the sharing of responsibilities. In particular, in the ROK's case, the idea of the ROK-U.S. alliance, based on the stationing of USFK and that a joint ROK-U.S. asset is a "partnership," needs to be expanded.

In conclusion, there is clearly enough room for improvement in ROK-U.S. defense cost-sharing. In particular, it would be advisable for the ROK and the U.S. to move toward greater transparency and responsibility in defense cost-sharing in the mid- and long term. For this, if necessary, both countries shall determine a target year for equitable cost-sharing or develop common criteria and standards for judgment when estimating the cost-sharing rate. In particular, there is much room for improvement for both countries with relation to the execution and settlement of accounts of defense cost-sharing. Pre- and post-evaluation of the execution of defense cost-sharing shall be conducted by developing necessary procedures and institutions. However, at the same time, negotiations for ROK-U.S. defense cost-sharing should be carried out within a larger framework, such as the necessity and role of the ROK-U.S. alliance. This is due to the fact that the ultimate decision regarding defense cost-sharing contributions shall be considered within the dimension of the ROK-U.S. alliance in general as opposed to merely calculation/accounting based on objective reference materials. ■



References

- Cha, Doohyun. 2008. "ROK-US Burdensharing Negotiation: Is it possible to have common denominator?" Youngsun Song's *Security Focus*. September 17.
- Cho, Sujin. 2008. "Han-mi bang wi-bi hyeop-sang igeyon mot jopyeo." [South Korea and the U.S. failed to narrow the differences on the SMA], *DongA Ilbo*, August 29.
- Im, Minhyuk. 2013. "Mi "Bang-wibi bun-dam-lyul osip-peosent lo"...Han "Neomu mana"" [The U.S. "Increase Share Rate of Defense Costs to 50%" vs. ROK "Unacceptably High"], *Chosun Ilbo*, July 4.
- Kim, Youngil, and Seoung-ho Shin. 2008. "ROK-US Cost-sharing: Issues and Agendas." National Assembly Research Service, Report for Pending Issues 4: 8-13.
- Kwon, Hunchul. 2011. "Assessment of USFK: the Economic Effects and Cost for Substitutes." *Journal of National Defense Studies* 54 (2), September.
- Lee, Woo Tak. 2013. "Han-mi, bang-wibi bun-dam hyeop-sang si-wol mal kka-ji tagyeol-kiro." [ROK and the U.S. Agreed to Settle on the SMA by the End of October], *Yonhap News*, July 3.
- Ministry of Foreign Affairs and Trade. 2009. "Document for 8th SMA." January.
- Park, Jungun. 2008. "USFK's Stationing Costs." Youngsun Song's *Security Focus*, September 17.
- "Policy recommendations for ROK-US cost-sharing." 2004. *Korea Institute for Defense Analyses*: 6-48.
- Korea Institute for Defense Analyses and Institute of Foreign Affairs and National Security. 2008. "ROK Defense Cost Sharing."
- Shin, Johgho. 2009. "The Defense Burdensharing of South Korea: The Present Conditions, Issues, and Policy Improvement." *The Studies of International Affairs*: 44-60.



Author's Biography

Won Gon Park
Handong Global University

Won Gon Park is Professor of International Studies, Languages and Literature at Handong Global University. He previously served as Director of Office of External Cooperation at Korea Institute for Defense Analyses (KIDA), US Foreign Policy Analyst at the Center for Security and Strategy, KIDA and Editor of *The Korean Journal of Defense Analysis*. Professor Park received his Ph.D. in International Relations from Seoul National University, his M.A. in Political Science from Boston College (U.S.) and his B.A. in Political Science from Southwest Baptist University. His areas of interest include U.S. Foreign and Security Policy, International Relations of East Asia, North Korea and ROK-U.S. Alliance. His publications: "North-South Korea Relations under the Lee Myung-bak Administration: The North's Provocations and the South's Principled Response," *Korean Journal of Defense Analyses*; "The US's Policy towards South Korea 1974-1975: The Ford Administration's Policy Change," in *Détente and PARK Chung hee*; "A Case Study of Carter Administration's Armed Export Policy toward South Korea," *The Quarterly Journal of Defense Policy Studies*; "The US Carter Administration and Korea in the 12/12 incident: Concession of Moral Diplomacy," *The Korean Journal of International Studies*; "The United Nations Command in Korea: past, present, and future," *Korean Journal of Defense Analyses*; "Carter Administration's Policy Toward South Korea: The Accommodation of Moral Diplomacy around the 10.26 incident," *The Korean Political Science Review*; "ROK-U.S. Alliance under the Obama Administration," *Korea and World Affairs*; and "Nation's Autonomy and Alliance Behavior," *Quarterly Journal of Defense Policy Studies*.

Knowledge-Net for a Better World

- This article is the result of the East Asia Institute's research activity of the Asia Security Initiative Research Center.
- Any citation or quotation is prohibited without prior permission of the author.
- The contents of this article do not necessarily reflect the views of the EAI.
- The East Asia Institute acknowledges the MacArthur Foundation for its generous grand and continued support.



비매품
05340
9 788992 395342
ISBN 978-89-92395-34-2