CHAPTER II

REGIONAL OVERVIEW AND CONTRIBUTIONS OF KEY ALLIES

This chapter places the Administration’s responsibility sharing policy in strategic perspective, and describes U.S. security objectives, mutual security arrangements, and forward presence in the three regions most important to vital U.S. security interests: Europe, East Asia-Pacific, and Southwest Asia. The overview of Alliance and country contributions presented in this chapter is given further elaboration in Chapter III.

NATO ALLIES

Responsibility sharing in Europe cannot be understood without reference to NATO, the most successful security alliance in history. It is through and in connection with this unique enterprise that our transatlantic security partnership is given form and content, and allied responsibilities are defined, allocated, and shared.

Continued Transformation of the Alliance

The North Atlantic Treaty (also known as the Washington Treaty) provides the framework for United States involvement in the North Atlantic Treaty Organization (NATO). This year marks NATO’s 50th anniversary of successfully guaranteeing transatlantic peace and security. NATO played a pivotal role in terminating the Cold War on terms favorable to the United States and our allies, ensuring security in the Mediterranean, and projecting Western power and influence into the Middle East and North Africa. The Alliance has also served as a useful forum for coordinating policies with respect to other parts of the world. Today, as it prepares to formally accept three new member nations – Poland, Hungary, and the Czech Republic – NATO remains a unique instrument for guiding change, deterring and managing crises, and applying military force where necessary.

The Alliance continues to serve as an irreplaceable mechanism for the exercise of U.S. leadership in international security affairs, and for the projection of American power and influence across the Atlantic and beyond. NATO provides the single most important vehicle for the coordination of national security policies and actions, both within and outside of Europe. An integrated political and military organization, the Alliance is the forum where the member states work out arrangements for shouldering political and military risks and economic costs, and for assigning and coordinating military roles and responsibilities.

NATO continues to transform itself in several important respects to meet the requirements of the post-Cold War era, with a direct and favorable effect on responsibility sharing within the Alliance. In early 1999 a new command structure will be implemented to enable allies to assume a greater share of the burden of command. In addition, NATO is making further progress in implementing the Combined Joint Task Force (CJTF) concept, developing lighter and more versatile structures with which to carry out its missions, and permitting the involvement of partners in NATO operations. Furthermore, arrangements are being concluded between NATO and the Western European Union (WEU) to enable our European allies to take
principal responsibility for a greater range of operations as part of the European Security and Defense Identity (ESDI). Finally, in response to a U.S. proposal, the Alliance is defining a “defense capabilities” initiative for adoption at the NATO Summit in April 1999. This initiative emphasizes improving interoperability and the incorporation of technological advances among allied forces in order to enhance their capability to fulfill the complete range of Alliance missions.

**NATO’s Role in the Balkans**

NATO agreed in December 1998 to continue the Stabilization Force (SFOR) in order to build and sustain the secure environment necessary for the consolidation of the peace in Bosnia. All 16 NATO members are contributing to SFOR, along with the three new members, 11 other partner nations, special associates such as Russia and Ukraine, and even four non-European nations. Nearly 80 percent of contributed forces are non-U.S.

A principal example of allied responsibility sharing in the Balkans has been the role of NATO’s Airborne Early Warning and Control Systems (AWACS) fleet. For more than three years, NATO AWACS have provided 24-hour airborne surveillance coverage in support of UN and NATO missions in the former Yugoslavia. (NATO AWACS also played a crucial role in the Gulf, flying surveillance orbits and even substituting for diverted U.S. AWACS as necessary.)

In response to the situation in Kosovo, the Alliance is providing an air verification regime in coordination with an OSCE ground verification mission. Our European allies, France in particular, have taken the lead in providing a 1,500-strong European-only Extraction Force (XFOR) in the neighboring former Yugoslav Republic of Macedonia (FYROM) to extract verifiers in an emergency. U.S. participation is limited to a few headquarters personnel.

**Cost Sharing in the Alliance**

Unique habits of cooperation have evolved in NATO over the past half-century. Thus, although our European allies do not offset the same percentage of U.S. stationing costs as do Japan and the Republic of Korea, they contribute significantly more toward sharing the military roles, as well as the overall political and economic costs, of protecting shared interests.

NATO’s common-funded budgets have long been unique instruments for achieving defense objectives while reducing each country's costs through economies of scale and the development of joint projects. Common funding is among the oldest and most effective means of achieving U.S. responsibility sharing objectives. The United States, in view of its global commitments, participates in NATO’s common-funded projects at a “discount” – i.e., the U.S. cost share (roughly 25 percent) is proportionately smaller than its share of NATO’s collective GDP (nearly 50 percent). NATO currently has (or soon will have) common-funded capital projects underway worth approximately $900 million that directly support U.S. forces in Europe and CONUS, for which the U.S. cost share is roughly $250 million. Moreover, the U.S. share of NATO common-funded budgets will be reduced by roughly one percentage point, reflecting a pro rata offset for the contributions of the three new members, and increased participation by France and Spain. The common-funded budgets are a dramatic example, at the level of finances and resources, of the multiplier effect provided by NATO membership, which allows us to achieve cost-saving, coordinated actions among the member states.

The successful defense of our international security interests depends fundamentally on effective American leadership of NATO. The presence of significant numbers of U.S. forces in
Europe underpins that leadership and the military effectiveness of the Alliance. Forward basing strengthens peace and stability within the region and provides a platform for the projection of power and influence beyond Europe that is more immediate, credible, and cost-effective than basing in the continental United States.

**Contributions of Selected NATO Allies**

The remainder of this section describes notable responsibility sharing contributions of Germany, the United Kingdom, Italy, and France. Together, these nations host over 80 percent of our U.S. military personnel stationed in Europe, and account for about three-fourths of the defense spending of our European-NATO allies.

**Germany**

Germany’s geographical location, economic strength, military capabilities and political influence make it a vital European ally. With one of the largest of NATO’s armed forces in Europe (over 330,000), German military forces are modern, well-equipped, trained, and led, and are a major component of Alliance military capabilities. The new coalition government is planning to conduct a defense review to examine force structure and modernization requirements of the German military as it moves into the next century.

Reflecting growing readiness to participate in crisis management and peacekeeping operations, Germany is increasingly involved in providing forces for multilateral military missions. In 1998, Germany contributed troops to both NATO and UN missions in the former Yugoslavia, Africa, and Asia. In 1997, Germany took the unprecedented step of deploying a sizable contingent of combat troops to the former Yugoslavia as part of SFOR. Roughly 2,500 German forces are serving there, and Germany is also participating in verification flights over Kosovo. Germany's involvement in the Balkans represents a change in Bonn’s approach to crisis management and a welcome strengthening of our political-security partnership. In addition to its financial contributions to UN missions, Germany actively participates in peacekeeping operations in the former Yugoslavia, on the Iraq-Kuwait border, and in Georgia.

German real defense spending was virtually unchanged in 1998 from the preceding year, but as a share of GDP dropped to 1.5 percent, down by almost half from its 1990 level of 2.8 percent. Pressure on the German defense budget remains strong, particularly in view of the country’s difficult economic situation, European Monetary Union imperatives, continuing financial investments in eastern Germany, and assistance to former Soviet bloc countries. We remain concerned about current and projected German defense budget trends, and are urging the German government to give close attention to this matter.

Financially, Germany continues to play a unique role in supporting the successful democratization of Central and Eastern Europe, advancing security and stability as a result. In 1998, the Defense Ministry budgeted over $23 million dollars on Soviet drawdown costs, bringing the total between 1991-1998 to nearly $13 billion.

Since the end of the Cold War, Germany has provided by far the largest amount of assistance to Central and Eastern Europe and the Newly Independent States of the Former Soviet Union of any country addressed in this Report. This German assistance fell sharply in 1997, however, as long-term debt relief and special payment programs that were initiated in 1990
phased down or came to an end. Furthermore, during 1998, Germany contributed $13 million for demining operations worldwide, over $9 million to aid nuclear and chemical weapons dismantlement in the former Soviet Union, and $5.4 million to the Korean Energy Development Organization (KEDO) - an international body committed to replacing North Korea's existing nuclear facilities with light-water reactors that will produce far less weapons-grade plutonium.

Typical of NATO allies generally, Germany contributes more to achieving shared interests in the areas of military roles and missions, political cooperation, and economic assistance than in cost sharing for forward deployed U.S. forces. Nevertheless, German cost sharing was estimated at approximately $1.2 billion in 1997, almost all of which was in the form of indirect contributions. The German government now absorbs all landing fees for U.S. military aircraft, which – according to German estimates – saved the United States some $18 million. Germany has also expanded host nation support for U.S. bases from which American soldiers have been deployed to Bosnia. This included additional police coverage in housing areas, social services for families, and security and logistical support for deploying forces.

**United Kingdom**

The United Kingdom remains one of our closest and most important allies, working in concert with the United States across a broad range of political and military issues both within NATO and bilaterally. A nuclear state with significant power projection capabilities, the United Kingdom brings to our security relationship not just a regional but also a global orientation, with over 25,000 forces stationed abroad.

The British defense budget was essentially constant in real terms between 1997-1998, and defense spending as a share of GDP (2.7 percent in 1998) remains among the highest in NATO. The United Kingdom provides substantial host nation support for stationed U.S. forces, almost entirely in the form of indirect contributions. British forces constitute the backbone of the Allied Command Europe (ACE) Rapid Reaction Corps (ARRC), and play a significant role both in NATO military missions as well as in peacekeeping operations under the auspices of the United Nations. The United Kingdom’s recent Strategic Defense Review directed changes designed to make British military forces more deployable, sustainable, and flexible. The United Kingdom provides the third largest share of Allied naval tonnage relative to its GDP share, trailing only Greece and Turkey. Along with the United States, the United Kingdom is urging other allies to implement similar changes toward greater expeditionary capabilities.

In 1998 the British SFOR contingent numbered some 5,000 ground troops, second in size only to the United States contribution. The British are also participating in the Kosovo verification mission, and have earmarked forces for XFOR. The United Kingdom is the only ally to deploy offensive air power to the Gulf during the UNSCOM crises in February and November 1998, and assists in maritime interception operations in enforcement of the embargo. Additionally, British forces participate in coalition operations in Southwest Asia, including the enforcement of no-fly zones over northern and southern Iraq, and are also involved in UN-mandated operations in Cyprus, on the Iraq–Kuwait border, Bosnia and Herzegovina, the Central African Republic, and in Georgia. The United Kingdom is also a major provider of funding for UN peace operations, contributing the fourth largest share relative to its share of total GDP (after Italy, Belgium, and France).
The United Kingdom provided over $3.8 billion in foreign assistance in 1997, one of only four NATO nations to register an increase in real terms from 1996 levels. The United Kingdom’s objective is to continue increasing foreign aid to reach the UN target of 0.7 percent of GDP, compared to its 1997 level of 0.3 percent. The United Kingdom was the first European country to support KEDO, with a $1 million contribution in 1995, and under a 1996 agreement between the EU and KEDO has agreed to pay KEDO an additional $7 million over a five-year period.

The United Kingdom is heavily involved in counterproliferation efforts, including several projects (some jointly with the United States) to control nuclear, biological, and chemical weapons in Russia, and in Central European and former Soviet states. In addition, during 1998 the United Kingdom conducted over 1,000 military assistance activities with countries across Central and Eastern Europe.

**Italy**

Italy contributes actively to our security partnership, both through NATO and bilaterally. Italy is a major staging and logistics base for operations in and beyond the immediate region. Relative to Europe’s central region, Italy has always possessed the military advantage of strategic depth, while at the same time providing a key front-line presence in the Mediterranean region. Italy hosts U.S. forces and contributes significantly to U.S. power projection capability into and throughout the region. NATO air bases in Italy, for example, have provided essential staging and transportation points for SFOR operations in Bosnia.

Italian real defense spending in 1998 stayed at its 1997 level, as did the ratio of defense spending to GDP (2.0 percent). Italy's host nation support for U.S. forces during 1997 was estimated at nearly $1.1 billion, consisting almost entirely of indirect contributions.

Italy’s NATO missions include its commitment of 2,000 military personnel to SFOR, participation in verification flights over Kosovo, and contributions to XFOR. During 1998 Italy also participated in UN operations in Jerusalem, Bosnia and Herzegovina, Lebanon, on the Iraq–Kuwait border, in the Western Sahara, and on the India–Pakistan border. It also made the largest financial contributions to UN peace support operations, relative to its share of total GDP, of any nation covered in this Report. Italy's total foreign assistance in 1997 was $1.5 billion, a sharp decrease of over 45 percent from 1996 levels.

Finally, Italy took significant steps in 1998 to promote cooperative security relationships throughout Europe, forming a joint amphibious brigade with the Spanish and a joint maneuver brigade with Slovenia and Hungary. Italy also signed defense cooperation accords with the Czech Republic, Slovenia, Poland, Macedonia, Georgia, Romania, and Slovakia, covering a range of training activities, provision of excess defense articles, and joint military exercises.

**France**

France carries an important share of the burden of defending Western interests, and maintains substantial defense spending levels. However, France was one of seven NATO nations (including the United States) to register a decline in real defense spending in 1998 (-2.4 percent). French defense spending relative to GDP was 2.8 percent in 1998, a modest decrease
from 1997. Despite its often ambiguous relationship to the NATO alliance, France retains considerable military power and thus contributes substantially to the Alliance’s deterrent posture.

France makes noteworthy contributions to international peacekeeping, and has committed 2,500 troops to SFOR missions – the third largest contingent after the United States and the United Kingdom. France is a key participant in verification flights over Kosovo, and is in command of XFOR, the first time France has commanded a NATO operation. In addition to its NATO missions, during 1998 France participated in UN missions in Jerusalem, Bosnia and Herzegovina, Lebanon, the Iraq-Kuwait border, the Western Sahara, Angola, Georgia, Haiti, and the Central African Republic. In addition, France also contributes the third largest share of UN peace operations funding, relative to its share of GDP (trailing only Italy and Belgium). In 1997, France contributed over $6.5 billion in foreign assistance, ranking third among all nations in this Report, behind the United States and Japan.

French Reaction Forces are among the largest of any nation addressed in this Report. These include the Force d’Action Rapide, which comprises 1 airmobile, 1 parachute, and 2 light armored divisions, and the Force d’Action Navale, which includes an aircraft carrier, 9 surface combatants, and several nuclear attack submarines and replenishment auxiliaries.

**PACIFIC ALLIES**

Our key security relationships in Asia are with Japan and the Republic of Korea. As is the case with NATO in Europe, these alliances grew out of the experience of World War II and the early years of the Cold War. Like NATO, these two bilateral relationships were instrumental in helping to manage Cold War realities and are now adapting not just to a fundamentally altered global geopolitical situation, but to emerging challenges and opportunities in the region.

At the heart of both alliances is the continued presence of significant numbers of U.S. troops: 47,000 in Japan and over 36,000 in Korea. These forces play a vital role in contributing to peace and security in the region, and are a tangible expression of vital American interests in Asia, and of U.S. will and capability to defend those interests in concert with our allies.

In view of the constraints that influence the policies and capabilities of both countries – in Korea the division of the peninsula and the threat of conflict, and in Japan the constitutional restrictions that strictly limit the scope of its military activities – their responsibility sharing has focused more on assuming a substantial share of U.S. stationing costs and less on other aspects, such as active participation in shared regional and global military roles and missions.

The United States maintains multi-year cost-sharing agreements with both countries. These accords build effectively on past arrangements and provide for significant and increasing host country participation in cost sharing. This welcome contribution is critical not only to maintaining the military readiness of our deployed forces, but also for sustaining the political support that is essential to forward stationing, and thus to our ability to project U.S. power and influence in defense of shared interests. Bear in mind that recent fluctuations in exchange rates in this region have resulted in decreases in the dollar value of the cost sharing estimates described below. This affects cost sharing estimates for Japan in particular, since all Japanese direct cost sharing is conducted in yen.
Japan

Our bilateral alliance with Japan (the Treaty of Mutual Cooperation and Security Between the United States of America and Japan of 1960) is the key to our security strategy in the Asia-Pacific region, and is crucial to the forward deployment of U.S. forces there. Countries throughout the region view the alliance as a major element of stability and security. Japan is expanding cooperation with the United States and is taking an increasingly active role in international affairs. Although Japan spends less on defense as a share of GDP than any other major ally (1 percent), because of the size of its economy, it ranks third in defense expenditures among all the countries in this Report, and fourth worldwide.

Cost sharing in support of stationed U.S. forces remains Japan’s most significant responsibility sharing contribution. Its host nation support is the most generous of any U.S. ally. Department estimates of Japan’s cost sharing in support of U.S. forces for 1997 ranged from $3.7 to $4.3 billion ($4.9 billion according to State Department sources), covering 75% of U.S. basing costs.

The five-year (1996-2001) bilateral Special Measures Agreement (SMA) was concluded in 1995. Under the terms of the SMA, Japan pays virtually all of the costs of local national labor employed by U.S. forces, as well as the costs of public utilities on U.S. bases. In addition, the SMA covers the costs of transferring U.S. training activities from U.S. bases to other facilities in Japan when the Government of Japan requests such transfers. U.S. Forces Japan reports that in 1997 Japan provided between $0.9 and $1.5 billion (depending on the source) under the SMA.

Under the separate Facilities Improvement Program (FIP), Japan voluntarily provides substantial funding for quality-of-life projects, including housing, community support and recreation facilities, and utilities upgrades. In recent years Japan has also shown increased flexibility under the FIP in constructing direct operational facilities, such as hangars and hardened aircraft shelters. In 1997 Japan provided approximately $0.9 billion for construction, restoration, and maintenance of facilities. In addition, in 1997 Japan also provided $630 million in rents and around $580 million for vicinity improvements.

We estimate that under the SMA, the value of Japan's direct cost sharing (at 1997 exchange rates) will approximate $1.5 billion per year through 2001, or $7.5 billion over the life of the agreement. Over the same five year period, Japan’s direct and indirect cost sharing, including foregone taxes, rents, and revenues, will be $4 to $5 billion per year.

In addition to its contributions to cost sharing, Japan’s evolving international role means greater involvement in multinational efforts to promote regional and global stability. The Japanese actively support crisis management and nation-building efforts around the world. Japan has the second largest foreign assistance budget of any nation in this Report. In 1997, Japan provided $9.4 billion in official development assistance, which represents 0.24 percent of its GDP. However, Japan has announced plans to cut foreign assistance by 10 percent over three years. Japan also aided East Asian economies affected by the current financial crisis – over 45 billion so far, with another 30 billion to be dispersed. Japan also pledged $2 million in assistance to Central America in the wake of Hurricane Mitch, including the dispatch of over 200 Self-Defense Force personnel to provide assistance in Honduras. Japan has pledged $200 million to Palestinian economic development over the next two years.
Japan is a founding member of the KEDO, and to date has contributed $32 million to KEDO in support of nuclear nonproliferation efforts on the Korean Peninsula. In addition, Japan has pledged $1 billion in loans for construction of light water reactors in support of the U.S.-North Korea Agreed Framework.

On April 17, 1996, President Clinton and Prime Minister Hashimoto signed the U.S.-Japan Joint Declaration on Security, which reaffirmed both countries' continuing commitment to our security alliance. In September 1997, the two countries adopted the Guidelines for U.S.-Japan Defense Cooperation. When fully implemented, the Guidelines will provide greater Japanese support for U.S. operations in a regional contingency. In December 1998, the Japan Security Council approved a plan for joint TMD technical research with the U.S. focusing on a sea-based TMD system. The plan requested $8.4 million in research funding for 1999; Diet approval of the funding request is pending.

**The Republic of Korea**

Our security relationship with the Republic of Korea (formally known as the Mutual Defense Treaty Between the United States of America and the Republic of Korea) remains central to the stability of the Korean Peninsula and Northeast Asia. U.S. forces stationed in the ROK contribute significantly to the security and territorial integrity of the country, and are a tangible manifestation of U.S. support for peaceful change and democratic evolution in the region.

The 1995 Special Measures Agreement (SMA), which outlines ROK contributions toward non-personnel stationing costs incurred by the United States, specified increasing ROK direct contributions from $330 million in 1996 to $399 million in 1998. However, a serious Asian financial market crisis in late 1997 took its toll on the Korean economy and significantly reduced the value of the Korean won relative to the dollar. In order to preserve the SMA while taking into account the impact of the financial crisis on the value of the won, Secretary Cohen assured the ROK leadership that we would not profit from the situation and agreed to the principle, “No windfall, No shortfall.” Accordingly, the United States agreed to adjust the ROK’s 1998 direct contribution to $314 million, a level that retains the value, or purchasing power, of the original ROK obligation, while taking into account new exchange rate realities.


In an effort to validate the ROK’s methodology in calculating their indirect cost-sharing contribution, USFK has conducted a valuation estimate and analysis of foregone land rents, based on recommendations made during the 1997 SMA Implementation Review. This survey estimated the foregone rent to ROK for U.S.-controlled exclusive-use land. USFK estimates total indirect cost-sharing for 1997 at $386 million.

Apart from cost sharing, the ROK makes major contributions to regional security by maintaining strong, modern armed forces. In 1998 the Republic of Korea devoted 3.2 percent of its GDP to defense, down marginally from 1997. ROK annual defense spending has grown by...
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36 percent since 1990, compared to a decline of nearly 25 percent for all other Pacific and NATO nations combined, and a reduction of 29 percent for the United States over this period.

Because of the security situation on the Korean Peninsula, Seoul’s defense effort continues to focus on the maintenance and improvement of military readiness. As such, the ROK does not participate extensively in military roles and missions, including combined operations, elsewhere in the region and beyond. Furthermore, economic constraints limit the ROK’s ability to make large contributions to foreign assistance. However, since 1995 the ROK has contributed $62.1 million to KEDO. Of this amount, $45 million was in the form of loans in support of shared nonproliferation goals under the U.S.-North Korea Agreed Framework. Moreover, the ROK is committed to playing the central role in funding the cost of the light water reactors to be constructed in North Korea by KEDO. The ROK contribution will cover about 70% of the estimated $4.6 billion in construction costs for the project.

GULF COOPERATION COUNCIL

The U.S. security strategy in Southwest Asia remains one of engagement, forward presence, and rapid response. We seek to sustain and adapt security partnerships with key states throughout this critical region, broaden the economic and cultural underpinnings of these relationships, and promote peaceful settlement of regional disputes before they erupt into conflicts that could threaten our interests. Acting alone, neither the United States nor its partners in the region can ensure the security of Southwest Asia. Collective efforts are essential.

The security framework in which we operate in Southwest Asia is strikingly different from those in other regions of vital interest to the United States. Here we have no formal bilateral or multilateral defense treaties, but instead rely on a range of executive agreements for military access, prepositioning, and status of forces. The United States has no military bases of its own in the region.

Our principal security partners in this region are the member states of the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. These nations carry a substantial proportion of the defense load – each having a lower (and in some cases, substantially lower) per capita GDP than the average of all nations addressed in this Report, yet spending more (to substantially more) of their GDP on defense than the average. As a result, the contributions of the GCC states to military personnel and standing forces far exceed their share of total GDP of all countries included in this Report. In spite of these laudable efforts, there remains a substantial disparity between the military forces of the GCC states and those of their principal antagonists in the region.

Due to this imbalance, the United States continues to urge the Gulf countries to work closely with other moderate Arab states to enhance their collective ability to defend the region. The first step in this direction was taken immediately following the Gulf War, when the six GCC members plus Egypt and Syria (the so-called “GCC+2”) pledged to enhance their common defense capabilities in the 1991 Damascus Declaration.

Our GCC partners also contribute to regional security by providing U.S. forces the use of military facilities, transit rights, and other forms of access. Bahrain, for example, has provided port facilities for U.S. naval forces for 50 years; it also hosts the headquarters for U.S. Naval Forces Central Command, furnishes facilities for prepositioned equipment, and has granted rapid
access for U.S. military aircraft when needed. Oman has also permitted the United States to preposition equipment on its territory, and has granted access to its military bases since 1980. Since the Gulf War, defense cooperation agreements permitting access and prepositioning have been signed with Kuwait, Bahrain, Qatar, and the United Arab Emirates. Under the agreement with Kuwait, that nation has agreed to offset U.S. prepositioning and exercise costs. Saudi Arabia also provides access to U.S. forces and has made substantial contributions to offset the cost of U.S. military operations in the region enforcing UN sanctions on Iraq. In addition, since November 1995 both Bahrain and Qatar have hosted several Air Expeditionary Force deployments in support of Operation Southern Watch.