

Analysis of the 11th ROK-U.S. Special Measures Agreement (SMA) and Development Direction for the SMA

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The 11th ROK-U.S. Special Measures Agreement (SMA) came into force as of September 1, 2021 upon the ROK National Assembly's ratification. The defense cost-sharing agreement was reached in early March this year after 18 months of tough negotiations and 15 months of a lapse in agreements. The U.S. State Department spokesperson said that "the agreement reaffirmed the importance of the ROK-U.S. alliance and it included "meaningful increases" in South Korea's contribution." The ROK government commented that it achieved "reasonable and fair level of defense cost-sharing."

Tracking a process toward the conclusion of the 11th SMA, this paper analyzes key contents of the agreement and their significance. Further, it presents development direction of the SMA for mutually beneficial ROK-U.S. alliance.

The Outcomes and Significance of the 11th ROK-US SMA

In February 2019, South Korea and the U.S. wrapped up consultations to conclude the 10th SMA. During the talks, the two sides agreed on the total amount of 1.0389 trillion won for the year 2019, and a one-year effective duration. South Korea's SMA contribution marked 8.2 % increase, the same level as its defense budget increase for 2019.

As the 10th SMA was scheduled to expire on December 31, 2019, Seoul and Washington began negotiations for the 11th SMA in September. In late March 2020, working-level negotiators of both parties tentatively agreed on a plan to "increase up to 13% in 2020, then annually apply 7

to 8 % increase until 2024," but failed to reach a final agreement. Since then, the negotiations have been stalemated. The plan indicates about 50% increase in Korea's contribution after five years. After all, this scheme served as a guideline for concluding the 11th SMA talks. Therefore, the provisional agreement in 2020 was the basic building block for the 2021 settlement plan.

As the SMA negotiations became bogged down, USFK Korean employees were subject to furlough since January 2020. More than 4,000 USFK Korean workers were furloughed from April 1 to June 14, making their employment stability a key task of the SMA talks. The ROK government enacted a "Special Act on Supporting Korean Employees in the USFK" on May 19, 2020, in attempt to provide financial support for those placed on unpaid leave. In June, the ROK government came to terms with the U.S. to fund the labor costs for all USFK Korean employees through the end of 2020. Since then, the SMA negotiations failed to make any progress.

Finally, the 11th SMA was concluded on March 9, 2021, a month and a half since the inauguration of the Biden administration. Major outcomes of the agreement can be summarized as follows. First, the agreement is effective for six-years, from 2020 to 2025. Second, the first year's increase rate of the agreement is 13.9%. Of the total, 6.5% represents increased labor costs for the USFK Korean employees in line with the improvement of welfare system, while 7.4% represents last year's defense budget growth rate. Seoul's contribution for 2020 was frozen and the contributions for the 2022-2025 period apply South Korea's defense spending growth rate last year. Accordingly, Seoul's contribution amounts to 1.0389 trillion won in 2020, 1.1833 trillion won in 2021, and 1.2472 trillion won in 2022. Third, a lower limit for allocating SMA contributions for labor costs for USFK's Korean employees was elevated up to 87% from the previous 75%. With the new SMA's revised regulation, the USFK *shall* use 85% of the total labor costs — previously the clause read "shall endeavor to do". And the U.S. side shall endeavor to allocate minimum 2 % additionally. Moreover, for the first time, a clause stipulating that it is possible to provide the USFK Korean national workforce with labor costs at previous year's wage level in the event of deadlocked negotiations was included.

Now, let's examine the significance of the 11th SMA. First, neither the newly launched Biden administration nor the Moon administration had much incentive or motive to change last year's tentative agreement. Indeed, the existing provisional agreement created lock-in effects, making it difficult for the two sides to engage in another round of negotiations.

Second, two kinds of index were applied to determine the total amount of contributions: South Korea's annual growth rate of defense spending and increased amount of the labor costs

for the USFK Korean employees. Of the unprecedented 13.9% increase rate, 6.5% reflects the revised regulation to allocate Korea's SMA contribution labor costs up to 87%.

The problem is that the index of the defense budget growth rate does not correctly reflect requirements for the contribution. In general, the defense budget growth rate reflects a country's ability to bear defense expenditure for the particular year. This index was applied to determine the total amount of contributions in the 10th SMA and was re-applied in the 11th SMA.

Such an index method approach was taken in previous negotiations: the 3rd SMA (1996–1998), 4th SMA (1999–2001), 5th SMA (2002–2004), and 10th SMA (2019). In the case of the 3rd SMA, annual 10 % increase in dollars (7 % in inflation rate plus 3% in real increase rate); in the 4th SMA, the sum of the economic growth rate and the increase in the consumer price index (CPI) were used; and in the 5th SMA, the contribution increased by fixed rate of 8.8% plus the GDP deflator fluctuation rate of the year before that previous year.

Third, the 11th SMA is valid for six years (2021-2027), extending the previous maximum period of agreement. 2020 is the year in which the negotiation was stalled. The period of previous agreements is various: one year (10th), two years (2nd, 6th, 7th), three years (1st, 3rd, 4th, 5th), and five years (8th and 9th). The latest six-year defense cost-sharing agreement will reduce burden of the two sides to engage in frequent negotiations over a two to three-year cycle and contribute to securing the SMA's stability and building public trust in the system.

Fourth, the employment stability of Korean workers at the USFK was assured. Above all, with the payment of wage during a lapse between agreements stipulated, it will prevent a possible recurrence of unpaid leave. Moreover, the lower limit for allocating SMA contributions for labor costs has been elevated gradually. whenever an agreement was signed. The allocation ratio was 71% in the 8th SMA, less than 75% in the 9th SMA¹, and more than 75% in the 10th SMA. In the future, the proportion would be likely to reach 90%. However, we need to keep in mind the fact that going beyond this threshold can cause other problems such as personnel management of Korean employees, manpower efficiency, etc.

¹ However, there has been a difference between the planned proportion of labor costs in SMA contributions and its real allocation. In the 9th SMA, the allocation ratio for labor costs turned out to be about 70%.

Development Direction of the SMA for the Mutually Beneficial Alliance

It must be ensured that the defense cost-sharing is determined a reasonable level and executed in a transparent and efficient manner. The SMA consequently should contribute to the stable stationing of the USFK and the strong ROK-U.S. combined defense posture, thereby supporting development of the mutually beneficial ROK-U.S. alliance.

First, in order to determine a reasonable share of defense cost-sharing, the existing 'lump-sum method' must be reformed. 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. Instead, South Korea and the U.S. should determine 'allocations by each category' through consultations based on 'requirements for each category.' To elaborate, the two sides should determine contributions by each category, which is classified into labor cost-sharing, military construction, and logistics support. Figuring out requirements by each category is not particularly difficult. Requirements for labor costs for the USFK Korean employees can be drawn from the proportion of labor costs in the SMA contribution. Requirements for military construction and logistics support can be determined by reviewing validity of the mid-term requirements that U.S. proposes, based on its execution report. Therefore, it is strongly recommended that, instead of focusing on the total amount of contributions, South Korea and the U.S. emphasize how reasonably they arrived at the total amount. Needless to say, if validity of any increase in each category is verified, more contributions by each category would be possible.

Additionally, a proper institutional measure must be arranged to promote the disclosure by the USFK of objective and reliable data on the costs of stationing. The U.S. should provide the Korean authorities with the annual appropriation budget of non-personnel costs (NPCs) as well as actual execution of outlays.² These are important reference data for reasonable and equitable cost-sharing and such sharing of defense costs offsets NPCs.

Second, a system that enhances a transparent and efficient implementation of defense cost-sharing must be established; i) The budget execution rate needs to be raised during the agreement period. Indeed, the average execution rate increased from 78.1 % (8th SMA) to 91.7 % (9th SMA) to 97.5% (10th SMA); ii) South Korea and the U.S. should be able to make decisions efficiently by sharing detailed execution results and requirements; iii) The fruits of the projects concerning system improvement, which have been proposed in the SMA negotiations, should be materialized. Each party's responsibility in the areas of military construction and logistics support

² For one's information, the non-personnel U.S. costs in South Korea, first appeared in the report of the U.S. Senate Armed Services Committee in 2013, refers to a variety of annual direct costs associated with overseas U.S. military presence, excluding salaries for U.S. military personnel.

should be strengthened to enhance accountability so that related tasks can be more systematically arranged; iv) As seen in the issue of maintenance support for offshore U.S. military equipment, ambiguous project scope for logistics support should be clearly defined.

Furthermore, South Korea and the U.S. should conduct a "performance evaluation" through a third professional organization on what will be achieved through the system improvement, which began in earnest following the 8th SMA, during the next five-year. To strengthen effectiveness of the Joint Working Group for SMA Improvement that was formed upon the 10th SMA, the two countries promoted the designated cochairman from the former director-level to the director-general level. The Joint Working Group should achieve meaningful outcomes by identifying requirements for system improvement and providing solutions derived from regular consultations.

Third, in order to support stable stationing of the USFK and combined defense posture, it is crucial to appreciate South Korea's support aside from the SMA. Such support is being delivered through agreements not associated with the SMA. A good case in point is the USFK base relocation project, which is comprised of two programs – the Yongsan Relocation Program (YRP, signed in 2004) that moves the Yongsan US military bases to Pyeongtaek and the Land Partnership Plan (LPP, signed in 2002 and revised in 2004) that relocates the U.S. military bases scattered throughout the Korean Peninsula to Pyeongtaek and Daegu. Currently, more than 95% of this project has been completed.

Pursuant to the principle that the party that requested the relocation shall bear the cost of the transfer, each country is supposed to bear the burden of costs associated with their respective relocation requests – that is, South Korea covers the YRP costs, while both South Korea and the U.S. cover the LPP costs.³ However, in reality, South Korea has shouldered more than 90 % of the total cost of the USFK base relocation project, while the U.S. has paid for the rest. This is because Korea's SMA contributions were used for the LPP project, for which the U.S. decided to bear the cost.

Aside from the above, South Korea provides direct, non-SMA support, including KATUSA troop support⁴ and maintenance costs around the base. It also provides indirect support such as

³ With regard to the LPP, South Korea is supposed to shoulder relocation costs of eight bases, while the U.S. is supposed to assume 23 bases.

⁴ The number of authorized/assigned personnel in the KATUSA is 3,455/3,234 (in 2019); 3,206/2,659(2020), and 2,932/2,582(2021). The number of authorized personnel is projected to be 2,659, of which 42 are non-commissioned officers.

tax exemption and discount in public fees (water and sewage charges, electricity, gas bills) as well as telecommunications charges

In a recent report, the U.S. Government Accountability Office (GAO) assessed that “U.S. military presence in South Korea benefits to U.S. national and regional security.”⁵ With the ROK National Assembly’s ratification of the 11th SMA as a momentum, South Korea and the U.S. should make every effort to achieve continuous development of the ROK-U.S. alliance. The two countries are expected to stably arrange alliance issues toward a mutually beneficial way and expand the scope of defense cooperation in new areas of security.

⁵ US GAO, “Burden Sharing: Benefits and Costs Associated with the U.S. Military Presence in Japan and South Korea,” March 2021.