

# Former President Lee's Support Decisive Factor behind Taiwan's Decision to Opt for Japan's Shinkansen in Island-Spanning Rail Project

By Okada Takashi

## Taiwan focuses on strategic partnership with Japan

A Japanese consortium in December 2000 won a lucrative contract worth ¥332 billion (about US\$2.8 billion) with Taiwan High Speed Rail Corp. (THSRC) for the first export of Japan's *shinkansen* high-speed railway system. The signing of the contract, one of the largest railway deals in the world, came a year after the Japanese group won priority negotiation rights for a rolling stock system.

In the initial stage of negotiations with the Taiwanese authorities, Japan seemed to be losing the race to the German-French consortium Eurotrain but turned the battle around in the final stage. How did the dramatic switch come about?

One of the most important factors, along with price advantages and technological prowess, was the political initiative of former President Lee Teng-hui, who, in the midst of growing tensions over the Taiwan Strait, saw closer economic and political relations with Japan as a way out of the current hardship.

## Lee supports Japan

Touching on the high-speed railway project in his book *The Road to Democracy* (Chinese version published in May 1999), Lee criticized the lukewarm attitude maintained by the Japanese government in selling the *shinkansen* system, which stood in stark contrast with the dynamic stance taken by the German and French governments. He emphasized that the first factor Taiwan had to consider in choosing a partner for the project was price, followed by safety and then political considerations. Though the construction of the Taiwan *shinkansen* was to be through private investment, he want-

ed the Japanese government to clarify its support for the project. He indicated that Taiwan would give political consideration to the selection of the project partner, if the Japanese government tried to sell the project more aggressively. Rarely had a top political leader shown such a firm stance in regard to a private sector venture.

When he received members of a Japanese delegation that visited Taiwan in early 1999, Lee praised then Prime Minister Obuchi Keizo, who was criticized at home for being slow. The Taiwanese leader was impressed by Obuchi's refusal to go along with China's policy line regarding Taiwan in his talks with Chinese President Jiang Zemin during the latter's visit to Tokyo in November 1998, his sympathetic attitude toward Taiwan's plan to introduce a theater missile defense system, and his initiatives in enacting legislation related to the new Japan-U.S. defense cooperation guidelines.

Lee is nostalgic about Japan because he studied at Japan's Kyoto University. But this was not the only factor that made him aware of Japan's bid for the high-speed railway project. Unmistakably, he was preoccupied with Japan's aggressive moves to sell the *shinkansen* system to China, which plans to build a rapid railway between Beijing and Shanghai. In fact, Chinese President Jiang took a trip to northern Japan aboard a Tohoku *Shinkansen* train during his Japan visit.

## Initial European victory

Taiwan's new bullet train system will link Taipei with Kaohsiung in 90 minutes instead of the present four hours, with trains running at a maximum speed of 300 kilometers per hour. The 345-kilometer railway is expected to open in October 2005.

The total cost of the project will

amount to NT\$440 billion (about ¥1.6 trillion, US\$13 billion), with the core electrical and mechanical systems, including railway coaches and rolling stock, to be supplied by Japan accounting for ¥332 billion. Japanese, Taiwanese and South Korean companies, including Japan's Obayashi Corp., are engaged in the engineering work that is already under way.

The Japanese consortium, Taiwan *Shinkansen* Corp., is made up of about 7 firms, including Mitsubishi Corp., Hitachi, Ltd., Mitsui & Co. Ltd., Mitsubishi Heavy Industries, Ltd. and Toshiba Corp.

Under the build-operate-transfer (BOT) scheme, THSRC, which was contracted by the Taiwanese government to build the railway, will operate it for 35 years before handing it over to the government. It is the first large-scale contract Japanese companies have received since the collapse of the bubble economy and comes at a time when Japanese companies are still reeling from the business slowdown. It will also have the effect of stimulating Taiwan's economy, which is showing signs of a slowdown.

In a tender for rail carriages and rolling stock in July 1998, the Franco-German consortium beat its Japanese rival by winning priority negotiation rights from THSRC. The European victory came as a surprise since the Japanese consortium was supported by Liu Tai-ying, chairman of China Development Industrial Bank, then the ruling financial boss of the Kuomintang (KMT: Nationalist Party).

However, THSRC, which is made up of five major Taiwanese corporations, including the Evergreen Group led by Evergreen Marine Corp., stopped short of signing a formal contract with Eurotrain and later reopened the bidding process, which allowed Japan's Taiwan *Shinkansen* Corp. to bid for



carriages and core electrical systems. In June 1999, both consortiums submitted tenders, triggering bitter behind-the-scenes struggles between the two sides, with the Japanese group launching all-out efforts to reverse its initial setback.

### Japan supported by Kuomintang and Executive Yuan

The previous KMT government had already been actively moving support for the Japanese group since the spring of 1999. In May the same year, THSRC announced a two-year postponement of the start of the project due to a lack of funds. Subsequently, the consortium was reported to have considered the cancelation of its contract with the Ministry of Transportation and Communications.

This prompted Liu, who heads a KMT-affiliated corporate group, to express his readiness to extend financial assistance to THSRC and even take over the project on the condition that Japan's shinkansen system was adopted. According to Taiwanese media reports, Liu, during his several visits to Japan, won Japanese assurances of low-interest loans from the then Japan Export and Import Bank (JEIB; currently Japan Bank for International Cooperation) and governmental trade insurance. Some observers say that Liu used the Japanese assurances as his trump card for putting pressure on THSRC to reverse its choice of Eurotrain.

The JEIB loan was a particularly shrewd move as THSRC had by then found itself hard-pressed to raise funds for the project. Financing by JEIB for the project, which is a private undertaking but practically a national venture, thereby gave the impression that Japan recognized Taiwan as a national partner. The JEIB loan would also reflect "Japan's positive stance" as former President Lee contended.

The Executive Yuan was similarly moving in Japan's favor. In an inter-

view with Kyodo News in early July, Chiang Ping-kun, then Chairman of the Council for Economic Planning and Development, welcomed the JEIB loan, and said the Japanese shinkansen system, if introduced in Taiwan, would serve as a symbol of Taiwan-Japan relations, placing high expectations on the project.

Chiang then indicated that the conditions of the JEIB loan would be a significant factor in the shinkansen negoti-



Signing ceremony of the Taiwan High-Speed Rail Core System contract between THSRC and Taiwan Shinkansen Corp. in December 2000

ations, saying that if the interest rate of the JEIB loan was set low, it would turn out to be the first major financing offered by Japan to Taiwan since their diplomatic relations were severed in 1972 following Japan's recognition of the People's Republic of China. He then took the Japanese government to task for being far more cowardly toward Beijing than the U.S. and European governments, and urged Tokyo to be more aggressive in selling the project to Taiwan. Incidentally, Chiang studied in Japan and is a graduate of the University of Tokyo. He also previously served as Taiwan's top representative of the Asia Pacific Economic Cooperation (APEC) forum and currently serves as the Taiwanese secretary general of a newly created group of Japanese and Taiwanese business leaders.

### Helped by safety considerations and Taiwan earthquake

It was not "political considerations" alone that enabled Japan to win the deal despite its initial loss to the European consortium. In fact, THSRC Chairwoman Nita Ing strongly objected to the KMT's political intervention and insisted on keeping political considerations out of the way. Ing emphasized that THSRC chose the Japanese system

because it had technological and price advantages over the European system. The Japanese plan was more flexible and more consistent with Taiwan's engineering practices, including the construction of railway tracks, she pointed out.

Ing, second-generation president of Continental Engineering, a major Taiwanese general contractor, studied in the U.S. and is known as a promising young non-KMT businesswoman. She actively campaigned for President Chen Shui-bian in the last presidential election as one of his advisers and greatly contributed to his victory which ended more than 50 years of rule by the KMT. She would be mortified to be blamed for having caved in to KMT pressure and sided with the Japanese.

Technologically speaking, Japan and Europe submitted contrasting systems for powering the train: each carriage of the Japanese train is equipped with a motor, whereas only the front and rear carriages of the European train are motorized. Another characteristic of the Japanese train is its light weight despite its high cost. Some Japanese officials say that the Taiwanese side was impressed by the Japanese shinkansen's light weight, which would place a lesser burden on rails and save engineering costs, as well as its superb acceleration and braking.

A more decisive factor in prompting Taiwan's opting for Japan was the massive earthquake that hit central Taiwan on September 21 1999, killing more than 2,400 people. The tremor served as a sharp reminder that Taiwan is vul-



nerable to earthquakes and so quake-proofing is important in the construction of the new high-speed railway system. Since Taiwan has geographical features similar to Japan's and two-thirds of the high-speed line will pass through tunnels, according to Japanese officials, it was hardly surprising that Taiwanese officials thought that only Japan could offer earthquake-proof technology. Another boon to Japan was the derailment of a high-speed train in Germany in 1998 that killed 101 passengers. Moreover, the quick relief and rehabilitation work by Japanese rescue teams sent to Taiwan at the time of the 1999 earthquake helped remove the "psychological barrier" that existed between Japan and Taiwan due to the absence of bilateral diplomatic relations, contributing to Japan's ultimate victory in the railway competition.

### Lee leaves shinkansen as landmark in Japan-Taiwan relations

It is fair to say that Japan edged out Europe in the railway project despite its initial setback thanks to former President Lee's policy line that strategically focuses on close relations with Japan. Lee, who dares to say in public that he was Japanese until the age of 22, clearly defined his strategy of focusing on relations with Japan after being elected president in Taiwan's first direct presidential elections in 1996. In a message he sent to the presentation of his book *The Road to Democracy* in Tokyo, Lee stated that Taiwan was the cornerstone of Japan's security and called on Japan to closely cooperate with Taiwan even in security matters to counter China's threat. Alarmed by the rapprochement between China and the United States, two countries that can determine the fate of Taiwan, Lee views the strengthening of Taiwan's practical (economic) relations with Japan as the island's only way of survival.

In July 1999, Lee, in a media interview, redefined Taiwan's relations with mainland China as "special state to state" relations, which drew criticism

not only from Beijing but also from Washington and made the island more isolated in the international community. Against such a background, his "Japan card" began to gain weight. Since there is no prospect of a resumption of diplomatic relations between Taiwan and Japan for the near future, as, in his view, Japan flinches under China's political shadow, closer economic relations would remind Japan of Taiwan's presence and the benefit it can gain in Taiwan. Lee who retired from the presidency in May 2000, apparently wants to leave the shinkansen project as his memento for closer bilateral economic cooperation.

Lee is dealing with the U.S. and China with his Japan card in hand. Walking such a tightrope is a risky strategy which few can imitate. Lee is a complex man, having a Taiwanese heart and a Japanese way of thinking. He is versed in Chinese tradition and mastered the art of the power struggle under KMT rule, while at the same time he has acquired Western values. Only such a many-sided person can act that way.

In contrast, President Chen Shui-bian, who claims to be a "son of Taiwan," has a China complex and wears his Taiwanese feelings on his sleeve. Taiwan is a major economic power, ranking fourth in foreign currency reserves and fourth in the production of high-tech electronic devices, but does not exist as a nation. Can Chen and other new Taiwanese leaders deal on equal terms with China and the U.S. in international political power games? Can they continue walking the tightrope of leading an island which is a major economic power but not a sovereign state.

### Model for cooperation with East Asia

With the end of the Japanese-European race for the Taiwan high-speed railway, the stage for global railway business has shifted to mainland China, which envisages a ¥2 trillion (about US\$ 17 billion) project of building the high-speed line between Beijing and Shanghai.

Japanese officials are concerned how China would react to Japan's construction of the Taiwan shinkansen. When the Japanese consortium was granted priority negotiation rights in December 1999, a spokesman of the Ministry of Foreign Affairs of the People's Republic of China raised no objection to Japan's participation in the project, saying that the Chinese government would not oppose Japan's economic and trade relations with Taiwan.

But what will China do when Japan actually starts financing the project, which practically a government venture? The last time JEIB financed a Taiwan project was in 1974 when it extended ¥4.2 billion (about US\$36 million) for the construction of the Tsengwen Dam in Chiayi County. China's reaction to the first major Japanese loan to Taiwan in 26 years is something to be reckoned with.

Kang Ning-hsiang, a member of the Control Yuan and an influential politician of the ruling Democratic Progressive Party, said that Japan would not win mainland China's high-speed railway project unless it won the Taiwan deal. He also said Japan now has the best chance of serving as a bridge linking Taiwan with mainland China. He believes Japan's construction of the Taiwan shinkansen would be a positive factor in its pursuit of a similar project in mainland China.

With China's imminent accession to the World Trade Organization, economic integration will erode the political barrier that has existed across the Taiwan Strait since 1949. If Japan succeeds in winning the forthcoming Chinese deal following its victory in the Taiwan deal, the project could turn out to be not only a bridge between Taiwan and China but also a model for multilateral and regional cooperation in East Asia, which still retains the legacy of the Cold War. JTI

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