

**November 24, 1967**

**Economic Cooperation Division [Ministry of Foreign Affairs, Japan], 'Main Points of Meeting Between Prime Minister Sato and National Defense Minister Chiang Ching-kuo'**

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**Summary:**

The Japanese Foreign Ministry provides an update on the state of Japan-Taiwan economic ties ahead of Chiang Ching-kuo's visit to Japan.

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Main Points of Meeting Between Prime Minister Sato and National Defense Minister Chiang Ching-kuo

November 24, 1967

Economic Cooperation Division

1. In the Event of a Request for a New Yen Loan:

We have heard that only a fifth of the existing yen loan of \$150 million has been consumed. First, we would like to direct our efforts to promoting the use of this yen loan.

2. Regarding the Integrated Steel Mill Project:

(A) In the event of a request for private investment

Essentially, this is thought to be an issue for the private sector, so the first thing to do is to have a full discussion among those in the industry. As for the Government of Japan, if there is after that a request for investment, we would like to give it thorough consideration.

(B) In the event of a request for a switch to Overseas Economic Cooperation Fund (OECF) financing

We have heard that, other than for the two projects, the Tsengwen Reservoir and the Kaohsiung Second Port, both countries have agreed in writing that the projects will not be objects of OECF financing. It would be difficult to make this project an object of OECF financing.

(Furthermore, in regard to this project at present, we had heard that there has been a conflict between a project to use coke, which the Commission for International Economic Cooperation and Development (CIECD) of the Ministry of Economic Affairs (MOEA) has supported, and a project to use natural gas, which the Veterans Affairs Council (VAC) of the Ministry of National Defense has supported and which is dependent on US funds, and a final decision is still not in sight. However, as the matter is strictly an internal affair of the other side, so even if National Defense Minister Chiang should ask which proposal we find economically feasible, we would like you to answer "It would be appropriate for the project most suited to the economy of the Republic of China to be adopted.")

(Reference Materials)

Present State of Japan-Republic of China Economic Cooperation and Issues

1. Regarding yen loans to the Republic of China:

(1) Date established: April 26, 1965

(2) Amount: \$150 million over a period of five years

(3) Projects:

There are 18 projects in all, including bridge reconstruction, port and harbor development (Kaohsiung, Keelung), and power transmission and distribution projects; improvement or modernization projects for various production equipment in sugar production, machinery, fertilizer, and aluminum; projects for expansion and modernization of various fertilizer plants, integrated iron and steel plant, and shipbuilding equipment; and the Kaohsiung Second Port and Tsengwen Reservoir projects.

(4) Loan conditions

(A) OECF financing (Tsengwen Reservoir, Kaohsiung Second Port)

Interest rate: 3.5%; repayment period: 20 years, with a grace period of five years

(B) Export-Import Bank of Japan financing (above-mentioned projects, excluding the

OEFC financing)

Interest rate: 5.75%; repayment period: between 12 and 15 years, with a grace period of three years

(5) Present conditions

Following the exchange of notes on the yen loan provision of \$150 million, established on April 26, 1965, we concluded respective agreements, on December 10, 1965, for the first annual implementation agreement and on December 23, 1966, for the second annual implementation agreement. Of the total \$150 million, we appropriated \$76 million for the two agreements.

Of this amount, \$31 million has actually been disbursed as of the end of September this year.

2. Regarding Request for New Yen Loan:

(1) On the occasion of Prime Minister Sato's recent visit to Taiwan, Premier Yen Chia-kan produced a memo concerning the establishment of public enterprises and the development of the machinery and metalworking industries in order to implement the 5th Four-Year [Economic Development] Plan. The memo expressed the desire to enter into negotiations on a Second Yen Loan corresponding to the First Yen Loan in such aspects as scope and conditions and also asked for our country's cooperation. The Prime Minister responded in saying that he would examine the contents of the memo.

(2) Furthermore, the Chinese side habitually makes judgments on the basis of the commitment base (annual implementation agreement's appropriated amount) regarding the state of progress on the current yen loan. However, as already stated, the disbursement base is \$31 million.

3. Regarding Integrated Steel Mill:

(1) In regard to this project, there has recently been a conflict within Taiwan's government between two proposals. One is for a project that would use natural gas, which the military's VAC supports, and a project to use coke, which the MOEA's CIECD supports. At present, the issue is under review in the Executive Yuan's Steelworks Construction Promotion Commission. Contacts of the Embassy of Japan in Taipei have said that, because the first project has the backing of National Defense Minister Chiang Ching-kuo, there is the possibility of this becoming a major political issue in Taiwan.

(A) What our side has heard about the details of this project so far is that in the second project there would construction of an integrated mill, including cold rolling and hot rolling equipment, in an area adjacent to Kaohsiung Port, with an expected total construction cost of approximately \$95 million, with the start of construction in 1968 and its completion by 1974. Of this, they are saying that they would like to use approximately \$36 million of the above-mentioned yen loan of \$150 million.

(B) The first project is a construction project that would use natural gas, with an expected total construction cost of \$123 million, of which the North American Development Corporation is said to have already promised \$97 million. The greatest merits of this project are said to be that, by using natural gas, there would be no need to use coke, thus potentially saving \$30 million in foreign currency, and that the project would give many employment opportunities to military veterans and their families. In contrast, CIECD personnel have raised with our side's officials such economic reasons as the thinking that, the available amount of natural gas in Taiwan being not that great, it should rather be used for fertilizer production. They have said that there is a great possibility of the second proposal being adopted, but that there are also moves within Taiwan's legislature and the press in support of the first proposal.

(C) In either case, which proposal will be adopted is entirely Taiwan's domestic affair. Therefore, in the process of selection, any words or actions of the Government of Japan suggesting support for either one runs the risk of involving us in Taiwan's domestic affairs, so we need to refrain from any such thing.

(2) The Chinese side, for the sake of completing this project, has requested, other than technical cooperation, private investment of about \$10 million from three Japanese steel companies (Yawata, Fuji, and NKK) and, particularly in regard to this

investment, strongly hopes for OECF financing of the three companies. This project was put forward by the other side in above-mentioned meeting of Prime Minister Sato and Premier Yen. In reply, the Prime Minister said that the first thing to do was to consult with industry and, once the discussions were complete, he would like to support it.

(3) There is a request from the Chinese side to switch the planned financing (\$36 million) from the Export-Import Bank of Japan to the OECF. However, at the second annual negotiation in December last year, at which time we approved the transfer of the Kaohsiung Second Port Project as the object of financing from the Export-Import Bank of Japan, the initial organization, to the OECF, the Chinese side presented a *note verbale* to the Ministry of Foreign Affairs to confirm that, of the yen loan of \$150 million, the OECF's financing would not exceed \$48.7 million for the Tsengwen Reservoir and Kaohsiung Second Port projects combined and that, even if it did not exceed the amount, the OECF would not finance other projects with the balance. The Chinese side's above-mentioned request is therefore unacceptable.

#### 4. Regarding Deferred Payment for Ships Limited to \$30 Million

Concerning this issue, we have already presented a draft of the Japanese document confirming conditions and such to the ROC Embassy in Tokyo. On October 25, S.Y. Dao [Tao Shengyang], secretary-general of the CIECD, who was visiting Japan to attend the recent meeting of the Japan-China Cooperation Committee, visited Economic Cooperation Bureau Director Hirota Shigeru on October 25. Together with stating his appreciation for the Government of Japan's special consideration, he said in regard to the document that our side had presented that it was under review with the Chinese government. He said that it seemed likely that there would be instructions from the home government to the Embassy of the Republic of China in Tokyo in the near future, but that for the most part they would likely be close to our side's draft.