ISSN 2959-6149

Analysis of the case of China's high-speed Railway Bidding negotiation in 2004

Han Jiao

Abstract:

This paper analyzes the bidding negotiation of China's high-speed railway in 2004 from the following three elements: alternative plan, target and initial offer.

In 2004, China sought high-speed rail technology, negotiating with international companies such as Siemens, Shinkansen, Alstom and Bombardier. Negotiations with Japan and Germany have faced challenges due to reluctance and high costs of technology transfer.

However, China shifted strategically to negotiating with Alstom and Bombardier, and in the end, China obtained a variety of high-speed rail technologies, successfully established its own high-speed rail industry, and demonstrated an effective negotiation strategy.

Keywords: High-speed railway, negotiation strategy, technology transfer, Chinese Ministry of Railways

Introduction

Through the study of the art of negotiation and relevant courses, this paper analyzes the 2004 China high-speed railway bidding negotiation case from three perspectives: Alternatives, Target, and Making the First Offer.

The following is the case, in 2004, China realized the importance of high-speed rail to the economy, so the Ministry of Railways commissioned China Technology International tendering company for the sixth time to increase the speed of 200 km EMU trains to tender.

On June 17, 2004, the former Chinese Ministry of Railways solicited bids for high-speed rail technology worldwide, including Germany's Siemens, Japan's Shinkansen, France's Alstom and Canada's Bombardier.

At that time, the preferred bidders were Siemens and Japan's Shinkansen technology.

Although Japan's Shinkansen technology is very mature, Japan has refused to transfer core technology. And the negotiations with Siemens were tough.

In the process of negotiating with Japan's Shinkansen technical representatives, Japanese companies deliberately selected older technicians and Chinese technicians to docking, and also repeatedly threatened to withdraw from the negotiations with technology.

Then, the Ministry of Railways approached Siemens, which said it could sell the entire vehicle and also sell the technology.

While the members of the Ministry of Railways negotiating team were immersed in a joyful atmosphere, the German Siemens representative said two conditions to make the venue quiet for an instant. First, technology can be sold, but only 82%. Second, the bullet train manufacturing quotation is 350 million yuan, and the technology transfer fee for each column is 390 million yuan.

Faced with several times over budget and technology transfer bottlenecks, the Ministry of Railways held a seminar in Berlin, Germany, overnight.

Then, Zhang Shuguang, the former head of equipment of the Chinese Ministry of Railways, went to the scene of the negotiation with Siemens, thinking that Siemens' offer was too high, hoping to conclude the deal with a high-speed rail of 250 million yuan and a technology package of 150 million euros, otherwise, Siemens would be out.

The Siemens negotiating team did not agree, assuming that the Chinese would buy its technology, so it would not budge a cent. (Gov1 Staff 2019)

Although the Chinese side was in great need of the Velaro platform developed based on Siemens ICE3, it still ordered a flight home for Siemens two hours before the bid opening. Before the Siemens team reacted, at 8 o 'clock in the morning on July 21, the Chinese Ministry of Railways announced that CNR and Alstom completed the signing ceremony and formally established CNR Alstom Joint Venture Co., Ltd. to complete this round of bidding. That means Siemens is officially out. After the negotiators returned to Germany, Siemens fired all of them because they had lost huge orders from China.

After kicking Siemens out of the bidding, China turned to Alstom of France and Bombardier of Canada. Both

companies have the high-speed rail technology that China needs, and the confidence to cooperate is also very sufficient. The winning bidders were Japan's Kawasaki Heavy Industries, France's Alstom and Canada's Bombardier.

The negotiations not only pocketed the high-speed rail technologies of Japan, France and Canada, but also integrated these technologies to successfully create China's high-speed rail. This negotiation was also a successful commercial negotiation, representatives of different Chinese companies negotiated with Japan, France, and Germany respectively, so that these companies could cut each other's prices and ultimately benefit our country.

It is worth mentioning that Canada's Bombardier's negotiating attitude is the most positive, it gave China what it wanted, which effectively weakened the negotiating position of the other three.

The French and Japanese did not form an alliance with the Germans as in the past, and all of their 200 km/h high-speed rail technology was transferred at a very low price.

In 2005, China's Ministry of Railways issued a tender for a 250 km/h high-speed rail project. This time the Germans learned their lesson, directly out of each train 190 million yuan, a technology transfer fee of 80 million euros ultra-low, the Chinese Ministry of Railways is very happy to accept the offer.

Body

Analysis from the perspective of Alternatives

Alternatives are one of the Three Fundamental Negotiation Concepts and the greatest source of strength for negotiators. BATNA means the best alternative to a negotiated agreement.(Chen 2024)

Negotiators need to consider what the preferred course of action is if no agreement is reached in this negotiation, what the "backup plan" is, and also conduct a power analysis.

In this case, the former Chinese Ministry of Railways solicited worldwide bids for high-speed rail technology, including Germany's Siemens, Japan's Shinkansen, France's Alstom and Canada's Bombardier.

At that time, Siemens and Japan's Shinkansen technology were the preferred bidders. However, the negotiation process was very difficult and could not be delivered with satisfactory results in the end. However, the Chinese Ministry of Railways had prepared two alternatives in advance, namely Alstom of France and Bombardier of Canada. When the negotiations with the two preferred companies were not good, the Chinese Ministry of Railways immediately turned to the direction, opened new negotiations with Japan's Kawasaki Heavy Industries, France's Alstom and Canada's Bombardier, and finally won all of them, which reflected the importance of alternatives and played a very important role in the success of the negotiations.

From the Target perspective

Target is also means motivation, is the process from realistic, yet optimistic targets to opening offers to better final outcomes. (PON staff 2024)

The importance of aspirational targets: a cycle from High Aspirations to Aggressive Opening Offers to Better Final Outcomes.

In this case, on June 17, 2004, the former Chinese Ministry of Railways had a very clear and active target when bidding to buy high-speed rail technology from all over the world, targeting four enterprises, namely Siemens of Germany, Shinkansen of Japan, Alstom of France and Bombardier of Canada. At that time, the preferred bidders were Siemens and Japan's Shinkansen technology, but the negotiations with both companies are very difficult, and the Siemens negotiating team did not agree to the price reduction and believed that the Chinese side would buy its technology, so it will not concede a penny.

However, the Chinese goal is very clear, even though it needs the Velaro platform developed on the basis of Siemens ICE3, it still ordered a ticket for Siemens to return home two hours before the bid opening. At 8 o 'clock in the morning on July 21, the Chinese Ministry of Railways announced that CNR and Alstom completed the signing ceremony and formally established CNR Alstom Joint Venture Co., Ltd. to complete this round of bidding. That means Siemens is officially out.

After kicking Siemens out of the bidding, China turned to Alstom of France and Bombardier of Canada. Both companies have the high-speed rail technology that China needs, and the confidence to cooperate is also very sufficient. The winning bidders were Japan's Kawasaki Heavy Industries, France's Alstom and Canada's Bombardier.

During the whole negotiation process, the Chinese side had very clear targets, knew what was the most important and wanted, and completed the negotiation perfectly.

About Making the First Offer

First, if the first offer is made first, there is a risk of reducing the scope of the negotiation. That could leave little room for concessions. So you need to do your research, you need to make positive offers for the first time but you don't need to do that.

Second, regarding the opening offer, factors should be considered, including the ZOPA, The Justification, the relationship and the Context.

Third, about how to choose whether to offer first. You can choose to offer first when you know your opponent's BATNA/RP. Or if there is no BATNA/RP feeling, but does not care about the relationship.

Do not choose to offer first when you are interested in a long-term relationship and have no concept of BATNA/RP.

In this case, the representative of Germany Siemens stated two conditions and made the first offer, namely: first, the technology can be sold, but only 82% of the sale; Second, the bullet train manufacturing quotation is 350 million yuan, and the technology transfer fee for each column is 390 million yuan.

Then, Zhang Shuguang, the former head of equipment of the Chinese Ministry of Railways, came to the scene of the negotiations with Siemens, that Siemens's first offer was too high, hoping to settle the price of 250 million yuan for a high-speed rail and 150 million euros for a technology package, or Siemens would be out, and gave a swift and violent response.

The Siemens negotiating team did not agree, assuming that the Chinese would buy its technology, so it would not budge a cent.

At 8 am on July 21, the Chinese Ministry of Railways announced that CNR and Alstom had completed the signing ceremony, which meant that Siemens was officially out. After the negotiators returned to Germany, Siemens fired all of them because they had lost huge orders from China.

First of all, among the factors that should be considered in the opening offer, regarding the ZOPA and the Justification, the Siemens team did not leave some space to explore and test the Chinese side, because the collected relevant information proved that the Chinese side needed its technology and made the first offer very quickly and confidently.

At the same time, Siemens did not want to make concessions to the other party's expectations before the start, which made the relationship between the two parties very rigid, which gradually led to the failure of the offer and Siemens out.

Secondly, about how to choose whether to offer first. Siemens is interested in long-term cooperation but did not know much about the Chinese BATNA/RP, at this time should be careful to choosing, and should not offer first, but it still chose to offer first, and with a very tough attitude, so the two sides into an awkward situation, for the Chinese price cut also ignored, has destroyed the expectations of the beginning of long-term relations.

Among the bidders at that time, even though the Chinese side preferred Siemens and Japan's Shinkansen technology, the Chinese side had more choices, backup plans, and alternative solutions. Siemens was too confident that it would be chosen, and at the same time, the offer was too high and did not pay attention to long-term cooperation, which led to the failure of the bid and finally out.

Finally, in 2005, the Chinese Ministry of Railways issued a tender for a 250 km/h high-speed rail project. This time the Germans learned their lesson, directly out of each train 190 million yuan, a technology transfer fee of 80 million euros ultra-low, the Chinese Ministry of Railways is very happy to accept the offer.

This time, Siemens directly made the first offer, but the attitude has changed greatly in all aspects, and the following is my analysis.

First, if the first offer is made first, there is a risk of reducing the scope of the negotiation. This may lead to little room to make concessions, but it is very necessary to cooperate with the Chinese side, directly in one step, and reduce the offer, in order to achieve cooperation.

Second, about how to choose whether to offer first. Siemens, which has experienced the loss, has been very familiar with the Chinese BATNA/RP, and also attaches great importance to the long-term relationship, directly gave a low price, and finally reached a cooperation.

Conclusion

Through the study of the art of negotiation and courses, this paper analyzes the 2004 China high-speed railway bidding negotiation case from three perspectives: Alternatives, Target and Making the First Offer.

First, when the negotiations with the two preferred companies were not going well, the Chinese Ministry of Railways immediately turned to the direction and opened new negotiations with Japan's Kawasaki Heavy Industries, France's Alstom and Canada's Bombardier, and finally won all of them, which reflected the importance of Alternatives and played a very important role in the success of the negotiations.

Second, in this case, the former Ministry of Railways of China had a very difficult negotiation with Siemens and Japan's Shinkansen technology as their first choice, and the Siemens negotiating team did not agree to reduce the price, but the Chinese side had a very clear target, and ordered a return ticket for Siemens two hours before the bid opening.

After kicking Siemens out of the bidding, China turned to Alstom of France and Bombardier of Canada. The winning bidders were Japan's Kawasaki Heavy Industries, France's Alstom, and Canada's Bombardier. During the whole negotiation process, the Chinese side had very clear objectives, knew what was the most important and wanted, and completed the negotiation perfectly without dragging down the water at all. This shows the importance of targets in the negotiations.

Third, Siemens has put both sides in an awkward position by making an offer first when choosing whether to make an offer first and with a very tough attitude, and has

also ignored the Chinese offer of a price cut, which has damaged expectations for the beginning of a long-term relationship. At the same time, the quotation is too high, and the long-term cooperation relationship is not paid attention to, resulting in the failure of the quotation.

After a year, Siemens, which had learned a lesson, also understood the Chinese BATNA/RP very well and also paid great attention to the long-term relationship, which was in great need of cooperation with the Chinese side, directly in one step, reduced the price, and finally reached cooperation.

This means that Making the First Offer also plays a very important role in the negotiation, we should first understand the other party and the cooperation relationship before determining the first offer.

References

1.Agence France-Presse. (March 20, 2009). “Siemens Unveils $1 Billion Chinese Train Contract”. *IndustryWeek*. https://www.industryweek.com/leadership/companies-executives/article/21954758/siemens-unveils-1-billion-chinese-train-contract.

2.Chen, James. (September 01, 2024). “Best Alternative to a Negotiated Agreement (BATNA)”. *Investopedia.* https://www.investopedia.com/terms/b/best-alternative-to-a-negotiated-agreement-batna.asp.

3.PON Staff. (June 04, 2024). “Power in Negotiation: the Impact on Negotiators and the Negotiation Process”. PON - Program on Negotiation at Harvard Law School. https://www.pon.harvard.edu/daily/negotiation-skills-daily/how-power-affects-negotiators.

4.Gov1 Staff. (2019, December 26). How did China become strong in high-speed rail? Gov1. https://www.gov1.com/economic-development/articles/how-did-china-become-strong-in-high-speed-rail-MvZhPYgfL9d6eDX6/.