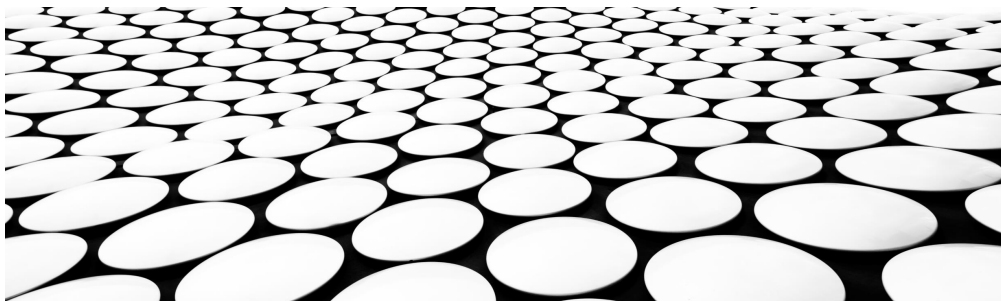


NEGOTIATIONS AND INTERNATIONAL ORGANIZATIONS

SETTING THE STAGE: NEGOTIATING...

Panagiotis Konstantinou, AUEB



TODAY'S LECTURE

- Introduction to Negotiations
 - Interdependence
 - Conflict
- Elements of Game Theory
 - Simultaneous vs. Sequential Games vs. Dynamic Games
 - Strategies: What do we mean?
- Distributive/Integrative Bargaining in an International Context
- International Negotiations

3

THIS PART OF THE COURSE: OUTLINE

- Negotiation/Bargaining
- Tools from Game Theory and Applications
 - IMF loans and conditionality
 - Forming preferential trade agreements
 - Trade Wars
 - International Negotiations
- Three IOs of interest: World Bank, IMF and WTO
 - Some Economics and Historical Background
 - The role of each of these IOs

2

READING

- Dixit, A. and Nalebuff, B. (1991) *Thinking Strategically*, W. W. Norton & Co. Ch. 1-4, 8, 11
- Dixit, A., Skeath, S. and Reiley Jr., D. (2014) *Games of Strategy*, W. W. Norton & Co. Ch. 1-5, 14, 17 (***) more technical)
- Lewicki, R., Barry, B. and Saunders, D. (2016) *Essentials of Negotiation*, 6th edition, McGraw-Hill. Ch. 1-4, 10, 11,12
- Lewicki, R., Barry, B. and Saunders, D. (2014) *Negotiation*, 7th edition, McGraw-Hill. Ch. 1-4, 13, 16, 20

4

INTRODUCTION

- Negotiation is something that everyone does, almost daily
- Negotiations occur for several reasons:
 - To agree on how to share or divide a limited resource
 - To create something new that neither party could attain on his or her own
 - To resolve a problem or dispute between the parties

5

IMPORTANT FOR WHAT FOLLOWS

- Most people think bargaining and negotiation mean the same thing; however, we will be distinctive about the way we use these two words:
 - **Bargaining**: describes the competitive, win-lose situation
 - **Negotiation**: refers to win-win situations such as those that occur when parties try to find a mutually acceptable solution to a complex conflict

6

KEY ISSUES

1. Characteristics of negotiation situations
2. Interdependence, the relationship between people and groups that most often leads them to negotiate
3. The dynamics of conflict and conflict management processes, which serve as a backdrop for different ways that people approach and manage negotiations

7

CHARACTERISTICS OF A NEGOTIATION

- Two or more parties with a conflict of needs/desires between them
- Parties negotiate because they think they can get a better deal than by simply accepting what the other side offers them
- Parties expect a “give and take” process. They search for agreement rather than:
 - Fight openly / Capitulate / Break off relationship permanently / Take their dispute to a third party
- Successful negotiation involves:
 - Management of tangibles (e.g., the price/terms of agreement)
 - Resolution of intangibles (the underlying psychological motivations) such as winning, losing, saving face

8

INTERDEPENDENCE

In negotiation, parties need each other to achieve their preferred outcomes or objectives

- This mutual dependency is called interdependence
- Interdependent goals are an important aspect of negotiation
 - Win-Lose: I win, you lose
 - Win-Win: Opportunities for both parties to gain
- Interdependent parties are characterized by *interlocking* goals
- Interdependent goals does not mean that everyone wants or needs exactly the same thing
 - A mix of convergent and conflicting goals characterizes many interdependent relationships

9

TYPES OF INTERDEPENDENCE AND ALTERNATIVES

- Interdependence and the structure of the situation shape processes and outcomes
 - **Zero-sum** or *distributive* – one winner
 - **Non-zero-sum** or *integrative* – mutual gains situation
- Evaluating interdependence depends heavily on the alternatives to working together
- The desirability to work together is better for outcomes
- Best available alternative: **BATNA**

10

MUTUAL ADJUSTMENT AND CONCESSION MAKING

- **Mutual Adjustment** continues throughout the negotiation as both parties act to influence the other. One of the key causes of the changes that occur during a negotiation
- When one party agrees to make a change in his/her position, a **concession** has been made
- Concessions restrict the range of options
- When a concession is made, the bargaining range is further constrained
- Dilemmas
 - Dilemma of honesty
 - Concern about how much of the truth to tell the other party
 - Dilemma of trust
 - Concern about how much negotiators should believe what the other party tells them

11

CONFLICT

Conflict may be defined as a:

“sharp disagreement or opposition” and includes “the perceived divergence of interest, or a belief that the parties’ current aspirations cannot be achieved simultaneously”

- **Levels of Conflict (of interest to us)**
 - Intragroup (within a group) Conflict
 - Among team and committee members, within families, classes etc.
 - Intergroup Conflict
 - Conflict can occur between organizations, warring nations, feuding families, or within splintered, fragmented communities
 - These negotiations are the most complex

12

INTERMEZZO: SOME ELEMENTS OF GAME THEORY

Bare Necessities

(The Mother Nature's Recipes)

13

GAME THEORY

- ... is a set of tools that allows us to model strategic behavior by agents, who **understand** that their **actions affect** the **actions** of other agents.
 - The study of oligopolies (industries containing only a few firms) and cartels, e.g., OPEC
 - The study of externalities; e.g., using a common resource.
 - The study of military strategies.
 - The study of international agreements

14

WHAT IS A GAME?

- A **game** consists of
 - a set of **players** ($i = 1, 2, \dots, N$)
 - a set of **strategies** for each player
 - $s_i = \varphi(\mathcal{S}_{-i}) = \varphi(\text{what all other players might do})$
 - the **payoffs** to each player for every possible list of strategy choices by the players.

$$\pi_i(s_i, \mathcal{S}_{-i})$$

[what you earn/lose depends on what you do; and what everybody else does]

15

AN EXAMPLE OF A TWO-PLAYER GAME (GREECE VS. IMF)

- The players are called A (**Greece**) and B (**IMF**).
- Greece has two strategies: “Request Assistance” or “Not Request Assistance”.
- The IMF has three strategies, “Strong Conditions”, “Weak Conditions” and “No Conditions”.
- **Simultaneous moves**: Decision making without knowledge of the strategy choice of opponents
- ❖ **Sequential moves**: Decision making with knowledge of the strategy choice of opponents
 - The player who plays first is the *leader*. The player who plays second is the *follower*.
 - Extensive form (game tree)

16

AN EXAMPLE OF A THREE-PLAYER GAME (GREECE VS. IMF VS. ECB)

- The players are called A (Greece), B (IMF) and C (ECB).
- Greece has three strategies: “Request Assistance from B”, “Request Assistance from both”, and “Not Request Assistance”.
- The IMF has three strategies, “Strong Conditions”, “Weak Conditions” and “No Conditions”.
- The ECB has three two strategies: “Participate in a Program” and “Not Participate in a Program”

17

EQUILIBRIUM

- A play of the game where each strategy is a best reply to the other is a **Nash equilibrium**.
- **Nash Equilibrium**: A condition describing a **set of strategies** in which no player can improve her/his payoff by unilaterally changing her own strategy, given the other player’s strategy.
(Every player is doing the best they possibly can **given** the other player’s strategy.)

18

STRATEGIES

- A strategy is **dominant** for a player if it is better than any other strategy for this player, no matter how that player’s opponents may play.
- A strategy is **dominated** for a player if it is **worse** than any other strategy for this player, no matter how that player’s opponents may play.
- **Rule**: If there is a dominant strategy, use it.
- **Rule**: If there are dominated strategies, eliminate them – they are never chosen.

19

PRISONER’S DILEMMA IN TRADE (SIMULTANEOUS MOVES)

TABLE 10-3 The Problem of Trade Warfare

		Japan	
		Free trade	Protection
U.S.	Free trade	10	-10
	Protection	-10	-5

- The only Nash equilibrium for this game is (Protection, Protection), even though (Free Trade, Free Trade) gives both Japan and the U.S. higher payoffs.
- The only Nash equilibrium is **inefficient (Pareto sub-optimal)**.
 - Why choose this?

20

RESOLVING PRISONERS' DILEMMAS SITUATIONS

- Co-operation
- How can such cheating be detected? What prospect of punishment will deter it?
 - Detection of Cheating
 - Punishment of Cheaters
 - If the punishment is Guaranteed (rules)
 - The choice of punishment
 - Simplicity and clarity
 - Certainty
 - "Fit the crime". But ... risk of mistakes...
 - Tit-for-Tat (do unto others as they have done onto you)
 - clarity, niceness, provocability, and forgivingness.

21

WHAT IS A DYNAMIC/REPEATED GAME?

- A **dynamic game** consists of
 - a set of **players** ($i = 1, 2, \dots, N$)
 - a set of **periods** ($t = 1, 2, \dots, T$)
 - a set of **strategies** for each player

$$s_{it} = \varphi(\dots, s_{it-2}, s_{it-1}, \mathbf{s}_{i,t-1}, \mathbf{s}_{i,t+1}, \mathbf{s}_{i,t+2}, \dots)$$

$$\mathbf{s}_i = (s_{i,1}, s_{i,2}, \dots, s_{it}, \dots, s_{iT}) = \check{\varphi}(\mathbf{s}_{i,1}, \mathbf{s}_{i,2}, \dots, \mathbf{s}_{i,t}, \dots, \mathbf{s}_{i,T})$$

- the **payoffs** to each player for every possible list of strategy choices by the players.

$$\pi_i(s_{i,1}, \dots, s_{i,t}, \dots, s_{iT}, \mathbf{s}_{i,1}, \dots, \mathbf{s}_{i,t}, \dots, \mathbf{s}_{i,T})$$

[what you earn/lose depends on what you do; and what everybody else does]

22

STRATEGY VS. TACTICS

- **Strategy** is a detailed plan which acts as a path or gives direction to achieve your goals.
- **Tactics** are the small steps which help in building a strategy.
- **Strategy** describes the destination and how you are going to get there.
- **Tactics** describe the specific actions you are going to take along the way.
- **Strategy** defines your long-term goals and how you're planning to achieve them. In other words, your strategy gives you the path you need toward achieving your final goal (maximize payoff/minimize losses)
- **Tactics** are much more concrete and are often oriented toward smaller steps and a shorter time frame along the way. They involve best practices, specific plans, resources, etc. ("initiatives").

23

NEGOTIATIONS...

Back to Basics

(to continue from where we left it)

24

DISTRIBUTIVE BARGAINING

- Goals of one party are in fundamental, direct conflict to another party
- Resources are fixed and limited
- Maximizing one's own share of resources is the goal
- Preparation—set a
 - Target point, aspiration point
 - Walkaway, resistance point
 - Asking price, initial offer

25

FUNDAMENTAL STRATEGIES

- Push for settlement near opponent's resistance point
- Get the other party to change their resistance point
- If settlement range is negative, either:
 - Get the other side to change their resistance point
 - Modify your own resistance point
- Convince the other party that the settlement is the best possible

The keys to implementing any of the four strategies are:

- Discovering the other party's resistance point
- Influencing the other party's resistance point

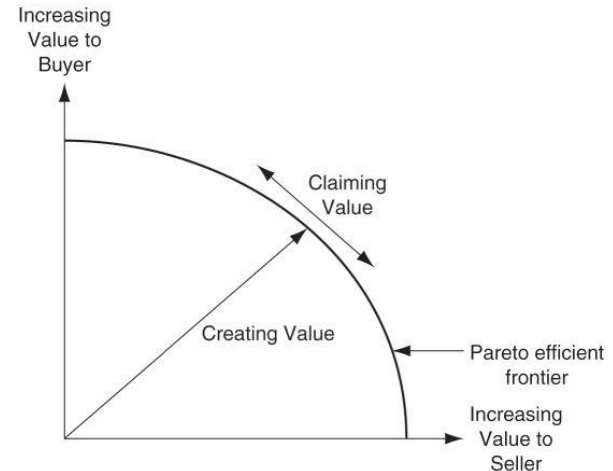
26

INTEGRATIVE NEGOTIATION: KEY STEPS

- Identify and define the problem
- Understand the problem fully
 - identify interests and needs on both sides
- Generate alternative solutions
- Evaluate and select among alternatives

27

CLAIMING AND CREATING VALUE (BUYER VS. SELLER)



28

INTERNATIONAL NEGOTIATIONS

SOME ELEMENTS

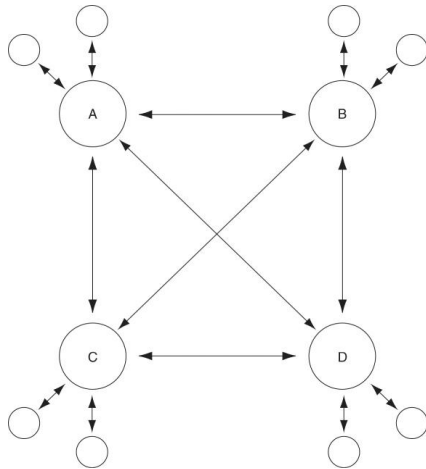
29

TWO SITUATIONS THAT INVOLVE MULTIPLE PARTIES

- Multiple parties are negotiating with one another and attempting to achieve a collective or group consensus.
- Multiple individuals are present on each “side” of the negotiation
 - The parties to a negotiation are teams against teams

30

A MULTIPARTY NEGOTIATION, EACH REPRESENTING A CONSTITUENCY



31

THE NATURE OF MULTIPARTY NEGOTIATIONS

Differences between two-party and multiparty negotiations:

- Number of parties
- Informational and computational complexity
- Social complexity
- Procedural complexity
- Strategic complexity

32

MANAGING MULTIPARTY NEGOTIATIONS

- The pre-negotiation stage
 - Characterized by many informal contacts among the parties
- The formal negotiation stage
 - Structures a group discussion to achieve an effective and endorsed result
- The agreement phase
 - Parties select among the alternatives on the table

33

WHAT MAKES INTERNATIONAL NEGOTIATIONS DIFFERENT?

- Two overall contexts have an influence on international negotiations:
- **Environmental context**
 - Includes environmental forces that neither negotiator/party controls that influence the negotiation
- **Immediate context**
 - Includes factors over which negotiators appear to have some control

34

ENVIRONMENTAL CONTEXT

- Factors that make international negotiations more challenging than domestic negotiations include:
 - Political and legal pluralism
 - International economics
 - Foreign governments and bureaucracies
 - Instability
 - Ideology
 - Culture
 - External stakeholders

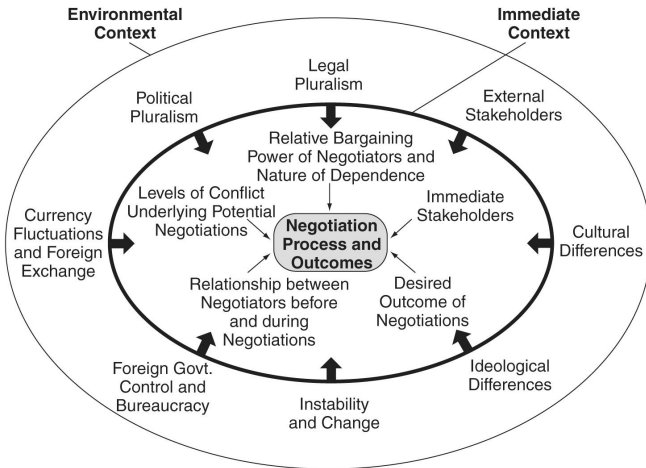
35

IMMEDIATE CONTEXT

- “Factors over which the negotiators have influence and some measure of control”:
 - Relative bargaining power
 - Levels of conflict
 - Relationship between negotiators
 - Desired outcomes
 - Immediate stakeholders

36

CONTEXTS OF INTERNATIONAL NEGOTIATIONS



37

HOW DO WE EXPLAIN INTERNATIONAL NEGOTIATION OUTCOMES?

- International negotiations can be much more complicated
- Simple arguments cannot explain conflicting international negotiation outcomes
- The challenge is to:
 - Understand the **multiple influences** of several factors on the negotiation process (two-level games...)
 - Update this understanding regularly as circumstances change

38

ANALYZING INTERNATIONAL NEGOTIATIONS: STRUCTURAL ANALYSIS

- Treat international negotiation problem in terms of the power resources and capabilities of the parties involved.
 - International distribution of power influences the behavior of actors (states) and this power is the key determinant of the final outcomes.
 - Outcomes will tend to represent the preferences of more powerful actors.
- But weaker parties in certain cases can manipulate bargaining situations to their advantage when the initial power balance is not tipped in their favor.
- Coalitions...
- **Tactical analysis:** power is a situational characteristic of negotiations,
 - outcomes depend not just on absolute capabilities but also on bargaining skills and knowledge and on the way such resources are organized and utilized.

39

ANALYZING INTERNATIONAL NEGOTIATIONS: DECISION ANALYSIS

- **Game Theory**
- **Linkage Analysis**
 - Identify which parties can realize joint gains or achieve an integrative solution in situations characterized by differences in valuation or preferences, probability assessments, risk aversion and time preferences.
- **Concession Analysis**
 - Move towards an agreement that maximizes own return by manipulating initial offers and the rate and size of concessions.
 - In international negotiations deliberate concessions strategies are probably rare

40