CHAPTER
11

Sources of Bargaining Power

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Introduction

Bargaining power is the ability to obtain a favourable share of the value at stake in a negotiation. It determines where, within the zone of possible agreement, the parties settle, and sometimes whether they settle at all. Power is often discussed vaguely, as if it were a personal quality or a matter of size. This chapter argues that it can be analysed systematically, and its main sources can be identified, measured and, to a considerable extent, changed before the negotiation begins.

The chapter proceeds in four steps. Section 11.1 introduces the core tools of negotiation analysis: the best alternative to a negotiated agreement (BATNA), the reservation price and the zone of possible agreement (ZOPA). These concepts, introduced briefly in Chapters 4 and 7, are developed here as the foundation of bargaining power. Section 11.2 examines the structural sources of power: dependence, the availability of substitutes and the structure of markets, including the control of critical resources that cannot easily be replaced. Section 11.3 asks whether knowledge gives power, examining the roles of information, expertise and uncertainty. Section 11.4 examines time and commitment, and shows how deadlines, patience and binding commitments can strengthen or weaken a negotiator's position.

The chapter opens Part III and the second pillar of the book's framework, **power**. It builds on the economic roots of conflict in Chapter 2, in which market power was identified as a source of dispute, and on the value created and divided in Part II. Its Deal File examines one of the clearest demonstrations of bargaining power in recent economic history: China's use of its dominance in the processing of rare earths, minerals essential to electric vehicles, wind turbines, electronics and weapons, to bring the United States to a truce in a trade war that the United States had begun.

DEAL FILE

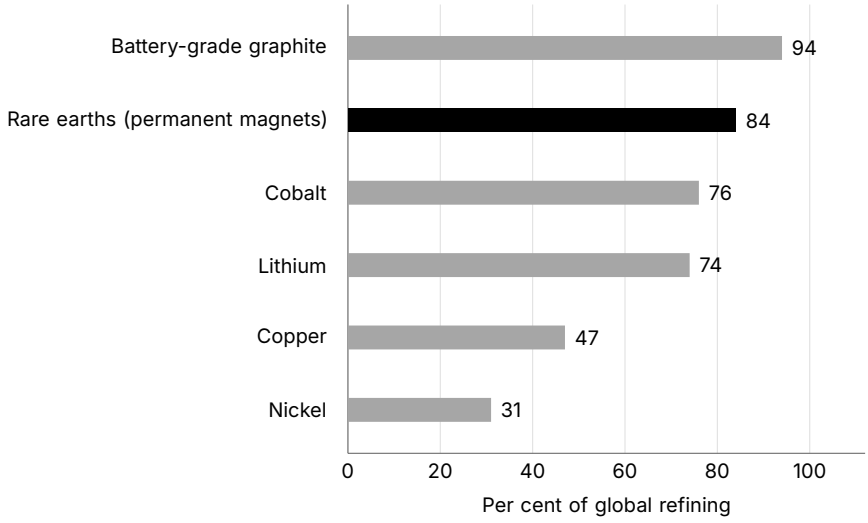
Rare Earths and the Busan Truce

Rare earths are a group of seventeen metallic elements used in the permanent magnets of electric motors, wind turbines, hard disks, smartphones, missiles and aircraft. They are not especially rare in the earth's crust, but separating and refining them is technically difficult and environmentally damaging, and over three decades China built a dominant position in their processing. According to the International Energy Agency, China accounted for 59 per cent of rare earth mining but 84 per cent of the refining of the rare earths used in permanent magnets, and for similarly high shares of the refining of several other critical minerals (BOFIT, 2026), as Figure 11.1 shows.

In 2025 China used this position as a lever. On 4 April, after the United States had raised its tariffs on Chinese goods, China required licences for exports of seven medium and heavy rare earths (samarium, gadolinium, terbium, dysprosium, lutetium, scandium and yttrium) and of related materials (Ministry of Commerce of the People's Republic of China [MOFCOM], 2025a). Every shipment now needed a licence, which gave Beijing control over the pace of supply. On 9 October it announced much broader controls, which would require licences even

Figure 11.1

China's share of global refining of selected critical minerals, 2025 (per cent)



Note. Author, based on BOFIT (2026), reporting the International Energy Agency's *Global Critical Minerals Outlook 2026*. Rare earths refers to those used in permanent magnets; graphite to battery-grade graphite.

for some products made abroad, if they contained Chinese rare earths worth at least 0.1 per cent of their value or had been made with Chinese rare earth technology (MOFCOM, 2025b). The measures threatened to reopen the tariff war that the two governments had paused in May, examined in Chapter 12.

Table 11.1

The rare earths dispute and the Busan truce at a glance

Parties	The governments of the United States and China; indirectly, manufacturers and farmers in both countries and in third countries
At stake	US tariffs on Chinese goods; Chinese controls on exports of rare earths and other critical minerals; US export controls on technology; Chinese purchases of US farm goods; fentanyl
Timeline	Chinese licensing of seven rare earths from 4 April 2025; broader controls announced on 9 October; meeting of the two presidents in Busan, South Korea, on 30 October; measures effective from 10 November 2025; arrangement extended in September 2026 to 10 January 2027
Outcome	China suspended its October controls for one year; the United States cut its tariff linked to fentanyl by 10 percentage points and suspended for one year a rule extending its export controls to the affiliates of listed firms, as well as its Section 301 measures on shipping and shipbuilding; China suspended its retaliatory tariffs on US farm goods and, according to the White House, undertook to buy US soybeans

Note. Author, based on MOFCOM (2025a, 2025c, 2026) and The White House (2025c).

The Busan truce. On 30 October 2025 Presidents Trump and Xi met in Busan, South Korea, and confirmed the arrangement that their negotiators had prepared in Kuala Lumpur a few days earlier. China would suspend for one year the export controls it had announced on 9 October (MOFCOM, 2025c) and, according to the White House, issue general licences for exports of rare earths, gallium, germanium, antimony and graphite; the controls of April were not withdrawn. From 10 November the United States removed 10 percentage points of its tariff on Chinese goods linked to fentanyl and kept its heightened "reciprocal" tariff suspended for a further year, leaving a rate of 10 per cent. It also suspended for one year its Section 301 measures against China's maritime, logistics and shipbuilding sectors and a rule that would have extended its export controls to companies at least 50 per cent owned by firms on its Entity List (Bureau of Industry and Security, 2025b). China suspended its retaliatory tariffs on US farm goods, and the White House said that it would buy at least 12 million tonnes of US soybeans in the last two months of 2025 and at least 25 million tonnes a year from 2026 to 2028 (The White House, 2025c). In September 2026, after an eighth round of consultations in New York and Washington, the two governments extended

the arrangement by only two months, to 10 January 2027, and agreed to keep working towards a mutually agreed solution (MOFCOM, 2026).

Questions to keep in mind. How could a country that depends heavily on access to the US market force the larger economy to retreat? What were each side's alternatives to agreement? Why did each side accept a truce of one year rather than a permanent settlement, and why was it then extended by only two months? And what can firms and governments do to reduce their dependence on a single source of a critical input? The chapter answers these questions in turn.

11.1 What Is Your Best Alternative? BATNA, Reservation Price and ZOPA

The Best Alternative to a Negotiated Agreement

Fisher and Ury (1981) argued that the most important source of power in any negotiation is the quality of one's **best alternative to a negotiated agreement (BATNA)**: what a party will do if the negotiation fails. A supplier whose BATNA is to sell to another customer at a good price can afford to reject a low offer; a supplier whose BATNA is to close its factory cannot. The BATNA protects a negotiator from accepting an agreement worse than what could be obtained elsewhere, and it gives the negotiator the confidence to walk away.

Three features of the BATNA deserve emphasis. First, it is a concrete course of action, not a wish: "finding a better buyer" is not a BATNA unless a specific buyer is available on specific terms. Second, it must be evaluated, taking account of its costs, risks and timing, so that it can be compared with offers on the table. Third, it can be changed. A negotiator who improves his or her BATNA before the negotiation, for example by finding an alternative supplier or a second customer, increases his or her power more surely than any tactic at the table.

The other side's BATNA matters as much as one's own. Power in negotiation is relative: what counts is not how good one's own alternative is, but how good it is compared with the other side's. A negotiator should therefore estimate the other side's BATNA, look for ways to weaken it, legitimately, for example by making its alternatives less attractive or less available, and avoid strengthening it inadvertently.

Lax and Sebenius (2006) added that the alternatives which matter are not always the obvious ones. A party's walk-away option may depend on decisions by third parties, on future market conditions or on the reactions of regulators, and the best negotiators shape these "no-deal" options before the talks begin, a process they called setting up the negotiation.

Reservation Price and the Zone of Possible Agreement

A negotiator's **reservation price**, the point at which he or she is indifferent between agreement and no agreement, is derived from the BATNA. If a seller's BATNA is to sell to another buyer for €80, after allowing for the costs and risks of that sale, its reservation price is about €80. The **zone of possible agreement** (**ZOPA**) is the range between the two parties' reservation prices, introduced in Chapters 2 and 7. When the buyer's reservation price is higher than the seller's, agreement is possible; when it is lower, no agreement can make both sides better off than their alternatives.

Bargaining power, in this framework, is the ability to secure an agreement near the other side's reservation price rather than one's own. It depends on three things: one's own BATNA, which sets one's reservation price and determines how credibly one can walk away; the other side's BATNA, which sets its reservation price and determines how much it can be pushed; and each side's knowledge of the other's reservation price, which determines how accurately it can aim. Table 11.2 lists ways in which a negotiator can strengthen its position before talks begin.

Table 11.2

Ways to strengthen one's position before a negotiation

Approach	How it works	Example
Improve your BATNA	Develop or secure a better alternative before negotiating	A buyer qualifies a second supplier before renegotiating a contract
Worsen their BATNA	Make the other side's alternatives less attractive, by legitimate means	A firm signs exclusive deals with distributors a rival would need
Reveal your BATNA selectively	Let the other side know of a strong alternative when it helps	A job candidate mentions a competing offer
Conceal a weak BATNA	Avoid revealing how much you need the deal	A seller with spare capacity does not disclose it
Change the game	Add parties or issues that change both sides' alternatives	A supplier finds a partner to share fixed costs

Note. Author, based on Fisher and Ury (1981), Lax and Sebenius (2006) and Malhotra and Bazerman (2007).

The Deal File through the Lens of Alternatives

In the dispute over rare earths, each side's BATNA was costly. For the United States, the alternative to agreement was to continue without reliable supplies of rare earth magnets, which would have halted production lines in the car, electronics and defence industries until alternative supplies could be developed, a process expected to take years. For China, the alternative was a renewed escalation of US

tariffs on its exports, the loss of US purchases and further restrictions on its access to American technology. The Busan truce was a point inside the zone of possible agreement: both sides preferred it to continued escalation. Its terms reflected the US alternative's relative weakness at the time: rare earth magnets could not be replaced quickly, while Chinese exporters could redirect part of their sales to other markets.

KEY MOVE

Before any important negotiation, write down your BATNA and the other side's, and estimate the value of each. Then ask what you can do, before the talks begin, to improve yours and to reduce your dependence on the agreement.

11.2 Who Needs Whom More? Dependence and Market Structure

Power and Dependence

The sociologist Richard Emerson (1962) proposed a simple and powerful idea: the power of A over B equals the dependence of B on A. B depends on A to the extent that B values what A can provide and cannot obtain it elsewhere. Power is thus a property of the relationship, not of either party alone, and it can be changed by changing either party's dependence: by finding alternative sources, by reducing the importance of what the other provides, or by making the other more dependent in return. Bacharach and Lawler (1981) applied this framework to bargaining, distinguishing the dependence of each party on the other and the total dependence in the relationship, which affects how hard both sides work to reach agreement.

Emerson's idea links directly to the BATNA. A party with good alternatives depends little on the other; a party with poor alternatives depends heavily. It also links to the economics of Chapter 2: the specific investments that create hold-up are a form of dependence, and market power, which arises from concentration, switching costs and the control of bottlenecks, is a structural form of the dependence of customers on suppliers or of suppliers on customers.

Pfeffer and Salancik (1978) applied similar reasoning to organisations. Firms depend on their environments for critical resources, and they manage this dependence through strategies such as diversifying suppliers, merging with partners, forming alliances and seeking support from governments. Each of these strategies changes the firm's power in future negotiations.

Interdependence as a Weapon

Dependence between countries can be used in the same way. Hirschman (1945) showed how Nazi Germany in the 1930s organised its trade with smaller countries in south-eastern Europe so that they depended more on Germany than Germany depended on them, gaining political influence through commercial relations. Farrell and Newman (2019) extended this analysis to the global economy of today. They argued that networks of finance, communication and supply have **chokepoints**, nodes through which flows must pass, and the states controlling these chokepoints can use them as instruments of pressure, a phenomenon they called **weaponised interdependence**. The dollar-based financial system, undersea cables and the supply chains of advanced semiconductors are examples.

The Deal File shows weaponised interdependence in the field of critical minerals. Chinese firms do not dominate rare earth mining as completely as they dominate refining and magnet production, and it is at these later stages of the supply chain that substitutes are hardest to find. Figure 11.1 shows that the same pattern applies to graphite, cobalt and lithium. A country that controls a stage of production through which most of the world's supply must pass gains bargaining power far greater than its share of world trade would suggest. Figure 11.2 shows how China's share rises at each successive stage of the supply chain for rare earth magnets.

Reducing Dependence

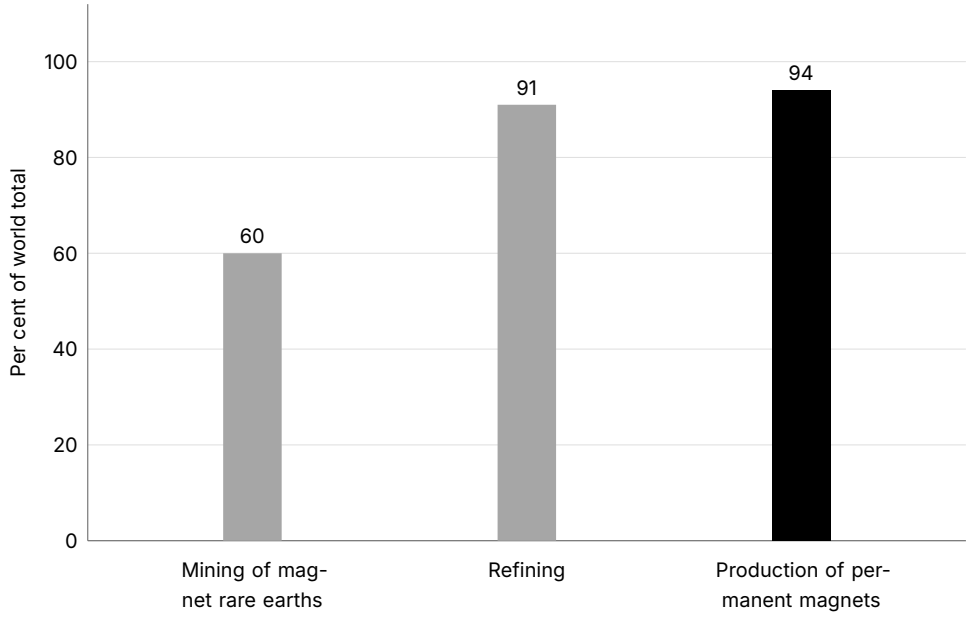
Dependence can be reduced, but rarely quickly. Firms and governments facing a dominant supplier can diversify their sources, stockpile, invest in recycling or in substitute technologies, form alliances with other buyers, or seek to develop domestic production. The United States, the European Union and Japan launched or expanded programmes in 2025 and 2026 to support new mining and refining capacity outside China. Each of these measures changes future BATNAs, and therefore future bargaining power, but each requires years and large investments, during which the dominant supplier retains its advantage. The International Energy Agency nevertheless expects refining to remain highly concentrated for years to come; for battery-grade graphite, for example, China's share of processing is projected to stay above 90 per cent until 2035 (BOFIT, 2026).

KEY MOVE

Ask who needs whom more, and why. Map the stages of your supply chain at which you depend on a single source, and start reducing that dependence long before you need to negotiate.

Figure 11.2

China's share of each stage of the supply chain for rare earth permanent magnets, 2024 (per cent)



Note. Author, based on International Energy Agency (2026). Mining refers to magnet rare earths and production to sintered permanent magnets. The figures for 2024 differ slightly from those for 2025 in Figure 11.1 because of differences in year and coverage.

11.3 Does Knowledge Give Power?

Bases of Power

French and Raven (1959) identified five bases of social power: **reward power**, the ability to provide benefits; **coercive power**, the ability to impose costs; **legitimate power**, based on a recognised right to decide; **expert power**, based on knowledge and skill; and **referent power**, based on the respect or affection of others. Raven later added **information power**, based on control of information needed by others. Table 11.3 applies these bases to negotiation.

The Deal File shows several bases at once. China's controls were coercive power, based on its control of a critical resource. The US tariffs and technology controls were coercive power of its own. The ability to offer purchases of soybeans or the suspension of controls was reward power. Each government's legal authority to impose and lift such measures was legitimate power.

DEAL SNAPSHOT

Nvidia's Chips and Washington's Terms, 2025 and 2026

Dependence can run in the other direction too. China's technology firms need advanced chips designed by the American company Nvidia to train artificial intelligence models, and the US government controls their export. On 9 April 2025 the government informed Nvidia that a licence was required to export its H20 chip, designed for the Chinese market. Nvidia took a charge of US$4.5 billion in the first quarter of its 2026 financial year, mainly for excess inventory and purchase obligations, and was unable to ship a further US$2.5 billion of H20 products (NVIDIA, 2025). In January 2026 the administration changed course for more powerful chips such as the H200. The Department of Commerce replaced its presumption of denial for licences to China with a case-by-case review, on conditions: exporters had to certify that US customers would not be left short of supply, total shipments to China could not exceed half of those to US customers, and shipments had to be reviewed by an independent laboratory in the United States (Bureau of Industry and Security, 2026). At the same time, a presidential proclamation imposed a duty of 25 per cent on imports of chips in the same performance range that did not contribute to building the US technology supply chain (Proclamation No. 11002, 2026). The case shows how a state that controls a chokepoint can loosen its grip on its own terms, turning access into both a bargaining chip and a source of revenue.

Table 11.3

Bases of power in negotiation

Base	Source	Negotiation example
Reward	Ability to give something the other side values	A buyer offers a long-term contract
Coercive	Ability to impose costs	A government threatens tariffs or export controls
Legitimate	A recognised right, rule or position	A regulator approves or blocks a merger
Expert	Knowledge and skill	A consultant's analysis of costs persuades a supplier
Referent	Respect, reputation or relationship	A respected industry figure brokers a deal
Information	Control of information the other side needs	A firm knows its rival's capacity constraints

Note. Author, based on French and Raven (1959).

Information and Uncertainty

Information confers power in two ways. A negotiator who knows more about the other side's reservation price, priorities and constraints can aim offers more precisely and avoid conceding more than necessary. A negotiator whose own reservation price is unknown to the other side can claim more of the surplus, because the other side cannot be sure how far it can push. Chapter 2 introduced the economics of hidden information, and Chapter 7 the practical gathering of information before a negotiation.

Uncertainty about the other side's alternatives is a source of risk for both parties. In the Deal File, neither government knew precisely how long the other could endure the costs of escalation: how quickly US manufacturers would run out of magnets, or how badly Chinese exporters would suffer from renewed tariff increases. Each tried to signal that it could hold out longer. The October controls were partly a signal of China's capacity to hurt, and US threats of further tariffs and export controls were signals in return. Signals of this kind are credible only if they are costly to send, a point developed in Chapter 12.

Information can also be created. A firm commissioning an independent analysis of market prices, or testing the market by inviting competing offers, generates information to strengthen its arguments and its alternatives. Expert power, the authority that comes from demonstrated knowledge, can change the other side's beliefs about what is reasonable, and therefore its reservation price.

KEY MOVE

Treat information as a source of power to be built and protected. Learn as much as you can about the other side's alternatives and constraints, and reveal your own only when doing so strengthens your position.

11.4 Can Time and Commitment Be Weapons?

Deadlines and Patience

Time affects bargaining power because delay is costly, and it is rarely equally costly for both sides. The party losing more from delay, because it is running short of supplies, cash or political patience, is under pressure to concede. Rubinstein (1982) showed in a formal model of alternating offers that, when both parties are rational and fully informed, the more patient party obtains the larger share of the surplus, and the share depends on how much each side discounts the future.

Deadlines concentrate the effect of time. Many negotiations reach agreement only as a deadline approaches, because concessions made earlier would reveal

DEAL SNAPSHOT

Drug Prices under the Threat of Tariffs, 2025

In April 2025 the Department of Commerce opened an investigation under Section 232 of the Trade Expansion Act of 1962 into whether imports of pharmaceuticals threatened national security, a step that can lead to tariffs (Bureau of Industry and Security, 2025a). On 30 September 2025 Pfizer became the first company to reach an agreement with the administration. According to the White House, it would offer "most-favoured-nation" prices, matching those it charged in other developed countries, to every state Medicaid programme and on the new medicines it launched (The White House, 2025b). Pfizer added that it would sell medicines directly to patients at discounts averaging 50 per cent and invest an additional US$70 billion in research, development and capital projects in the United States; in return, its products covered by the Section 232 investigation would face no tariffs during a three-year grace period (Pfizer, 2025). By 19 December 2025 the White House had announced 14 such agreements with major manufacturers, including Merck, Novartis, GSK and Sanofi (The White House, 2025e). The episode demonstrates how a credible threat that a government can carry out unilaterally can bring a whole industry to the negotiating table within months.

weakness and because the cost of failure becomes concrete only when the deadline is close. A negotiator who can impose a deadline on the other side without being bound by one gains power; a negotiator who reveals his or her own deadline loses it. In the Deal File, the truce itself became an instrument of time. A suspension of one year gave each side a period in which to reduce its dependence on the other, and the extension of only two months agreed in September 2026 kept both under pressure to continue negotiating.

Commitment

Schelling (1960) observed a paradox of bargaining: the ability to bind oneself can be a source of strength. A negotiator who can credibly commit to a position, by making it impossible or very costly to retreat, forces the other side either to accept or to bear the cost of no agreement. Public statements, legal restrictions, mandates from constituents and the delegation of negotiation to an agent with limited authority are all ways of making commitments credible. The two-level games of Chapter 4 showed how a negotiator with a constrained domestic win-set can use the constraint to extract concessions.

Commitment is dangerous, however. If both sides commit to incompatible positions, neither can retreat, and the result is deadlock or escalation. Commitments also reduce flexibility, preventing the discovery of integrative solutions. In the Deal File, both governments made public commitments, the United States to

tariffs and China to controls, that made retreat costly. The truce allowed both to step back without appearing to capitulate, because each could present its concessions as conditional and temporary. Table 11.4 summarises how time and commitment act as sources of power.

Table 11.4

Time and commitment as sources of power

Source	How it creates power	Risk
Patience	The party that can wait longer obtains more	Opportunities may be lost while waiting
Deadlines for the other side	Pressure to concede as the cost of failure approaches	The other side may call the bluff
Concealing one's own deadline	Prevents the other side from exploiting time pressure	Requires discipline
Public commitment	Makes retreat costly, so the position becomes credible	Deadlock if both sides commit
Limited authority	An agent who cannot concede strengthens the principal's position	Frustration and breakdown

Note. Author, based on Schelling (1960) and Rubinstein (1982).

The Limits of Power

Power can claim value, but it can also destroy it. Using coercive power provokes resistance and retaliation, encourages the other side to reduce its dependence, and invites intervention by regulators, courts and other governments. China's controls on rare earths spurred investment in alternative supplies outside China, which will weaken its position in the long run; the US tariffs prompted Chinese retaliation and the redirection of trade. The author's research on entrepreneurship and trade in a fragmented world economy examines how firms and governments respond to such pressures by diversifying their partners and building new trading relationships, for example between India and Europe (Kumar, 2026b). A negotiator who uses power without regard to the relationship may win the current negotiation and lose the next one.

KEY MOVE

Manage time deliberately: create deadlines for the other side, hide your own and avoid committing yourself to positions you cannot hold. Use power to secure your share of value, not to destroy the relationship that creates it.

BACK TO THE DEAL FILE

Reading the Busan Truce

The tools of this chapter explain why the dispute over rare earths ended in a truce and why the truce remained fragile.

China's power rested on a chokepoint. By controlling most of the world's refining of magnet rare earths, China could impose costs on US manufacturers that the United States could not quickly avoid. This was weaponised interdependence of the kind described by Farrell and Newman.

Both BATNAs were costly, so a zone of agreement existed. The United States faced shortages of critical inputs; China faced punitive tariffs and the loss of technology. A truce that rolled back the most recent escalation on both sides lay inside the zone of possible agreement.

Dependence was asymmetric in time. In the short run the United States depended more heavily on Chinese rare earths than China depended on any single US export, which explains why the United States made significant concessions on tariffs and export controls. In the long run, investment in alternative supplies may reverse the balance.

Time became part of the agreement. The one-year suspension gave both sides a window to reduce their dependence, and the two-month extension of September 2026 kept up the pressure to continue negotiating. Each side retained the ability to restore its measures, so each kept its coercive power in reserve.

Commitments were softened rather than abandoned. China suspended its October controls but kept those of April in force under a system of licences; the United States kept its reciprocal tariff while reducing the tariff linked to fentanyl. Each could claim to have defended its position.

MA EXTENSION

Measuring Bargaining Power

Economists measure bargaining power in several ways. In the generalised Nash bargaining solution, examined in Chapter 12, a parameter between zero and one represents each party's share of the surplus above its disagreement payoff. In Rubinstein's (1982) model, relative patience determines the division. In the sociological tradition of Emerson (1962), power is measured by relative dependence. Hirschman (1945) proposed measuring the potential for trade to be used as a political weapon by the concentration of a country's trade on particular partners. Apply these approaches to the Deal File. How would you measure the relative dependence of the United States and China on each other's goods? Which measure best explains the terms of the Busan truce? What data would you need to test your answer?

ETHICS CHECK

In 2025 both the United States and China used control over goods that the other needed, rare earths on one side and advanced chips on the other, as instruments of pressure. Firms and workers who had no part in the dispute bore much of the cost. Is it legitimate for governments to use economic interdependence as a weapon in negotiations? Should firms controlling critical inputs accept limits on how they use this power, and who should set those limits?

Pillar Scorecard

Table 11.5

Pillar Scorecard: rare earths and the Busan truce, 2025 and 2026

Pillar	Importance in this case	Evidence
Profit	High	Trade worth hundreds of billions of dollars, critical supply chains and US farm exports were at stake
Power	Very high	Control of a chokepoint in critical minerals forced a retreat by the larger economy; time and threats shaped the terms
Persuasion	Moderate	Both governments presented the truce as a success, but the outcome rested mainly on mutual dependence

Your Move

This is a constructed teaching case.

You are the purchasing director of a manufacturer of electric motors for industrial machinery in Mielec, which buys the neodymium magnets for its motors from a single supplier in China. The supplier has informed you that, because of new export licensing requirements, deliveries will be delayed by up to three months and the price will rise by 30 per cent. Your firm has magnets in stock for six weeks of production. A Japanese supplier could provide magnets at a price 45 per cent higher than your current price, with deliveries starting in four months; a start-up in Estonia is building a magnet factory that could supply you in eighteen months.

1. What is your BATNA in the negotiation with the Chinese supplier, and what is the supplier's?
2. Using Emerson's analysis of power and dependence, assess the balance of power between your firm and the supplier now and in two years' time.
3. What actions could you take now to improve your BATNA and reduce your dependence?

4. How would you use time and information in the negotiation with the Chinese supplier? What should you reveal, and what should you conceal?

Conclusion

Bargaining power is the ability to secure a favourable share of the value at stake, and it can be analysed systematically. Its foundation is the best alternative to a negotiated agreement, which sets each party's reservation price and determines the zone of possible agreement. Power depends on dependence: the party needing the other less can demand more, and dependence arises from the structure of markets and supply chains, including the control of chokepoints others cannot avoid. Information confers power by allowing negotiators to aim their offers and conceal their limits, and time and commitment can be used as weapons, although commitments that leave no room for retreat can lead to deadlock. Power can be built and changed, but its use has costs: it provokes resistance, encourages the other side to reduce its dependence and invites retaliation. The Busan truce shows all these elements at work in a negotiation between the two largest economies in the world, in which control of the refining of a few obscure metals proved a stronger lever than the size of the economies involved. Chapter 12 turns to the formal tools that economists and game theorists have developed to analyse strategic interaction, and shows how they explain the escalation and retreat of tariffs between the United States and China in 2025.

Exercises

A. Objective Questions

1. According to Fisher and Ury (1981), the most important source of power in a negotiation is:
   a) the quality of one's best alternative to a negotiated agreement
   b) the size of the firm
   c) the first offer
   d) the personality of the negotiator

2. A negotiator's reservation price is derived mainly from:
   a) the other side's target
   b) his or her BATNA
   c) the market average
   d) the first offer made

3. According to Emerson (1962), the power of A over B equals:
   a) the size of A relative to B
   b) the wealth of A
   c) the dependence of B on A
   d) the number of A's employees

4. Farrell and Newman (2019) used the term "weaponised interdependence" to describe:
   a) military alliances
   b) currency unions
   c) trade agreements
   d) the use of chokepoints in global networks as instruments of pressure

5. Which of French and Raven's bases of power rests on control of information that others need?
   a) information power
   b) legitimate power
   c) referent power
   d) reward power

6. In Rubinstein's (1982) model of alternating offers, the larger share of the surplus goes to:
   a) the party that makes the first offer
   b) the more patient party
   c) the larger party
   d) the party with more information

7. Under the Busan truce, China suspended for one year:
   a) all its export controls on rare earths
   b) its purchases of soybeans
   c) its export controls announced on 9 October 2025
   d) its tariffs on US cars

8. According to Figure 11.1, China's share of global refining of battery-grade graphite in 2025 was approximately:
   a) 31 per cent
   b) 59 per cent
   c) 76 per cent
   d) 94 per cent

B. Short-Answer Questions

1. Define the BATNA and explain three ways in which a negotiator can strengthen his or her position before a negotiation.

2. Explain the relationship between the BATNA, the reservation price and the zone of possible agreement.

3. Explain Emerson's theory of power and dependence, and show how it relates to the BATNA.

4. What is weaponised interdependence? Give two examples, and use Figure 11.2 to explain why control of later stages of a supply chain can matter more than control of mining.

5. Name five of French and Raven's bases of power and give a negotiation example of each.
6. Explain how deadlines and patience affect bargaining power.
7. Why can commitment be both a source of power and a source of danger?

C. Long-Answer Questions

1. Analyse the dispute over rare earths and the Busan truce using the concepts of BATNA, dependence and weaponised interdependence. Why did the United States, the larger economy, make significant concessions?
2. "Power can claim value but it cannot create it." Discuss with reference to the cases of rare earths, Nvidia's chips and the pharmaceutical pricing agreements of 2025.
3. Evaluate the strategies available to firms and governments for reducing dependence on a dominant supplier of a critical input. Which are most effective in the short run, and which in the long run?
4. Choose a negotiation in which you or your organisation will soon take part. Analyse the sources of power on each side using the tools of this chapter, and propose a plan for strengthening your position.

Further Reading

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