Beyond multilateral negotiations - A Strategic-choice analysis on Taiwan’s participation in the OECD Shipbuilding Agreement

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Paper Presented in
Fifth Conference of the European Association of Taiwan Studies
Prague, Czech Republic

18-20 April 2008
(Draft, Please do not quote)
Abstract

Literature on Taiwan’s trade politics mainly focuses on Taiwan’s participation in multilateral forums, namely, the World Trade Organisation (WTO) and Asia-Pacific Economic Cooperation (APEC). Little light is shed on Taiwan’s participation in industry-specific negotiations, for instance, the negotiations of shipbuilding and steel subsidies discipline in the Organisation of Economic and Cooperation and Development (OECD). Taiwan was ranked as the 7th largest shipbuilder in 2002, when the OECD Council agreed to launch a sectoral negotiation on the subsidies disciplines for shipbuilding industries. Though the negotiation was suspended in 2005, this paper examines how the Taiwanese government has made its “strategic choices” in international negotiations in the period of 2002-2005, as an empirical study in international negotiation.

This paper is presented in the following sections. Following the introduction, section II narrates the theoretical framework of the strategic choice approach by distinguishing the external environment and the preferences of the actor. Section III speculates upon the external environment of the negotiations. The fluctuation of the global shipping market, the unique nature of the shipbuilding industry and the constraints of industry-specific negotiations are taken into consideration. In section IV, I will further discuss the formulation of the actor’s preference. How do institutional factors facilitate/constrain Taiwan’s preference in a global setting? Also, the role of Taiwan Shipbuilding Corporation (TSC), the only shipbuilder in Taiwan, in the making of influencing the government’s position is fully studied. Section V concludes.
I. Introduction

Taiwan, as a major trade power in the world, is supposed to be an experienced negotiator in international affairs. Nevertheless, its economic success never matches its international political clouts. Taiwan has more experiences in bilateral negotiations rather than multilateral negotiations. To date, Taiwan has full membership in two major international economic organisations, namely, the World Trade Organisation (WTO) and Asia-Pacific Economic Cooperation (APEC). Taiwan also has been invited to participate in some sectoral-specific negotiations in the Organisation of Economic and Cooperation and Development (OECD) on ad hoc basis since the 2000’s. Two recent examples are Taiwan’s participation in the OECD negotiations regarding shipbuilding and steel subsidies.

When the OECD Council agreed to launch a sectoral negotiation on the subsidy disciplines for shipbuilding industries in 2002, Taiwan was ranked as the 7th largest shipbuilder. The main object for the OECD shipbuilding negotiation is to draft a new agreement to regulate the government subsidies towards the shipbuilding sector, in that subsidies lead to market distortion and further overcapacity in the global shipbuilding market (Trebilcock, Chandler, & Howse, 2003). As Taiwan is not yet an OECD member, efforts have been made to establish closer relations with this international organisation, including its attendance in the multilateral negotiations. In this paper, how the Taiwanese government has made its “strategic choices” in OECD shipbuilding negotiations between 2002 and 2005 is studied, as this is one of the few empirical studies on Taiwan’s participation in international negotiation. I further outline how an international negotiation is intertwined with domestic politics. It is illustrated in this paper the interconnections of international negotiators and domestic politics, as the ‘two-level games’.

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narrates the theoretical framework of the strategic choice approach by distinguishing the external environment and the preferences of the actor. Section III speculates upon the external environment of the negotiations. The fluctuations of the global shipping market, the international legal regime for subsidies in application of the shipbuilding industry are discussed. In section IV, further arguments are discussed regarding the formulation of the actor’s preference at national level. How do institutional factors facilitate/constrain Taiwan’s preferences in a global setting? How do the timeline of privatisation impact upon the negotiator’s positions? Also, the role of Taiwan Shipbuilding Corporation (TSC), the only large-vessel shipbuilder in Taiwan, in influencing or determining the government’s position is fully studied. Section V concludes.

II. Theoretical Framework and basic conceptualisation

International negotiations are critical in international relations, as it renders a window of opportunity for a peace talks, or negotiators endeavour to seek resolutions to crisis of many kinds, such as a defense crisis, trade disputes and etc. Negotiations and bargaining are defined as a sequence of actions in which two or more parties address demands and proposals to each other for the ostensible purposes of reaching an agreement and changing the behaviour of at least one actor (Odell, 2000). Although some distinctions are slightly made that bargaining is a sub-class of negotiations (Jönsson, 2002), they are considered as interchangeable that both concepts include the exchange of verbal and non-verbal communication. Further, the negotiation process refers to the sequence of actions in which two or more parties address demands and proposals to each other, whatever particular steps it may include in a given case (Odell, 2000, p 10). It is nevertheless acknowledged that the field of international negotiation has not yet been extensively studied empirically, in that the negotiation processes are seldom fully disclosed. In this paper, I aim at narrowing down this gap by combining the theoretical analysis and personal observations in the OECD
shipbuilding talks within an analytical framework\(^1\).

I first conceptualise the interplay of domestic and international levels in international bargaining by ‘two-level game’, which captures international negotiations by dividing the negotiations into two levels (Putnam, 1988). In Putnam’s works, an analytical framework is provided in which the negotiator in the international arena (Level I) composes a tentative agreement, which then has to be ratified in the domestic arena (Level II). International negotiators have thus to take domestic politics, such as the pressure of national constituents and interest groups, into consideration. More specifically, in a two-level game of an international negotiation, the successful conclusion of an international negotiation depends upon whether the negotiators act autonomously and strategically within the boundaries of the ‘win-set’ which results in a domestically accepted agreement (Evans, Jacobson, & Putnam, 1993).

![Figure 1. A Two-level game of Taiwan’s Participation in Shipbuilding Negotiations](image)

After the different levels of analysis are identified, I proceed to open up ‘the boxes within boxes’ by two steps with comparative static. Firstly, I explain the preference of Taiwan’s delegation in shipbuilding negotiations at the international level by identifying the

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\(^1\) It is however noted that the opinions expressed in this article are those of the author alone. They are not necessarily and shall not be considered as those of the Taiwan government or any other organisation.
preferences of the actors and the strategic environments, in which the actors are situated. Then, I shift the level of analysis downwards to the national level to explain the policy-making of Taiwan’s shipbuilding policy and how different actors interact within the national context.

Based on rational-choice assumptions, the strategic-choice approach presumes that the actors possess some preferences and interact strategically with other actors in the environment. To begin with, an actor’s ‘preference’ is defined in a conventional way as: how the actors rank the possible outcomes defined by the environment (Lake 1999: 9). As an actor’s strategy is the attempt to attain its favourite outcome, it is possible to rank an actor’s preferences in a given environment. Then, in terms of these preferences, actors may opt for ‘protectionism’ or ‘liberalisation’. In view of the inapplicability of ‘custom duties’ in the commercial practice of shipbuilding, liberalisation is not defined as ‘a reduction or elimination of the tariff rate’ in the IPE literature (Milner, 1988), but as ‘a more extensive prohibition on shipbuilding subsidies’. On the contrary, the actors who prefer not to further curtail shipbuilding subsidies are defined as ‘protectionist’.

Nevertheless, further elaboration and clarification regarding the above-mentioned concepts of ‘liberalisation’ and ‘protectionism’ is required. For example, to what extent is an actor pro-liberalisation? How is it possible to distinguish the different preferences of the actors, some of which are prone to be granted the regional aid where the shipyards are situated and some of which prefer to receive the contract-related subsidies? Four criteria are selected in order to scale the preferences of the actors, namely, 1) General prohibition on shipbuilding aids, 2) Special and differential treatment for developing countries, 3) pricing mechanism, i.e. a global anti-competition regime for shipbuilding regime and 4) escape clause, including subsides linked to social arrangements. The above-mentioned items are major issues under
discussion in the OECD meetings. I further explain the indicators for liberalisation/protectionism. For example, given that all shipbuilding subsidies are prohibited, the extent of the liberalisation is considered the highest. Also, some flexibility is proposed to be authorised to developing countries, considering the fact that a transition period to phase out their incentive measures and subsidies towards shipbuilding is required. If no ‘grace period’ or shorter transition period is granted to the developing countries, it is considered that the shipbuilding sector is more liberalised. In the same vein, if participants do not establish a price monitoring mechanism, it is assumed to be closer to full market competition. I thereby categorise the extent of liberalisation from full liberalisation to protectionism into five categories.

Four criteria for the actor’s preference,

1) General prohibition for aid relating to shipbuilding,
2) No special and differential treatment for developing countries,
3) No pricing mechanism,
4) Escape clause not allowed.

So, for instance, supposed an actor prefers to a proposal on the table concerning the full elimination of shipbuilding subsidies, it is marked as (+). If the actor does not prefer to a proposal concerning general prohibition for aid relating to shipbuilding, it is marked as (-). I then conceptualise the actor’s preference in the following categories:

A. Full liberalisation (+, +, +, +)
B. Considerable liberalisation (+,+,+,+)
C. Restricted liberalisation (+,+,-,-)
D. Minimal liberalisation (+,-,-,-)
E. Protectionism (-,-,-,-)
After the actor’s preference is conceptualised, how can we identify the actor’s preference empirically? Preferences are identified in three ways: by observation, by assumption or by deduction (Frieden in Lake & Powell, pp. 53-66). Although the preferences of national states are different to be specified, it is possible to deduce the preferences of the member states from economic rationales. Firstly, it is assumed that Taiwan seeks for some form of exceptional subsidy (subsides linked to social arrangements). In this sense, Taiwan’s preference in OECD shipbuilding negotiations is ranked as B>A. Other international actors’ preferences are identified as the following: the European Union emphasises on the need for a pricing mechanism in the new agreement. The EU’s preference is assumed as C>B by observation, which is in opposition to South Korean’s preference (B>C). Thirdly, as China is a country with an emerging shipbuilding capacity, China’s preference is deducted as more ‘protectionism’, as it is ranked as D>C. Lastly, Japan has been a well-established and powerful shipbuilder in the world; its preference is full liberalisation, ranked as A>B>C.

III. Bargaining at International Level

After the preferences of the actors have been identified, I examine the environments in which actors take strategic actions. As remarked by Lake (Lake & Powell, 1999, p. 9), the environment is composed of an information structure that defines what the actors can know for sure and what they have to infer from the behaviour of others. Given that the environments are disaggregated into a set of actions and an informational structure may describe a strategic setting, the following conceptual experiments are conducted while holding the attributes of the actors constant.

The strategic environment identified herein is the new deliveries in the global shipbuilding market, which also forms the primary independent variable through which theories of
strategic-choice attempt to explain variations in the observed outcomes. It is argued that the Taiwanese government attempts to subsidise their shipyards, assumed that Taiwan’s shipbuilders are unable to compete with international counterparts for new deliveries. Yet, given the global market is booming, Taiwan government is less likely to subsidise its shipyards, *ceteris paribus*. Taiwan’s new deliveries in the global shipbuilding market measured in cgts\(^2\) are shown in figure 2 below. Though Taiwan’s shipbuilding outputs seem to remain at the same level, a clearer indicator for Taiwan’s shipbuilding output vis-à-vis global shipbuilding market is selected - Taiwan’s new deliveries share in the global shipbuilding market, shown in figure 3 below. Figure 3 demonstrates Taiwan’s global share of shipbuilding deliveries (All self-propelled commercial vessels over 100 GT) has been gradually on the decrease since the 1980s. In the 2000s, Taiwan’s share in the global shipbuilding deliveries in cgts has dropped down to the lowest level since 1985.

Figure 2 Taiwan's New Shipbuilding Deliveries in CGTs (1980-2004)
Source: Lloyd's Register’s ‘World Fleet Statistics’.

\(^2\) CGTs are acronym to Compensated Gross Tons, which is a measurement for a ship's capacity. The compensated gross tons (cgt) concept was first devised by shipbuilder associations, and adopted by the OECD Council Working Party on Shipbuilding (WP6), in the 1970s to provide a more accurate measure of shipyard activity. Such measurement is made up for the differences. The latest revision was released by the OECD and came into effect in 2007. See Compensated Gross Tons system, OECD Directorate for Science, Technology and Industry, Paris, 2007. Also available at http://www.oecd.org/dataoecd/59/49/37655301.pdf
Figure 3 Taiwan’s shipbuilding deliveries of global shares based on cgt$s$. NB. The market share is shown in per mille ($\%$). Source: Lloyd’s Register’s ‘World Fleet Statistics’.

Hypothesis 1: The less Taiwan’s new deliveries share in the global shipbuilding market, the more likely Taiwan would take a negotiation position of protectionism, given the actor’s attributes and the environment are constant.

Then, another significant environmental factor, international regime, is singled out for generating explanations for Taiwan’s negotiation position. The international regime is defined as Krasner, as a set of explicit or implicit ‘principles, norms, rules, and decision making procedures around which actor expectations converge in a given issue-area’ (Krasner, 1983). The international regime of shipbuilding has been vital, as states follow the international rules to play the game. In view of shipbuilding, rules, regulations have been incrementally built up. They are nevertheless different in enforceability, namely, the distinction between ‘soft law’ approach and ‘hard law’ approach.

The so-called ‘soft-law approach’ regarding shipbuilding is mainly demonstrated in the OECD guidelines and various gentleman’s agreements (Cini, 2001). Though these guidelines and agreements are not legally compulsory, the signatories mostly follow the principles and rules, once they come into effect. For instance, the first Understanding on Export Credits for
Ships was adopted by the OECD Council in 1969, illustrating how the OECD members made efforts to negotiate an ‘issue-specific’ regime in setting up a minimum net interest, when the OECD governments determine to grant the export credits towards their shipbuilders. The OECD Understanding was revised afterwards, respectively, in the year of 1974 and 1981. In addition, efforts have been made in the working group in the OECD since the 1970s as the need is addressed to reduce global shipbuilding capacity, such as the ‘General Arrangement’ of 1972 and ‘General Guidelines’ of 1972\(^3\) (Blair, 1993, pp. 222-225).

It is also acknowledged the conclusion of the ‘Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry’ (OECD Agreement 1994) highlights the significance of international efforts to reduce over-capacity of shipbuilding industries and governmental intervention.

The ‘Hard-law approach’ towards international shipbuilding regime refers to the WTO legal system. In terms of general rules for subsidies, the Agreement of Subsidies and Countervailing Agreement (hereinafter SCM Agreement) of 1994, has been enacted in a legally-binding genre. Given that the practices of granting subsidies by WTO member are incompatible with the SCM Agreement, the members whose rights are impaired may bring the trade dispute for adjudication. It is fully demonstrated in recent disputes regarding shipbuilding subsidies between the EU and South Korea between 2002 and 2003. Both sides claimed the other side’s unfair competition in shipbuilding by government subsidisation. It could be thereby inferred that in addition to an WTO regime for subsidies in general, supports for liberal proposals, leading to a successful conclusion of an OECD negotiations will render a government less likely to rescue its shipyards in trouble within a ‘WTO-Plus’ regime (Glen, 2006).

\(^3\) ‘General Arrangement for the Progressive Removal of Obstacles to Normal Competitive Conditions in the Shipbuilding Industry’ was adopted in 1972. Following the General Arrangement, the General Guidelines for Government Policies in the Shipbuilding Industry was concluded in 1976.
In summary, Taiwan, a non-OECD member state may follow the OECD guidelines on voluntary basis. But if Taiwan opts for a more liberal position in OECD negotiations, it can be inferred that a more stringent international regime will constrain the possibilities to rescue Taiwan’s shipbuilder.

Hypothesis 2: In addition to the WTO regime, the more liberal Taiwan negotiation position is, the less it is likely to tackle the problem with its shipbuilders with subsidisation under the new OECD shipbuilding regime, *ceteris paribus*.

IV. National Bargaining

Having discussed the international level, I first illustrate the policy-making of Taiwan’s trade negotiations for OECD negotiations in this section. Then, I explain the actors’ preferences at the national level and trace the process to validate the above-mentioned hypothesis. To begin with, the authority in charge of OECD negotiations in the 2000s was the Bureau of Foreign Trade (BOFT), Ministry for Economic Affairs. Before the meetings are held in the OECD, BOFT staff drafts the primary agenda for discussion and summon parties concerned for the working meetings. The staffs of BOFT are mostly experienced officials in trade affairs, most of whom have abundant experience in charge of commercial affairs in foreign offices. Their expertise in OECD negotiations highly depends upon their term in the BOFT office, as a rotation system is enforced. More than four officials are assigned to take part in the OECD negotiations in the period of 2002-2006, and sometimes the junior officers do not follow up the complicated issues smoothly.

In Taipei, the negotiating position is by and large determined in the working meetings through extensive discussion. As OECD sector-specific negotiations are more specialised

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and industry-oriented and sometimes even technical, industry representatives and legal advisors are invited in the working meeting held by BOFT. The meetings are normally chaired by Section Chief or (Deputy) Director of International Section of BOFT, assisted by legal advisors from academia or think tanks. Experts from other public authorities are invited on an *ad hoc* basis, depending upon the issues on the agenda. To exemplify, experts from the Export-Import Bank of ROC (EXIM) offered explanations on the technical issues with regard to export credits to ships. State-Owned Enterprise Commission (SOC) once presented the current development and timeline of the privatisation of Taiwan Shipbuilding Corporation (TSC).

In addition, specialists from the shipbuilding industry contribute to the policy-making by providing their profession, in particular, the participants from TSC and United Ship Design and Development Centre (USDDC). TSC is the major shipbuilder for construction of commercial vessels over 100 cgts in Taiwan and it is thereby their great concerns about to know to what extent the international negotiation may have an impact on them. TSC representative has been actively taken part in every working meeting from the very beginning of the OECD negotiation. Therefore, the TSC representative sometimes even has a better understanding than the BOFT officials in following up the details. Another shipbuilding expert is invited from the USDDC, which is a government-sponsored foundation, specialising in ship design and consultancy for technology and development in shipbuilding. Some subtle distinctions could be distinguished between the experts, as USDDC’s advisory opinions may not be identical to those expressed by the TSC. After identifying the actors in the policy-making of Taiwan’s shipbuilding negotiation positions, I summarise the preparatory procedure for Taiwan’s participation in OECD negotiations in figure 4.
Then, attention is paid to how the actors’ preferences lead to a negotiation position in the policy-making. This case study on shipbuilding is considered different from the studies of two-level game in Putnam’s edited book, which are built on an explicit cross-national, longitudinal, or cross-sectoral comparison (Caporaso, 1997). In fact, it is a sector-specific study with most players from the public sector in a single country. In our case study on Taiwan, the TSC is regarded as a fully autonomous actor from the private sector. It is neither explained by some IPE literature (Milner & Keohane, 1996; Rogowski, 1987) that interest groups politically mobilise to request more subsidies from the government, or protective measures against foreign competition. Instead, as a state-owned enterprise, the TSC’s major concerns are, first, whether the exceptional subsidy, i.e., subsidies linked to social arrangements, can be included in the agreement, so the timeline for TSC privatisation would not be on schedule and the subsidy granted for purpose of privatisation will be legitimised. The TSC is scheduled to become a private company with governmental assistance, in accordance with the ‘Statute of Privatization of Government-Owned Enterprises’. It is likely
that the process of privatising the TSC involves financial contributions from the government, constituting a prohibited subsidy measure in the new negotiating agreement. Secondly, the TSC favours a stricter new shipbuilding regime, as its international competitors, such as China, will restrain from receipt of subsidies from their government. In other words, a new OECD agreement may enhance the TSC’s competitiveness in the global market, given that its international counterparts are bound by the new OECD agreement.

Taiwan Delegation led by the BOFT staff can be seen as the COG (Chief of the Government) in the two-level games. The BOFT has played a more active role than the COG. It possesses the discretion in the setting the agenda, policy analysis and the composition of the Taiwan’s Delegation. The BOFT may be constrained by the Industrial Development Bureau (IDB), which is responsible for the industrial development of Taiwan’s shipbuilding policy. Nevertheless, in terms of external negotiations, the BOFT has, to a great extent, discretion in making the positions. It is thereby assumed that the COG may better manipulate the domestic win-sets. More specifically, the BOFT has an ever broader win-set, as the constituents can hardly counterbalance the position made by the BOFT at international level.

V. Discussion

Scholars of international relations and IPE have endeavoured to bridge the gap between domestic and international politics. Methodologically speaking, the ‘two-level game’ can be seen as a useful analytical tool to narrate the interactions between the domestic politics and international negotiators. In this paper, I study Taiwan’s participation in the OECD shipbuilding negotiations in 2002-2004, and I show Taiwan’s negotiation position is considerably embedded in the international conditions as well as the domestic political structure. I continue to discuss the two hypotheses driven by the strategic-choice approach,
Hypothesis 1: The less Taiwan’s new deliveries in the global shipbuilding market are, the more likely Taiwan would take a negotiation position of protectionism, given the actor’s attributes and the environment are constant.

Taiwan’s new deliveries in the global shipbuilding market share has been decreasing, although Taiwan’s new ship deliveries output remain at roughly the same level. It is anticipated that Taiwan may hold a protective position in negotiating. Nevertheless, as the major shipbuilder in Taiwan, the TSC, is a state-owned enterprise, it is less sensitive to the fluctuation of the international market. In this sense, the employees in the TSC would not be laid off, even if the TSC fails to make profits. Nor do they politically mobilise to demand more subsidies from Taiwan’s government. This hypothesis is thereby rejected.

Hypothesis 2: In addition to the WTO regime, the more liberal Taiwan negotiation position is, the less it is likely to tackle the problem with its shipbuilders with subsidisation under the new OECD shipbuilding regime, ceteris paribus.

The OECD shipbuilding negotiations aim to establish a stricter international regime for the use of shipbuilding subsidies, the so-called ‘WTO-Plus approach’, and Taiwan’s support for a fully liberalised proposal may lead to a strict use of its subsidies towards shipbuilding in the future. Taiwan’s shipbuilders would benefit from a stricter use of subsidies, given that its international competitors are bound by the ‘WTO-Plus approach’. It is thereby Taiwan’s position to take a considerable liberalisation stand during the negotiations.

To conclude, policy implications can be generalised from Taiwan’s participation in the OECD meetings. First, a gap still exists between industrial policy and trade policy, in terms of external negotiations. As subsidisation has been commonly used as an incentive to promote shipbuilding policy communications cross-governmental agencies are in need. Nevertheless, the negotiators are not normally well informed concerning the industrial policy
for shipbuilding. Secondly, the international factors, which force the COG agent to abide by
the international trade regime, can be identified in the priorities. As Taiwan is not vulnerable
to the new OECD negotiation, which may lead to a greater restriction in the use of subsidies
in the future, the BOFT is more favourable for the option of liberalisation. Thirdly, in the
national-level game, lacking scrutiny from the constituents may, to a large extent, increase
the win-sets for Taiwan’s international negotiators. Therefore, Taiwan’s delegation has more
flexibility in the OECD shipbuilding negotiations. This results from the particular nature of
the TSC and a sector-specific negotiation in a single industry.


