Pretrial Settlement with Imperfect Private Monitoring: WTO Trade Disputes

Mostafa Beshkar (Indiana University)
Jee-Hyeong Park (Seoul National University)

Abstract

We model pretrial settlement bargaining in the World Trade Organization as a signaling game with nontransferable utility in which the defending country knows the likelihood of winning in the court and the complaining country privately receives only an imperfect signal about the likelihood of the court outcome. We study the consequences of improving the accuracy of the complaining country's private signal on the likelihood and terms of settlement.

If the private signal gets sufficiently accurate, a separating (truth-telling) equilibrium arises with a positive probability of litigation. The proposed pre-trial settlement tariff of the defending country increases as the complaining country's private signal improves. A numerical analysis demonstrates the possibility of the likelihood of having a trade dispute first increases then declines as the complaining country's private signal improves.