

Research Statement

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My primary research interests are International Economics and Applied Microeconomics. I am particularly interested in the application of microeconomic theory, Industrial Organization, and Law and Economics in international trade policy and institutions. So far, my focus has been on theoretical and empirical analysis of the Renegotiations of Trade Agreements in the World Trade Organization (WTO).

Third-Party-Assisted Renegotiation of Trade Agreements

This is a recent paper in which I provide a model of third-party-assisted bargaining under asymmetric information to explain the role of the WTO's Dispute Settlement Body (DSB) in the renegotiation of trade agreements. In this model, the third party, i.e., the DSB, possesses no enforcement power or informational advantage over the negotiating parties. The DSB provides 'recommendations' for the resolution of disputes based on its imperfect observation of the state of the world. No enforcement power or informational advantage is assumed on behalf of the DSB. The recommendations of the DSB have the effect of framing the renegotiations in the favor of the party who is more likely to be right in its claims. This renegotiation framing affects the efficiency of the bargaining outcome by reducing the cost of providing incentive for revelation of private information. Based on its imperfect signal of the state of the world, the DSB frames renegotiations in a way that maximizes the expected joint welfare of the parties from bargaining. I hope the bargaining model that is developed in this paper can be also used to understand the role of non-binding arbitration in other contexts such as labor disputes and relational contracts.

- *This paper will be presented at the Yale University's conference on the Economics, Law and Politics of the GATT/WTO in April 2009. An earlier version of this paper was entitled "Design and Implementation of Trade Agreements in the Presence of a Dispute Settlement System".*

Trade Skirmishes and Safeguards: A Theory of the WTO Dispute Settlement Process (Job Market Paper)

The WTO agreement and its predecessor GATT allow the member countries to safeguard their domestic industries against unforeseen and substantial damages from liberalized trade. But the WTO and GATT are different in the way that they discipline the use of safeguards. Under GATT, a safeguard-imposing country will face reciprocal actions from other member countries. However, under the WTO a safeguard imposing country may face no retaliation if the WTO court upholds its claim of emergency situations. This paper proposes a framework within which to interpret and evaluate the major reforms introduced to the GATT system in its transition to the WTO. The DSP is interpreted as an impartial arbitrator that issues nonbinding rulings about the state of the world when a dispute arises among member countries. The model implies that trade agreements under

the WTO lead to fewer trade skirmishes but this effect does not necessarily result in higher payoffs to the governments. The model also implies that the introduction of the WTO court, which has no enforcement power, can actually improve the self-enforceability of trade agreements.

- *This paper is invited for a revise-and-resubmit to the Journal of International Economics. It has been also presented in several venues including the 18th Annual Meetings of the American Law and Economics Association.*

Estimating a Model of Settlement Bargaining in the World Trade Organization

In this paper I utilize canonical models of settlement bargaining under asymmetric information to analyze the dispute settlement patterns in the World Trade Organization. I extend these models to study the determinants of out-of-court settlement in a situation where the parties' relationship is characterized by a prisoners' dilemma –a feature of most trade partnerships. This added feature alters the prediction of the classic models that the allocation of litigation costs between disputants has no bearing on the likelihood of settlement. In particular, I find that the likelihood of settlement is more sensitive to the defendant's litigation costs than to the complainant's litigation costs. I estimate the above bargaining models using a database of the WTO disputes. I conduct both structural and reduced form analysis and I find evidence in support of the bargaining models as extended in this paper. In particular, the distribution of litigation costs between the disputants is an important determinant of settlement likelihood.

- *This paper is under review at a top economic journal. It has been also presented in the Midwest International Economics Meetings and the Southern Economic Association Meetings.*

Optimal Remedies in International Trade Agreements

This paper takes a mechanism-design approach to characterize a politically optimal trade agreement under the assumptions that governments have private information about the political pressure they face from domestic interest groups to restrict trade. The optimal mechanism involves a remedy system for breach of trade agreements that specifies less-than-proportional retaliations against deviating parties. This result is in contrast to the conventional wisdom in the literature regarding the efficiency of the Reciprocity Principle as a rule of renegotiation in trade agreements. I also consider an institutional structure in which only commensurate retaliations are practical but governments can employ a public randomizing device to authorize retaliations. I show that it is optimal to authorize retaliations only randomly. This suggests a role for the WTO dispute settlement process as a public randomizing device.

- *This paper is under review at a top economic journal. It has been also presented in the Midwest Mathematical Economic and Theory Meetings.*

Current and Future Projects

Optimal allocation of Burden of Proof in a Contest-Model of Litigation.

Currently I am working on a contest-model of litigation in which disputing parties spend resources to make a stronger case in the court. Drawing on the intuition provided by my earlier works regarding the role of a third-party investigator in trade agreements, I investigate how the WTO court can reduce the cost of the renegotiation process by allocating burden of proof among the disputing parties optimally.

Vertical Structure, Managerial Myopia, and Innovation

In addition to my work on trade agreements, I have a growing interest in investigating the impact of trade policies on the structure of the firm. This work-in-progress paper is an example of my research on the organization of the firm, which I am planning to extend to consider the effect of trade policy. In this project I am trying to discover potential relationships between the productivity level and the optimal vertical structure of the firm. Different organizational forms provide different incentives for the manager regarding innovation activities. In particular, managerial myopia is more likely to arise in a vertically integrated firm, which is detrimental to innovation. While outsourcing can mitigate this problem, it forces the firm to surrender rents to the external sources. Therefore, outsourcing may be preferred if innovation or productivity improvement is of critical value to the firm. One of my future plans is to use firm level data to test the prediction of this model regarding the relationship between innovation capacity and the firm structure.