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talks has been the decision to drop from the negotiating agenda the goals of pursuing multilateral agreements on competition, investment, and government procurement. Furthermore, it is not hard to envision that even PTAs among developed countries such as the one suggested between the EU and the United States would run into serious trouble if such an agreement were to seek deep harmonization of regulation and standards between these partners in those and other nontrade areas. Krishna's observation, that we should not expect liberalization that is difficult to achieve multilaterally to prove more easily attainable bilaterally, is warranted by the evidence he adequately reports. With sufficient academic tact, this author, nevertheless, succeeds in conveying the message that most likely there is no safe way around the multilateral route to deliver genuine true global liberalization and integration.

### **Comment**      Anthony Venables

In these comments I would like to take up some of the empirical points referred to by the author and also point to some particular successes of PTAs. The context is that the "grand vision" of a multilateral trading system will always be somewhat illusory. The PTAs are here to stay, so setting the debate up as a choice between PTAs and a multilateral world is a false one. Instead, we should assess the successes and failures of PTAs and then draw conclusions on what countries can learn from them, and how they can best be accommodated in the world trading system as a whole.

In recapping the three major points argued by the author, I would like to reformulate them in the following manner. Firstly, the chapter argues that despite the burgeoning number of PTAs, only a relatively small share of trade within them is actually preferential. The extent of tariff liberalization brought about by PTAs is thus limited. On this point, I fully agree. Secondly, the chapter cites evidence for widespread trade diversion brought about by PTAs. Here I am a little bit more skeptical; it is very hard to balance the evidence between trade diversion and creation as the empirical record is mixed at best. Finally, the chapter also lamented the fact that PTAs rarely venture beyond trade liberalization into deeper forms of integration. On a simple count of what PTAs have done this is true, but it attaches too little weight to the remarkable successes of PTAs that have achieved deeper integration. Some of the aggregate numbers are not particularly helpful guides here because PTAs are so heterogeneous both in terms of participating countries

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and the policy instruments they use. It is therefore perhaps more constructive to take a closer look at different types of PTAs that exist in the world today, and recognize that regional integration has been a driving force behind some of the most successful growth episodes of the last half century.

Beginning with the first and most familiar type of PTAs, the ones between rich or upper-middle income countries (European integration and NAFTA are the two most prominent examples), the following points are in order. The motives for these agreements are partly political but also economic to the extent that they deliver real economic gains. Working through intraindustry trade, these gains tend to be efficiency gains brought about by intensifying competition, market opening, and economies of scale. The initial instruments were market access measures followed by deeper forms of integration. There are several distinct mechanisms that ensure these gains. The first one is the firm-selection effect whereby weaker firms are driven out of business and more productive ones increase their market share. Secondly, in an integrated market, the trade-off between economies of scale and competition will be shifted, enabling both more competition and larger firms. Third, a spatial reorganization of production brings further efficiency gains from clustering and agglomeration. Each of these mechanisms raises productivity, as is confirmed by the empirical record. For example, in the European Union productivity was raised substantially across the participant countries. These changes have been associated with both internal and external trade creation, and dwarf any welfare effects due to simple notions of Vinerian trade creation and diversion.

Turning to the other prominent type of PTAs, they are best characterized as integrated supply chains, most notably among Asian fast-growth economies. Here, the motives are somewhat different: importing modern technology and management techniques and implementing them in countries with different factor endowments (low-wage labor in particular). These PTAs are dominated by parts and components trade and there is less scope for trade in services compared to their rich country counterparts. The main economic effects that these PTAs deliver are foreign direct investment (FDI) and technology transfers aided by infrastructure, logistics, and regulatory reform. These measures, almost by definition, cannot be trade diverting. Similar to the first type of PTAs, the empirical record here is positive: there is evidence of efficiency gains and job creation.

The challenge is therefore not to restrict PTAs in the vain hope of furthering the multilateral trading system, but rather to reap their benefits without sacrificing the broader push toward multilateralism. Decisions to engage in regional integration tell us what trade policies countries actually prefer: they are indicative of countries' revealed preference. However, achieving the benefits of regional integration requires going beyond the superficial measures implemented by many PTAs. Regional integration offers opportunities for deeper integration and regulatory reform that—as we have seen from

the quite different European and Asian experiences—increase economic efficiency. At the same time, PTAs should not pose an obstacle to wider global integration. They can be improved by making sure that the rules they operate under become more stable and compatible with each other. For some regions of the world (the lowest income countries in particular) regional schemes will be of limited value. Steps to multilateral liberalization clearly remain important, but it is not helpful to pose this as a choice between PTAs and multilateralism.