

Are PTAs Stumbling Blocks in Trade?

YES, because they:

- ▶ Divert trade negotiations from multilateral institutions (WTO)
- ▶ Concentrated production alleviates collective action problems for protectionists

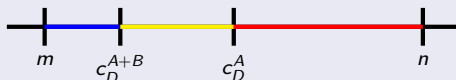
NO, because they:

- ▶ Weaken the influence of import competing industries/firms
- ▶ Reduce the number of “building blocks” in multilateral negotiations

This paper says MAYBE, because:

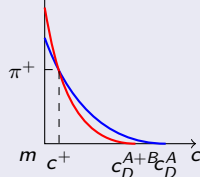
- ▶ Liberalization within a PTA bloc leads to concentration of production in largest, most productive firms, which are both:
 - ▶ More likely to be able to benefit from integration with world markets
 - ▶ More likely to be able to pay costs to lobby the government
- ▶ QUESTION: will these remaining firms oppose further liberalization?
- ▶ ANSWER: Depends on competitiveness of PTA firms relative to world markets

Firm marginal cost distribution. After liberalization, c_D^{A+B} cutoff, yellow firms exit



Surviving firms with $c < c^+$ earn higher profits. If fixed cost to lobbying $F > \pi^+$, lobbying firms benefit from this change.

Operating Profit



- ▶ If $c < c(F)$ firms are uncompetitive relative to world markets, can lobby harder against liberalization.
- ▶ If some competitive some not, it depends on relative balance of effects.