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<p>Tiivistelmä-Referat-Abstract</p> <p>The recently continuing proliferation of regional Preferential Trade Agreements (PTAs) and the glowing trend of emerging tri-bloc (Europe, America, Asia) raise the concern that the regional trade arrangements may challenge the world trading system embodied in the General Agreement on Tariff and Trade (GATT) and World Trade Organisation (WTO). In response to this background, this thesis reviews both the old and new key theoretical contributions on PTAs. The emphasis is put on the new one, which addresses the direct effect of regional arrangement on multilateral process. Basic international trade theory and policy, terminology and background are provided at the beginning to facilitate reading. While the paper does not attempt to put normative judgement on PTAs, it does call for more effort on multilateral process in the conclusion.</p> <p>Among the old literature, this paper reviews the classical work of Viner. Viner had a doubt on the welfare improvement Customs Union by raising the concept of trade diversion and trade creation. His model implies that unambiguous gain can only be obtained when the partner countries are the sole source of import even in the initial equilibrium. Among the recent literature, this paper reviews the analyses from the viewpoint of 'new political economy' which view trade policy as being determined by lobbying of the concentrated interest groups. Two models, Grossman-Helpman's and Krishna's, are introduced. Grossman-Helpman's small union model, which takes a specific factor model with $n+1$ goods in a political economy framework, addresses the incentive for the government to conclude a Free Trade Area, and reaches conclusion that free trade agreement could more likely be reached when it affords enhanced protection. Krishna's Cournot oligopoly model uses a similar framework of Grossman and Helpman's, however examines further the direction relation between the regional arrangement and multilateral process besides the incentive, and concludes the trade-diversion incentive and harmful effect of regional trade agreement on multilateral trade liberalisation.</p>		
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