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MFN Tariff Treatment of Imports from China: Effects on U.S. Employment

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This article estimates the effects on U.S. output and employment of granting most-favored-nation (MFN) tariff treatment to imports from the People's Republic of China (PRC). Import demand elasticities are used to estimate changes in imports resulting from the lower tariff rates. A highly disaggregated U.S. input-output table and labor-output ratios are used to convert changes in imports into changes in domestic output and employment at a detailed sectorial level. U.S. import restraints on the textile and apparel industry are incorporated into the analysis. The article explores the implications of increased imports from the PRC for U.S., PRC, and LDC policy makers.

INTRODUCTION

Since the early 1920s, U.S. policy towards its trading partners has been characterized by unconditional nondiscriminatory or most-favored-nation (MFN) treatment. Under this policy, similar goods imported into the United States from any country are accorded equal treatment with reference to tariffs, customs procedures, rules regarding international transactions, and the like. An exception to this rule has been the denial of MFN treatment to most Communist countries. One important outcome of U.S. denial of MFN to these countries is to impose, in effect, a higher tax on their exports to the United States. From the point of view of the Communist countries, this tariff discrimination serves to limit their ability to sell their products in the U.S. market and, given the shortages of hard currency they face, also limits their ability to buy U.S. products.

Prior to February 1, 1980, U.S. imports from the People's Republic of China (PRC) were subject to non-MFN tariff rates. On that date, the U.S. Congress approved a framework trade agreement between the United States and the PRC (signed in July 1979) that established the PRC as a full trading partner of the U.S. and, in one of its key articles, provided for

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*The views expressed in this paper are those of the authors and do not necessarily represent those of the Department of Labor.*
reciprocal extension of MFN tariff treatment of each country's imports and exports. The Congressional review provided a forum for lively debate on the economic merits of the agreement.¹

Proponents saw it as one more step in the normalization of economic relations which would stimulate U.S. exports to the PRC and have positive effects on the U.S. trade balance and employment. Others argued that, as a result of lower MFN tariffs, PRC goods would flood U.S. markets. These increased import flows, to the extent that they displaced domestic production, would have a negative effect on U.S. employment, particularly if they were concentrated in certain sensitive domestic sectors.

Estimating the economic effects of granting MFN status to the PRC is difficult for several reasons. On the import side, several issues must be addressed. First, it is not clear how PRC foreign trade planners will respond to the lower U.S. MFN tariffs. In a nonmarket economy like the PRC, export and import decisions are generally made by a central state trading monopoly. The reaction of planners to the lower U.S. import price afforded by MFN tariffs will depend on government objectives: quite different effects would result from an attempt by the PRC to maximize net foreign currency earnings rather than export volume. Second, since U.S.-PRC trade is a relatively recent phenomenon, there is a limited basis for assessing trends or estimating elasticities of U.S. import demand for PRC goods. Finally, there is the issue of the role of exports in the PRC modernization process. It is not clear at this time which industrial sectors will be targeted by the PRC for special development and the portions of output which will be devoted to meet domestic demand or exports. Furthermore, U.S. exports to the PRC are constrained by China's ability to finance them, in part, through exports to the United States, and their modernization strategy. Frequent readjustments in import policies in the last year are evidence of the difficulties involved in predicting U.S. exports to the PRC.

The focus of this study is quite narrow. It treats MFN extension purely as a tariff cutting exercise and estimates the impact on U.S. employment of granting MFN tariff treatment to PRC goods. Subject to several restricting assumptions, it estimates the amount by which U.S. imports

from the PRC would have exceeded their actual 1978 values had PRC goods enjoyed MFN tariff treatment during that year. The estimated changes in trade are then converted to changes in domestic employment. Both aggregate and sectorial changes are estimated and emphasis is placed on identifying sectors that may be sensitive to increased imports. A detailed discussion of the impact on one sector subject to import restrictions, the textile and apparel industry, is presented. The article concludes with a review of policy implications of the analysis.

TPENDS IN U.S.-PRC TRADE

U.S. trade with the PRC has grown very rapidly since 1971. Exports to the PRC, practically negligible in 1971, rose to over $3.7 billion in 1980. U.S. exports have tended to fluctuate, in large part reflecting the impact of both political turmoil in China (1976 and 1977) and fluctuations in Chinese demand for U.S. grain exports (1973, 1974, and 1978). Imports have shown much smoother growth trends, rising steadily from $5 million in 1971 to over $1 billion in 1980.

The commodity composition of U.S.-PRC trade has been relatively stable. The PRC is a net importer of foods, feeds and beverages, industrial supplies and materials, and capital goods from the United States. China's principal imports from the United States are raw cotton, chemicals, textile fibers, yarn and fabric, lumber, wood pulp, newsprint, construction machinery, and tractors and parts. U.S. imports of PRC goods have risen steadily since 1976 and consist primarily of consumer textile products, miscellaneous manufactured goods, and petroleum and petroleum products.

U.S. exports of industrial supplies and materials and U.S. imports of consumer goods doubled between 1979 and 1980. If the Chinese hold to their stated goals of economic modernization, with priority assigned to the development of heavy industry, these basic trends in trade are likely to continue into the foreseeable future. However, the PRC continues to search for a modernization strategy consistent with the constraints on their ability to pay, absorptive capacity, and export markets. Until a feasible strategy is developed, trends in the level and composition of U.S.-PRC trade will be difficult to predict.  

2In an earlier paper (Bayard, Orr. Pelzman, Perez-Lopez 1979), an attempt was made to measure the "normal" level of U.S.-PRC trade using a gravity equation, where OECD-PRC trade is taken as a norm. Based on this model, we estimated that "normal" U.S. imports from the PRC in 1977 would have been $1.45 billion and in 1978, $1.84 billion. For a description of the model see Pelzman (1977, 1980).
THE MODEL

The estimation of the impact on U.S. imports and employment of extending MFN treatment to the PRC is carried out using an elasticity approach. The model used to estimate the amount by which U.S. imports from the PRC would have exceeded their actual 1978 values had they been taxed at MFN tariff rates during that year ($\Delta M$), patterned closely after one developed by Baldwin (1976), is estimated at the five-digit tariff line level as

$$\Delta M = M_0 \left[ \frac{\Delta t}{1 + t} (1 - p)E + p \Delta t + p \Delta t \frac{\Delta t}{1 + t} (1 - p)E \right], \quad (1)$$

where

- $M_0$ is the 1978 c.i.f. level of dutiable imports from the PRC;
- $\Delta t/(1 + t)$ is the change in the U.S. import price due to the MFN tariff reduction;
- $p$ is the proportion of the tariff change by which PRC export prices rise; and
- $E$ is the elasticity of U.S. import demand.\(^4\)

Import data from 1978 were used because they were the latest disaggregated data available at the time of the study.

Variation in the value of the unknown parameter $p$ reflects both planners' preferences and production constraints in the PRC. In this paper two different assumptions are made about the change in PRC export prices. In version I of the model, PRC export prices are held fixed. Thus, in this version $p$ is assumed to be 0. A basic assumption underlying this version is that the supply of PRC exports is perfectly elastic. That is, despite increased U.S. demand for PRC goods, export prices of these goods remain fixed. The implication of this assumption is that exporters pass through to importers the full amount of the tariff reduction.

In order to consider a situation in which PRC planners decide to

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\(^3\) Other researchers attempting similar estimates have also used a comparative market approach or a tariff difference approach. For a survey of the literature, see Lincoln and Kilpatrick (1978), who also use an elasticity approach.

\(^4\) The elasticities are taken from Baldwin (1976), who derived them from estimates by Buckler and Almon (1972) and Magee (1975). These elasticities are for total U.S. import demand rather than for imports from the PRC. Thus, the analysis assumes that import demand elasticities estimated on total imports (by four-digit input-output sector) also represent the response of domestic buyers to changes in the price of imports from the PRC.
increase export prices either to maximize net foreign exchange revenue or to account for increased production costs, we have also estimated import changes using version II of the model, following Hawkins (1969) and Balassa (1967). In this version export prices are allowed to increase by the full amount of the tariff reduction. Thus, in this version, $p$ is assumed to be 1. Both version I and II of equation (1) were estimated and the estimates using version I are reported.

In translating changes in imports into changes in domestic output and employment, the model assumes that imports and import-competitive domestic production are imperfect substitutes: it is assumed that an increase in the value of imports displaces an identical dollar value of import-competitive domestic production. The estimated changes in imports at the tariff-line level are aggregated to the four-digit level of the 1967 input–output table and deflated to 1967 producer values. These deflated values, representing domestic production displaced by imports, are then multiplied by the inverse of the 1967 input–output matrix (Bureau of Economic Analysis 1974) and by a matrix of labor-output coefficients that reflect 1978 levels of productivity.

In matrix notation, the employment impact of the production changes resulting from the change in tariffs on imports from the PRC is estimated as

$$L_m = L(I - A)^{-1} M,$$  \hspace{2cm} (2)

where

$L_m$ is a $367 \times 1$ vector of changes in employment opportunities;

$A$ is a $367 \times 367$ input–output coefficient matrix;

$M$ is a $367 \times 1$ vector of estimated changes in imports; and

$L$ is a $367 \times 367$ diagonal matrix of labor-output coefficients.

In the analysis, a reduction in the import price of PRC goods resulting from lower MFN tariffs stimulates U.S. importers to increase their demand for PRC goods. It is not clear, however, what impact this may have on U.S. demand for similar products imported from third countries or for goods produced domestically. If, as a result of increased imports from the PRC, imports of similar products from third countries decline by an offsetting amount, MFN tariff reductions on PRC goods merely divert trade from other suppliers and the impact on domestic production and employment is negligible. In most cases it is reasonable to expect that there will be partial displacement of domestic and imported goods, that is, trade creation and diversion both occur.

In order to estimate the trade creation and trade diversion components of the tariff reduction, estimates of both the substitution elasticities of
PRC imports for similar U.S.-produced goods and of PRC products for similar products from third countries must be incorporated into the analysis. In the absence of information on these elasticities of substitution, it is assumed that imports from the PRC will displace only domestic production. This assumption may cause an overestimate of both the aggregate and sectorial distribution of the production and employment changes resulting from granting MFN to the PRC.

THE ESTIMATES

Table 1 summarizes the aggregate changes in imports and employment and the largest sectorial changes calculated using version I of the model. It is estimated that had the PRC enjoyed MFN treatment in 1978, U.S. imports from the PRC would have been higher by about $83 million—a 25% increase over actual 1978 imports. An increase in imports of this magnitude would have translated into a loss of about 5,600 employment opportunities in the United States.

As is to be expected, version II of the model yielded significantly smaller estimates. Based on the assumption that the PRC would raise export prices by the amount of the tariff reduction, version II predicted that the c.i.f. value of U.S. imports would increase by about $21 million, or 6%, if the PRC attempted to simply capture the tariff revenues. The sectorial distribution of the trade changes is very similar to that generated by version I of the model, but is of course much smaller.

The employment estimates shown in Table 1 and throughout this paper are job opportunities and not actual changes in employment. For example, our estimate that 5,600 job opportunities would have been lost if PRC goods had enjoyed MFN tariff treatment in 1978 does not mean that 5,600 layoffs would have occurred. At least part of the estimated loss in job opportunities would have been offset in many industries by normal industry growth, voluntary job transfers and retirements.

The U.S. sectors likely to be affected by increased PRC exports are also listed in Table 1 in descending order of trade impact. The sector most sensitive to increased PRC imports resulting from MFN tariff treatment is apparel; apparel imports would have risen by about $40 million, a 60% increase. This increase in imports translates into a loss of roughly 1,500 job opportunities in the apparel industry. The next largest loss in employment opportunities occurs in textiles: the broadwoven fabric industry would experience a loss of about 650 job opportunities, although imports would increase by only $4 million. This relatively large decline in labor demand in fabric mills is to a large extent caused indirectly by the large estimated increase in apparel imports, which in turn causes a decline in domestic apparel production and in the demand for domestically
Table I: Industries Most Affected by Granting MFN Status to the PRC: Version I

<table>
<thead>
<tr>
<th>Input-Output Sector</th>
<th>Increase in Imports (c.i.f. values) (millions of dollars)</th>
<th>Decline in Employment Opportunities (man-years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1804 Apparel</td>
<td>$40.3</td>
<td>1,523</td>
</tr>
<tr>
<td>2009 Wood Products, nec</td>
<td>5.1</td>
<td>136</td>
</tr>
<tr>
<td>1601 Broadwoven Fabric Mills</td>
<td>4.6</td>
<td>642</td>
</tr>
<tr>
<td>3202 Rubber Footwear</td>
<td>4.3</td>
<td>128</td>
</tr>
<tr>
<td>1701 Floor Coverings</td>
<td>4.2</td>
<td>59</td>
</tr>
<tr>
<td>6406 Artificial Flowers</td>
<td>3.4</td>
<td>80</td>
</tr>
<tr>
<td>2307 Furniture and Fixtures, n.e.c.</td>
<td>2.6</td>
<td>77</td>
</tr>
<tr>
<td>6401 Jewelry</td>
<td>2.1</td>
<td>77</td>
</tr>
<tr>
<td>2704 Misc. Chemical Products</td>
<td>2.1</td>
<td>28</td>
</tr>
<tr>
<td>3607 Food Utensils, Pottery</td>
<td>1.8</td>
<td>75</td>
</tr>
<tr>
<td>1902 House Furnishings, nec</td>
<td>1.5</td>
<td>41</td>
</tr>
<tr>
<td>3403 Other Leather Products</td>
<td>1.4</td>
<td>65</td>
</tr>
<tr>
<td>3609 Pottery Products, nec</td>
<td>1.1</td>
<td>38</td>
</tr>
<tr>
<td>Total All Sectors</td>
<td>$82.5</td>
<td>5,644</td>
</tr>
</tbody>
</table>

*This version of the model assumes PRC export prices are fixed

produced fabrics.* It is worth stating, however, that these results do not take into account the likely impact of current U.S. restraints on imports of PRC apparel. Below we show that the current U.S. quotas on apparel greatly reduce the adverse impact of the tariff changes on the textiles and apparel sectors.

In addition to textiles and apparel, domestic manufacturing of wood products and nonrubber footwear would be affected by lower MFN tariffs on PRC imports. A cursory examination of Table 1 indicates that beside the sectors discussed above, the impact on other sectors is fairly small. In general, however, the sectors most likely to be affected by increased imports from the PRC are those characterized by high labor intensity and relatively low labor skill requirements.6

The simulation results presented in Table 1 indicate that if PRC goods had enjoyed MFN tariff treatment commencing on January 1, 1978, U.S. demand for imports of PRC textiles and apparel during 1978 would have

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5 Much of the decline in demand for domestic fabric caused by lower MFN tariffs may be offset by increased U.S. exports of fabric to China. The United States exported about $300 million of fabric to the PRC in 1980.

6 For analysis of the occupational and demographic characteristics of workers in these industries see Aho and Orr (1981) and Bayard and Orr (1975).
exceeded actual 1978 import levels by approximately $51 million, or 39%. Particularly significant would have been import increases for apparel made from purchased materials, products of broadwoven fabric mills and fabric finishing plants, and house furnishings other than curtains and drapes. (See Table 2.) Had the predicted increased import demand been realized, output of the domestic textiles and apparel industry would have been reduced by $61.9 million (in 1967 dollars); this figure is considerably higher than the predicted additional import demand since the outputs of some segments of the industry are used as inputs into others. The impact of a decrease in activity of this magnitude would have amounted to a reduction in employment opportunities for about 2,670 workers.

The discussion on domestic output and employment effects of increased import demand for PRC goods triggered by lower MFN tariffs thus far has ignored the existence of a U.S. textile program geared to the orderly growth of imports and the prevention of market disruption. In 1956, the United States and Japan entered into a bilateral agreement designed to control trade of cotton products. Out of discussions held under the auspices of the GATT, a multilateral agreement regulating trade in cotton products, known as the Short Term Cotton Textile Arrangement (STA), emerged in 1961. The U.S. was a moving force behind the STA and its successor, the Long Term Arrangement on Cotton Textiles (LTA). In 1974, a new multilateral arrangement covering trade in textiles and apparel products made of cotton, wool and manmade fibers, generally called the Multifiber Arrangement (MFA), became effective. The United States currently has bilateral agreements with 22 countries, and consultative mechanisms with 11 others, all drawn up in conformity with the MFA.

Negotiations between the United States and the PRC on a bilateral agreement to regulate textile and apparel trade began in January 1979. Considering that while negotiations were progressing PRC textile and apparel shipments were rising significantly, the United States took unilateral action on May 31, 1979, and imposed restraints for one year on PRC goods in five sensitive apparel categories under the authority of Section 204 of the Agricultural Act of 1956, as amended. Restraints on

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7 These are special categories defined by the United States for monitoring imports of textiles products and administering the United States textile trade agreement programs. For a concordance between the textile and apparel categories and seven-digit TSUSA items see U.S. Department of Commerce (1979). The five categories placed under import restraints were cotton gloves, women’s cotton knit shirts and blouses, men’s and boys’ woven cotton shirts, male/female cotton trousers, and male/female manmade fiber sweaters. The restraint levels were set at the level of imports during March 1978-February 1979. Notice of the restraints is given in Federal Register (1979a, 1979b).
imports in two additional apparel categories were imposed effective October 31, 1979. With the signature of a three-year bilateral textile agreement in September 1980, the unilateral restraints were lifted and replaced with agreed import levels for six out of the seven categories.

In order to illustrate the moderating impact of textiles and apparel restraints on the trade and employment effects of MFN extension, we have modeled into our analysis hypothetical import restraints on the seven categories on which the U.S. unilaterally imposed import restraints. For this simulation we have assumed that restrictions limiting imports to actual 1978 levels (i.e., preventing import growth) were in effect. Our results indicate that had PRC goods received MFN tariff treatment in 1978, the import restraints would have prevented the realization of approximately $25 million of import demand for PRC goods; the effect of the import restraint on employment is illustrated in Table 2. As discussed earlier we estimated that increased imports from the PRC resulting from lower MFN tariffs would have reduced employment opportunities in the domestic textiles and apparel industry by 2,670; had the restraints been in place, the reduction in employment opportunities would have been 1,232.

SUMMARY AND CONCLUSIONS

This paper has presented estimates of the potential impact on U.S. imports and employment of granting most-favored-nation tariff treatment to the PRC. The estimates suggest that the impact of MFN per se is likely to be quite small, in part because U.S. trade with the PRC, although it has been growing rapidly, is still very small. Moreover, increased imports from the PRC are likely to partly displace certain imports from third countries, and consequently are likely to have smaller effects on U.S. production and employment.

The results of this exercise, together with estimates generated by other researchers using somewhat different data and methodologies, indicate that granting MFN to the PRC could cause U.S. imports from the PRC to increase by as much as 25%–35% of any given level of aggregate imports. Obviously the change in imports at the disaggregated sectorial level will

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8The categories were cotton blouses and women's man-made fiber coats; restraint levels were set at the level of imports during August 1978–July 1979. See Federal Register (1979c).

9The text of the agreement appears in Department of State (1980).

10The agreement did not provide for a limit on imports of women's manmade fiber coats since the unilateral quotas had remained unfilled. The first year restraint limits agreed to bilaterally are on average 40% higher than the previous unilateral restraint levels; second and third agreement years' restraints are more liberal since the agreement provides for growth over time.
### Table 2: The Impact of MFN on the U.S. Textiles and Apparel Industries

<table>
<thead>
<tr>
<th>I/O Code</th>
<th>Description</th>
<th>1978 Imports (c.i.f. value)</th>
<th>Change in 1978 Import Demand From PRC Attributable to MFN</th>
<th>Losses in Employment Opportunities Related to MFN</th>
<th>Without Restraints</th>
<th>With Restraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>1601</td>
<td>Broadwoven Fabric Mills and Fabric Finishing Plants</td>
<td>$42,327,453</td>
<td>$4,577,039</td>
<td>642</td>
<td>383</td>
<td></td>
</tr>
<tr>
<td>1602</td>
<td>Narrow Fabric Mills</td>
<td>66,705</td>
<td>11,001</td>
<td>15</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>1603</td>
<td>Yarn Mills and Textile Finishing Plants, n.e.c.</td>
<td>189,605</td>
<td>9,422</td>
<td>127</td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>1604</td>
<td>Thread Mills</td>
<td>4,268</td>
<td>1,175</td>
<td>11</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Broad and Narrow Fabrics, Yarn and Thread Mills</td>
<td>42,583,763</td>
<td>4,598,637</td>
<td>795</td>
<td>477</td>
<td></td>
</tr>
<tr>
<td>1701</td>
<td>Floor Coverings</td>
<td>14,154,446</td>
<td>4,295,679</td>
<td>59</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>1702</td>
<td>Felt Goods, n.e.c.</td>
<td>0</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1703</td>
<td>Lace Goods</td>
<td>251,989</td>
<td>101,799</td>
<td>15</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>1704</td>
<td>Paddings and Upholstery Fillings</td>
<td>0</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>1705</td>
<td>Processed Textile Waste</td>
<td>208,971</td>
<td>14,015</td>
<td>6</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>1706</td>
<td>Coated Fabrics, not Rubberized</td>
<td>0</td>
<td>-</td>
<td>7</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>1707</td>
<td>Tire Cord and Fabric</td>
<td>0</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1708</td>
<td>Scouring and Combing Plants</td>
<td>99,526</td>
<td>1,548</td>
<td>30</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>1709</td>
<td>Cordage and Twine</td>
<td>46,876</td>
<td>5,232</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1710</td>
<td>Textile Goods, n.e.c.</td>
<td>51,982</td>
<td>5,665</td>
<td>12</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Miscellaneous Textiles Goods and Floor Coverings</td>
<td>14,813,820</td>
<td>4,423,938</td>
<td>137</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>1801</td>
<td>Hosiery</td>
<td>4,870</td>
<td>3,616</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1802</td>
<td>Knit Apparel Mills</td>
<td>0</td>
<td>-</td>
<td>106</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>1803</td>
<td>Knit Fabric Mills</td>
<td>1,297</td>
<td>1,200</td>
<td>35</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>1804</td>
<td>Apparel Made from Purchased Materials</td>
<td>68,824,201</td>
<td>40,338,880</td>
<td>1,523</td>
<td>582</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Apparel</td>
<td>68,830,368</td>
<td>40,343,696</td>
<td>1,668</td>
<td>639</td>
<td></td>
</tr>
<tr>
<td>1901</td>
<td>Curtains and Draperies</td>
<td>0</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>1902</td>
<td>House Furnishings, n.e.c.</td>
<td>5,484,942</td>
<td>1,489,245</td>
<td>41</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>1903</td>
<td>Fabricated Textile Products, n.e.c.</td>
<td>470,356</td>
<td>160,515</td>
<td>28</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Miscellaneous Fabricated Textile Products</td>
<td>5,955,126</td>
<td>1,649,760</td>
<td>70</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>16-19</td>
<td>Textiles and Apparel</td>
<td>132,183,077</td>
<td>51,016,031</td>
<td>2,670</td>
<td>1,232</td>
<td></td>
</tr>
</tbody>
</table>
vary depending on the size of the tariff cut in that sector, on the relevant import elasticities, on U.S. nontariff barriers, and on the substitutability of PRC imports for imports from other countries.

Several interesting sectorial results with important policy implications emerge from the analysis. The first result is that the impact of MFN is concentrated in a small number of sectors where production is characterized by high labor and low skill content requirements: textiles, apparel, rubber footwear, jewelry, and food utensils and pottery, among others.

It is not clear at this time whether PRC exports will continue to be concentrated in these sectors as the process of normalization continues and the volume of U.S.—PRC trade expands over time. Little is known about the intended role of exports in China's modernization process, and still less about the industrial sectors that will be targeted by the PRC for special development and the proportion of their output which will be available for export. Moreover, the uniqueness of the PRC, the largest and one of the most resource abundant of the LDCs, makes it difficult to generalize from the patterns of growth and trade in other LDCs.

Attempts by the PRC to target export growth in these unskilled labor intensive sectors may cause policy problems for both the U.S. and for certain LDCs. Many of the same sectors in which PRC exports to the U.S. are currently concentrated are import sensitive. For example, Aho and Orr (1981) have shown that imports have contributed to sizeable declines in job opportunities in the textiles, and apparel and footwear sectors. Bayard and Orr (1979) found that U.S. trade negotiators considered the apparel, textiles, footwear, and food utensils and pottery sectors to be highly import sensitive and consequently made significantly smaller tariff cuts in the Tokyo Round of Multilateral Trade Negotiations in these sectors than was called for by the overall negotiating formula (the so-called Swiss formula). Furthermore, the textile and apparel sector and the footwear sector are currently subject to U.S. import restraints.\footnote{Pelzman (1979), Pelzman and Martin (1981), and Pelzman and Bradberry (1980) have shown that as a result of these quantitative restraints any tariff cuts in textiles or apparel will result in minimal adverse trade and employment affects.} Taken together, these considerations suggest that U.S. policy makers will be very reluctant to allow substantial import increases in these sensitive sectors. Thus, successful PRC efforts to expand shipments to the United States in these areas may come at the expense of tightened restrictions on other LDC exporters and may require a concerted effort on the part of LDCs to redistribute their shares of the U.S. market.
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