

The Effect of the United States' Granting Most Favored Nation Status to Vietnam¹

by

Emiko Fukase and Will Martin

Development Research Group

World Bank
Washington, DC, USA

¹ We would like to thank Kazi Matin for the initiation and support of this research; participants in the trade workshops in Hanoi and Ho Chi Minh City in April 1999 for helpful discussions and comments; and Hugh Arce for supplying the very useful tariff data. The views expressed in this paper are those of the authors and should not be attributed to the World Bank.

Summary findings

Since the U.S. embargo on trade with Vietnam was lifted in 1994, exports from Vietnam to the U.S. have risen dramatically. However, Vietnam remains one of the few countries to which the United States has not yet granted most-favored-nation (MFN) status. The general tariff rates that the U.S. imposes average 35 percent as against 4.9 percent for the MFN rate.

Granting MFN status to Vietnam would improve Vietnam's terms of trade and help improve the efficiency of resource allocation in Vietnam. Better market access would increase both the volume of Vietnamese exports to the United States and the prices received for them, while reducing their costs to U.S. users.

Fukase and Martin use a computable general equilibrium model to examine the effects of the United States reducing its tariffs on Vietnamese imports from general rates to MFN rates. They estimate tariff changes using the U.S. tariff schedule for 1997 weighted by Vietnam's exports to the United States.

The results suggest that Vietnam's exports to the United States would more than double after a change to MFN status, from the 1996 baseline of \$338 million to \$768 million. By conservative estimates, welfare gains in Vietnam would be about \$118 million a year, or a 0.9 percent increase in real income per capita. Sixty percent of that gain would come from improved terms of trade and the other 40 percent from gains in efficiency. As Vietnam's exports to the United States have been growing rapidly since the lifting of the embargo in 1994, the magnitude of the trade-expansion resulting from MFN status may be larger by the time

Vietnam obtains MFN. Based on 1998 values, the increase in exports would have been around \$750 million per year.

From the U.S. viewpoint, this exercise would involve unwinding the diversion of U.S. imports away from Vietnam resulting from the higher tariffs on imports from Vietnam. Lowering these high tariffs would improve U.S. consumer welfare by lowering prices, and increasing the volume of imports from Vietnam. The direct welfare gains in the United States are estimated to be \$56 million per year. There are likely to be significant additional gains to both countries from the liberalization Vietnam will undertake as a result of the negotiations for MFN status and entry into the World Trade Organization.

Some Economic Effects of the United States Granting Vietnam Most-Favored-Nations (MFN) Status

I. Introduction

Since the lifting of the U.S. embargo in 1994, trade between Vietnam and the United States has grown rapidly. The large U.S. market offers substantial potential for Vietnam to expand its exports, following the lead of the export-oriented economies of its region. However, Vietnam remains one of a handful countries to which the United States has not yet granted Most-Favored-Nation (MFN) status, and on which it imposes its general tariffs rather than the more widely used MFN tariffs.

The general tariff schedule involves much higher tariff rates on most commodities than the MFN schedule. Use of these tariffs clearly imposes costs on both Vietnam and the United States. Vietnamese exporters are unable to access the best markets for some of their products. US imports are diverted from lower cost suppliers in Vietnam to higher cost sources elsewhere.

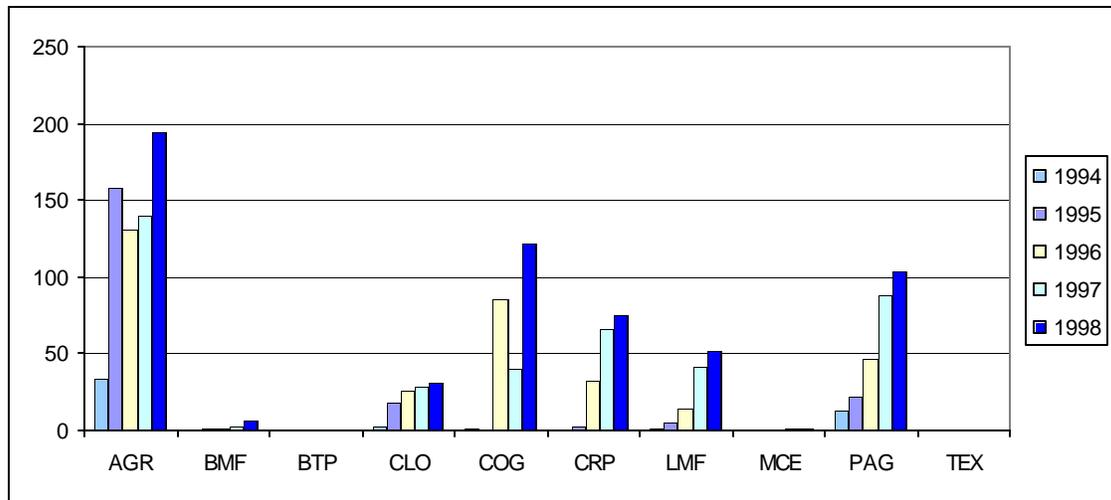
The objective of this paper is to assess the economic effects of the U.S. granting MFN status to Vietnam. We first assess the size of the trade distortions involved, and then analyze their consequences. Section II deals with the pattern of exports from Vietnam to the United States and the nature of the barriers imposed by use of the general tariffs. Section III describes the analytical framework and presents results and interpretation. Section IV presents the main conclusions.

II. Recent Trends in Vietnam's Exports to the United States

Composition of Vietnam's Exports to the United States

Since 1994, Vietnam's merchandise exports to the United States have increased rapidly, from \$54.0 million in 1994, to \$207.8 million in 1995, and \$337.5 million in 1996. In 1997 and in 1998, Vietnam's exports to the U.S. accounted for \$407.1 million and \$588.7 million respectively (U.N. Comtrade System, 1994-1998). In 1996,² 4.8 percent of Vietnam's exports were shipped to the U.S., which in turn accounted for 0.04 percent of total U.S. imports (World Bank, 1998a). Figure 1 shows the evolution of Vietnam's exports to the U.S. by commodities for the years 1994 to 1998.³ The exports by GTAP category are shown in Annex 1.

Figure 1 - Vietnam's Exports to the U.S. 1994-1998



Source: U.N. Comtrade System

² The data for the year 1996 are analyzed in some details in this paper since our simulation results are based on the 1996 data.

³ The model database was aggregated from the original 50 sectors to twelve sectors designed to provide a reasonable representation of Vietnam's trade patterns: agriculture and forestry (AGR), basic manufacturing (BMF), beverages and tobacco products (BTP), clothing (CLO), chemical, rubber, plastic products (CRP), coal, oil, gas (COG), light manufacturing (LMF), electronics and machinery (MCE), processed agricultural commodities (PAG), petroleum and coal products (PCP), textiles (TEX), transport equipment (TRP), and others (OTH). This aggregation contains nonzero values for all exports to the United States except refined petroleum and coal products, and transportation equipment. Neither of these products seems likely to become a major export from Vietnam to the United States in the new future, so setting them to zero seems unlikely to be a serious problem. Annex 3 presents the description of the aggregation.

In 1994 and 1995, agriculture and forestry (ARG), processed agriculture (PAG), and closing (CLO) dominated Vietnam's exports to the U.S. In 1996, exports of petroleum oils (COG), chemical, rubber, plastic products (CRP)⁴, and light manufacturing (LMF) emerged, giving Vietnam a much more diversified pattern of exports to the United States. Further increase in exports of chemical, rubber, plastic products (CRP) and light manufacturing (LMF) in 1997 and 1998 is mainly attributed to the footwear exports.

Annex 3 A-E presents the top 10 export commodities from Vietnam to U.S. according to 6-digit Harmonized System (HS) categories for the years 1994-1998. The top 10 commodities accounted for 91.3 percent of Vietnam's exports to the U.S. in 1994, 92.7 percent in 1995, 87.0 percent in 1996, 73.8 percent in 1997, and 84.3 percent in 1998. Coffee has been the leading exports throughout the period 1994-1998. In 1996, exports of 'petroleum oils' emerged, accounting for a quarter of Vietnam's total exports. The other leading export commodities included shrimps, rice, cashew nuts, clothing, footwear, and gloves.

MFN and Non-MFN Tariff Analyses

The United States generally applies the MFN rate in the U.S. tariff schedule to almost all of its WTO and non-WTO trading partners.⁵ Countries not receiving U.S. MFN status are subject to the higher general rates. These rates are for the most part the original statutory rates that were applied to all U.S. imports under the Tariff Act of 1930 (also known as the Smoot-Hawley Act). After the trade liberalization of the various GATT Rounds beginning in 1947, the

⁴ Vietnam's main export item to the U.S. in this category is casual footwear using rubber.

United States retained the general rates primarily against Communist countries (Arce and Taylor, 1997).

Table 2 compares estimates of the MFN and non-MFN rates levied on Vietnam.

Table 2 - U.S. Tariffs against Vietnam's Exports MFN vs Non-MFN Rates

GTAP	Description	SIMPLE AVERAGE (%)		WEIGHTED AVERAGE (%)					
		MFN	Non-MFN	1994 Import Weights		1995 Import Weights		1996 Import Weights	
				MFN	Non-MFN	MFN	Non-MFN	MFN	Non-MFN
1	Paddy rice	1.7	6.5	na	na	na	na	na	na
2	Wheat	3.5	10.0	na	na	na	na	na	na
3	Cereal grains	0.6	4.0	na	na	na	na	1.4	3.6
4	Vegetables, fruits, nuts	5.4	20.8	0.2	1.8	0.3	2.9	0.1	1.2
5	Oil seeds	8.2	35.4	0.0	1.6	na	na	0.0	0.0
6	Sugar cane, sugar beet	2.1	na*	na	na	na	na	2.5	na*
7	Plant-based fibers	0.3	1.6	na	na	na	na	0.0	0.0
8	Crops n.e.c.	2.8	18.2	0.0	0.0	0.0	0.0	0.0	0.0
9	Bovine cattle, sheep, goats, horses	0.7	7.8	na	na	na	na	na	na
10	Animal products n.e.c.	1.2	5.6	3.1	12.4	2.5	14.2	1.5	11.1
12	Wool, silk-worm cocoons	0.6	0.0	na	na	na	na	na	na
13	Forestry	0.0	1.7	na	na	na	na	0.0	0.0
14	Fishing	0.4	3.9	0.0	0.0	0.2	4.2	0.0	0.0
15	Coal	0.0	0.0	0.0	0.0	na	na	na	na
16	Oil	0.2	0.6	na	na	na	na	0.4	1.3
17	Gas	0.0	0.0	na	na	na	na	na	na
18	Minerals n.e.c.	0.7	10.0	3.4	7.5	1.1	10.0	1.3	10.3
19	Bovine cattle, sheep, goat, horse meat	3.4	23.9	na	na	na	na	na	na
20	Meat products n.e.c.	4.7	23.1	na	na	na	na	na	na
21	Vegetable oils and fats	3.7	12.8	0.0	na*	na	na	na	na
22	Dairy products	27.8	29.9	na	na	na	na	na	na
23	Processed rice	5.8	23.6	8.8	35.0	8.8	35.0	8.8	35.0
24	Sugar	10.3	20.0	na	na	na	na	na	na
25	Food products n.e.c.	5.5	19.2	0.3	1.1	0.3	1.3	0.5	1.9
26	Beverage and tobacco products	16.8	92.0	2.8	18.1	4.5	22.1	2.2	17.4
27	Textiles	10.3	55.1	6.7	63.8	9.6	58.2	4.4	38.5
28	Wearing apparel	13.4	68.9	13.5	56.4	13.1	52.5	14.3	58.0
29	Leather products	5.6	33.0	11.9	46.3	9.2	28.4	8.4	22.8
30	Wood products	2.1	29.4	3.3	38.7	3.5	38.9	3.5	37.3
31	Paper products, publishing	1.3	22.7	0.9	21.9	0.3	4.1	1.6	25.4
32	Petroleum, coal products	1.3	8.6	na	na	0.0	4.3	na	na
33	Chemical, rubber, plastic, products	4.3	30.3	5.3	24.5	6.4	25.1	30.8	49.6
34	Mineral products n.e.c.	4.3	41.6	4.1	42.4	3.6	40.2	3.8	40.4
35	Ferrous metals	3.7	21.5	na	na	na	na	na	na
36	Metals n.e.c.	3.0	28.0	0.0	0.0	0.0	0.1	0.0	1.1
37	Metal products	3.6	38.9	na	na	3.3	43.4	4.5	45.0
38	Motor vehicles and parts	5.2	18.9	na	na	na	na	na	na
39	Transport equipment n.e.c.	3.0	28.4	na	na	na	na	2.8	28.3
40	Electronic equipment	2.8	34.0	2.1	35.0	na	na	4.1	36.8

⁵ As of 1999, all countries except Afghanistan, Cuba, the Lao PDR, Montenegro, North Korea, Serbia, and Vietnam have MFN status. Albania, Armenia, Belarus, China, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan all have their MFN status reviewed annually.

41	Machinery and equipment n.e.c.	2.9	37.6	3.0	35.7	1.8	46.1	2.4	30.1
42	Manufactures n.e.c.	3.8	46.7	5.0	47.7	5.6	39.7	13.1	40.9
Total		4.9	35.0	1.9	8.7	1.5	6.2	4.7	11.8

Sources: Authors' calculations, UN Comtrade System, UNCTAD Trains Database

Note: In most cases, 'na' in the weighted averages means the absence of trade. Some 'na*' reflects 'specific' tariffs for which ad valorem equivalent tariff rates are not available in Arce and Taylor's dataset.

The U.S. Tariff Schedule for the year 1997 was originally obtained from the UNCTAD TRAINS Database. Obtaining complete estimates of the tariff changes was hampered by the presence of 'specific' tariff rates. At the 8-digit level, 2,277 tariff lines out of 10,102 (or 22.5 percent of total tariff lines) are specific tariffs or combinations of specific and ad valorem rates. When specific tariffs apply, the *ad valorem* tariff equivalents, which were computed by Arce and Taylor (1997) for U.S. imports from China were used as a proxy.⁶ The trade-weighted averages were computed using the U.S. import data from Vietnam taken from the UN COMTRADE System. The aggregation was undertaken from the 6-digit level which is the most disaggregated level available in the COMTRADE System. The *ad valorem* tariff equivalents of MFN and non-MFN rates cover almost the entire list (99.9 percent) of U.S. imports from Vietnam in 1996. A serious problem evident from Table 2 is the absence of trade in a number of commodities, particularly where the unweighted average tariff rates are relatively high. This suggests that Vietnam faces prohibitive tariffs on certain commodities. In this situation, the weighted average tariff is very misleading—indicating zero protection when the protection rate is effectively infinitely high.

⁶ Arce and Taylor (1997) estimated the effects of the U.S. not renewing MFN status for imports from China. They constructed the ad valorem equivalents of specific or combination rates of the U.S. tariff schedule at the 10-digit level using the U.S. customs data on the value and quantity of imports. Their dataset covers 99.4 percent of U.S. imports from China. In 1995, the average trade-weighted MFN duty rate applied to U.S. imports from China was approximately 6 percent. Under the non-MFN rates, the trade-weighted tariff rate would rise to 44 percent. If China's MFN status were rescinded, their simulation result revealed that Chinese exports to the U.S. drop by approximately \$11 billion, or over 50 percent.

Given these caveats, the general rates are typically much higher than the MFN rates. The simple-average MFN duty rate of 1997 U.S. Tariff Schedule is 4.9 percent as against 35.0 percent for the non-MFN rate. The average tariff rates weighted by U.S. imports from Vietnam differ substantially between years. The trade-weighted averages were 8.7 percent in 1994 and 6.2 percent in 1995 which were 6.8 point and 4.7 point higher than MFN rates respectively. In 1996, however, the weighted average had risen to 11.8 percent implying that Vietnam's composition of exports had shifted towards commodities with higher tariffs. The difference between MFN and non-MFN rates was 7.1 percentage points in 1996.

Table 3 compares Vietnam's exports to the EU15, Japan, and the U.S. by GTAP4 categories for the year 1996. Despite the recent increases in Vietnam's exports to the US, the US share of 4.8 percent was clearly low relative to the EU15's share of 24.0 percent and Japan's share of 28.7 percent. While Vietnam's exports of 'crops n.e.c.' (category 8) of \$119 million were significant, this was attributable mainly to coffee for which the tariff rate was already zero. In contrast, Vietnam's exports of 'wearing apparel' to the United States were very small. While Vietnam's exports of 'wearing apparel' to the EU15⁷ and Japan were \$456 million and \$489 million respectively, exports to the U.S. accounted for only \$26 million in 1996.

⁷ Vietnam signed a preferential trade agreement with the EU in 1992. This involved the granting of quotas to export textiles and clothing to Europe and the granting of a 2 percentage point preference on imports of selected items under over 200 tariff lines falling chapters 51-63 of the HS tariff schedule (Centre for International Economics, 1998).

Table 3 - Vietnam's exports to the EU15, U.S. and Japan in 1996

	EU15	Share	JAPAN	Share	USA	Share
	(US\$1,000)	(%)	(US\$1,000)	(%)	(US\$1,000)	(%)
1 Paddy rice	752	0.0	89	0.0	0	0.0
2 Wheat	0	0.0	0	0.0	0	0.0
3 Cereal grains	1	0.0	230	0.0	51	0.0
4 Vegetables, fruits, nuts	4809	0.3	2026	0.1	8276	2.5
5 Oil seeds	102	0.0	1301	0.1	2	0.0
6 Sugar cane, sugar beet	1	0.0	0	0.0	14	0.0
7 Plant-based fibers	176	0.0	0	0.0	7	0.0
8 Crops n.e.c.	171038	10.1	40941	2.0	119436	35.4
9 Bovine cattle, sheep, goats, horses	0	0.0	0	0.0	0	0.0
10 Animal products n.e.c.	4500	0.3	6802	0.3	2782	0.8
12 Wool, silk-worm cocoons	0	0.0	54	0.0	0	0.0
13 Forestry	1704	0.1	3503	0.2	42	0.0
14 Fishing	430	0.0	7252	0.4	213	0.1
15 Coal	19215	1.1	69041	3.4	0	0.0
16 Oil	0	0.0	635430	31.6	85834	25.4
18 Minerals n.e.c.	19886	1.2	6094	0.3	36	0.0
19 Bovine cattle, sheep and goat, horse meat	1	0.0	0	0.0	0	0.0
20 Meat products n.e.c.	2	0.0	1004	0.0	0	0.0
21 Vegetable oils and fats	60	0.0	2077	0.1	0	0.0
22 Dairy products	0	0.0	0	0.0	0	0.0
23 Processed rice	9	0.0	47	0.0	6568	1.9
24 Sugar	0	0.0	0	0.0	0	0.0
25 Food products n.e.c.	40933	2.4	393598	19.6	39574	11.7
26 Beverage and tobacco products	175	0.0	4150	0.2	591	0.2
27 Textiles	14760	0.9	94429	4.7	182	0.1
28 Wearing apparel	456693	27.1	488580	24.3	25567	7.6
29 Leather products	310299	18.4	72367	3.6	11746	3.5
30 Wood products	76998	4.6	81493	4.1	1081	0.3
31 Paper products, publishing	929	0.1	4962	0.2	11	0.0
32 Petroleum, coal products	1	0.0	0	0.0	0	0.0
33 Chemical, rubber, plastic, products	339162	20.1	43148	2.1	31863	9.4
34 Mineral products n.e.c.	39842	2.4	6981	0.3	1319	0.4
35 Ferrous metals	34	0.0	1185	0.1	0	0.0
36 Metals n.e.c.	1598	0.1	2132	0.1	61	0.0
37 Metal products	3115	0.2	4674	0.2	97	0.0
38 Motor vehicles and parts	75	0.0	342	0.0	0	0.0
39 Transport equipment n.e.c.	3060	0.2	590	0.0	19	0.0
40 Electronic equipment	5336	0.3	7086	0.4	154	0.0
41 Machinery and equipment n.e.c.	8037	0.5	18052	0.9	325	0.1
42 Manufactures n.e.c.	162582	9.6	11611	0.6	1602	0.5
Total	1686316	100.0	2011272	100.0	337451	100.0
Share (%)	24.0		28.7		4.8	

Source: UN Comtrade System 1996; World Development Indicators 1988.

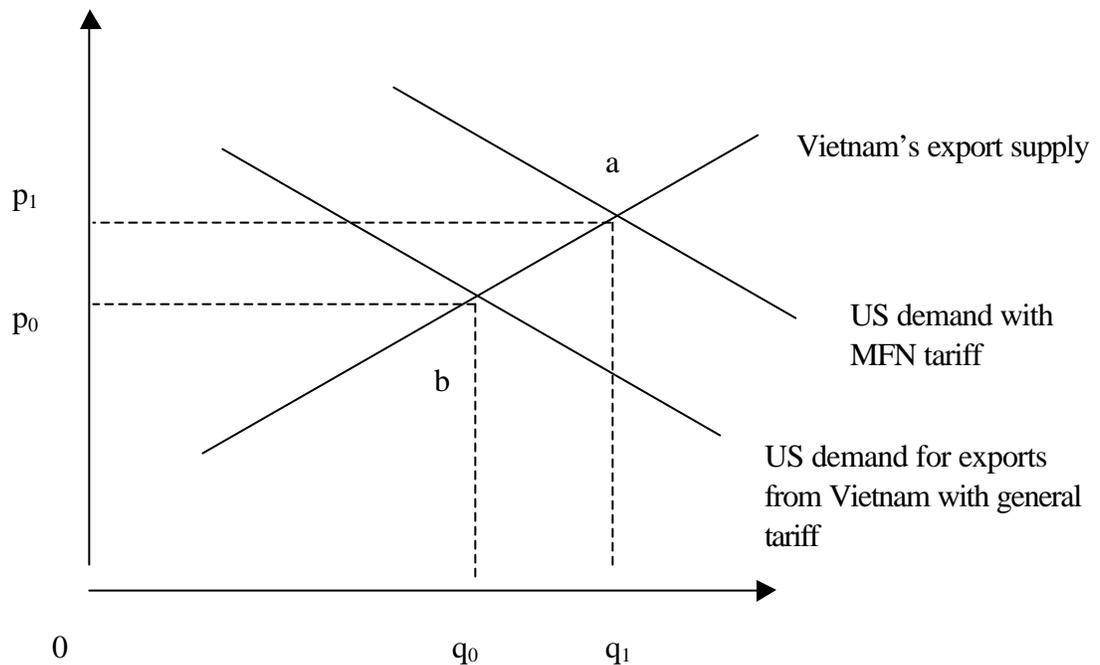
III. Analysis and Results

Theory of tariff liberalization by a trading partner

The GTAP model used in the analysis is a comprehensive multi-region, multi-commodity general equilibrium model incorporating global production, consumption, trade and policy distortions. Despite the resulting complexity of the model, the key features of the model results can be understood in terms of relatively simple partial equilibrium diagrams (Martin 1997).

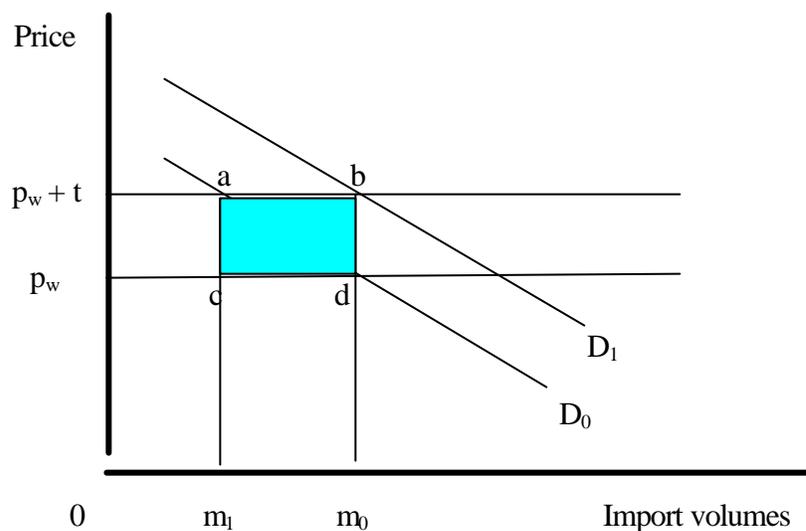
The reduction in the US tariff on exports from Vietnam shifts the demand curve for exports from Vietnam to the right, as is shown in Figure 1. The result is an increase in both the volume of exports from Vietnam to the United States, and an increase in the price received for these exports. The resulting increase in the price of exports to the United States creates potentially substantial welfare benefits to Vietnam, measured in Figure 1 by area p_1abp_0 .

Figure 1 - Impacts of a reduction in the tariff on Vietnam's exports to the USA



Because of the extensive distortions inherent in Vietnam's current trade regime, there are likely to be some other welfare changes resulting from increases or reductions in the volume of exports crossing trade barriers (see Martin 1997 for an interpretation of these second-best welfare impacts). If, for instance, the change in export market opportunities results in an increase in the volume of imports subject to distortions, there will be an increase in welfare because each unit of imports costs less on world markets than its value to users behind the tariff wall. In Figure 2, this effect is represented by the shift in the import demand curve for imports from partner countries from D_0 to D_1 , and the consequent gain in welfare is shown by the shaded area $abcd$. As is clear from Figure 2, the welfare benefits resulting from these additional imports will accrue as increases in tariff revenues, which may generate additional welfare benefits if they allow the government to reduce its dependence on other distorting taxes (Anderson and Martin 1998).

Figure 2. Impacts on import volumes passing across tariff barriers



When access to the US market increases, there are likely to be increases in Vietnam's import demands for several reasons. Firstly, the increases in prices for goods that benefit from increased market access are likely to cause domestic consumers to substitute towards imported goods. Similarly, domestic users of intermediate inputs are likely to substitute to now relatively cheaper imported inputs. Domestic producers increasing their export production will also increase their volumes of imported inputs, although this may be offset by reductions in the volumes of inputs imported by other, contracting, sector-- the ultimate impact of these output changes will depend upon the relative import intensities of the expanding and contracting sectors. Finally, there will be changes in the volumes of imports resulting from changes in real incomes. While there is some controversy in the literature as to whether these should be included in measurements of welfare (Anderson and Martin 1996), they are included in the money-metric measures of the type used in the GTAP model.

To capture all of these impacts requires a fully specified general equilibrium model and we use the GTAP global general equilibrium model to capture the needed interactions between actors and sectors.

Model Structure

The Global Trade Analyses (GTAP) model is a relatively standard static multi-sector multi-region Applied General Equilibrium (AGE) model documented comprehensively in Hertel (1997), with updated information on the GTAP web site.⁸ The model assumes that firms use constant returns to scale technology in perfectly competitive product market. Household consumption behavior is represented by a constant demand elasticity (CDE) expenditure

function, while consumption and government demand are characterized by constant value shares. The equilibrium levels of production and consumption are determined by global demand and supply of the product and zero economic profit for firms. Traded goods are linked through international trade and classified by country of origin using the standard Armington assumption.

The version of the model used in this analysis is based on the Version 4 GTAP database. The base year of this data set is 1995. However, because of the rapid changes in Vietnam's exports to the United States following the removal of the trade embargo, the database was modified to reflect the value and the composition of Vietnam's exports to the United States in 1996. This is important both for updates the model and to reduce the number of zero entries for Vietnam's exports to the USA.⁹ The simulation was conducted by reducing U.S. tariffs against imports from Vietnam from their 1996 non-MFN weighted average level to the MFN level.

⁸ www.agecon.purdue.edu/gtap

⁹ Models of this type work in percentage changes and are unable to move from zero levels of trade to non-zero levels.

Results of the Experiment

Table 4 shows the changes in Vietnam's exports to the United States and to the world.

Table 4 - Changes in Vietnam's Exports

	Value Changes		Percentage Changes	
	Exports to U.S. (\$ mil.)	Exports to the World (\$ mil.)	Exports to U.S. (%)	Exports to the World (%)
AGR Agriculture and forestry	-2	-31	-1	-3
PAG Processed agriculture	10	-21	19	-2
BTP Beverage and tobacco	1	1	125	18
COG Coal, oil, gas	3	-5	4	0
TEX Textiles	0.4	-4	241	-2
CLO Clothing	384	332	1512	38
LMF Light Manufacturing	23	-28	147	-3
BMF Basic manufacturing	4	-1	329	-1
CRP Chemical, rubber, plastics	12	11	64	14
MCE Electronics and machinery	1	-2	284	-3
Total	430	250		

Source: Authors' Simulation Result

The first two columns present the changes in export values. The second two columns show the percentage changes in value which in turn reflect both quantity and price changes. The results suggest that Vietnam's exports to the United States would more than double following the granting of MFN status, increasing from the 1996 baseline level of \$337.5 million to \$767.5 million.¹⁰ The increase in exports of clothing is particularly significant, registering almost a fifteen-fold increase relative to the baseline. (Annex 4 reviews the current U.S. imports of textiles and apparel in some detail. For the recent Cambodia's experience, see Box 1). This

¹⁰ In an earlier version of this paper and in *Vietnam: Rising to the challenge* (World Bank, 1998b), the effects of granting MFN status were estimated to be even larger than in the current paper. This is because we did not have estimates of the tariff equivalent of 'specific' tariffs when preparing the first paper, and excluded these commodities from the calculation of the average tariff. When these tariff equivalents became available, we found that the tariffs on these commodities (e.g. oil) were relatively low. Their inclusion therefore reduced our estimates of the average tariffs applied, and hence the trade-expanding effects of liberalization. On the other hand, since Vietnam's exports to the United States have been growing rapidly, the magnitude of the trade-expansion may be larger by

estimated increase takes into account only the reduction in tariff rates on these goods. Whether such a large increase could actually be realized would depend upon the arrangements made for phasing out of the MFA quota regime against these exports (Riedel, 1993). Because Vietnam is not a contracting party to the GATT 1947, the abolition of these quotas is not assured even if Vietnam becomes a member of the WTO.

Box 1. The Effects of the United States Granting MFN Status - Cambodia's Experience

Despite the political events in July 1997 and the Asian financial crisis, Cambodia managed to achieve a 33 percent increase in its exports in 1997. This remarkable development owed greatly to the United States granting Most Favored Nation (MFN) status to Cambodia on September 25, 1996. Since then, Cambodia's merchandise exports to the United States have increased rapidly, from 4.2 million in 1996, to 102.9 million in 1997 and 134.3 million in 1998. While the United States represented only 4 percent in Cambodia's total exports in 1996, its share increased to 21 percent in 1998.

The substantial increase in Cambodia's exports is mostly attributed to the clothing sector. The exports of this sector increased from \$2.3 million in 1996 to \$98.7 million in 1997. In 1998, Cambodia's exports of this category registered \$130.2 million or 97 percent of its total exports to the United States. This development was induced by the substantial tariff cuts against Cambodia's garment exports, from a simple average of 69.2 percent under the general rate to 12.8 percent under MFN rates.

The increase in the production of clothing in recent years has resulted in a dramatic increase in Cambodia's imports of textiles. Since 1996, Cambodia's imports of textiles have risen from \$61 million in 1996 to \$117 million in 1997, and \$247 million in 1998.

The increased market access to the United States attracted more foreign investors¹¹ mainly from Hong Kong, Taiwan, Malaysia, South Korea and Singapore. It is estimated that around 270 garment factories are now operating in Cambodia up from only 70 factories in 1997 (Reuters, *Cambodia News*, July 20).

Cambodia is likely to have difficulty achieving such high rates of growth in these products in the US market in the future, since the U.S. has imposed quotas on its main clothing exports. The growth rate of these quotas depends heavily upon the results of an annual, unilateral determination by the United States of whether Cambodia is protecting core labor standards. If the results are affirmative, the growth rates are quite high, at 14 percent per year, while they may withdraw such an increase if the US decides that labor standards are not being adequately protected.

the time Vietnam obtains MFN. For instance, if the estimate is based on 1998 values, the increase in exports would have been around \$750 million per year.

¹¹ The nature of the model applied to Vietnam in this paper is static, and the total stock of capital is fixed. Thus, our model does not capture the effects of increased foreign direct investments (FDI) following the U.S. granting MFN treatment to Vietnam.

Unfortunately, the ability of the importing countries to impose quotas has, if anything, been increased by the change by the move from the Multifibre Arrangement (MFA) to the Agreement on Textiles and Clothing (ATC). While Article 3 of the MFA required that the exports from an *individual supplier* should be causing market disruption before quotas could be imposed, Article 6 of the ATC allows quotas to be imposed when *total imports* are causing market disruption. For small suppliers such as Cambodia, this change is particularly unfortunate.

The increase in exports to the U.S. of beverages and tobacco (BTP), textiles (TEX), basic manufacturing (BMF), and electronics and machinery (MCE) are significant in percentage changes, but negligible in value terms, reflecting the very low initial levels of these exports (see Figure 1). Exports of agriculture and forestry (AGR) decrease slightly by 1 percent from the baseline. This is because the non-MFN tariff rates of the main agricultural exports such as coffee and shrimps are already zero (Annex 3) implying that these industries benefit relatively less from the MFN status than the other sectors. It is likely that a certain amount of unskilled labor would shift from the agricultural sector to other labor intensive manufacturing sectors. The overall increases in Vietnam's exports of \$250 million are less than the increase in exports to the U.S., reflecting the shift in exports from other markets to the U.S. From the point of view of the United States, this experiment involves unwinding the trade diversion away from Vietnamese imports resulting from the higher tariff rate against imports from Vietnam.

Table 5 reports the changes in output by sector in Vietnam and the United States.

The increase in production of clothing (CLO) by 31 percent is the mirror image of the increase in exports from this industry. The increase in production of textiles (TEX) follows from the increase in demand for textiles as inputs into the clothing industry. The increase in production of chemical, rubber and plastics products (CRP) appears to reflect an increase in the production of casual footwear. The production in other sectors decreases slightly since the

domestic resources have been diverted into now more profitable sectors such as clothing. The output of clothing in the United States decreases by only 0.1 percent, and the overall impact on U.S. production patterns is negligible relative to the U.S. size of the economy.

Table 5 - Changes in Output

		<u>Vietnam</u>	<u>USA</u>
		(%)	(%)
AGR	Agriculture and forestry	-0.7	0
BMF	Basic manufacturing	-2	0
BTP	Beverage and tobacco	-1.2	0
CLO	Apparel	31	-0.1
COG	Coal, oil, gas	-0.5	0
CRP	Chemical, rubber, plastics	2	0
LMF	Light manufacturing	-3	0
MCE	Electronics and machinery	-2	0
PAG	Processed agriculture	-2	0
PCP	Petroleum products	-0.1	0
TEX	Textiles	7	-0.03
TRP	Transport equipment	-4.3	0.01

Source: Authors' Simulation Results

Table 6 shows the key results for a range of economy-wide variables. In order to test the sensitivity of the model to the key parameters, the experiments were conducted using the standard Armington parameters (first two columns), decreasing the parameters by 50 percent (second two columns), and increasing them by 50 percent (third two columns).¹²

¹² We increased (decreased) the elasticities of substitutions between domestic products and imports as well as those between import sources by 50 percent.

Table 6 - Key Results of the U.S. Granting MFN Status for Vietnam

	Elasticity Standard		Elasticity Minus 50%		Elasticity Plus 50%	
	<u>Vietnam</u>	<u>United States</u>	<u>Vietnam</u>	<u>United States</u>	<u>Vietnam</u>	<u>United States</u>
Export Value (%)	3.6	0.01	0.9	0.002	12.1	0.04
Export Price (%)	1.5	-0.002	0.6	-0.001	3.3	-0.005
Export Volume (%)	2.1	0.01	0.3	0.003	8.8	0.04
Price Index (%)	0.8	-0.00	1.7	-0.01	0.4	-0.00
Real Income per Capita (%)	0.9	0.001	0.4	0.000	2.4	0.003
Tariff Revenues (\$ mil.)	44	3	10	-16	150	60
Decomposition of Equivalent Variation						
Total EV (\$ mil.) of which	118	56	51	9	315	175
Allocative Component (\$ mil.)	45	77	12	20	151	231
Terms of Trade Component (\$ mil.)	73	-21	39	-11	164	-56

Source: Authors' Simulation Results

Following the grant of MFN status, Vietnam's export volume and terms of trade increase by 1.5 percent and 2.1 percent respectively. This in turn increases the total value of Vietnamese exports by 3.6 percent. As goods are redirected from the domestic market to export markets, the domestic consumer price rises by 0.8 percent. However, increased foreign exchange earnings from increased exports enable Vietnam to import more, and this in turn leads to an increase in tariff revenues of \$44 million. This increase in tariff revenues provides an indication of the second-best welfare gains from liberalization. It measures the difference between the value of the goods in the country and their value at the border, times the change in the quantity imported.

Overall, Vietnam's welfare measured by Equivalent Variation (EV) rises by \$118 million. Vietnam gains both from improved efficiency of resource allocation (\$45 million) and

from terms of trade gains (\$73 million). This is about a 0.9 percent increase in real expenditure per capita.

The effects of granting MFN treatment to Vietnam on the U.S. economy are relatively small. Overall, the welfare of the United States increases by \$56 million. Whereas the U.S. is positively affected by the improved resource allocation of \$77 million, the gains are partially offset by deterioration in the terms of trade of \$21 million as the USA increases its demand for imports from Vietnam.

Caveats and Qualifications on the Results

Sensitivity analysis on the Armington elasticities of substitution reported in Table 6 revealed that the results are sensitive to the values of these parameters. When the elasticities of substitution between domestic goods and imports and those between import sources are both increased by 50 percent, the change in EV increases by more than 50 percent. Gehlhar (1994) has shown that the standard elasticities used in the GTAP model, while derived from the best available econometric evidence, seem to be too low to capture the changes in trade patterns over time. Gehlhar found that it was necessary to roughly double the values of these elasticities if changes in trade patterns were to be captured. Based on the sensitivity results presented in Table 6, this would likely result in a welfare gain to Vietnam of over \$400 million per year.

Another reason to think that our estimates are conservative is examination of the estimated tariff rates. The non-MFN rates that we estimated using Vietnam's current pattern of exports to the USA are roughly a quarter of the average rates that Arce and Taylor's estimate would be applied against China in the absence of MFN (Arce and Taylor, 1997). Since Vietnam's current pattern of exports is strongly biased against the goods subject to high general

tariff rates, the real rate of protection is much higher than the weighted average numbers would suggest—the prohibitive tariffs on many goods are assigned a zero weight. Since Vietnam’s pattern of exports is very likely to evolve towards that of China, this higher rate is likely to be more representative in the longer term.

Further, the experiment considered focuses only on the impacts of actions by the United States. In reality, any decision by the United States to grant MFN arise from the ongoing bargaining process in which Vietnam is likely to make “concessions” that will increase the efficiency and competitiveness of its economy. Without knowledge of the size of the reductions in Vietnam’s protection, it is unclear how large the consequent economic benefits are likely to be. However, past research (see, for example, Martin and Winters 1996; Bach, Lloyd and Martin 1999) suggests that the largest gains from reciprocal trade liberalization tend to accrue to the countries reducing their own barriers, rather than to those benefiting from reductions in the barriers they face in foreign markets.

IV. Conclusions

In this paper, the direct impacts on Vietnam’s trading opportunities of the US granting MFN treatment were first estimated by building up from the resulting level of tariffs applied to individual traded goods. Then, the economic impacts on Vietnam were inferred using simulations with the Global Trade Analysis (GTAP) model. The results revealed that the increased market access to the United States brings significant welfare gains to Vietnam. The direct terms of trade improvement resulting from increased market access accounts for 60 percent of the total gain, with the remaining 40 percent derived from second-best induced gains in efficiency. Exports to the United States more than double, from the 1996 baseline level of

\$337.5 million to \$767.5 million.¹³ The estimated increase in exports of clothing is especially significant, with these exports increasing almost fifteen-fold while exports of agricultural commodities decrease slightly. Combined with the increased efficiency of allocation, the welfare measured by Equivalent Variation (EV) increases by \$118 million or 0.9 percent increase in real expenditure per capita. By granting MFN status for Vietnam, the United States also gains from improved resource allocation although some of the gains are offset by deterioration in its terms of trade. The gains for the United States were estimated to be around \$56 million per year.

The model results should be interpreted as extremely conservative, lower-bound, estimates of the benefits of MFN access to the United States. They are based on a purely static framework, on estimates of protection and trade elasticities that are very likely underestimated, and do not take into account the benefits of Vietnam's own liberalization. Even with these caveats, they point to substantial benefits to both Vietnam and the United States.

¹³ As Vietnam's exports to the United States have been growing rapidly since the lifting of the embargo in 1994, the magnitude of the trade-expansion resulting from MFN status may be larger by the time Vietnam obtains MFN. Based on 1998 values, the increase in exports would have been around \$750 million per year.

References

- Anderson, J. M. and Martin, W. (1996), 'The welfare analysis of fiscal policy: a simple, unified account', Working Paper No 316, Department of Economics, Boston College (www.bc.edu).
- Anderson, J. M. and Martin, W. (1998), 'Evaluating public expenditures when governments must rely on distortionary taxation', Policy Research Working Paper No 1981, World Bank, Washington DC (www.worldbank.org).
- Arce, Hugh M. and Taylor, Christopher T. (1997), 'the Effects of Changing U.S. MFN Status for China,' *Weltwirtschaftliches Archiv* 1997, Vol. 133 (4): 737-753.
- Bach, C., Lloyd, P.J. and Martin, W.(1999), 'The Uruguay Round, World Trade Organization, and Asia-Pacific Trade Liberalization', in Lloyd, P. J. ed. *International Trade Opening and the Formation of the Global Economy*, Edward Elgar, Cheltenham.
- Centre for International Economics (1998), *Vietnam's Trade Policies 1998*, Canberra & Sydney.
- Gehlhar, M. (1997), 'Historical Analysis of Growth and Trade Patterns in the Pacific Rim: An Evaluation of the GTAP framework,' in Hertel, T. ed. *Global Trade Analysis: Modeling and Applications*, Cambridge University Press.
- Hertel, T. (1997), *Global Trade Analysis: Modeling and Applications*, Cambridge University Press.
- Martin, W. (1997), 'Measuring welfare changes with distortions' in Francois, J. and Reinert, K. eds. *Applied Methods for Trade Policy Analysis: A Handbook*, Cambridge University Press, Cambridge.
- Martin, W. and Winters, L. A. (1996), *The Uruguay Round and the Developing Countries*, Cambridge University Press, Cambridge.
- Riedel, J. (1993), 'Vietnam: On the Trail of the Tigers,' *World Economy*, 16:401-22, July 1993.
- U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA) Web Site (<http://otexa.ita.doc.gov>)
- World Bank (1998a), *World Development Indicators 1998*, Washington, D.C.

World Bank (1998b), *Vietnam: Rising to the Challenge*, An Economic Report of the World Bank Consultative Group for Vietnam, December 7-8, 1998.

Annex 1. Vietnam's Exports to the United States 1994-1998

GTAP	Description	1994	1995	1996	1997	1998
1	Paddy rice	0	0	0	0	0
2	Wheat	0	0	0	0	0
3	Cereal grains	0	0	51	260	159
4	Vegetables, fruits, nuts	470	1223	8276	16092	23715
5	Oil seeds	2	0	2	0	12
6	Sugar cane, sugar beet	0	0	14	0	0
7	Plant-based fibers	0	0	7	91	56
8	Crops n.e.c.	32874	156067	119436	119133	159557
9	Bovine cattle, sheep, goats, horses	0	0	0	0	0
10	Animal products n.e.c.	203	394	2782	3773	8231
12	Wool, silk-worm cocoons	0	0	0	0	0
13	Forestry	0	0	42	0	30
14	Fishing	30	189	213	378	3010
15	Coal	1548	0	0	2795	0
16	Oil	0	0	85834	37448	122018
17	Gas	0	0	0	0	0
18	Minerals n.e.c.	70	77	36	145	263
19	Bovine cattle, sheep, goat, horse meat	0	0	0	0	0
20	Meat products n.e.c.	0	0	0	0	0
21	Vegetable oils and fats	1554	0	0	21	0
22	Dairy products	0	0	0	0	22
23	Processed rice	5339	8	6568	21862	0
24	Sugar	0	0	0	1148	539
25	Food products n.e.c.	6351	21507	39574	65270	103487
26	Beverage and tobacco products	251	423	591	332	613
27	Textiles	20	111	182	302	365
28	Wearing apparel	2831	18317	25567	27914	30917
29	Leather products	676	4197	11746	38474	49196
30	Wood products	587	776	1081	1068	2164
31	Paper products, publishing	47	30	11	120	84
32	Petroleum, coal products	0	17	0	0	0
33	Chemical, rubber, plastic, products	262	2388	31863	65550	75030
34	Mineral products n.e.c.	316	796	1319	2072	4148
35	Ferrous metals	0	0	0	0	22
36	Metals n.e.c.	108	813	61	264	1535
37	Metal products	0	9	97	221	924
38	Motor vehicles and parts	0	0	0	0	52
39	Transport equipment n.e.c.	0	0	19	6	49
40	Electronic equipment	254	0	154	94	47
41	Machinery and equipment n.e.c.	38	94	325	622	1582
42	Manufactures n.e.c.	122	382	1602	1686	969
	Total	53953	207817	337451	407139	588794

Source: UN Comtrade System

Annex 2. Aggregation of the GTAP sectors used for Vietnam

1. AGR(Agriculture and forestry)

1. paddy rice
2. wheat
3. cereal grains
4. vegetables, fruits, nuts
5. oil seeds
6. sugar cane
7. plant based fibers
8. crops n.e.c.
9. bovine cattle, sheep, goat, etc
10. animal products
12. wool, silk-worm, cocoons
13. forestry
14. fishing

2. PAG(Processed agriculture)

19. bovine, cattle etc meat
20. meat products
21. vegetable oils & fats
22. daily products
23. processed rice
24. sugar
25. food products n.e.c.

3. BTP (Beverage and tobacco products)

26. beverages & tobacco products

4. COG (Coal, oil, gas)

15. coal
16. oil
17. gas

18. minerals, n.e.c.

5. PCP (Refined Petroleum and coal products)

32. petroleum & coal products

6. TEX (Textiles)

27. textiles

7. CLO(Apparel)

28. apparel

8. LMF(Light manufacturing)

29. leather products
30. wood products
42. manufactures n.e.c.

9. BMF(Basic manufacturing)

31. paper products, publishing
34. mineral products
35. ferrous metals
36. metal n.e.c.
37. metal products

10. CRP (Chemical, rubber, plastic products)

33. chemical, rubber, plastic products

11. TRP (Transport Equipment)

38. motor vehicles & parts
39. transport equipment n.e.c.

12. MCE (Electronics and Machinery)

40. electronic equipment
41. machinery & equipment

13. OTH (Others)

43. electricity
44. gas manufacture, distribution
45. water
46. construction
47. trade, transport
48. financial business, recreational services
49. pubic administration and defense, education, health services
- 50.dwellings

Annex 3A. Leading Vietnam's Export Commodities to the U.S. 1994

	HS Code	Description	Imports	Share in Total Exports	Non-MFN Tariff Rates	MFN Tariff Rates
			(US\$1,000)	(%)	(%)	(%)
1	90111	Coffee, not roasted or decaffeinated	29017	53.8	0.0	0.0
2	30613	Frozen shrimps and prawns	5352	9.9	0.0	0.0
3	100630	Semi-milled or wholly milled rice	5339	9.9	35.0	8.8
4	90112	Decaffeinated coffee, not roasted	2145	4.0	0.0	0.0
5	620520	Men's or boys' shirts of cotton	1666	3.1	67.5	14.9
6	151311	Crude coconut (copra) oil and fractions	1554	2.9	n.a.	0.0
7	270111	Anthracite, not agglomerated	1548	2.9	0.0	0.0
8	90240	Black tea	999	1.9	0.0	0.0
9	621600	Gloves, mittens and mitts	986	1.8	37.2	11.0
10	420292	Containers with surface of plastic or textiles	651	1.2	46.4	11.9
		Total	49257	91.3		

Annex 3B. Leading Vietnam's Export Commodities to the U.S. 1995

	HS Code	Description	Imports	Share in Total Exports	Non-MFN Tariff Rates	MFN Tariff Rates
			(US\$1,000)	(%)	(%)	(%)
1	90111	Coffee, not roasted or decaffeinated	146025	70.3	0.0	0.0
2	30613	Frozen shrimps and prawns	17067	8.2	0.0	0.0
3	621600	Gloves, mittens and mitts	8212	4.0	37.2	11.0
4	620520	Men's or boys' shirts of cotton	6899	3.3	67.5	14.9
5	90112	Decaffeinated coffee, not roasted	5642	2.7	0.0	0.0
6	640399	Footwear with rubber soles, leather uppers	3184	1.5	22.7	8.3
7	330129	Essential oils (incl. concretes and absolutes)	1606	0.8	13.3	1.0
8	180100	Cocoa beans, whole or broken	1408	0.7	0.0	0.0
9	400122	Technically specified natural rubber	1279	0.6	0.0	0.0
10	30420	Frozen fish fillets	1257	0.6	1.7	0.3
			192579	92.7		

Annex 3C. Leading Vietnam's Export Commodities to the U.S. 1996

	HS Code	Description	Imports	Share in Total Exports	Non-MFN Tariff Rates	MFN Tariff Rates
			(US\$1,000)	(%)	(%)	(%)
1	90111	Coffee, not roasted or decaffeinated	115708	34.3	0.0	0.0
2	270900	Petroleum oils	85834	25.4	1.3	0.4
3	30613	Frozen shrimps and prawns	28896	8.6	0.0	0.0
4	640291	Footwear covering the ankle of rubber, plastics	12658	3.8	55.0	32.9
5	640411	Sports footwear, with rubber or plastic soles	12463	3.7	57.2	34.5
6	620520	Men's or boys' shirts of cotton	9477	2.8	67.5	14.9
7	80130	Cashew nuts, fresh or dried	8015	2.4	0.9	0.0
8	640399	Footwear with rubber soles, leather uppers	7899	2.3	22.7	8.3
9	100630	Semi-milled or wholly milled rice	6568	1.9	35.0	8.8
10	621600	Gloves, mittens and mitts	6014	1.8	37.2	11.0

			293532	87.0		
--	--	--	--------	------	--	--

Annex 3D. Leading Vietnam's Export Commodities to the U.S. 1997

	HS Code	Description	Imports	Share in Total Exports	Non-MFN Tariff Rates	MFN Tariff Rates
			(US\$1,000)	(%)	(%)	(%)
1	90111	Coffee, not roasted or decaffeinated	112033	27.5	0.0	0.0
2	270900	Petroleum oils	37448	9.2	0.4	1.3
3	640411	Sports footwear, with rubber or plastic soles	37411	9.2	34.5	57.4
4	30613	Frozen shrimps and prawns	36109	8.9	0.0	0.0
5	640399	Footwear with rubber soles, leather uppers	23401	5.7	8.3	22.7
6	100630	Semi-milled or wholly milled rice	21588	5.3	8.8	35.0
7	640299	Footwear not covering the ankle, of rubber or plastics	16663	4.1	25.9	48.7
8	80130	Cashew nuts, fresh or dried	15984	3.9	0.0	0.9
9	640391	Footwear with rubber soles and leather uppers	14417	3.5	7.8	20.0
10	160520	Shrimps and prawns, prepared or preserved	10352	2.5	3.5	10.0
			300637	73.8		

Annex 3E. Leading Vietnam's Export Commodities to the U.S. 1998

	HS Code	Description	Imports	Share in Total Exports	Non-MFN Tariff Rates	MFN Tariff Rates
			(US\$1,000)	(%)	(%)	(%)
1	90111	Coffee, not roasted or decaffeinated	147643	25.1	0.0	0.0
2	270900	Petroleum oils	122018	20.7	0.4	1.3
3	30613	Frozen shrimps and prawns	63296	10.8	0.0	0.0
4	640299	Footwear not covering the ankle, of rubber or plastics	60826	10.3	25.9	48.7
5	640399	Footwear with rubber soles, leather uppers	38714	6.6	8.3	22.7
6	80130	Cashew nuts, fresh or dried	23494	4.0	0.0	0.9
7	160520	Shrimps and prawns, prepared or preserved	13683	2.3	3.5	10.0
8	620520	Men's or boys' shirts of cotton	9142	1.6	14.9	67.5
9	640391	Footwear with rubber soles and leather uppers	8974	1.5	7.8	20.0
10	30420	Frozen fish fillets	8795	1.5	0.3	1.7
			496584	84.3		

Source: UN Comtrade System

Annex 4. Textiles and Apparel Exports to the United States 1997

The model results suggest that the clothing is the sector where Vietnam is likely to benefit the most from obtaining US MFN status. In 1997, the United States imported \$54.0 billion worth of textiles and apparel from the world of which \$42.8 billion were apparel imports.¹⁴ Table 4a shows total imports of textiles and apparel and Table 4b presents apparel only.

Country	Imports(\$ mil.)	Share (%)
1 Mexico	5928	11.0
2 China	6024	11.2
3 Hong Kong	4100	7.6
4 Taiwan	2812	5.2
5 Canada	2401	4.4
6 Korea	2288	4.2
7 Dominican Rep.	2273	4.2
8 India	2010	3.7
9 Indonesia	1872	3.5
10 Philippines	1846	3.4
11 Italy	1846	3.4
12 Honduras	1663	3.1
13 Thailand	1661	3.1
14 Bangladesh	1499	2.8
15 Sri Lanka	1362	2.5
16 Pakistan	1197	2.2
17 Salvador	1079	2.0
18 Guatemala	971	1.8
19 Vietnam	26	0.05
20 Others	11145	20.6
World	54002	100.0

Country	Imports(\$ mil.)	Share (%)
1 Mexico	5050	11.8
2 China	4488	10.5
3 Hong Kong	3935	9.2
4 Dominican Rep.	2216	5.2
5 China	2071	4.8
6 Honduras	1659	3.9
7 Indonesia	1596	3.7
8 Philippines	1597	3.7
9 Korea	1518	3.5
10 Bangladesh	1448	3.4
11 India	1347	3.1
12 Thailand	1257	2.9
13 Canada	1204	2.8
14 Sri Lanka	1204	2.8
15 Italy	1226	2.9
16 El Salvador	1052	2.5
17 Guatemala	962	2.2
18 Macau	930	2.2
19 Vietnam	26	0.06
20 Others	672	1.6
World	42827	100.0

Source: the U.S. Department of Commerce

The U.S. primarily sourced textiles and apparel from NAFTA, Asian and Latin American countries in 1997. Mexico, China, and Hong-Kong were the leading suppliers both for total textiles and for apparel exports. Some countries' exports, including Canada, consist of non-apparel such as fabrics whereas some developing countries, including Vietnam, export almost exclusively apparel. This is at least partially due to the fact that textiles are more capital intensive than apparel, giving the low income countries a comparative advantage in the latter. The U.S. imported \$26.4 million worth of textiles and apparel from Vietnam in 1997 of which 98 percent belonged to apparel. Vietnam represented 0.05 percent of the market share in the United States.

Table 3c. (see 'table3c.xls') shows U.S. imports of apparel by 3-digit US MFA category. The statistics for China and Cambodia are also shown for the purpose of comparison. China exports a wide range of apparels to the U.S. registering 947 million metric equivalents (\$4.5 billion in value). The United States granted MFN status to Cambodia on September 25, 1996. Cambodia's exports of textiles and apparel increased from 2.4 million M2 (\$2.3 million) in 1996 to 30.2 million M2 (\$98.7 million) in 1997. January-May figures in 1998 alone registered 32.0 million M2 (\$94.7 million).

¹⁴ <http://otexa.ita.doc.gov>