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"Quantity Restrictions and Price Adjustment of Chinese Textile Exports to the US"

Abstract

The elimination of the Multibre Arrangement (MFA) in 2005 provides an unusual opportunity to examine the effects of a trade policy shock on firm behaviour. It was massive in scale, discrete in timing and exogenous to firms and consumers in the textile industry. Since the MFA did not affect all textile products, we use a 'difference-in-difference' approach to estimate the causal effects of the MFA. Using transaction-level data from the Chinese Customs Trade Statistics over the period 2000-2006, we find that the MFA removal reduced average export prices by about 30%, which is compatible with other findings in the literature. A distinguishing feature of our study is that our data allows us to examine the sources of the price reductions. We find that more than half of the price drop was due to firm entry and that the MFA had a smaller effect on the pricing behaviour of state-owned firms.