



June 24, 2010

Kathy Michels
Associate Director
U.S.-China Economic and Security Review Commission
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RE: Written Testimony for U.S.-China Economic and Security Review Commission June 9 Hearing on “Evaluating China’s Role in the World Trade Organization over the Past Decade,” *Federal Register* Notice, Volume 75, Number 86, Pate 24775, May 5, 2010

Dear Ms. Michels:

Thank you for providing us the opportunity to submit this testimony in relation to the hearing cited above. Thank you also for permitting us to submit this testimony late.

The American Apparel & Footwear Association (AAFA) is the national trade association representing the apparel and footwear industries, and their suppliers. Our members produce and market apparel and footwear throughout the United States and the world, including China. In short, our members make everywhere and sell everywhere.

AAFA applauds the Commission for holding a hearing on this critical question – whether China’s accession to the World Trade Organization (WTO) has benefitted the U.S. economy. AAFA fundamentally believes that China’s membership in the WTO has benefitted the U.S. economy – from U.S. workers to U.S. consumers.

While many problems remain, China’s membership in the WTO has forced China’s economy to become significantly more open, predictable, transparent and market-based, opening the world’s fastest growing market, with over 400 million middle-class consumers, to U.S. products, U.S. brands and U.S. retailers.

What has this sea change done for our industry? China is now the fastest growing market for U.S. apparel and footwear brands. Sales of U.S.-branded footwear and apparel in the Chinese market, even if those clothes and shoes are not made in the United States, support thousands of U.S. jobs – high-value jobs in R&D, marketing, logistics, sales and other fields. In fact, in this time of economic uncertainty, China in many cases is the only growing market for U.S. brands and retailers. This holds true for many other U.S. industries.

Just as important, China is the fastest-growing market for U.S.-made and U.S.-produced products not only in our industry, but in all industries – from U.S.-made yarn, fabric, waterproof textiles and rubber soles to U.S.-made machinery and high technology products and from U.S.-produced cotton to U.S.-produced soybeans and poultry. In many cases, China is the largest market for these U.S.-made and U.S.-produced products. For example, China is the largest and fastest growing export market for U.S. cotton, with almost \$900 million in exports in 2009 alone. China is also now the 4th largest market for U.S.-made yarn and fabric, with China importing over \$430 million in U.S. textiles in 2009 alone.

Please bear in mind that the U.S.-China trade benefits not only the U.S. farmers, manufacturers and brands, but also U.S. consumers. Today, virtually all clothes and shoes sold in the United States are imported. Over 85 percent of all footwear and over 35 percent of all apparel sold in the United States is imported from China. Similar situations exist for a multitude of other consumer products used every day by hardworking American families. The bottom line is that trade with China helps hardworking American families buy affordable clothes and shoes, life necessities, for themselves and their children.

China's membership in the WTO has provided the United States with a well-established and respected framework for addressing specific concerns. The resolution of the U.S. intellectual property rights (IPR) and famous brands subsidies cases through the WTO dispute settlement mechanism are perfect examples.

Moreover, China's accession to the WTO equipped the United States with new tools that could be used to address concerns raised by China's accession to the WTO. For example, although AAFA opposed the use of quotas in this circumstance, the United States utilized the "textile-specific" safeguard several years ago to respond to concerns raised by certain domestic textile companies at a key time when global apparel quotas were being eliminated. More recently, the United States utilized the so-called "product-specific" safeguard to react to concerns related to increased imports of tires. Finally, the United States does not even have to begin considering the concept of granting Market Economy Status to China in trade remedy cases until later this decade.

Again, AAFA recognizes that problems in the U.S.-China trade relationship still exist today. AAFA remains concerned with China's enforcement of IPR, not only in China but in products China ships to the United States. Counterfeit footwear from China is the number one counterfeit product seized by U.S. Customs and Border Protection (CBP). Footwear, along with apparel and fashion accessories, have consistently made the top 5 list of counterfeit products seized by CBP in the past few years. Most of these products have come from China. While not a major issue for our industry, China's indigenous innovation policies are also an area of growing concern. AAFA hopes that the United States can successfully address these issues through the existing WTO framework.

AAFA understands that one major issue of concern, the currency issue, cannot be addressed under the auspices of the WTO. AAFA believes the best long term strategy for China and the world is a freely convertible currency. AAFA remains concerned, however, that it is extremely difficult to identify the "right" exchange rate. Advocates for trade remedies often point to a "range" of currency misalignment in China of 15 to 50 percent. In fact, China has allowed its currency to float on a limited basis. The renminbi

has already risen about 16 percent since mid 2005, yet it is still undervalued in the view of many experts. This only shows that it is no simple task to measure the true value of not just the renminbi, but any currency. Also, such wide discrepancies make it difficult to identify and execute effective trade remedies.

While we share your frustration that the path toward currency adjustment has not gone more quickly and evenly, we note that slow and deliberate change, rather than abrupt shifts, is the key to predictability to make sure business is not disrupted.

When measuring the scope of actions to be taken, please consider that such action could lead to retaliation by China that could close the fastest-growing market to U.S. footwear and apparel brands and a multitude of U.S. exports. As a result, such action could not only hurt U.S. companies, U.S. manufacturers, U.S. workers and hardworking American families, but could ultimately jeopardize our economic recovery.

Finally, since both the United States and China are member countries in the World Trade Organization (WTO), it is important that any action contemplated or taken by Congress not violate U.S. obligations under international trade rules. While many might not be concerned about this issue, this potential violation is of critical concern to the U.S. apparel and footwear industry. As I mentioned previously, U.S. apparel and footwear firms make and sell everywhere around the world, including selling clothes and shoes made in China into major markets like Europe, Brazil and India. Any action taken by the United States against China that violates international trade rules would not only be closely watched by these countries, but could be quickly replicated, closing these important markets to U.S. brands. In fact, Brazil, Ecuador, Europe and many other countries have already imposed restrictions on imports of U.S.-branded footwear and apparel.

The U.S. apparel and footwear industry recognize that many important issues exist in the United States-China relationship – issues that directly affect U.S. apparel and footwear firms. However, as in the case of our industry, the relationship between the United States and China is one that is critically important to, and intimately intertwined with, the U.S. economy.

AAFA believes China's accession to the WTO in 2001 has ultimately benefitted this relationship by making the relationship, and China's economy, more open, transparent, predictable and market-based.

Thank you for your time and consideration in this matter. Please contact Nate Herman of my staff at 703-797-9062 or nherman@apparelandfootwear.org if you have any questions or would like additional information.

Sincerely,

A handwritten signature in black ink that reads "Kevin M. Burke". The signature is written in a cursive, flowing style.

Kevin M. Burke
President & CEO