



July 2, 2010

The Honorable Max Baucus
Chair
Finance Committee
U.S. Senate
Washington, DC

**RE: Written Testimony for June 23, 2010 Senate Finance Committee
Hearing on “The U.S.-China Trade Relationship – Finding a New Path
Forward”**

Dear Chairman Baucus:

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

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 Committee for holding a hearing on this critical question – finding a new path forward for the U.S./China trade relationship. AAFA fundamentally believes that the U.S./China trade relationship has benefited the U.S. economy – from U.S. workers to U.S. consumers.

While many problems remain, China’s economy over the past ten years has 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. China’s accession to the World Trade Organization (WTO) in 2001 led to much of this change.

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 U.S. consumers. The bottom line is that trade with China helps hardworking American families buy affordable clothes and shoes, life necessities, for themselves and for their children.

China's membership in the WTO has provided the United States with a well-established and respected framework for addressing specific concerns. And the United States has used these mechanisms effectively in many circumstances, including some of the issues of concern to the Committee. 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. 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. The recent successful WTO case on intellectual property rights demonstrates the benefits of this approach.

Regarding China's alleged subsidies policy, the United States eliminated many concerns through its successful WTO "famous brands" case against China. Meanwhile, China's apparel and footwear industry is one of the most market-based industries in the world, with the factories privately held and, for the most part, foreign-owned.

Our members have been impacted by China's Value-Added Tax (VAT) export rebate policy. China follows most other countries around the world, including Europe, in rebating the VAT paid on products that are exported out of the country. This practice in itself is not of concern to our industry. However, China has attempted to use the VAT export rebate as a tool to discourage apparel and footwear production in recent years by changing the percent of the VAT rebated to factories multiple times and with little or no notice. The one thing our industry cannot afford is uncertainty. We hope this issue can be addressed through future dialogue with China through the WTO or other initiatives like the Joint Commission on Commerce and Trade (JCCT) or the Strategic & Economic Dialogue (S&ED).

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

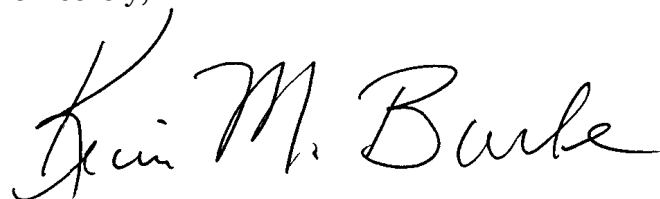
footwear firms make and sell everywhere around the world, including selling clothes and shoes made in China into major markets like Europe, Brazil and India. Any action taken by the United States against China that violates international trade rules would not only be closely watched by these countries, 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 integration into the global economy since its accession to the WTO in 2001 has ultimately benefited 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