



September 15, 2010

The Honorable Sander M. Levin  
Chair  
Ways and Means Committee  
U.S. House of Representatives  
Washington, DC

**RE: Written Testimony for House Ways and Means Committee Hearing on  
“China’s Exchange Rate Policy,” September 15, 2010**

Dear Chairman Levin:

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.

As we understand it, the Committee is exploring “whether China has made material progress in allowing appreciation of the exchange rate and what action Congress and the Administration may need to take to address China’s exchange rate policy and its effect on the U.S. and global economic recoveries and on U.S. job creation.”

AAFA applauds the Committee for holding a hearing on this critically important issue. Like many in the business community, we believe China’s currency should ultimately be traded at a market determined exchange rate. We believe that is the surest way to achieve the only “correct” value for the Chinese currency and to structure the most predictable and stable trade relationship. With that in mind, we would hope that the Committee will encourage the Administration to continue pursuing a multilateral approach to address China’s currency policies. We believe this is the most effective way to bring about the kind of long term, gradual, and sustainable changes that are needed.

AAFA believes, however, that addressing China’s currency, particularly through legislation, will not create U.S. jobs. In fact, if this issue is pursued incorrectly – such as through the *Currency Reform for Fair Trade Act* (H.R. 2378), the bill that the Committee is most closely examining – it could hurt U.S. jobs. With an eye toward maximizing job creation, AAFA urges the committee to focus on implementing policies with China that would actually positively affect U.S. workers. We believe the best approach is to focus on policies that would remove barriers for U.S.-made and U.S.-branded products to enter the China’s market, the fastest growing market for U.S.-made and U.S.-branded products in the world.

## **Currency Does Not Create U.S. Jobs, but Currency Legislation Could Hurt U.S. Jobs**

The question put forth by the Committee in calling this hearing makes two fundamental, but we believe, incorrect assumptions.

### **Currency Appreciation Does Not Create U.S. Jobs**

First, and most important, the question put forward in the hearing notice assumes that a significant appreciation in China's currency will create U.S. jobs. Regrettably, there is no evidence that supports this assumption. To the contrary, history shows that there is little, if any connection, between a rising Chinese currency and U.S. job creation. In fact, during the last period of China currency appreciation, where China's currency appreciated over 20 percent versus the U.S. dollar between 2005 and 2008, there is no evidence that this appreciation affected U.S. jobs one way or another.

Further, this assumption is based on the theory that if currency appreciation makes it too expensive to manufacture in China, those manufacturing jobs will necessarily return to the United States. This is extremely unlikely because China and the United States do not trade in a vacuum. In apparel and footwear, and in thousands of consumer and other products, dozens of countries stand ready to pick up any production diverted from China. Apparel is the best example of this situation, where there are suppliers in at least a half dozen other Asian countries alone that today can compete with China on price. Any appreciation of China's currency that makes China less attractive will simply divert production to those other countries – and not back to the United States.

### **Can Legislation Achieve A "Correct" Value of China's Currency?**

Second, the premise for the hearing assumes that Congress, through legislation, can somehow force China to revalue its currency while, at the same time, determine the "correct" market value for China's currency. That is the stated goal of the legislation being considered by the Committee at the hearing, the *Currency Reform for Fair Trade Act* (H.R. 2378).

However, it is impossible to identify the "correct" exchange rate. Even the world's leading economic minds, including Nobel Prize winners, cannot agree on how much China's currency is "overvalued," throwing out numbers anywhere from 15-40 percent. Moreover, as we know with the U.S. dollar, the market value of a currency is not static, it changes daily. More than daily, in truth, increasing or decreasing countless times in any given day. The market value of China's currency, and the U.S. dollar, are not only affected by macro and micro-economic trends in China and the United States, but by events in third countries and regions as well. The impact of the recent Greek financial crisis on the U.S. dollar is a perfect example. It would be impossible, either through legislation, or through an administrative proceeding, to determine the "market value" of China's currency.

### **H.R. 2378 Fails to Create U.S. Jobs or Force China to Revalue its Currency**

Turning to the legislation under consideration by the committee, H.R. 2378 would, if enacted, allow currency manipulation to be considered by the U.S. Department of Commerce to determine the level of dumping in anti-dumping (AD) cases and to consider currency manipulation as a subsidy in counter-vailing duty (CvD) under U.S. trade remedy law.

How would H.R. 2378: 1) increase U.S. jobs or 2) force China to move its currency to "market value"? The short answer is that the legislation fails on both fronts.

In fact, even if it functions as intended, the legislation would not be successful in establishing the “market value” of China’s currency. The legislation empowers Commerce Department officials to identify a correct value for various AD and CvD orders, even though this Department is not responsible for U.S. currency policies. Moreover, these estimates would be static, ignoring any market driven changes in the Chinese currency that occurs subsequently. In other words, if the legislation operates as intended, it would ignore market determined rates to maintain an artificially calculated value (through trade remedy orders).

Moreover, accepting the premise that the increased AD and CvD margins, which many believe would be one result of this legislation, helps the industries involved in U.S. trade remedy cases, only a small percent of U.S./China trade would be affected. U.S. trade remedy cases in the last few years have, on average, affected less than three percent of U.S./China trade. The rest of the bilateral trade relationship – the vast majority of which would not be covered by trade remedy cases – would be untouched.

In fact, this probably overstates the impact of these trade remedy changes on U.S./China trade. Greater or more aggressive use of trade remedies in U.S./China trade will mostly likely result in diversion of trade to other trade partners, including many in Asia. As demonstrated in the China 421 case and as noted above, even if U.S. imports of certain products from China face significant punitive duties, it doesn’t necessarily mean that that product will suddenly be manufactured in the United States. Instead, U.S. imports from competing supplier countries will grow to supplant the suddenly more expensive U.S. imports from China.

Despite the miniscule direct impact this legislation would have on creating U.S. jobs, the bill’s proponents argue that the threat of significantly higher margins and a “flood” of new trade remedy cases would force China to significantly re-value its currency. Would China make such a decision that could dramatically impact its economy over three percent of U.S./China trade? What if U.S. trade remedy cases doubled overnight, now affecting six percent of trade?

China would likely respond by retaliating against U.S. interests – similar to what it did in the 421 China tire case. Retaliation can take many forms, including initiating new trade remedy cases against the U.S., cancelling airplane orders, indefinitely delaying decisions on licensing, and impeding the ability of U.S. apparel and footwear brands to operate in the Chinese market. The common denominator in this response would be to hurt U.S. companies and the U.S. based employees of those companies.

Finally, the legislation, on its face, directly violates U.S. obligations under the World Trade Organization (WTO). Instead of a united multilateral front focused solely on getting China to address its “currency imbalance,” the world’s focus will instead be on the fact that the United States is in violation of its international trade obligations. As a result, in addition to the actions described above, China would be well within its rights in bringing a WTO case against the United States. China would surely win this case, which would lead to internationally-sanctioned punitive actions against U.S. exports to China. Again, at the expense of the U.S. workers who make and sell those exports.

Instead of being a “job creator” - as claimed by the bill’s proponents – the direct and indirect effects of this legislation will be to kill U.S. jobs.

*Focusing on Currency Takes Focus Away from Issues that Really Impact U.S. Jobs*

In the interim, the political capital that would be wasted on “fixing” China’s currency would mean that real, practical initiatives to increase U.S. jobs, through exporting U.S.-made and U.S.-branded products to the world’s fastest growing market, would be pushed aside, or might even go backwards.

For U.S. apparel and footwear brands, one of our chief concerns is China’s enforcement of intellectual property rights (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.

Success in combating counterfeiting in China can only be achieved through growing cooperation with the central, provincial and city governments in China. We have made some progress in recent years, but we still have a long, long way to go. Passage of legislation like H.R. 2378 would not move us forward, but would jeopardize even the limited progress we have made so far on this critical issue.

Likewise, U.S. apparel and footwear brands continue to face distribution and other market access problems in selling our branded products in China. We have moved forward a lot since China’s accession to the WTO, but the significant obstacles that remain in place are less clear-cut and, therefore, are harder to fix. Again, H.R. 2378 would do nothing to address these difficult problems. Instead, the legislation would make resolution of these problems even harder by diverting political attention and resources in other directions.

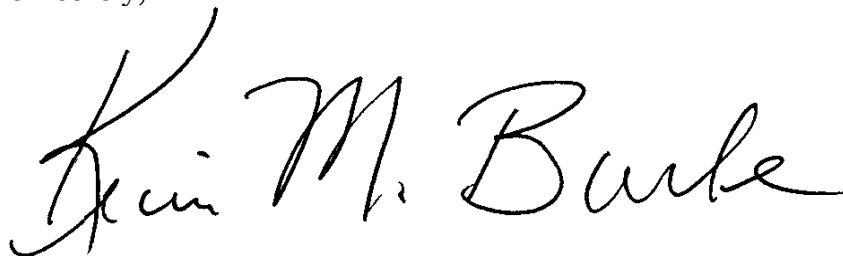
In conclusion, we urge the committee to re-focus its energies on developing and pursuing policies with China that have a direct impact on creating U.S. jobs, policies that address key market access issues for U.S. manufacturers and brands, like IPR.

We believe efforts on currency should follow the lead of the Obama administration by working to find a multilateral approach to pressuring China to revalue its currency.

As described above, pursuing legislation to unilaterally address the China currency issue would not create U.S. jobs or force China to re-value its currency. Instead, it would jeopardize U.S. jobs.

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](mailto: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