



February 1, 2008

Secretary  
U.S. International Trade Commission  
500 E Street, SW  
Washington, DC 20436

**RE: Written Submission for U.S. International Trade Commission Investigation No. 332-491 –  
*China: Government Policies Affecting U.S. Trade in Selected Sectors* (FR Vol. 72, No. 146, P.  
41773, July 31, 2007)**

To Whom It May Concern:

Thank you for providing us the opportunity to submit this statement in relation to the investigation cited above – how Chinese government policies affect U.S. trade in apparel, textiles and other sectors.

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, and the inputs for those products, throughout the United States and the world, including China. In short, our members make everywhere and sell everywhere.

China today remains vitally important to the U.S. apparel and footwear industries, both as a supplier as well as a fast-growing market for U.S.-made and U.S.-branded apparel and footwear and the inputs used to make that apparel and footwear.

Since the investigation focuses on the apparel and textile sectors, I will limit my comments to just those sectors, although most of the issues I mention below also pertain to the footwear sector.

I would request that you keep the following insights from our industry in mind as you are conducting this investigation.

In our experience, virtually all Chinese factories and input suppliers supplying U.S. brands and retailers are privately-held companies. In fact, most of these companies are foreign-owned. These companies operate under the same market-driven principles as the customers – U.S. brands and retailers – they serve.

Further, while many have alleged that the Chinese government has provided subsidies and other support for many sectors of the economy, we have instead witnessed the Chinese government instituting a number of measures over the past few years that have strongly discouraged the growth of and new investment in the Chinese apparel industry.

First, the Chinese government has slashed the Value-Added Tax (VAT) rebate for exports of finished apparel as well as virtually all of the inputs used in manufacturing apparel. Just as is done in Europe and most other countries around the world, China had previously rebated all of the VAT (which is 17 percent on most products) paid throughout the supply chain on finished apparel exported out of China. Over the past few years, however, China has reduced the VAT export rebate for finished apparel and virtually all inputs (fibers, yarns, fabrics, etc.) by almost half and eliminated the VAT export rebate outright for other inputs, such as leather.

Second, the Chinese government has implemented significant new cash deposit requirements for Chinese imports and exports of virtually all textiles used in the manufacturing of apparel. This new regulation has had the net effect of tying up significant amounts of cash flow for extended periods of time, making doing business in China even more difficult.

Third, the Chinese government has dramatically increased the value of its currency over the last two years – increasing the value by over 13 percent during this period. All business with U.S. apparel companies is transacted in U.S. dollars. This means that the cost of doing business in China in apparel has increased significantly.

It is unclear why China has pursued this course of action, particularly against an industry that directly employs tens of millions of people in China. As one would expect, these measures have significantly increased the difficulty and cost of sourcing apparel in China. Many of our members have told us that they face increased costs from their suppliers in China ranging from 15-40 percent.

***China – One of the Best Customers for U.S. Textiles and U.S. Cotton***

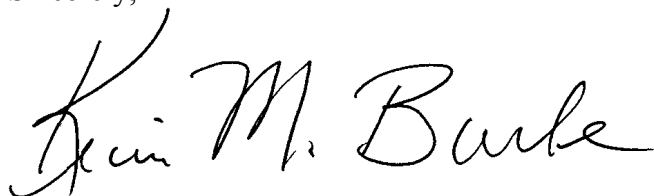
At the same time, China has become the U.S. textile industry's fastest growing customer. Sales of U.S. textiles and textile products to China surpassed \$42 million in 2006, making it 5<sup>th</sup> largest market for U.S. textile exports. With over 10 percent growth in U.S. textile exports to China over the last year, U.S. textile sales to China are set to surpass \$460 million in 2007, making it one of the fastest growing export markets for U.S. textiles.

China also remains by far the largest customer for U.S. cotton in the world. China bought over \$2 billion worth of U.S. cotton in 2006, purchasing 1 out of every 3 bales of cotton harvested in the United States. While sales slowed in 2007, China remained U.S. cotton's number one customer with sales expected to top \$1.5 billion in 2007.

As you proceed with your investigation, we hope you recognize that, at least in our industry, the Chinese government's policies have significantly raised the cost of doing business in China. We hope the results of your investigation also recognize the importance of China as one of the biggest and fastest growing customers for U.S. textiles and U.S. cotton, a critical point often overlooked in the current policy discussions involving China.

Thank you for your time and consideration in this matter.

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