



August 1, 2007

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

RE: Written Statement for Ways and Means Trade Subcommittee Hearing on “Legislation Related to Trade with China,” August 2, 2007 (Advisory TR-5, July 26, 2007)

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.

I would like to take this opportunity to briefly describe the importance of China to the U.S. footwear and apparel industries and how our relationship with China benefits U.S. apparel and footwear firms, U.S. workers, U.S. consumers and, in turn, the U.S. economy. I will also discuss our concerns and hopes for this relationship in the future, particularly as it relates to the focus of this hearing – i.e. legislation related to trade with China.

Our Industry – Then & Now

But first, a little background on our industries. Our industries have historically been among the most protected industries in the United States – subject to decades of stiff protection in the form of high tariffs and restrictive quotas (for apparel). Even today, U.S. apparel and footwear imports from China are still subject to high tariffs and, in the case of apparel, quotas.

Yet, this incredible protection failed to do the very thing it was supposed to do, protect the U.S. apparel and footwear manufacturing base. Today, 99 percent of all footwear and 91 percent of all apparel sold in the United States is imported. For comparison, in 1980, only one-half of all footwear and less than one-third of all apparel sold in the United States was imported.

Today, less than 570,000 people work in the manufacturing of apparel, textiles and shoes in the United States – a loss of over 1.7 million jobs, or three-quarters of the entire U.S. footwear and apparel manufacturing workforce since 1974. One million of those jobs have been lost in the last decade alone.

Despite this seemingly bleak picture, the U.S. apparel and footwear market is booming. Americans like their clothes, and their shoes, and it shows. U.S. consumers spent a record \$359 billion on apparel and footwear in 2006, or an average of \$1200 for every man, woman and child in the United States. Even as energy prices

skyrocketed here in the United States last year, retail sales at clothing and footwear stores were 4.9 percent higher in 2006 than in 2005. The bottom line is that despite whatever economic pressures face us, Americans still buy new things to wear. Americans, however, are picky about their shoes and clothes, they continually want an ever-wider variety of higher-quality shoes and clothes available at lower prices and made in a socially responsible manner – and our industry has had to respond.

U.S. footwear and apparel firms have responded to these challenges by transforming themselves from manufacturers into brands. Today's U.S. apparel and footwear "brands" are more lean and more competitive than ever – their goal is to provide the American consumer with what they want – the best brands at the best prices made under socially responsible conditions, while still making a profit.

And the result of this is that U.S. apparel and footwear firms are thriving, with many achieving profits last year – profits that go directly back into the U.S. economy and ensure a competitive industry. Further, while the industry has lost over one million manufacturing jobs in the last decade, the industry has produced hundreds of thousands of good-paying new jobs for U.S. workers – not in manufacturing, but in such varied professions as design, research and development, marketing, distribution, sourcing, warehousing, management, administration and sales. Further, the industry directly supports another 1.5 million plus jobs at retail establishments throughout the United States.

The industry's transformation has directly benefited U.S. consumers – particularly hardworking lower- and middle-income American families – by lowering prices on one of the most basic staples every man, woman and child needs. As a result of the industry's transformation, apparel and footwear retail prices have declined some 11.9 percent and 5.8 percent, respectively since 1998, despite a more than 27 percent increase in overall retail prices during the same period – saving American families countless billions of dollars every year – money they pump back into the U.S. economy.

Thanks to these lower prices, American families today spend a smaller percentage of their income on shoes and clothes, a necessity for every American, and instead spend more elsewhere. According to the U.S. Department of Commerce's Bureau of Economic Analysis, the percentage of the average American family's Personal Consumption Expenditures (PCE) spent on clothes and shoes has dropped by almost one-half since 1977 – from 6.6 percent of total PCE in 1977 to less than 3.9 percent today. With consumer spending driving over 2/3 of our Gross Domestic Product (GDP), the decline in U.S. apparel and footwear prices not only helped hardworking American families better afford two of life's most important staples, but has helped fuel the overall economy.

China's Relationship with the U.S. Apparel & Footwear Industry

The U.S. footwear and apparel industry could not have succeeded in transforming into the success that it has become today without the existence of China. Working almost exclusively with foreign-owned and/or privately-held factories in China, U.S. apparel and footwear firms have been able to give American consumers what they want – an ever-wider variety of higher-quality shoes and clothes at lower prices – while ensuring that those clothes and shoes are made in a socially responsible manner.

Today, this relationship is stronger than ever. U.S. footwear and apparel firms imported over \$30 billion worth of footwear and apparel from China in 2006 . U.S. imports from China today account for over 86 percent of all shoes and over 27 percent of all clothes sold in the United States.

Opening the Chinese Market to U.S. Apparel and Footwear Brands

There Has Been Progress, but More Must be Done

U.S. footwear and apparel firms, however, recognize that 95 percent of the world's population lives outside the United States. Some of their fastest growing markets are no longer in the United States or Europe, but in China, or India or Brazil. U.S. apparel and footwear firms are now truly global – they buy and sell clothes and shoes all over the world. That is why AAFA's motto is – “We Dress the World.”

Our industry was one of the biggest supporters of China entering the World Trade Organization (WTO), not just because of our relationship with China as a supplier to the U.S. market, but because we wanted to use WTO rules to open China – with the world's largest middle class of 200 million people and growing – to U.S. brands. Since China's WTO accession, our industry has worked closely with the U.S. government and the rest of the U.S. business community to ensure that China lives up to its commitment in opening up its distribution and retail sectors. Thanks to our efforts, China has largely lived up to those commitments, opening the doors to U.S. brands to sell into the vast Chinese market.

While U.S. brands have had some success in China because of these efforts, significant restrictions still exist in our sectors. We hope the Chinese fully live up to their commitments in these areas.

China & The Currency Issue

On the issue of currency, we believe the best long term strategy is a freely convertible currency. Our concerns with some of the approaches being discussed -- in addition to the concerns stated elsewhere about WTO compatibility -- is that it is extremely difficult to identify the "right" exchange rate. Indeed, advocates for trade remedies often point to a "range" of currency misalignment in China of 15 to 40 percent. Such wide discrepancies make it difficult to identify and execute effective trade remedies. For example, advocates of a China currency bill last year arbitrarily picked 27.5 percent (half way between 15 and 40) for a trade remedy to counter China's currency levels. Moreover, since China allowed its currency to float on a limited basis, the renimbi has already risen about 10 percent, putting it in the neighborhood of the 15 to 40 percent range cited earlier. While we share the Committee's frustration that the path toward currency adjustment has not gone more quickly, we note that slow and deliberate change, rather than abrupt shifts, is the key to predictability to make sure business is not disrupted.

Intellectual Property Rights (IPR)

Moreover, we have been deeply disappointed with the progress made to date on China's efforts to improve its Intellectual Property Rights (IPR) enforcement. U.S. footwear and apparel brands have been subject to rampant counterfeiting in China, stalling our efforts to break into this important market. This problem even affects us in our home market – the United States. Every year, clothes and shoes top the list of counterfeit items seized by U.S. Customs. We estimate that these seizures represent only a small fraction of the total amount of counterfeit shoes and clothes entering the U.S. market. China must do more on IPR enforcement. Therefore, we strongly support the U.S. government's actions in taking China to WTO dispute settlement over lax IPR enforcement. We hope that the combination of the WTO cases and ongoing dialogue will resolve an issue that is so critical to our industry.

Subsidies

We applaud the Bush administration in initiating a case against China in the World Trade Organization (WTO) against China's continued use of WTO-Prohibited Subsidies. Such subsidies can truly distort trade in certain products and industries. Further, the arbitrary nature of such subsidies, where China has provided and then removed such subsidies without notice, creates immense uncertainty for our industry. This uncertainty is endemic of the lack of transparency that still exists in China.

Product Safety

On the issue of product safety, I would again caution against making any major policy changes without thoughtful review. Our industries are at the forefront of the product safety issue, because our products come into contact with every man, woman and child in the United States 24 hours a day, seven days a week. Our industry is a pioneer when it comes to dealing with hazardous substances and chemicals coming into contact not only with the clothes and shoes we wear every day, but dealing with the substances that come into contact with the workers who make those shoes and clothes. On behalf of our industries, AAFA recently published the first-ever industry-wide restricted substances list (RSL). Further, the industry, in cooperation with the government, has established strict standards when it comes to product safety for the clothes our children wear. Our members have long maintained strict quality control and environmental compliance mechanisms at the factory level, many of which are located in China, that ensure that these hazardous substances do not come into contact with the clothes and shoes we make or the workers who make them nor jeopardize the safety of the children who wear them. On the off chance unsafe products do enter the U.S. market, our industry, again in cooperation with the U.S. government, has implemented effective mechanisms to quickly remove those unsafe products from the marketplace. These activities ensure that product safety is effectively maintained while not slowing the pace of commerce. While we recognize that improvements can always be made, we caution that changes to the current U.S. product safety system not be done in a way that creates major disruptions in commerce while failing to fix the very problem those changes were made to fix -- improving product safety. We would be happy, however, to work with the committee to craft any proposals that we believe would improve product safety while not substantially slowing commerce.

Next Steps – the U.S. Apparel and Footwear Industry View

As we noted, China still has a long way to go in meeting its international obligations – as both a major economic power and as a major market for U.S. brands and U.S. products. We fully support the current administration’s efforts to address these many issues through dialogue. As we also noted, however, our industry has and will continue to support further actions in specific instances where dialogue continues to produce less than desired results.

I would, however, caution those who would propose certain “remedies” for the purpose of resolving many of these issues. First, many of the proposed “solutions” clearly violate U.S. obligations under international trade rules. While many might not be concerned about this, this violation is of critical concern to our 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 quickly replicated, closing these important markets to U.S. brands.

Second, many of these proposed “remedies” would impose significant penalties, in the form of punitive duties or other restrictions, on some or all U.S. imports from China. As I have already stated, virtually all clothes and shoes sold in the United States are imported, with a significant portion being imported from China. Similar situations exist for a multitude of other consumer products used every day by hardworking American families. If such “remedies” are imposed, those remedies would amount to a huge new tax on hardworking American families – at a time when many of these families can least afford it.

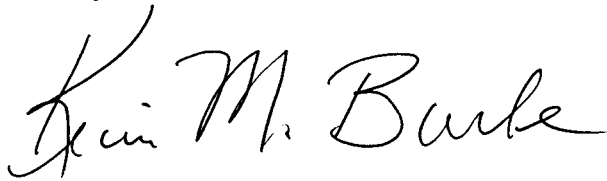
Finally, such actions could actually hurt the very U.S. manufacturing base these measures are supposedly trying to protect. Regrettably, recent history has repeatedly demonstrated this fact. Our members’ products – U.S.-made apparel and footwear – figured prominently on foreign country retaliation lists in both the WTO dispute

over Foreign Sales Corporations (FSC) and in the WTO dispute over the Byrd Amendment. These punitive measures severely crippled what remains of the U.S. apparel and footwear manufacturing industries as it essentially closed their primary export market to U.S.-made footwear and apparel – Europe. In this case, China is one of the largest and fastest growing markets for U.S. exports of all types – from yarn and fabric to machinery and high technology products and from cotton and soybeans to poultry.

The U.S. apparel and footwear industry recognizes that many important issues exist in the U.S.-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. Therefore, I urge policymakers to carefully consider all aspects of this vital and complicated relationship before setting new policy.

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