National Retail Federation
The Voice of Retail Worldwide

April 11, 2007

The Honorable Max Baucus
Chairman
Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Re: The U.S.-China Trade Relationship – Comments by the National Retail Federation

Dear Chairman Baucus:

On behalf of the U.S. retail industry, the National Retail Federation is pleased to provide the following comments in response to the hearings before the Senate Finance Committee on March 27 and 28 on U.S.-China trade relationship.

The **National Retail Federation** is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail establishments, more than 24 million employees - about one in five American workers - and 2006 sales of $4.7 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations.

International trade issues fundamentally impact the ability of U.S. retailers to run their businesses successfully. Every American retailer sources products from around the world in order to provide their customers the widest selection of merchandise at the best value. The commercial activities of the retail industry support good-paying, blue and white collar jobs, many of them union jobs. These millions of American workers are employed not only in the retail industry, which accounts for one-fifth of the U.S. workforce, but also in many industries that support retail operations and supply chains – *e.g.*, manufacturing, farming, ports, rail, trucking, warehousing, air delivery, and logistics. Having access to the widest selection of imported and domestic goods also keeps prices and inflation down and raises our standard of living.

Historically, commerce has provided the basis for U.S. economic prosperity. Yet today, there is a growing sentiment that blames international trade and globalization for a host of economic and competitiveness challenges facing Americans. Much of this national economic anxiety is focused on trade with China as it becomes a significant player in the global economy. Ignoring many of the more complex underlying causes, it has become easy to blame China for a variety of perceived problems – in particular our growing trade deficit and loss of manufacturing jobs. Policy makers have come under increasing pressure to take action to address these issues, often through protectionist measures under the guise of “fair trade” to limit imports from China.

Few U.S. industries have more at stake in the debate on the U.S.-China trade relationship than retailers. Consumer goods comprise 80 percent of U.S. imports from China, and China a key supplier in nearly every consumer goods category, including clothing, footwear, toys, consumer electronics, housewares, and furniture. Moreover, the demand in China for western style retail services is growing rapidly as millions of Chinese enter the middle class. This growth of the retail sector in big emerging markets like China is critical for the future of U.S. retail companies facing slowing growth in the United States and other mature retail markets.

The retail industry recognizes that there are legitimate issues with China that need to be effectively addressed, including inadequate protection of intellectual property rights, market access issues, the need to develop a more flexible currency regime, ensuring that China abides by its obligations under international trade rules, and dealing with the difficulties inherent in China's transformation from a centrally-planned non-market economy to a market-economy country. In considering how best to address these issues, the retail industry urges prudence and thoughtfulness on the part of policy makers. Policy makers should support appropriate action through diplomatic efforts and the use of multilateral mechanisms to address issues in the U.S.-China relationship that can yield effective progress and are consistent with World Trade Organization rules. For example, we fully support both the Strategic Economic Dialogue (SED) and recent actions by the U.S. Trade Representative's Office against China under the WTO dispute settlement mechanism. The SED may be a slower process than some may want, but it is most likely to yield positive results. By the same token, it is appropriate to challenge China at the WTO if it is providing prohibited subsidies and failing to adhere to international trade rules on the protection of intellectual-property rights.

On the other hand, policy makers should reject unilateral, counterproductive, and WTO illegal restrictions on imports of Chinese goods as a policy tool to compel action by China. An example of legislation that would fall in this category was the Schumer/Graham bill to impose a 27.5 percent tax on all imports from China in retaliation for China's alleged undervaluation of its currency. Had this protectionist, WTO-illegal legislation become law, it would have imposed huge costs on the U.S. economy, seriously harmed U.S. retailers, manufacturers, services providers and farmers that depend on imports used in the products they make, adversely affected millions of American consumers, and exposed U.S. exports to billions of dollars in WTO-approved trade sanctions. Just as disturbing, it would have moved the focus away from the real goal – achieving reform of China's financial sector so that the currency issue can be effectively addressed.

Most recently, we have seen Congress and the Administration turn to the trade remedies laws (antidumping, countervailing duty, safeguards) to restrict imports from China in an effort to deal with some of the larger trade issues with China. Again, the retail industry has much at stake as policy makers debate changes to trade remedies laws and procedures. Recently there has been a notable increase in trade remedies investigations against imported consumer products – e.g., wooden bedroom furniture, grills, etc. Based on our experience in these cases, we strongly believe that there is no need to "strengthen" current laws to make it easier for petitioning industries to obtain relief. If anything, these rules are too heavily stacked against

U.S. importers, consuming industries, and consumers – those who pay the bill for the import taxes imposed in antidumping and countervailing duty cases – to defend their interests. Therefore, we urge policy makers to oppose legislation that would further skew these rules to the detriment of U.S. retailers, consuming industries, and consumers, make trade remedies decisions more arbitrary and political, and violate international trade rules.

Several proposals that raise particular concern are legislation to restrict presidential discretion to consider the national economic interest in 421 safeguards cases; to circumvent WTO rules on standing in antidumping and countervailing duty cases by allowing upstream industries to file cases; to circumvent WTO subsidies rules by deeming currency imbalances to be a countervailable export subsidy.

NRF appreciates the opportunity to comment on these important issues and is available to answer any questions the committee may have.

Respectfully submitted,

Erik O. Autor

Erik O. Autor
Vice President, Int'l Trade Counsel
National Retail Federation