STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JOHN D. CHERRY, JR.
LT. GOVERNOR

July 17, 2006

Commissioner George Becker
Hearing Co-Chair
U.S.-China Economic and Security
Review Commission
444 North Capitol St., NW Suite 602
Washington, DC 20001

Commissioner Daniel Blumenthal
Hearing Co-Chair
U.S.-China Economic and Security
Review Commission
444 North Capitol St., NW Suite 602
Washington, DC 20001

Re: Submission for Field Hearing on Impact of Chinese Manufacturing on U.S. Auto and Auto Parts Industries

Dear Commissioners:

As Governor of Michigan, it is my honor to welcome the U.S.-China Economic and Security Review Commission to our great state. I applaud the Commission for holding a hearing on the impact of Chinese manufacturing on U.S. auto and auto parts industries. The Commission's decision to hold a hearing in Dearborn is a fitting acknowledgement of the impact that federal trade policies have had on Michigan's economy.

For too long, the United States has been willing to be a doormat for our trading partners. The U.S. has lost one million jobs as a result of unfair competition, two-thirds of which were good-paying manufacturing jobs. Michigan, with the highest percentage of jobs tied to manufacturing, has felt the impact of these losses more than any other state in the nation.

Unfair trade practices have pushed the U.S. bilateral trade deficit with China past $200 billion – an increase of 250 percent from 2001. According to the Economic Policy Institute, trade imbalances in manufacturing have accounted for 59 percent of the decline in manufacturing employment since 1998. These unfair trade practices include:

- **Currency Manipulation:** China's currency manipulation over the past decade has undervalued the yuan by 15 to 40 percent and gives China's goods and services a built-in unfair competitive advantage over American goods and services in the United States, China and around the world.

- **Intellectual Property Rights**: The Federal Trade Commission (FTC) estimates that more than $12 billion in domestic sales of automotive parts is lost each year as a result of counterfeit parts. Two of every three counterfeit auto parts originate in China. If counterfeit parts were eliminated, the U.S. auto industry would be able to support 250,000 more employees.

- **Auto Parts Barriers:** China's "local content" regulations unfairly discriminate against U.S. auto parts in favor of Chinese-manufactured parts and provide an incentive for auto parts producers to relocate manufacturing facilities to China.

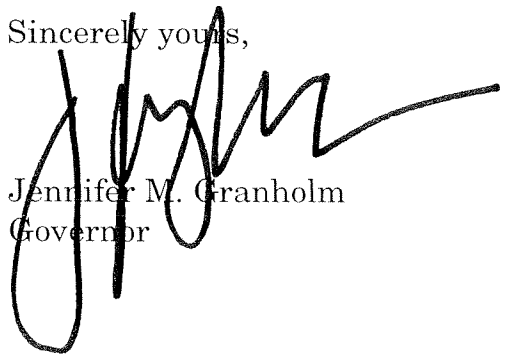
- **Labor Standards:** Chinese government "persistently and systematically denies workers' rights, hurting U.S. workers and communities, while also preventing Chinese workers from exercising their internationally recognized rights." According to AFL-CIO data, the U.S. lost 930,000 manufacturing jobs as a result of the denial of workers' rights in China.

China's rapid build-up in automotive production—facilitated by unfair trading practices—has had a serious impact on Michigan businesses. Michigan workers and manufacturers can compete with anyone on the globe, but we need a level playing field. Instead, we are being asked to compete with one arm tied behind our backs and the impacts are far-reaching. I frequently have the chance to meet with affected families across our state and the impact is very real.

As Governor, I am doing all that I can to transform Michigan's economy by investing in industries that will diversify our economy and investing in education and training for our workforce. We have the most comprehensive, aggressive economic plan in the nation, but no governor has the power to negotiate or enforce trade agreements. I will continue to call upon the Bush Administration to do more to fight China's unfair trade practices until the administration acts to protect Michigan workers and Michigan jobs.

I hope that this hearing will not only shed needed light to China's harmful trading practices that are impacting the U.S. auto and auto parts industries but also provide an invaluable debate on the action our federal government must take to help our American companies compete in this global economy. Without federal action towards China, the trade imbalance will continue to balloon and jobs will continue to be lost.

Sincerely yours,



Jennifer M. Granholm
Governor