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Automotive foreign direct investment in the United States: Economic and market consequences of globalization

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Abstract This article examines the substantial growth of foreign direct investment into the United States by international (i.e., non-domestic) automotive firms over the past quarter century. Global macro-environmental factors influencing this investment are examined, as are the resulting impacts on numerous stakeholders including global automotive firms, consumers, and regional and state economies. The findings illustrate effective adaptive strategies that both automotive firms and economic development stakeholders follow in an increasingly global environment, resulting in significant economic, market, and quality-of-life benefits. The stakeholder perspective affords a more comprehensive view of globalization, forwarding a position counter to the protectionist viewpoint often espoused in business and popular culture.

1. Automotive FDI: Fueling an economic engine?

America's growing economic interdependence with the rest of the world is sometimes a negative topic within business and political policy discussions in the United States. Criticisms are especially sharp when the subject concerns U.S. firms investing in manufacturing operations abroad, resulting in off-shoring and/or outsourcing of jobs (Griswold, 2010; Ikenson, 2008, 2009; Slaughter, 2007).

What is often omitted in U.S. economic and trade policy discussions, however, is recognition of the significant number of jobs that are insourced from foreign firms (Drucker & Schlender, 2004; Marchant & Kumar, 2004; Slaughter, 2004). Also known as foreign direct investment, or FDI, *insourcing* is defined as direct investment into the United States by foreign headquartered multinational firms (Slaughter, 2004). Direct investment in the United States by foreign automotive firms—such as BMW, Honda, Hyundai, Kia, Mercedes, Nissan, and Toyota —epitomizes insourcing and illustrates the reality of the modern global supply chain. Initially viewed as a Japanese phenomenon, automotive FDI in the United States now constitutes manufacturing, assembly, and supplier plants emanating from

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countries around the globe. In 2005, more than 40 models of foreign nameplate cars, minivans, sport utility vehicles (SUVs), and pickup trucks were being produced at 15 plants in the United States (Ford, 2005). As a result, for the first time in history, more foreign-brand vehicles sold in the United States were built in the United States than were imported in 2005. In 2007, foreign automakers in the United States accounted for 33% of U.S. auto production, employing 92,700 workers directly (payroll of $6.2 billion) and 574,500 indirectly (Gross, 2008). For the 2009 model year, European and Japanese automakers sold more vehicles in the United States than Detroit, another first (Kalwarski & Daunis-Allen, 2009). As of 2011, nine states—Alabama, Georgia, Indiana, Kentucky, Mississippi, Ohio, South Carolina, Tennessee, and Texas—were home to major foreign-owned automotive assembly plants.

Despite its documented gains to the domestic economy, many constituencies continue to question whether automotive FDI has actually garnered a benefit or whether it has degraded U.S. industry, lowered tax revenues as a result of incentive packages, and produced unfair competition among states (Gross, 2008; Windecker, 2007). For instance, Windecker (2007) argues that foreign 'transplants' do not create jobs; they merely replace some of the jobs lost by traditional U.S. automakers. These attitudes mirror an increasingly protectionist sentiment among the general population, as well as the deepening recession of 2008—2009 (Abrams, 2009; Cowen, 2008; Ikenson & Lincicome, 2009).

These issues were initially addressed in the academic literature in a *Business Horizons* article by Newman and Rhee (1990) examining Midwest automotive transplants originating from Japan in the early 1980s. The authors questioned the 'greenfield' strategic approach by the Japanese, the extensive efforts undertaken by states to attract Japanese investments, and the implied promise of instant employment and overnight prosperity for target investment areas. Specifically, the piece posed the following questions: What is really being created? Are the jobs simply low-skilled assembly positions that will contribute little to economic prosperity? Are the jobs significant enough to revitalize the geographic area? Do they justify the millions of dollars of state funds expended to lure the manufacturers into the state?

The purpose of this article is to provide direct answers to the policy questions of Newman and Rhee (1990) by examining the substantial growth and myriad effects of U.S. FDI via international (i.e., non-domestic) automotive entities over the past quarter century. We begin by analyzing the key factors driving FDI to the United States, and follow up with an analysis of site-selection criteria that influenced the greater part of this investment to the lower mid-western and southern regions of the United States. Utilizing secondary data, we examine the economic and market consequences of automotive FDI on multiple parties: global automotive firms, regional and state economies, and consumers. Finally, we discuss the need for heightened awareness and knowledge of the multiple dimensions of globalization and the impact of global macro-environmental forces on firms, economies, and consumers. The findings illustrate a perspective based on best practices for investment and economic development success in an increasingly global marketplace.

2. Background

2.1. The impact of FDI

The International Monetary Fund (2008), or IMF, defines *globalization* as "the process through which an increasingly free flow of ideas, people, goods, services, and capital leads to the integration of economies and societies." Integration, the central theme of globalization, relies on two main factors: trade liberalization and technological development. Increasing liberalization of trade (i.e., reducing trade barriers) in the latter half of the 20th century has fueled the global flow of products, services, investment, human capital, knowledge, and technology, resulting in enhanced economic interdependence within the international economy.

Landefeld and Whichard (2006, p. 127) note that globalization "encompasses not only the internationalization of consumption through cross-border trade in goods and services, but also the global integration of capital markets and the internationalization of production through foreign direct investment." Historically, three major motivations have spurred FDI as a global market-entry strategy: garnering new resources, or *resource seeking*; gaining access to new markets, or *market seeking*; and achieving greater efficiencies through lower business-related costs, or *efficiency seeking* (Hill, 2005).

A large portion of the research in this area has focused on multinational companies' investments in emerging markets and site-selection factors impacting FDI. A 2004 McKinsey Global Institute study involving Brazil, China, India, and Mexico found FDI to be beneficial for the economic health of these countries, improving productivity and output across business sectors, lowering prices, raising national incomes, and enhancing quality and selection for consumers (Farrell, 2004). Researchers have shown