

## **Direct Automotive Investment in the United States**

The automotive industry is one of the most, if not the most, competitive industries in the world. Changes underway in this global sector have caused international corporations to reassess production locations for current and future models. The United States is a net beneficiary of this strategic realignment. Not only does the United States have a large domestic automotive market (second only to China), but it also currently has a favorable investment climate and a favorable exchange rate. In fact, dynamics are now at play which have caused the United States to become a more affordable investment location than other countries, such as Brazil and Central Europe, historically considered as cheaper investment sites.<sup>1</sup>

Therefore, in implementing and evaluating the Administration's National Export Initiative (NEI) strategy, it is equally important to consider the benefits of expanded automotive investment in the United States since the effect of this "import substitution" ultimately creates jobs in the same way exports do. Indeed, the Administration's establishment of the SelectUSA Initiative in June 2011, supplements the NEI in supporting private sector job creation and enhancing economic growth by encouraging business investment in the United States.

Expanding existing production sites in order to meet growing demand as economies recover and/or the greenfielding of new model production is on corporate agendas today. While traditionally considered as "foreign direct investment" (FDI), the same strategy is being utilized by domestic manufacturers in their production location-related decisions. Consequently, a better analysis in today's automotive sector considers U.S. investments made by both domestic and foreign companies. To characterize the choice as "direct automotive investment" (DAI) removes national identity of corporations and acknowledges the net benefits for the United States, as the jobs remain here and the exports come from here. Moreover, as foreign companies' percentage of the U.S. market has increased, they have continued to increase their U.S. production (replacing sales that would have alternatively come from imported vehicles). New jobs have been created by the new investments. Nearly 50 percent of indigenous U.S. production is now foreign-owned, and competition remains alive and well in this sector. This has resulted in a market often considered by the industry as the "proving grounds" for global success.

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<sup>1</sup> The United States often competes with its NAFTA partners, Canada and especially Mexico, for new and expanded investments, due to cheaper labor costs and more free trade, or bilateral automotive agreements (i.e., Mexico-EU FTA; Mexico-Mercosur Automotive Agreement; on-going EU-Canada FTA negotiations could place Canada at an advantage over the United States for European automotive investment).

## U.S. Auto Market Trends

An overview of U.S. vehicle sales trends is instructive for understanding the evolving dynamics to the landscape underway since 1985, and exposes the competitive nature of this industry in a free and thriving market.<sup>2</sup>

In 1985, the American manufacturers dominated the market. Over the next 25 years, many changes occurred, to include the arrival of several “transplant” companies, as they decided to “build where they sold.” The American manufacturers accounted for a clear majority of the U.S. vehicle market in 1985, at 74.04 percent, while the Japanese manufacturers were at 19.22 percent (mostly imports), and the Europeans at 4.2 percent (mostly imports). By 2005, and intensified competition through more product offerings from both domestically manufactured products and imports, these numbers had changed significantly, with the American sales accounting for just over half of U.S. vehicle sales at 56.77 percent, Japanese sales at 31.47 percent, European at 6.89 percent and Korean at 4.19 percent. With the global meltdown in 2009, the American manufacturers had their lowest market share sales at 44.44 percent while the Japanese were at an historical high at 39.77 percent. The Europeans and Koreans also gained, with 8.42 and 6.93 percent, respectively. The following two years saw consecutive sales gains for all but the Japanese, as they dealt with the overseas crises and supply chain interruptions, due to Japan’s tsunami and Thailand’s floods. With the opening of the Volkswagen Chattanooga plant in May 2011, German sales are expected to increase even more and competition will be amplified.<sup>3</sup>

### **U.S. TOTAL VEHICLE SALES MARKET SHARE TRENDS (in percentages)**

	1985	1990	1995	2000	2005	2009	2010	2011
<b>American</b>	74.04	71.65	72.93	65.56	56.77	44.44	45.22	47.15
<b>Japanese</b>	19.22	23.62	22.35	25	31.47	39.77	38.11	34.3
<b>European</b>	4.2	3.26	3.44	6.53	6.89	8.42	8.63	9.45
<b>Korean</b>	0	0	0.87	2.27	4.19	6.93	7.6	8.67
<b>Other</b>	2.54	1.47	0.41	0.64	0.68	0.44	0.44	0.43

Source: <http://wardsauto.com/public-data><sup>4</sup>

<sup>2</sup> Based on nameplate data aggregated from Ward’s: <http://wardsauto.com/data-center>

<sup>3</sup> For example, Volkswagen is currently evaluating where to locate its Audi plant in North America. While the United States is hopeful to secure this investment, competition with Mexico and Canada is evident, as Nissan recently chose Mexico for its fifth North American factory at a significant \$2 billion investment in Aguascalientes, Mexico. Daimler is also studying the prospects for another North American plant with its strategic partner Nissan, and Volvo is studying the possibility as well.

<sup>4</sup> Aggregated from Historical table: “U.S. Vehicle Sales Market Share by Company, 1961-2011. American: Chrysler, Ford, GM, International, PACCAR; Japanese: Honda, Nissan, Toyota, Isuzu, Mazda, Mitsubishi, Subaru, Suzuki; European: BMW, Daimler, Volkswagen, Porsche, Volvo, Volvo Truck; Korean: Hyundai, Kia.

Therefore, based on trends since 1985, it is clear that the U.S. market is receptive to not only imports from global manufacturers, but also foreign investment.

### Global Platforms also Change the Game

Automotive manufacturing is in a constant state of evolution. For example, decades ago Toyota introduced its “Toyota Production System”<sup>5</sup> (TPS) and “just-in-time” (JIT) delivery of parts, with the goal for “continuous improvement” (CI) in the production cycle. Other manufacturers observed and learned from the benefits of such an approach. Today, each of the global automakers has developed its own approach to this idea: from Volkswagen’s “Strategy 2018”<sup>6</sup> to Ford’s “One Ford;”<sup>7</sup> the evolution of the manufacturing process lies at the very heart of competitiveness.

Consequently, the old adage in the automotive sector to “build where you sell” remains a relevant strategy, but even this is evolving in a rapidly changing automotive sector, as manufacturers understand the benefits of global products. Indeed, the evolution of global platforms mandates a more integrated world where platforms are interoperable across model lines, resulting in maximized cost efficiencies through easier inventories and fewer parts, as well as lower development costs, global standardization, and increased quality and innovation.<sup>8</sup>

According to an August 2011, study by Frost & Sullivan, automakers’ corporate strategies are focusing more and more on platform standardization and modular tool kits; expecting to see a 30 percent reduction in vehicle platforms by 2020.<sup>9</sup>

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<sup>5</sup> [http://www.toyota-global.com/company/vision\\_philosophy/toyota\\_production\\_system/](http://www.toyota-global.com/company/vision_philosophy/toyota_production_system/)

<sup>6</sup> [http://www.volkswagenag.com/content/vwcorp/content/en/sustainability\\_and\\_responsibility/strategy/strategy\\_2018.html](http://www.volkswagenag.com/content/vwcorp/content/en/sustainability_and_responsibility/strategy/strategy_2018.html)

<sup>7</sup> <http://corporate.ford.com/innovation/innovation-features/innovation-detail/fs-global-vehicle-product-development>

<sup>8</sup> “Global platforms,” “vehicle architecture,” and “modular kits” are phrases used in the manufacturing terminology of the automotive world. Choices made by each company become part of its corporate strategy; hedging and benchmarking competitiveness issues some twenty years out. The idea behind this effort is to simply streamline the manufacturing process to provide the greatest flexibility at the greatest cost-savings.

<sup>9</sup> <http://www.frost.com/prod/servlet/market-insight-top.pag?Src=RSS&docid=240652140> The study also stresses the importance for companies to factor-in the changing market dynamics as they develop their vehicle platform strategies (i.e., largest markets of the future, to include China, India and the United States). The report predicts that the German manufacturers will achieve the greatest platform reductions by 2020, with the Volkswagen group for the mass-produced vehicle segment and the Daimler group for the luxury segment.

For some, the business model leans towards the development of exclusive models from various locations. This is especially true of manufacturers of niche models, such as BMW who are able to satisfy world-wide demand from a single plant. For example, BMW selected the United States as the sole location for production of its larger X-series models, X-3, X-5 and X-6 (X-1 production remains in Leipzig, Germany). This choice results in both “import substitution” of these models for the U.S. market as well as production for the world market. Thus, not only does the United States gain the jobs, but it also gains the exports. In fact, this strategy placed BMW in the coveted position as the Foreign Trade Zone association’s “exporter of the year” in 2010, with 70 percent of its total production exported from the United States.

On the other hand, larger, diversified companies, such as Volkswagen, aim to develop a successful product that is sold globally, but produced by tailoring that product to a specific market and/or region. For example, since May 2011, Volkswagen began production of a Passat model at its Chattanooga, Tennessee facility. By “producing where it sells,” Volkswagen precludes imports of similar vehicles from other locations (i.e., Germany, Mexico).

For those manufacturers who have been in the U.S. market longer, such as the Japanese, particular models that are hot sellers in the United States often are targeted for indigenous production. This occurred for Honda when it found the quick success of its minivan, the Odyssey, take off in the early 1990’s. Honda shifted production from Canada to a greenfield site in Alabama, and has been producing and exporting them for years. In addition, Toyota began production of its successful hybrid vehicles in the United States as the first location outside of Japan to have indigenous production, based on customer demand.

Clearly, it is in each company’s best interest to remain vigilant in seeking new efficiencies in the product development and production cycle. Indications that this is alive and well can be found in the press daily. During the January 2012, Automotive News World Congress in Detroit, Ford announced that it is accelerating its One Ford global product development plan by reducing its target for vehicle platforms worldwide to nine from eleven previously, and by moving the target date up to 2013 from 2014. As stated by Jim Farley, Ford’s Vice President of Global Marketing: “It’s a decision to accelerate the reduction of complexity.”<sup>10</sup> GM also plans to reduce its global vehicle platforms by more than half, to 14 by 2018. In addition, it aims to reduce its engine platforms from nearly 20 in 2009 to fewer than a dozen in 2018 and, eventually, to 10.<sup>11</sup> Survival of the fittest remains an on-going challenge and driver in this key sector, and lessons learned often transfer to other industries.

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<sup>10</sup> <http://www.autonews.com/article/20120116/OEM09/301169963/1425>

<sup>11</sup> <http://www.autoweek.com/article/20110809/CARNEWS/110809876>

### Recent Investment Decisions

According to *Automotive News*,<sup>12</sup> over the past four months new announcements have been made by several manufacturers to increase their U.S. manufacturing: GM, Honda, BMW, Nissan, Mazda, Ford, Chrysler, Toyota and Volkswagen have all said they will add or expand plants or boost production by adding factory shifts in the United States. For example, *Automotive News* reports that GM has committed more than \$6.9 billion of investments to improve or expand operations in 12 states since June 2009, creating or retaining more than 17,600 jobs. Since November 2010, Honda has announced more than \$500 million in investments for advanced technologies and systems at its four Ohio plants, resulting in over 150 new jobs.

Moreover, since the yen is at an all-time historical high against the dollar, this is causing the Japanese manufacturers to reassess and realign production of various models. For example, Toyota announced its decision to relocate Highlander sport utility vehicle (SUV) production from its Japan plant to its Indiana plant, with plans to export to such markets as Russia and Australia once production is on-line.<sup>13</sup> In addition, Honda announced during the 2012 North American International Auto Show in Detroit that it will produce its luxury Acura NSX in the United States within the next three years and incorporating a new performance hybrid system.<sup>14</sup> Toyota will also be increasing its U.S. transmission production in West Virginia, creating approximately 80 new jobs.<sup>15</sup> BMW announced a nearly \$900 million investment at Spartanburg facility in January 2012,<sup>16</sup> and Volkswagen will hire an additional 200 employees at its Chattanooga facility.<sup>17</sup> Mercedes and Nissan are collaborating on engines at Nissan's

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<sup>12</sup> <http://www.autonews.com/apps/pbcs.dll/article?AID=/20120206/OEM01/302069935/1424>

<sup>13</sup> <http://pressroom.toyota.com/releases/toyota+increase+highlander+output+including+hybrid+exports+indiana.htm>. The Highlander SUV will also continue to be produced in China, strictly for that market with no exports.

<sup>14</sup> <http://world.honda.com/news/2012/c120109Acura-Debuts-Three-New-Vehicles/index.html>

<sup>15</sup> <http://pressroom.toyota.com/releases/toyota+increasing+us+transmission+production.htm>

<sup>16</sup> [http://bmwusfactory.com/news-center/press-releases/2012/bmw-announces-nearly-\\$900-million-investment-adding-300-jobs-at-its-south-carolina-plant-in-2012/](http://bmwusfactory.com/news-center/press-releases/2012/bmw-announces-nearly-$900-million-investment-adding-300-jobs-at-its-south-carolina-plant-in-2012/)

<sup>17</sup> [http://www.volkswagengroupamerica.com/newsroom/2012/02/07\\_vw\\_chattanooga\\_completes\\_50000th\\_car.htm](http://www.volkswagengroupamerica.com/newsroom/2012/02/07_vw_chattanooga_completes_50000th_car.htm)

Decherd, Tennessee plant,<sup>18</sup> and the Korean manufacturers are also committing more to the United States.<sup>19</sup>

As they continue to expand their global reach, the Detroit-3 remain committed to the U.S. market. For example, on the 100<sup>th</sup> birthday celebration of Chevrolet, GM announced a \$380 million investment in November 2011, to prepare its Wentzville, Missouri plant to build the new mid-size Chevrolet Colorado pickup, creating or retaining approximately 1,260 jobs.<sup>20</sup> Moreover, in February 2012, GM started construction of a \$200 million stamping plant in Arlington, Texas, creating 180 jobs.<sup>21</sup> Chrysler will be adding 1,800 workers at its Belvidere, Illinois plant with the start of its new Dodge Dart production, and fortified Jeep Compass and Patriot production.<sup>22</sup> Ford plans to invest nearly \$6.2 billion in U.S. plants, adding over 12,000 new jobs to the United States by 2015.<sup>23</sup>

### Concluding Thoughts

The dynamics for new investments are based on a combination of factors: for the Detroit-3, their U.S. labor costs have become more competitive over the past couple of years, and the 2011 union contracts with the Detroit-3 include terms that will retain a certain level of jobs in the United States and, for the transplants, “producing where you sell” helps to manage damage control via currency fluctuations and mitigating supply chain risks.

Regardless of whether it is a Detroit-3 or foreign-owned company, the net benefit of the investment is with the United States. Manufacturers’ previous decisions to produce abroad are being re-evaluated, and there currently is a trend to “insource” and reduce risks associated with exchange rates and supply chain interruptions.

During his State of the Union address in 2012, President Obama called to repatriate U.S. factories, stating that “what’s happening in Detroit can happen in other industries.” He also

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<sup>18</sup> <http://www.globalautomakers.org/media/industry-news/2012/01/nissan-daimler-to-build-engines-together-in-tennessee>

<sup>19</sup> <http://hyundaiamerica.us/hyundai-technical-center-invests-15-million-and-stimulates-employment-in-superior-township-michigan/>

<sup>20</sup> [http://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2011/Nov/1103\\_wentzville](http://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2011/Nov/1103_wentzville)

<sup>21</sup> [http://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2012/Jan/0131\\_arlington](http://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2012/Jan/0131_arlington)

<sup>22</sup> <http://media.chrysler.com/newsrelease.do?id=11950&mid=2>

<sup>23</sup> [http://media.ford.com/article\\_display.cfm?article\\_id=35382](http://media.ford.com/article_display.cfm?article_id=35382)

urged Congress to rewrite the tax code so companies would be more likely to keep manufacturing jobs here.<sup>24</sup>

By the very nature of this inherently competitive sector, the United States auto industry is ahead of the curve in surviving one of the most difficult times in its history, and is coming out stronger as a result, to the ultimate benefit of U.S. workers, suppliers, and local communities, as well as U.S. and global consumers.

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<sup>24</sup> <http://www.whitehouse.gov/the-press-office/2012/01/24/remarks-president-state-union-address>