Foreign-Based Companies Investing in the U.S. Auto Industry

OVERVIEW

Foreign Direct Investment continues to play an increasingly important role in the U.S. automotive industry. There are now nine foreign-based motor vehicle companies producing vehicles in fifteen auto plants in the United States. The list includes one Korean firm, six Japanese companies and two German companies. To varying degrees these companies have encouraged their traditional supplier firms to co-locate new facilities in the United States to supply their new operations. According to the Bureau of Economic Analysis, these manufacturers have investments valued at over $66 billion in the United States ($44.7 billion from motor vehicle producers). Many of these firms, such as Toyota have announced new investments over the next few years. In addition, there are new players on the horizon, including Hyundai’s subsidiary Kia, with plans to open U.S. plants.

The trend has been for the foreign-based companies to locate their operations in the southern United States, away from the traditional center of U.S. auto manufacturing in Michigan, and into areas without strong pro-union sentiment. The most recent new plants or plant announcements, from Hyundai, Kia and Toyota are (or will be) located in Alabama, Georgia, Texas and Mississippi. These foreign-based companies have proven to be good corporate citizens adding high paying, quality jobs to local communities.

EMPLOYMENT

While the past several years have shown increases in jobs at foreign-owned plants, they have also seen a marked decline in employment of the traditional U.S. Detroit 3 (General Motors, Ford and DaimlerChrysler) manufacturers. In attempts to institute turnaround plans, these companies have shuttered plants and reduced employment on a massive scale. However, the impact on the total U.S. automotive industry and the U.S. economy is less severe than it would otherwise be due to the
presence of foreign-based automotive manufacturers in the United States. While not completely compensating for Detroit 3 job losses, the foreign-based companies’ U.S. operations have mitigated the decline.

Overall, the U.S. automotive sector lost 243,000 jobs between 2000 and 2006 (see chart 1 and appendix A). Recent announcements from the Detroit 3 and the continuing contraction of the auto parts sector show that the decline will continue, at least in the near future. In 2006, 34,000 employees, or almost a third of GM’s hourly workforce, accepted a package to take buyouts or early retirement offers. Ford saw a decline of 8,000 employees in North America in 2006. Ford also announced an additional 38,000 hourly positions and 10,000 salaried positions would be cut by the end of 2007. In 2005, Chrysler announced plans to eliminate at least 10,000 hourly employees, plus 7 percent of DaimlerChrysler’s 14,000 U.S. salaried workers, or about 1,000 positions. Over the past three years, DaimlerChrysler has reduced its workforce by 40,000 employees.

According to industry data and staff estimates, the foreign-based companies and their affiliated parts companies now employ 63,000 U.S. workers. This number has shown a steady increase (up 52% since 1995), but is far below the number of jobs already lost by the industry.

PRODUCTION

Over the last twenty years, foreign-based manufacturers have steadily added production capacity in the United States. In 1986, the Detroit 3 accounted for 95.4 percent of U.S. passenger vehicle production. By 2006, their share had fallen to 63.6 percent of production. During this time, Detroit 3 production declined from 10.6 million units to only 6.8 million units. However, due to the production of foreign-owned plants, total U.S. passenger vehicle production remained fairly steady. In 1986, production equaled 11.1 million units. After peaking in 1999 at 12.6 million units, production fell to 10.8 million units in 2006.

Looking at all of North America, Ward’s Automotive forecasts that Toyota will likely out produce Chrysler within five years. This prediction is based on two factors: Toyota building at least one more plant in North America (Toyota may be considering as many as four more) and Chrysler reducing production to match its market share.

SALES
Almost all of the global automakers follow the adage of producing where they sell, and the United States has the largest market in the world. Therefore it is no surprise that the vast majority of vehicles sold in the United States are produced in North America. This has remained true even as the Detroit 3 have lost market share to foreign auto companies. In fact, the trend of North American sourcing has increased. In 1986, the Detroit 3 had 73.3 percent of the U.S. market, and 74.2 percent of the market came from North American produced vehicles. In 2006, the Detroit 3 captured only 53.5 percent of the U.S. market, but 77.7 percent (down from 80 percent in 2005) of the vehicles sold in the United States were NAFTA sourced.

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