International Business Quarterly: Transformers: Why Japanese-nameplate Automakers Became American Manufacturers

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It's no surprise to find that competition for investment has intensified. Most nations are eager to attract private capital. Foreign firms build factories, employ local people, fund employee development and product research programs, and much more. Attracting foreign investment leads to a boost in productivity and, over time, helps to raise living standards.

On a cumulative basis, the good news is that the United States remains the world's leading destination for international investment.[1] But it's important to understand how to enhance the attractiveness of the United States to investors worldwide. There are no guarantees: despite attracting 37 percent of inward foreign investment flows as recently as 2000, in 2010 the U.S. share had fallen to 17 percent. By 2016, the United States had rebounded to capture 24 percent of inward flows, and A.T. Kearney's "FDI Confidence Index" placed America at the top of its list.[2]

What counts in attracting and maintaining international investment? Let's look at an example that can help reveal the underlying principles.[3] The large, intensely competitive and complex transportation sector accounts for $144 billion in international capital stock invested in the United States. As an example, consider transport sector investment from a single country, Japan, which is cumulatively the third-largest investor in the United States, accounting for 11 percent of foreign direct capital stock.[4] Automobile firms with headquarters in Japan have operated production facilities in this country for 35 years, which can offer insight into the long-run contributions of these firms.

The automotive sector utilizes advanced manufacturing and research, requiring high-skill employees throughout its operations. This industry is "where the robots are," according to the Brookings Institution.[5] But the partnership of Japanese capital and technology with American ingenuity and know-how provides consumers with vehicles of superior quality and value while employing thousands of Americans along the entire production network, from research and development (R&D) and design to final assembly.

Honda Motor Company opened the first Japanese "transplant" assembly plant in 1982 in Marysville, Ohio. Nissan, Toyota, and Subaru followed suit, establishing their U.S. plants in 1983, 1988, and 1989, respectively. Today, the Japanese-brand automakers operate 24 manufacturing facilities and 43 R&D/design facilities in 20 states, with the manufacturing plants producing nearly 4 million vehicles a year.[6] These firms directly employ over 90,000 people, and they indirectly support a total of 1.5 million jobs throughout the supply network.[7] And from 2011 to 2015, direct employment at these firms' U.S. operations has grown by over 20 percent, versus only 8 percent for overall U.S. manufacturing employment over the same period.[8]

What is the driving force for this investment? The North American consumer market for vehicles is large and growing, and regional trade rules in the North American Free Trade Agreement (NAFTA) have fostered the development of efficient, globally competitive production networks. In principle, successful globally engaged firms tend to have a clear idea of their strengths relative to competition, and they actively develop networks of specialized partners that complement their in-house competencies. In short, it's a story of comparative advantage and specialization. In a world with falling barriers to the movement of goods, people, ideas, capital, and know-how, this specialization takes place on a global scale, yet the need for local knowledge is still crucial.

What does the United States offer to foreign investors? Here's how the Organization for International Investment