

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.ⁱ 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.ⁱⁱ

What counts in attracting and maintaining international investment? Let's look at an example that can help reveal the underlying principles. 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.ⁱⁱⁱ 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.^{iv} 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, 1986, 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.^v These firms directly employ over 90,000 people, and they indirectly support a total of 1.5 million jobs throughout the supply network.^{vi} And from 2011 to 2015, direct employment at these firms' U.S. operations has grown by over 20 percent, versus only 5 percent for overall U.S. manufacturing employment over the same period.^{vii}

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

puts it:

“First, and perhaps most important, the United States has one of the most open markets and investment climates in the world. Other benefits include:

- An unrivaled consumer market;
- A world-class system of higher education;
- A skilled and productive workforce;
- An entrepreneurial culture of innovation and risk-taking;
- A transparent regulatory environment; and
- The world’s largest venture capital and private equity market.”^{viii}

International enterprises like the Japanese-nameplate manufacturers are here because of these and other benefits of operating in the United States.

How does “local knowledge” factor in? Automotive design is a good illustration. Even though most cars worldwide are built by a relatively small number of globally engaged companies, driver interests, needs, tastes, and driving conditions vary widely. Design is a specific application of local knowledge. The first to exploit this edge was a Nissan executive, Yukata Katayama, who was sent to Los Angeles in 1960 to establish a foothold in the U.S. market. “Mr. K” led the development of cars tailored to U.S. tastes, including the dazzling Datsun 240Z.^{ix} Today, Southern California is home to more than 15 corporate automotive design studios, including ones from each of the Japanese-nameplate firms. Why Southern California? World-class talent sources like the Art Center College of Design in Pasadena are a part of the story. But California is home to leading firms in entertainment, fashion, computer, and interior design as well. And the natural environment of Southern California is a factor. Tom Matano, the Mazda designer who penned the original Miata sports car, thinks the car could not have been designed in Japan. “Designers there commute by train each day, so how could they come up with the Miata?”^x This model of local knowledge continues to the present day: the Calt Design Research Center in Newport Beach developed the 2018 Toyota Camry, which is now being produced in Georgetown, KY.^{xi}

The 35-year history of U.S. investment by Japan’s automakers is, first and foremost, a story of the mutual gains from exchange. So long as the United States stays committed to policies that strengthen its global competitiveness, it will continue to be a desirable destination for this kind of high-quality investment. These U.S. operations have an enviable record of creating well-paying jobs, building a skilled workforce, and giving back to their communities while making products of excellent quality and value for American drivers. And, what’s the latest from Honda in Marysville? The Acura NSX, the company’s most sophisticated road car ever made.^{xii} A *tour de force* of advanced technology incorporating high performance, safety, and efficiency while providing driving excitement. The car’s lead designer? Michelle Christensen, an American alumna of Pasadena’s Art Center College. The NSX, developed and assembled in Marysville (with engines from nearby Anna, Ohio), is a fitting symbol of what America, and Americans, gain from foreign investment.

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[i] Organization for International Investment (OFII), “Foreign Direct Investment in the United States 2017,” http://ofii.org/sites/default/files/FDIUS_percent202017.pdf.

[ii] A.T. Kearney, “The 2017 A.T. Kearney Foreign Direct Investment Confidence

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[iii] OFII, “Foreign Direct Investment in the United States 2017.”

[iv] Mark Muro, “Where the robots are,” *The Avenue* (blog), Brookings Institution, August 14, 2017,<https://www.brookings.edu/blog/the-avenue/2017/08/14/where-the-robots-are/> .

[v] Thomas J. Prusa, “The Contribution of the Japanese-Brand Automotive Industry to the United States Economy: 2015 Update,” Japan Automobile Manufacturers Association (JAMA), July 12, 2016, <http://www.jama.org/the-contribution-of-the-japanese-branded-automotive-industry-to-the-united-states-economy-2015-update/>.

[vi] Ibid.

[vii] Manny Manriquez, “For the American auto industry, open trade and globalization mean a more promising future,” *Hill*, October 3, 2016, <http://thehill.com/blogs/congress-blog/economy-budget/298976-for-the-american-auto-industry-open-trade-and>.

[viii] OFII, “Foreign Direct Investment in the United States 2017.”

[ix] Margalit Fox, “Yutaka Katayama, Father of the Datsun ‘Z,’ Dies at 105,” *New York Times*, February 24, 2015,<https://www.nytimes.com/2015/02/25/business/yutaka-katayama-father-of-the-datsun-z-dies-at-105.html?mcubz=0>.

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