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Joel Kotkin, Contributor
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Foreign Industrial Investment Is Reshaping America

A worker at a U.S. Honda plant.

Declinism may be all the rage in intellectual salons from Beijing to Barcelona and Boston, but decisions being made in corporate boardrooms suggest that the United States is emerging the world's biggest winner. Long the world leader as a destination for overseas investment, the U.S. is extending its lead as the favored land of overseas capital.

Since 2008, foreign direct investment to Germany, France, Japan and South Korea has stagnated; in 2009, overall investment in the E.U. dropped 36%. In contrast, in 2010 foreign investment in the U.S. rose 49%, mostly coming from Canada, Europe and Japan. The total was $194 billion, the fourth highest amount on record.

Foreign investment is already reshaping the American economic landscape, shifting wealth and income from differing regions. The transformative role is nothing new. After all, the country started as a colony of England, and for much of the 19th century remained dependent on European investors for everything from building canals to railroads. Without European capital, the settlement of the West and the rise of cities such as New York would have been far slower.

Today this pattern is re-asserting itself as foreign countries rediscover America's intrinsic advantages: a huge landmass, vast natural resources, a large, expanding consumer market and a relatively predictable legal system. Our relatively vibrant demographics demographics — at least before the Great Recession depressed birthrates and immigration — marks a strong contrast with such key countries as Japan, South Korea and Germany, all of which are aging far more rapidly than the United States. China's authoritarian political system leaves many investors reluctant to expose themselves too much to the regime's often less than tender mercies.

The investment boom is concentrated not so much in the most celebrated sectors, such as tech or trophy real estate, but in the more basic industries that are best suited to our large, resource-rich country. Investment in the burgeoning energy sector more than tripled to $20 billion between 2009 and 2010. Some of this investment has come into the renewable industry, where Europe and China also have heavily subsidized companies, but the vast bulk has been devoted to the country's expanding production of oil and gas.

The shale revolution in particular has attracted foreign interest. Energy firms from China, France and Spain have all placed major investments in the shale fields of Ohio, Colorado and Michigan. French giant Total recently paid $2.3 billion for minority stakes in the vast oil and gas holdings of Chesapeake Energy.

Perhaps even more important has been a surge in industrial investment, which rose $30 billion just between 2009 and 2010. Much of this growth is concentrated in the chemical industry as well as automobile, steel and other transportation sectors. It is also heavily focused on the southeastern states and Texas — the very places that most surveys reveal have the most hospitable business climates. According to a recent study by *Site Selection* magazine, the five states with the best business climates and 10 of the top 12 are from the old Confederacy.

Foreigners, particularly from large global corporations, are not stupid. They also are not burdened as much as domestic firms with legacy costs or romantic attachments to traditional industrial bailiwicks. "At the end of the day, a company looks at a whole nation and looks at the factors that matter most, like ease of doing business," notes Bill Taylor, who for 17 years headed up Mercedes' U.S. operations. "The Southeast has that and has a workforce willing to be engaged. They have found the area to be very fertile ground."

This has certainly been true for companies such as Mercedes, whose largest U.S. plant is in Tuscaloosa, Ala. Last year the company invested $350 million in the facility.

Nor is Mercedes alone. Arch competitor Volkswagen last year announced it will build a new assembly plant in Chattanooga, Tenn. Nissan, Toyota and Kia have all announced major new plant openings or expansions over the past three years throughout the region.

These are not inconsequential investments. With the average cost of building these facilities at over $1 billion, and the higher-paying manufacturing jobs they represent, such plants represent major employment generators. They also bring with them parts suppliers and other industries related to auto manufacturing. Alabama, for example, has seen major steel mill investments, including $4.6 billion from Germany's Thyssen Krupp.

Over the next decade, these investments could transform the nation's industrial structure. Alabama and Kentucky already produce almost as many cars as Michigan. According to the U.S. Dept. of Labor, Michigan still leads the country in auto employment with 181,000 jobs, followed by Indiana. But the next three states are Kentucky, Tennessee and Alabama.

Why is this happening? Managers in foreign firms, suggests Taylor, who previously worked for Ford and Toyota, believe Southern workers have not picked up the bad habits and work rules common among their unionized Midwestern brethren. Unions certainly are much less of an issue in the Southeast. Though Alabama has seen a huge jump in the number of its auto workers in recent years, according to its state department of labor, only 7,100 are unionized. Nationwide, according to the Bureau of Labor Statistics, around 12 percent of workers belong to unions, compared to just over 10 percent in Alabama. Less than 5 percent of workers in Georgia, Texas, South Carolina, Virginia and North Carolina belong to them.

Unions are not the only issue. The South also enjoys a strong network of rail and highway lines that make transport to key markets easy and affordable. Energy costs tend to be lower. Furthermore, many Southeastern port cities — notably Houston, Charleston, Mobile, Hampton Roads — have made big infrastructure investments in recent years.

The Southeast also plans to become a research hub for the auto industry. The Clemson University International Automotive Research Center is the nation's only school to offer a Ph.D. in automotive engineering and has secured $200 million in commitments. Additionally, the South Carolina center has created partnerships beyond auto manufacturers with other universities in the area: Auburn, Mississippi State, Alabama, Alabama-Birmingham, Kentucky and Tennessee.

The overall impact of the Southeast's auto industry may not be fully felt for a few years. But long-term prospects are excellent. U.S. manufacturers, notably GM and Chrysler, make most of their money on fuel-guzzling trucks and SUVs. GM's Volt, its much-hyped fuel-efficient car, has so far proved an expensive dud. In contrast, the major foreign manufacturers — particularly Volkswagen, Honda, Toyota, and Kia — have long experience in building reliable, fuel-efficient cars. Demographically the high-end makers, notably BMW and Mercedes, increasingly dominate the luxury market, particularly among younger customers.

Battle tested in world markets, these firms — and their counterparts in steel and other metals-related industries — are successful competitors and reliable employers. Overall, according to the U.S. Department of Commerce, foreign manufacturing firms, in autos and elsewhere, have proven far less susceptible to layoffs than their domestic competitors. They also tend to offer higher salaries on average than U.S.-based firms.

Some observers, such as the American Prospect's Harold Meyerson, decry these investments. He believes foreign firms, particularly from Europe, come to "slum." America, as he puts it, is where Europeans now go "to get the job done cheap."

Meyerson points out, correctly, that these companies generally invest in mostly Southern "right to work" states in order to avoid entanglements with unions. They also avoid stricter environment controls in green-dominated juristictions such as California. Not surpsingly these plants are often seen as regressive at Berkeley salons or at AFL-CIO headquarters. But they may seem far more congenial in the historically poor backwaters of the Southeast , long lacking in steady, relatively well-paid and skilled work.

When Toyota recently announced plans to establish a plant for the Prius near Tupelo, Miss., (birthplace of Elvis), one imagines few locals were singing the blues. Instead the new plant received 35,000 applications for 1,300 available spots.

To be sure, these new jobs may not pay as well as top-grade UAW contracts, and a lack of unions could expose workers to undue management pressure. But in an economy where $8 hour jobs are king, an entry level job that involves learning technical skills and starts at $14 may appear akin to manna from heaven .

Of course, some will denounce this “foreign” influence as pernicious or even neo-colonialist. But the overseas investment surge might also be seen as confirming, once again, that at least some places in the country remain fields of opportunity for people other than geeks, corporate rent-seekers or investment bankers.
