DRIVING the economy

Auto Industry in the South: Where the Action Is

The domestic auto industry remains embroiled in a structural conversion that has resulted in layoffs for thousands, drooping sales figures and rising financial losses. Some distinct advantages, both financial and nonfinancial, in these Southern states lured foreign automakers in the last two decades or so, a move that has completely shifted the economic orientation of these Southern locales from largely agricultural to high-tech, manufacturing economies.

By Sujit M. CanagaRetna

The SLC has been tracking the economic impact of the automobile industry in the South since November 2003 when it released a 148-page report, "The Drive to Move South: The Growing Role of the Automobile Industry in the Southern Legislative Conference Economies."

In the Spring 2006 and Summer 2007 issues of *Global Corporate Expansion*, a quarterly magazine for executives and site selectors planning to relocate a facility or expand operations, the SLC published articles expanding on the growing importance of the automobile industry in the South.

This *State News* contribution is based on the Summer 2007 *Global Corporate Expansion* article.

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In April 2007, three major announcements symbolized the state of affairs for the Big Three domestic automakers (General Motors, Ford and Chrysler).

- Toyota announced that it had sold more cars and trucks around the world in the first quarter of 2007 than any other manufacturer.
- DaimlerChrysler publicized that it was actively pursuing the outright sale of its American partner, Chrysler.
- Based on figures for March 2007, vehicle sales for the Big Three faltered while their Asian competitors achieved substantial gains.

Previous research conducted by the Southern Legislative Conference (SLC) highlighted a radical transformation in the auto industry that has been in progress for two decades now: The U.S.'s Big Three automakers experienced a continuous shrinking of the percentage of vehicles—as a proportion of total vehicles—manufactured and sold while a host of foreign automakers, mostly Asian carmakers with manufacturing plants in several Southern states, made very impressive strides.

Toyota's latest announcement was no surprise, and its global sales record of 2.35 million cars and trucks in the first three months of this year—eclipsing General Motors' (GM) 2.26 million over the same period—signaled the end of GM's lengthy run as one of the most dominant players in the global industry. The company had dominated global vehicle production and sales for more seven decades, ever since GM surpassed Ford in 1931.

Big Three's Financial Woes

In 1998, the $36 billion merger between Daimler and Chrysler was heralded as the prototype worthy of emulation by other automakers striving to compete in the fiercely global auto marketplace. The DaimlerChrysler coupling proved to be an ill-fated one, stricken by the radical and ongoing transformation of the American auto industry, incompatible corporate cultures, several strategic blunders, a daunting $20 billion to $22 billion health care tab for retired Chrysler workers and other structural costs.

In a reflection of how Chrysler's fortunes have plummeted since the merger, one of the most serious bids received by DaimlerChrysler for its money-losing Chrysler unit was a $4.5 billion cash offer—less than a sixth of the value of the merger in 1998—by billionaire investor Kirk Kerkorian. Chrysler was eventually sold to the private equity firm Cerberus Capital Management in May 2007 in a $7.4 billion transaction. Daimler officials claimed they had "overestimated the potential of synergies" between the two companies with the merger almost a decade ago.

As noted, the Big Three's financial woes were not limited to Chrysler, a trend clearly reflected in the sales figures for March 2007. Toyota (7.7 percent), Honda (7.4 percent) and Nissan (3.9), popularly referred to in the industry as the J-Three, all saw their sales increase impressively in March 2007. In contrast, DaimlerChrysler (-7.5 percent), Ford (-13.5 percent) and General Motors (-7.4 percent) all saw their sales plunge. Even more disturbing for the Big Three, cumulatively for the month in review, they held onto 51.6 percent of the market, one of their worst showings ever, while the Asian brands accounted for a total of 41.9 percent.

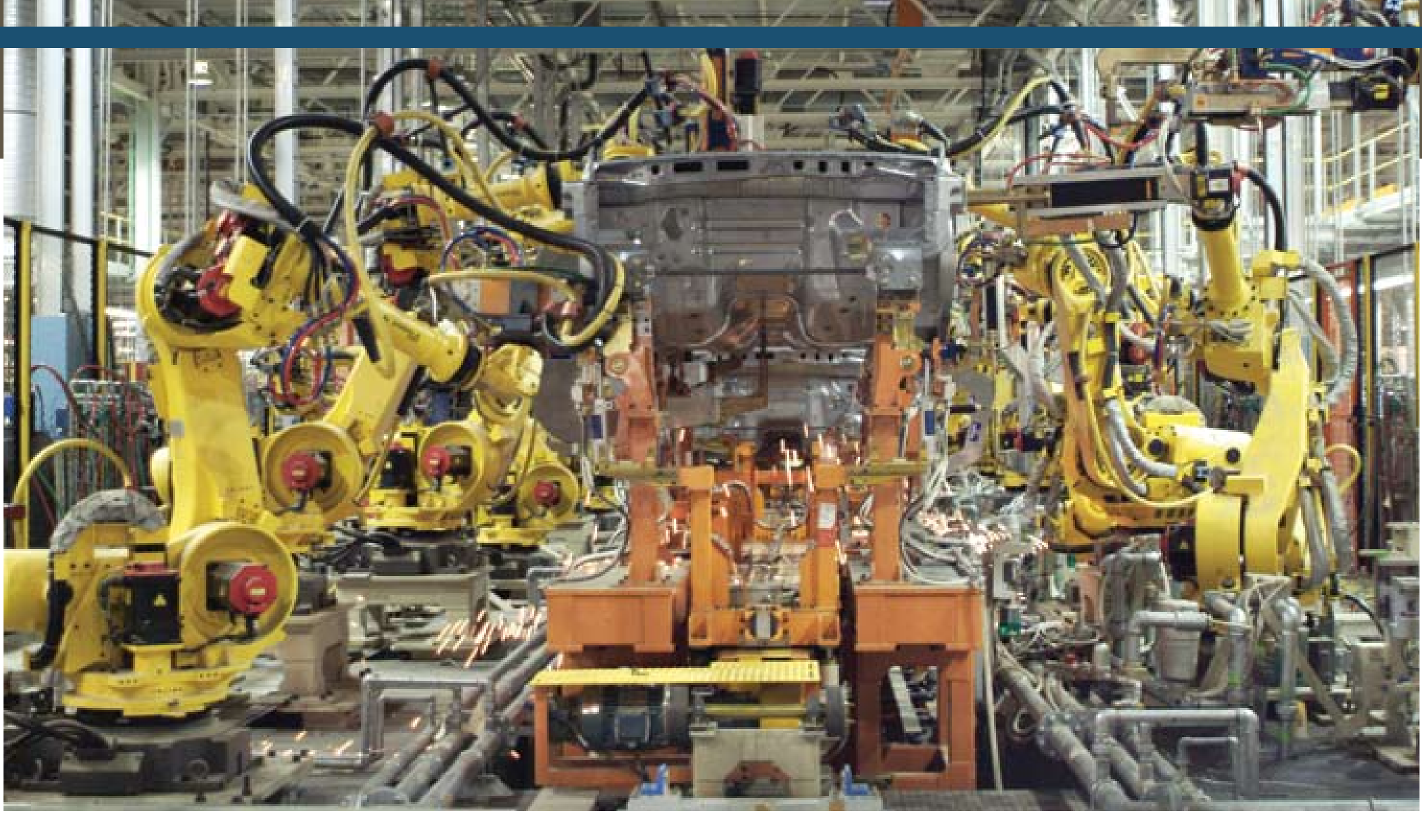
The fact that a scant 10 years ago, in 1997, the Big Three accounted for 71.3 percent of new car and noncommercial light truck sales, while the Asian automakers totaled under 25 percent, highlights the ongoing transformation of the auto industry.

Another serious repercussion of the ailing fortunes of Detroit's Big Three is the role the industry played in dragging down the Michigan economy. The tens of thousands of layoffs occurring at the state's auto plants continues to be a major reason—along with several others—why some analysts are referring to Michigan as currently being mired in a "one-state recession."

The South: Where the Action Is

In the midst of the rather dire news emanating from the domestic automobile industry, the presence of a number of thriving foreign automakers, mostly in the South, continues to be a very positive phenomenon.

The growing procession of foreign automakers establishing manufacturing facilities across the South began in 1983 when



Nissan began production at a facility in Smyrna, Tenn. Five years later, in 1988, Toyota began operations in Georgetown, Ky., further reinforcing a trend in which both companies either established or announced additional plants recently in Blue Springs, Miss., and San Antonio, Texas, (Toyota) and Canton, Miss., (Nissan).

In the next two decades, a raft of additional foreign automakers (Mercedes, BMW, Honda, Hyundai, Kia and the latest, Isuzu), either set up operations or intend to do so in many Southern locations. Consequently, the economic impact of the automobile industry in the South remains truly staggering. The industry not only employs a substantial percentage of the region's work force—hundreds of thousands in mostly high-tech, high-wage direct, indirect and induced jobs—at assembly plants, auto parts producers, service facilities and dealerships, it also generates billions of dollars in wages, annual sales and government revenues. There is also the invaluable effect of elevating the economic image of these Southern state economies.

The most exciting news concerning the automobile industry and the South in recent months involved Toyota's February 2007 announcement that it would invest $1.3 billion to build its eighth North American assembly plant in Blue Springs, in the northeastern corner of Mississippi. The 1,700-acre site, near Elvis' birthplace, Tupelo, will be the production site for the Toyota Highlander by 2010. At full production, the facility will build 150,000 vehicles annually and is estimated to create 2,000 direct jobs ($122 million annual payroll); 4,900 indirect jobs ($168 million payroll); 1,402 induced jobs ($28 million payroll); 278 local government jobs ($9 million payroll); and 2,232 construction jobs ($161 million payroll over a two-year period).

In turn, the state of Mississippi provided a $293.9 million incentive package to Toyota that included $136.6 million for infrastructure; $80 million for educational enhancement; $67 million for site preparation; and $10.3 million for other items. Additionally, local government funds put the total package provided to Toyota at $358.5 million.

In late 2006, the ceremonial groundbreaking at the site of Kia Motors' first U.S. manufacturing facility took place in West Point, Ga., near the Alabama-Georgia border. Scheduled to begin production in 2009, this 2.4-million square foot facility is expected to produce 300,000 vehicles per year when at full capacity. While the $1.2 billion Kia investment will create jobs for an estimated 2,893 workers, an additional 2,600 employees are expected to be hired at five supplier facilities in Georgia.

In order to lure Kia to Georgia, state and local officials harnessed a $258 million incentive package that included $75.9 million in job tax credits over five years, $20.2 million for an on-site job training facility and $60.5 million to purchase the site—all from the state—along with $130 million in property tax abatements over 15 years from local governments. The Georgia Department of Economic Development estimates the plant will have a $4 billion economic impact annually on the surrounding communities in Georgia and Alabama.

In April 2007, Isuzu Motors announced that it would begin construction at a site in Pinson, Ala., to manufacture commercial trucks. While details are still sketchy, the 300,000-square-foot facility is expected to reach a production capacity of 5,000 units a year by 2010 and provide jobs to almost 1,000 people in a few years. The Pinson facility will assemble trucks with a load capacity of four tons. The engines and platforms for these vehicles will be imported from Japan.

Isuzu's entrance into Alabama will signal the fifth major automaker to begin operations in the state, joining Mercedes, Honda, Toyota and Hyundai, since the mid-1990s, creating 50,000 jobs at plants and parts suppliers. Economists indicate that the Alabama plants each contribute at least $1 billion a year to the gross state product or 1½ percent to 2 percent of the total value of the goods and services produced within the state.

Photo Courtesy:
Page 9: BMW vehicle manufactured in South Carolina ready for loading at the Port of Charleston. Photo courtesy: South Carolina State Ports Authority
Page 11: Scene from Nissan plant in Canton, Miss. Photo courtesy: Nissan Motor Company
Page 12: (1) Fleet of BMWs waiting to be loaded at the Port of Charleston. Photo courtesy: South Carolina State Ports Authority, (2) Mercedes vehicles manufactured at the Vance, Ala. plant. Photo courtesy: Mercedes-Benz U.S. International, Inc., (3) Aerial photo of Vance, Ala. Mercedes plant. Photo courtesy: Mercedes-Benz U.S. International, Inc.

Factors Driving the Trend

Given the incredible surge in foreign automobile industry activity in the South in the past 25 years or so, a great deal of interest surrounds the factors driving this trend. Experts identify several major factors. For instance, foreign automakers greatly value the fact that they can construct new, ground-up manufacturing facilities with all the latest technologies in the South more efficiently and effectively than reconfiguring older assembly plants in the Midwest and Northeast.

Experts also cite the economies of scale created by the cluster effect with the growing number of automobile assembly plants and thousands of auto parts suppliers in close proximity to each other in the South. As an example, more than 1,000 automotive suppliers operate in North Carolina, a state renowned nationally for its impressive automotive parts cluster. Grenada Stamping & Assembly in Grenada, Miss., which manufactures metal stampings for the automobile industry, supplies Nissan and Ford in neighboring states and also expects to supply the new Toyota plant in Blue Springs.

Low or nonexistent rates of unionization are also proffered as a reason these foreign automakers locate in the South. In a demonstration of how the labor environment in these contemporary auto plants has changed, union officials at the Mercedes plant in Vance, Ala., failed to sign up enough workers to even hold an election regarding unionization. Salary and benefits at these auto plants consistently exceed average rates in the Southern states and sometimes surpass compensation paid to union workers at domestic car factories.

These Southern states also offer very persuasive incentive packages including tax breaks, worker training programs, an abundant labor pool and the ability to train a work force that has not worked in the auto industry before. Other general features such as the weather, reduced cost of living, lower or no personal income taxes, free or inexpensive property costs to build assembly plants and other attractive quality of life attributes, make these Southern locations very compelling.

Another major reason driving the move South is the extremely cost-effective intermodal transportation network in the region, spanning railways, highways, airports and, most importantly, ports. While Southern ports rank at the highest level of significance from a national trade dimension, the ports of Jacksonville, Fla., Baltimore, Md., Brunswick, Ga., and Charleston, S.C.—all Southern ports—handle more automobiles than any other set of ports in the country. Easy access to these ports from the plants and the efficiency with which these ports operate remain crucial factors in the location calculations of these foreign automakers.

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