

Outcomes of FDI in Mississippi: An Analytical Focus on Nissan and Toyota

Background

Globalization of the United States' economy, which is commonly believed to contribute to the significant loss of jobs performed by low-skilled labor through outsourcing, has become a widely debated topic at both the national and state level. Beyond undertaking protectionist actions to safeguard jobs, federal and state governments are increasingly devising complementary policies to attract Foreign Direct Investments, or FDIs. These policies are created to contribute to the employment of high-skilled labor whose jobs will replace those lost through outsourcing. In this thesis, I will examine the job creation affected through FDI in Mississippi. For this examination, I will by adopt the International Monetary Fund's definition of FDI as follows,

“a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise. A direct investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad” (Carson, 6-7).

Examination of FDI in the United States is particularly important because the United States attracts more FDI than any other country in the world, primarily owing to its open market and

favorable investment climate. Specifically, cumulative FDI in the United States totaled \$2.9 trillion in 2014, where new investments totaled \$112 billion in 2014 alone (Foreign, 1-2).

The FDI in the manufacturing industry, which accounts for the largest source of FDI in the United States, amounts approximately to \$1 trillion cumulatively. Within the manufacturing sector, “the transportation equipment industry, comprised mostly of auto and auto parts manufacturing, amounted to \$110 billion through 2014,” topped only by the manufacturing of chemicals (6-7). The Southeast Automotive Core, or SEAC region, is a hotbed for auto-manufacturing FDI. The region, which includes Alabama, Georgia, Mississippi, South Carolina, and Tennessee, hosts eight of eleven “New Domestic” light vehicle assembly plants that have been constructed over the last twenty years. The term “New Domestic” refers to the multinational auto manufacturers that operate North American assembly plants, such as Toyota, Honda, Nissan, and Volkswagen (Jacobs 199). When these multinational corporations consider a new investment, they scrutinize factors such as availability of potential sites, manufacturing density, wage rates, unionization and right-to-work legislation, unemployment rates, transportation infrastructure, and tax rates and government-sponsored incentive packages (Coughlin, 677-680).

The SEAC region’s success in attracting these large FDI projects can partly be attributed to low property and business taxes, infrastructure giveaways and incentive packages, right-to-work laws and nonunionized labor, combined with aggressive marketing tactics conducted by local and state governments (Jacobs 200). Government officials in this region have intensely recruited auto-related FDI in the form of manufacturing plants to bring high-skilled jobs to their states in order to compensate for the outsourcing or elimination of low-skilled textile and apparel manufacturing jobs lost over the past couple of decades. As the SEAC region is generally

characterized by low household and per capita incomes and high poverty rates compared to the rest of the country, FDI is viewed by government officials in these states as an effective way to “improve the economic well-being of their citizens” (201-202).

Research Question

The research question that I address in this thesis is, “Have the expected effects of FDI projects in Mississippi, particularly those of the Nissan plant in Canton and the Toyota plant in Blue Springs, been achieved in terms of job creation and economic payoff?” In 2002, the government of Mississippi offered an incentive package worth \$363 million to Nissan in exchange for a promise of creating 5,300 new jobs. State officials estimated Nissan would bring 16,212 direct and indirect jobs to Mississippi by 2005, and that the government would break even by 2007 (Lyne). In 2016, the plant in Canton employs more than 6,400 people and has had no layoffs since it opened in 2003 (Nissan). In 2007, Toyota announced it was constructing an assembly plant in Blue Springs, Mississippi, near Tupelo. The area hosting the plant is known as the PUL region, which is named after the alliance of Pontotoc, Union, and Lee counties created through state constitutional amendments to share the financial burden of hosting the plant. Toyota received \$293.9 million in incentives to bring 2,000 direct jobs to the region, in addition to 4,900 supplier jobs and another 1,400 indirect jobs by 2013. When the plant was opened in the Fall of 2011, it was “projected that state and local governments would recoup their incentives investment and its related interest within 17 years” (Jacobs 202-209).

Each of these projects required years of planning and a significant financial commitment by local governments, projecting benefits that were expected to be realized years after initiatives began to bring these investments to Mississippi. I will be evaluating analytically the actual achieved benefits of these projects taking into consideration the time, effort, and financial

investment they required. Taking both the perspective of the local governments and that of Toyota and Nissan, I will investigate whether each of these projects lived up to their related respective expectations. I will not only examine the successful or unsuccessful outcomes of the projects but also the unintended effects of these two investments.

Literature Review

The public discourse related to the job creation from the Nissan and Toyota plants in Mississippi has been mostly conducted and manifested in local newspaper or business journal articles. These articles have been focused on addressing the number and level of skill of new jobs created through the construction of these plants, as well as the multiple initiatives each company has supported, including charitable giving and sustainability programs in the regions where they are located. For example, one such article, “Why Foreign Businesses Dig Mississippi,” in the Jackson Free Press, discusses some aspects of the job creation in Mississippi through FDI, such as the low-unionization of Mississippi workers, which attracts FDI, but leads to a “dismal record regarding the rights of employees” (Lynch).

Two articles, written in France, center on this topic of unionization within the Renault-Nissan Alliance. In this auto alliance, Renault, a French auto-manufacturer, holds 43.3 percent of Nissan’s shares, while Nissan owns 15 percent of Renault’s shares. The complexity of this alliance is increased by the fact that the French government owns 19.73 percent of Renault’s shares (Un Groupe Fort). The articles convey the social concerns of the French government, as it has taken it upon itself to monitor the labor relations of Nissan around the world. In Mississippi, French *députés*, or government representatives, have not been satisfied with Nissan’s local labor practices and have conversed with employees from the plant in Canton, encouraging their unionization efforts. As a result of these conversations, 35 *députés* have recently sent a letter to

Nissan's senior leadership voicing their concerns. In addition, representatives from the United Auto Workers union recently protested the non-unionization of the Canton Nissan plant at Renault's headquarters in a suburb of Paris (Jannick). However, both of these concerns have so far been ignored because Nissan is not breaking any American laws through their labor management practices. Since Mississippi's right-to-work laws are one of the factors that drew Nissan to Canton, it is being claimed its management members have actively discouraged employees from pursuing unionization. The unionization related provision of Mississippi's labor law, which requires a popular vote of more than 50 percent of employees in favor (Maillard), attracts out-of-state companies because it hampers unionization. However, its unintended consequence is that it might entail unfair circumstances to some Mississippians, particularly the African-American workers that make up the majority of employees at both Nissan's and Toyota's plants.

The Toyota plant in Blue Springs is somewhat of a special case, described by A.J. Jacobs in an article published in the *Economic Development Quarterly*, because of the inter-county collaboration that was necessary to bring Toyota to the Tupelo area. The author of this article compares the Toyota plant and a Hyundai plant that required counties in east-central Alabama and west-central Georgia to collaborate, highlighting the work and legislation that was necessary to be performed and passed to "win" Toyota's plant. Although the author outlines the goals that the PUL Alliance formulated for the investment, he does not report whether or not the financial risks undertaken by these three counties paid off. Curiously, however, no similar academic study has been published on the Nissan plant, although the effects of the Canton plant are more widely discussed because of its older age, larger size, and proximity to the state capital of Jackson. Available is only an analysis conducted by the National Strategic Planning and Analysis

Research Center at Mississippi State University that estimates the economic impact of the Nissan plant in Madison County, including population change, housing units change, and growth in medium family income since the opening of the plant. It also compares Madison County's poverty and unemployment rates to other counties' in the state (Nissan Canton). However, this analysis does not compare these rates over time that I will address in my analysis. Also, it does not evaluate the economic impact of the Nissan plant compared to its related expectations and does not establish a causal effect that the addition of the Nissan plant is the reason for Madison County's economic strength or take into account the incentives given to Nissan by Mississippi's government.

While the related studies are somewhat incomplete, the public discourse about the effects of the Nissan and Toyota plants as exemplary large-scale FDIs in Mississippi is generally polarized. Although it is widely acknowledged that these projects have brought thousands of new high-skilled jobs to Mississippi, they also cost taxpayers hundreds of millions of dollars. In addition, Mississippi's government has not been transparent in disclosing the total amount of the incentives given to Nissan and Toyota. A Good Jobs First report claims that Nissan will end up receiving around \$1.3 billion in total incentives over the course of the next couple of decades. If this projection is correct, Mississippi will end up paying around \$290,000 per taxpayer for the plant, which seems difficult to justify (A Good Deal). However, there is much evidence that these projects have spurred related investment in infrastructure and education, thus not only attracting new FDI projects in Mississippi but also creating additional direct and indirect jobs.

Methodology and Data Analysis

I will conduct a quantitative analysis of the data related to Mississippi's state debt and tax rates before and after these plants opened. I will source this data using the annual State

Expenditure Report provided by the National Association of State Budget Officers, and the Annual Survey of State Government Tax Collections and Annual Survey of State Government Finances provided by the United States Census Bureau. I will use county level data sourced from the Bureau of Labor Statistics to see the employment and unemployment rates in the counties where the plants are located before and after their openings, including employment percent growth over time. I will examine trends related to Mississippi's state debt, tax rates, and employment, including whether or not these trends have been sustained or changed over time. I will avoid sources that express a political or partisan agenda, to rely instead on the empirical qualities of these investments. To understand the perspectives of Nissan and Toyota, I will research available company performance reports related to the plants in Canton and Blue Springs.

Contribution of Thesis

The contribution of my thesis will be significant because it will provide relevant information to Mississippi policymakers regarding the effects of these FDI projects from the perspectives of both local governments and foreign investors, Nissan and Toyota. I aim to quantify the major outcomes of each project as well as identify any associated issues of relevance to future FDI projects in Mississippi. By analyzing the sourced data, I aim to capture the lasting effects of these projects in terms of employment, while also taking into account how Mississippi's debt and tax rates have changed. In addition, I will research the performances of the plants and any challenges Nissan and Toyota have faced to help recognize the outcomes of each company's actions. The findings of the research reported in my thesis will inform the public about the positive and negative consequences of FDI in Mississippi, and therefore may serve as

an aid for future FDI projects aimed at improving Mississippi's economic health as well as the overall profitability of FDIs in Mississippi.

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