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FOREIGN INVESTMENT: WHAT ARE THE BENEFITS?

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Public interest and concern over foreign investment in the United States seem to have accelerated in the 1980s along with the magnitude of investment by Europeans, Asians, and others. Newspapers throughout the nation have publicized the growing number of billion dollar acquisitions of major U.S. corporations by foreigners, often quoting the fears expressed by some observers that control of corporate America may be slipping from local hands. In addition, several opinion polls have shown that the American public is troubled by increased foreign ownership of U.S. firms and real estate.

By contrast, the prevailing perspective on foreign direct investment held by government officials and other opinion leaders in southeastern states is decidedly positive. These states receive an especially large share of foreign companies' spending on new plant and equipment, and there is fairly strong political and business leader awareness and appreciation of the benefits that foreign direct investment brings to these states. The primary benefits are believed to include faster job growth, a bigger tax base, and a more diversified and stable economy. Workers in the region who enjoy the job benefits that accompany foreign investment also welcome the foreign presence. In 1987, the number of workers in foreign-owned U.S. affiliates across the country was 3.2 million and more than one of eight of these jobs were in the Southeast, defined in this article as the Sixth District states (Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee). Today, such employment in the region probably is approaching the one-half million mark.

Compared with foreigners' direct investments in U.S. businesses, U.S. ownership of plants abroad is, on average, older. The major expansion in U.S. direct investment occurred in the 1950s and 1960s, while international investments in the United States have grown rapidly only since the 1970s. As with foreigners' investments here, many Americans also have opposed U.S. corporations' decisions to produce outside the United States, chiefly on the grounds that millions of American workers' jobs have been lost in the process. For their part, U.S. multinational concerns have argued that a direct foreign presence is needed to serve markets in the host countries adequately. They also

*The views expressed are those of the author and do not necessarily reflect those of the Federal Reserve Bank of Atlanta or the Federal Reserve System. The author thanks Amy Bailey for research assistance.

say that customers in the United States benefit from lower prices on goods that are produced in their lower cost foreign subsidiaries and then exported to the U.S. market.

It is impossible to estimate accurately the net economic impact on the United States of U.S. companies' foreign investment activities or of foreign direct investment here based on available data and information. The growing pile of statistics and research on the topic suggest, however, that both flows probably increase global production and well-being. From a theoretical perspective, most economists and policy makers accept the view that international capital flows help companies to utilize better the world's resources. This occurs because foreign investment is believed to increase competition in an industry via entry of new firms. Seeking a competitive edge, firms in the industry try to cut costs, improve efficiency, or enhance product quality to maintain or expand market share. Ultimately, consumers should benefit from a lower priced and/or higher quality product that economizes resource usage. The resources freed by productivity increases then can be used to produce more goods to satisfy other consumer wants.

This same theoretical perspective also views the flow of capital across national borders as benefiting workers and company owners. Workers should be better off because the availability of foreign capital raises labor productivity (if the resources are complementary) and consequently wages to labor should rise and/or the number of workers employed should increase. The availability of foreign capital also should lower the cost of capital, making some plant investment projects cheaper and boosting the value of firms, benefiting their owners. On the other hand, domestic savers and financial intermediaries may be losers in the short run as a consequence of greater capital availability. Savers may lose interest income due to lower interest rates brought by the added supply of capital, and entry of foreign lenders could increase competition in the financial lending business and reduce profitability or the rate of return. But even these groups may benefit in the end because of faster economic growth.

The purpose of this article is to present available information on the magnitude, industrial distribution, and concentration of foreign investment involving the United States generally and the Southeast in particular.¹ Alternative ways that investment activity is counted and

¹Discussion of the motivations for foreign direct investment and evaluation of the net impact of foreign direct investment are beyond the scope of this paper. Generally, investment motivations are related to expected return, risk, and information considerations. Moreover, it appears that certain economic and political forces help explain longer-run global trends in the types and amounts of foreign investment activity, while some other factors influence the precise timing, geographic location among and within countries, and industrial patterns

the conceptual and statistical problems associated with different measures are discussed. Information is presented that hints at answers to some interesting and important questions about foreign investment. First, the size of foreign investment in the United States (FDIUS) is contrasted with U.S. multinational corporations' foreign investment (USFDI), and similarities and differences in the country and industrial distributions of the two activities are reviewed and explained. Tentative assessments of some impacts of foreign investment in the United States are made while addressing three questions:

- * Has foreign investment increased the competitiveness of U.S. industry and, if so, how has it occurred?
- * How, if at all, may job growth and worker income have benefited from foreign investment?
- * How, if at all, has foreign investment stimulated U.S. exports?

The remainder of the article focuses on the importance of foreign direct investment in the Southeast (FDISE), based largely on employment and value of assets data, in order to ascertain its contribution to the region's economic development. A major theme that is discussed is why the region apparently has benefited from foreign investment to an especially large degree relative to the rest of the country. Japanese investment in the region (JFDISE) has been growing at an especially fast pace and is likely to become even more important. For these reasons, its activity is highlighted. Brief descriptions of the foreign investment activity of large manufacturing companies headquartered in the southeastern states also are provided in Appendix A.

Meaning and Measurement of Foreign Investment

For the United States, foreign direct investment in the United States and U.S. investment abroad are defined for statistical purposes as ownership or control, directly or indirectly, of 10 percent or more of an enterprise's voting securities or the equivalent by an individual, partnership, group, or organization. Businesses under such control are called affiliates, and the investment is said to be direct. Other foreign investment in a private enterprise, such as the purchase of its stocks or bonds by investors seeking to diversify their assets rather than exercise an effective management role, is called portfolio investment. The terms foreign direct investment and foreign investment are used

of investment. For detailed discussion of these issues, see U.S. Department of Commerce [22] and Kahley [9].

interchangeably to mean foreign direct investment in the rest of this article.² In addition, the term multinational corporation (MNC) is used to refer to all foreign investors, even though some are individuals or other entities.

There are several ways to measure the magnitude and importance of foreign investment. Conceptually, the best measure of the importance of U.S. affiliates of foreign MNCs in the U.S. economy and of foreign affiliates abroad is their annual value added or contribution to final output. Value added data are not available for foreign affiliates, however, and other measures that only approximate the importance or contribution of foreign investment activity must be used as proxies to compare inward and outward foreign investment.³ This article focuses on the available measures of employment and the gross book value of property, plant, and equipment (GBV). These employment and physical asset value data provide valuable complementary information on foreign investment that can be used to calculate national and regional levels, shares, and growth rates by industry and by country (of origin or destination). Thus, they serve as proxies for the stock, or cumulative value, of foreign investment and as measures of importance and change in the importance of such activity.

Although employment and GBV data tend to move together (they are correlated), their patterns of change can vary. They are not equally suited for all possible purposes. For example, GBV data are not reliable measures of growth in real industrial activity because they are valued at (constant) acquisition cost. What is needed is GBV for all years valued at prices for some base year. Also, when a company is acquired, it may be revalued from historical book value to fair market value. This creates a change in asset value, while employment and the value of production remain unchanged. Thus, data on the number of jobs or employment associated with foreign investment are better for measuring growth in foreign investment activity. On the other hand, the GBV data may be more accurate than employment data in measuring industrial or regional

²Other major components of foreign investment in the United States include foreign official assets in the United States, such as their holdings of U.S. Treasury securities and U.S. bank liabilities. Other major U.S. investment assets abroad include U.S. official reserve assets, U.S. government loans, and U.S. bank claims. In 1987, foreign direct investment totaled 26 percent of all U.S. assets abroad and 17 percent of foreign owned assets in the United States.

³Value added estimates are available for U.S. affiliates at the national level for the 1977-1986 period. Comparison of the value added and employment data for these firms for 1986 shows that manufacturing affiliates' employment share of all affiliate employment, 47 percent, was about the same as their share of all affiliates' value added, 45 percent. Value added and employment shares varied widely for other industries.

shares if foreign investment is in capital-intensive industries and industries in which capital has been substituted for labor. Generally, differences and changes in the amount of capital used per worker among industries cause the industrial and regional shares and patterns of change to vary.

Foreign investment activities can be classified according to type and characteristics:

- * Acquisitions and mergers of enterprises whereby title to stock or assets of a business is secured by a foreign investor;
- * Equity increases or a rise in percentage ownership by a foreign investor;
- * Joint ventures, in which two or more entities establish a new business according to the provisions of their contractual agreement;
- * New plants and plant expansions or a foreign investor's establishment of a new operating facility or addition to existing capacity.

The form that foreign investment takes can make a difference in terms of its impact. For example, if a merger or acquisition merely involves the purchase of existing assets, the transfer of ownership may generate few or no new jobs. By contrast, capital inflows to build and equip new plants generate new jobs immediately.

U.S. and Foreign Affiliates

A statistical snapshot taken of activity on inward and outward foreign investment for the United States at year-end 1987 reveals important information. As measured by employment, U.S. multinationals were more active, with 6.2 million workers employed in their foreign affiliates compared to 3.2 million workers in U.S. affiliates of foreign companies (Table 1). Data on asset values, however, suggest that the magnitude of foreign-owned operations in the United States is much closer to U.S.-owned operations abroad. The value of U.S. affiliates' property, plant, and equipment was \$926 billion, compared to \$1,098 billion for foreign affiliates of U.S. companies. Differences in comparable data on sales and employee compensation rank between the employment and asset value extremes because they are measured in current rather than historical dollars.

Because U.S. investments abroad are on average much older than foreign-owned investments in the United States and were made when asset prices were much lower, comparing the magnitude of activity using book values of assets owned exaggerates the foreign presence in

the United States compared to U.S. multinationals' activities abroad. Information on incomes generated by U.S. affiliates and foreign affiliates supports the argument that U.S. foreign direct investment is relatively understated. The U.S. Department of Commerce's estimate of income in 1987 from U.S. direct investment abroad was \$52.3 billion, compared to only \$10.5 billion from foreign direct investment in the United States. (See U.S. Department of Commerce [14].) In part, this difference reflects capital gains on USFDI, which are included in earnings, as a consequence of dollar depreciation and the translation into dollars of affiliates' earnings denominated in foreign currencies.⁴ The size of the difference, however, suggests that U.S. outward investment exceeds inward investment in terms of current economic value.

The magnitudes of the employment numbers and income and asset values mentioned above seem large, but how big are they compared to the total national economy? In 1987, employment of foreign MNCs' U.S. affiliates accounted for 3.6 percent of the 86.6 million workers in nonbank U.S. businesses, according to a survey of these businesses conducted by the U.S. Commerce Department's Bureau of Economic Analysis. This affiliate share was double the 1.8 percent share in 1977, reflecting the rapid growth of FDIUS. (Total U.S. employment grew 24 percent in the 1977-1987 period, while affiliate employment grew 159 percent.) And, while the overall share remains small, U.S. affiliate shares are significantly larger in those industries where foreign investment is concentrated. In particular, manufacturing accounted for nearly half of the employment by U.S. affiliates in 1987 and manufacturing affiliates accounted for over 7 percent of all U.S. manufacturing employment. (U.S. affiliates' share of manufacturing assets, over 12 percent in 1987, was larger than the employment share because foreign investment is concentrated in industries such as chemicals with relatively low employment-to-asset ratios.) Based on available information that shows foreign investment still growing at a fast pace, U.S. affiliates' share in manufacturing employment today may exceed 9 percent (and their share of assets undoubtedly has grown as well).

⁴Although there is no way of knowing, the difference also could reflect a willingness of foreigners to accept a lower short-run rate of return compared to U.S. investors. The argument frequently heard is that some foreigners have a higher propensity to save than Americans, causing the cost of capital to be relatively low for foreign investors. As a consequence, these investors will undertake capital projects that offer a lower return on the margin. Another variant of the argument is that some foreigners take a longer-run perspective on investment and are willing to forego higher short-run profits for a higher return over the long haul.

Several interesting differences in the characteristics of FDIUS and USFDI can be uncovered by examining the country and industrial distributions of these investments (Tables 2 and 3). As expected, the geographic pattern of USFDI is more dispersed than is FDIUS, in part because the United States is a wealthy country and its MNCs started earlier. Foreign affiliates located in developed countries accounted for about 70 percent of employment in U.S.-owned enterprises abroad in 1987, while Canada, Europe, and Japan accounted for almost 90 percent of employment of all foreign-owned U.S. affiliates. By industry, manufacturing accounted for 65 percent of foreign affiliates' employment in 1987, but only 48 percent of U.S. affiliates. This disparity partly reflects the successful spread of large U.S. manufacturing companies. In addition, however, retail trade accounts for a much higher share of U.S. affiliate employment, and finance is a much bigger component of U.S. affiliates' assets. It looks as if foreigners, particularly from other developed countries, are attracted strongly to the large and affluent U.S. consumer market with its efficient distribution network and to its finance industry.

Some other noteworthy contrasts (not shown in the accompanying tables) appear when comparing these investment stocks. As may be expected on the basis of country wealth differences compared to the United States, countries such as Italy, Spain, Brazil, Mexico, and many of those in Asia and the Pacific are more likely to have USFDI than to attempt to invest in the United States. In addition, U. S. foreign investments in developing countries make ample use of labor, while U.S. foreign investments in developed countries tend to be more capital-intensive. Compared to the United States and the other developed countries, wage rates are low in the developing countries and hence more of a lure in those countries.

One of the more prominent features concerning foreign investment in the United States over the past decade is that Japan has joined the major European countries and Canada as a major foreign investor. Between 1977 and 1987, Japan's share of U.S. affiliate employment rose from 6 percent to 9 percent, and its share of U.S. affiliates' assets rose from 4 percent to 21 percent. Based on 1987 data, Japan ranks number one in terms of assets and number four in terms of employment. The relatively recent vintage of Japanese investment, however, may overstate the value of its assets vis-a-vis those of countries that have been investing in factories and real estate for a long time. Japan also ranks higher by the asset measure than by the employment measure because of Japanese investors' acquisitions of financial companies that are asset-intensive.

More detailed analysis of foreign investment data can help determine whether the patterns of investment by U.S. and other

multinational corporations (MNCs) are similar or different. The industrial concentrations of USFDI versus FDIUS can be compared by calculating concentration ratios, shown in Table 4, for manufacturing industries. These are ratios of industrial (inward and outward) shares of affiliate assets or sales divided by comparable industrial shares of total U.S. manufacturing assets or sales. Values greater than one indicate that the percentage share of assets (or sales) for an industry is higher in U.S. affiliates than is its share of total U.S. manufacturing. This suggests foreign investor preference for such an industry.

The data shown in Table 4 suggest that foreign investment in the United States is concentrated in resource-intensive manufacturing industries and that investment abroad is concentrated in technology-intensive industries. Specifically, foreign affiliates concentration ratios exceed one for chemicals, nonelectrical, electronic and electrical machinery, transportation equipment, instruments, and rubber and plastic products. Of these industries, all but rubber can be classified as technology-intensive. By contrast, U.S. affiliates have employment concentrations in chemicals, stone, clay, and glass products, primary metals, and petroleum and coal, industries that are resource-intensive.

These differences in activity specializations also are consistent with major historical patterns of global investment flows. The chemical and petroleum industries, both with above average concentrations for inward and outward investment, are dominated by pioneering multinational corporations from the United States and abroad. Also, as mentioned previously, U.S. MNCs developed their international operations earlier and across a broad spectrum of industries when they were the world's most dominant and advanced manufacturers in the 1950s and 1960s. Although up-to-date data are not available, there apparently is a flood of (chiefly Japanese) investment now in the U.S. auto industry as well as in the rubber, machinery, and electric and electronic products industries. Judging from current newspaper headlines, it appears that the patterns of industrial concentrations, although still substantially different for USFDI and FDIUS, are shifting. If true, this development is consistent with the argument that MNCs from other countries are advancing to a more mature stage via industrial diversification of foreign investment.

Impacts of Foreign Investment

It is appealing to think that foreign investment, like domestic investment, promotes economic growth and enhances productivity and the competitiveness of U.S. industry. Newspaper accounts have proclaimed some anecdotal successes of individual foreign investments such as those that have revived moribund U.S. tire

companies and reinvigorated the automobile manufacturing industry.⁵ Besides bringing new money (possibly increasing net investment and growth), foreign investment also has brought new technology (such as process engineering and quality control improvements) and new approaches to management (such as just-in-time inventory policies) and worker relations (such as quality circles).

Unfortunately, there is no adequate way to systematically quantify these impacts of foreign investment. It is not possible to determine how many U.S. workers' jobs are attributable to foreign investment, although direct investment in manufacturing undoubtedly has added jobs in some industries and has kept job losses down in some other industries.⁶ Employment impacts also are concentrated in manufacturing because manufacturing affiliates' employment share of all U.S. affiliate employment is more than twice that of all manufacturing's share of total U.S. employment (Table 5). Among individual manufacturing industries, U.S. affiliates' shares are above average except for such traditional ones as textiles and apparel, lumber, furniture and fixtures, tobacco, rubber, and leather. Thus, it appears that foreign investment has strengthened the nation's industrial base.

U.S. affiliates do not appear to be bad places to work, despite the fairly widespread view that jobs at U.S. affiliates tend to be concentrated in assembly work that pays low wages. Compensation per worker at U.S. affiliates increased at an above average rate in most manufacturing industries compared to compensation increases for all firms in the same industries in the 1977-1986 period (Table 5). Moreover, affiliate compensation per worker was already higher in a majority of industries in 1977, including the important chemicals industry. Compensation per worker for affiliates was also higher in the service sector, mining, agriculture, and construction in 1986 compared to the average for all U.S. firms in those industries. Compensation per worker, however, grew faster for all U.S. firms than for U.S. affiliates in retail trade, agriculture, transportation, communication, and utilities,

⁵Two excellent articles in this vein appeared recently in the New York Times ("The Takeover of American Industry," May 28, 1989; "Foreign Owners are Shaking up the Competition," May 28, 1989). These articles describe how foreign companies have altered the competitive dynamics in industries such as chemicals, building materials, tires, automobiles, and steel.

⁶Whether there is a net employment gain depends upon the extent to which U.S. affiliates replace U.S. imports (or home country exports) compared to U.S. jobs lost or displaced because of increased competition faced by U.S.-owned firms or because foreign firms' affiliates use more capital at the expense of labor relative to domestic U.S. firms.

plus services in the 1977-1986 period, thus narrowing compensation differentials that apparently favored affiliates.

It is tempting to infer from the foregoing information that foreign investment has improved the compensation of workers at U.S. affiliates compared to all workers in the same industry in the United States. The conclusion that U.S. affiliates pay more than domestic firms in a given industry, *ceteris paribus*, must be qualified, however. Previous research by the author has shown that FDIUS tends to be attracted to large industries populated by large firms, and other researchers have established that large firms tend to pay higher wages and offer better fringe benefits for workers with the same skills, experience, and occupations. Thus, the higher and faster growing worker compensation observed for U.S. affiliates probably reflects firm and industry size differences in the mix of affiliate versus domestic firms rather than differences in compensation when adjusted for these factors.⁷ The data also dispel the perception that foreign investment is in low pay operations.⁸

It frequently is asserted that one of the major benefits of foreign investment is that it promotes exports. Obviously, to the extent that overall economic growth and global economic integration accelerates with foreign investment, exports as well as imports should be stimulated. Two other important questions can be asked concerning the impact of FDIUS on U.S. exports: Is the industrial distribution of FDIUS conducive to raising U.S. exports because foreign investment is concentrated in industries that tend to export? Does foreign investment stimulate exports within a given industry?

⁷There also are some technical problems in comparing affiliate employment and total U.S. employment. At the detailed industry level, comparisons of employment may not be appropriate because of differences in industry classification between U.S. affiliate and all U.S. business employment data. The affiliate data are classified by industry at the enterprise or company level, while total U.S. employment is classified by industry at the establishment level; consequently, affiliate and all industry compensation levels also could be affected by an industry mix effect. In addition, U.S. affiliate compensation includes any payments to workers during the year, while employment is at the end of the year, and the data for total U.S. employment and compensation are through March.

⁸This finding is consistent with earlier analysis of hourly wages of production workers at U.S. affiliates and all businesses in an industry conducted by the U.S. Bureau of Economic Analysis. Based on 1980 data, the unpublished BEA study concluded that there was no evidence that industrial wage rates for U.S. affiliates and all business were different. Also, the U.S. General Accounting Office has compared wages for employees of U.S. affiliates and U.S. auto makers and has concluded that wages received were comparable for the two groups.

The answer to the first question is probably not. As mentioned earlier, many foreign investors are seeking access to the U.S. retail market. Also, among U.S. manufacturing industries, nonelectrical machinery, instruments, transportation equipment, and chemicals are the only industries for which exports amount to 10 percent or more of the value of their U.S. sales (Table 6). Of these industries, foreign investment is concentrated only in the chemicals industry, and chemical affiliates of foreign companies apparently are less likely to export than are U.S. domestic chemical companies. Chemical affiliates form such a large segment of the overall chemical industry, however, that they accounted for one-fourth of the industry's exports in 1986. (Other industries in which U.S. affiliates accounted for 10 percent or more of industry exports were printing and publishing, 10 percent; electrical machinery, 12 percent; and primary metals, 26 percent).

Industries in which U.S. affiliates had above average ratios of exports to sales in 1986 relative to all U.S. firms in an industry included only primary metals, printing and publishing, and petroleum and coal, as well as the other category (which includes several major industries for which detailed statistics on all industry sales are not available, such as textiles, apparel, tobacco, leather, lumber, furniture, and miscellaneous manufacturing). Overall, U.S. manufacturing affiliates were less likely to export than were U.S.-owned manufacturing firms in 1977 and 1986; thus, the boost to U.S. exports given by affiliates may not be that great. Moreover, the calculated concentration ratios suggest that the affiliate manufacturers tended to be less likely to export in 1986 than they were in 1977 compared to their domestic counterparts.

It is not clear why these patterns should be observed. If foreign companies are attracted to producing in the United States primarily to gain access to the U.S. market, then affiliate manufacturers generally would be expected to be less likely to export than U.S.-owned manufacturers. There probably also are ad hoc explanations for the tendencies observed for particular industries. Unfortunately, lack of detailed information about the ownership and product composition of affiliates in the various industries precluded discussion of such explanations here.⁹

The foregoing information suggests that there are significant impacts of foreign investment for the nation. To some extent, foreign investment in the United States has increased the competitiveness of

⁹The statistical finding that U.S. affiliates' likelihood of exporting has dropped while foreign investment has risen sharply in the 1977-1986 period may be related to the strong value of the dollar in 1986 compared to 1977. Rather than export from the United States, foreign MNCs may have sourced exports in some other country, including plants in their home countries.

U.S. industry, strengthened the distribution of manufacturing employment, facilitated transfers of technology, improved management practices, and kept open plants that otherwise would have been closed by their U.S. owners. Job and worker income growth also may have benefited from foreign direct investment. On the other hand, there is some evidence that U.S. affiliates' export-generating benefits are not especially positive compared to domestic producers.

Foreign Investment in the Southeast

Questions of interest concerning foreign investment in the Southeast (Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee) are the same as those nationally--where have the investments been made, geographically and by industry, and what are the impacts of such activity? As with the nation, describing where investment has occurred in the region is fairly simple compared to gauging even partial impacts of foreign investment, which involves assessing many factors, some of which offset others. Moreover, it is difficult to determine what might have happened without foreign direct investment in the Southeast (FDISE). Nevertheless, previous research by the author that examined specific factors motivating foreigners to invest in particular industries and geographic areas in the United States has generated some information to help understand the regional implications and impacts of this activity. General conclusions for the region from previous work are that the Southeast has attracted an especially hefty share of such investment and that the Southeast's lures have been its favorable business climate, above average economic growth, and plentiful profit opportunities, owing in part to the availability of low cost resources such as labor and energy. (See Kahley [7, 8, 9].)

Comparing aspects of foreign investment in the region with foreign investment nationally using employment data for the 1977-1987 period confirms the special favor the Southeast enjoys with foreign investors. Employment growth for all U.S. affiliates was 159 percent, and regional affiliate employment growth was 239 percent (Table 7). This disparity was about as large as the employment growth difference for the region for overall employment over the same period, in part because the Southeast has been a favorite location for U.S. investors too and for similar reasons. The fast growth of affiliate employment enabled the region's share of U.S. affiliate employment to rise from 10 percent in 1977 to over 13 percent in 1987.

If growth nationally and regionally is compared using book value of assets data, a somewhat different picture is revealed, with the nation showing slightly faster growth over the period--418 percent compared to

378 percent for the region. Naturally, the disparity in employment and asset value comparisons is related to differences in the industry mix of foreign investment between the nation and the region. In addition, foreign investment in the region has tended to be more for building new manufacturing plants and in employment-intensive service sector industries such as wholesale and retail trade compared to foreign investment nationally. For example, 15 percent of the value of foreign investment in the Southeast was for new plants in 1986, compared to less than 6 percent nationally (based on transactions data reported by the U.S. Commerce Department's International Trade Administration). Merger and acquisition investments, often involving large capital-intensive U.S. companies, accounted for 63 percent of foreign investment nationally and 61 percent regionally.

Detailed industrial distributions and concentrations of affiliate employment and assets in the Southeast show a few major contrasts with the nation, as do growth patterns for industries and for foreign sources of investment activity (Tables 8-11). The most important overall conclusions are that the region continues to be a strong participant in hosting foreign investment across a wide spectrum of industries and from investors all around the globe. In addition, a relatively high share of direct investment in the Southeast has taken the form of new construction in nontraditional industries. Thus, foreign investment may have helped to make the region's economy more diversified and stable, as well as spurring growth.

In the 1977-1986 period, affiliate employment growth in the region exceeded comparable growth rates for the nation in all industries except chemicals, where growth rates were equal, and in real estate, where national affiliate employment growth was more than one-third faster than affiliate growth in the region (Table 8). Even with fast growth in virtually all industries, employment shares within the region changed somewhat. The biggest shifts between 1977 and 1987 were a decline in manufacturing's share of affiliate employment to 45 percent (from 60 percent in 1977), a rise in retail trade's share to 18 percent (from 9 percent), and a jump in the share of other services to 12 percent (from only 0.1 percent). For asset values, industrial affiliate shares within the region shifted similarly, with manufacturing's share down and trade and other services shares up. Affiliate employment and asset shares by industry for 1987 are shown in Table 9 and Table 10, respectively.

Hard data are not available to summarize the impact of employment and asset shifts on regional worker compensation levels or on diversifying the regional economy. Growth of foreign investor interest in the region, however, has shifted toward employment-intensive industries such as services and retail trade. Employment growth in manufacturing, petroleum, and real estate has been much slower. If

regional shifts in affiliate versus total compensation levels by industry followed the national pattern in the 1977-1987 period, it is likely that there was also some relative shift from the generally higher paying jobs in capital-intensive industries and other manufacturing jobs to service sector jobs where compensation increases were growing at a slower pace than comparable industry increases for all U.S. businesses. This shift also may have enabled affiliate employment to grow faster than otherwise because the service sector is more labor-intensive. In addition, because affiliate employment grew faster than employment in all businesses in most industries, total worker income has grown faster than otherwise in the region. Also, affiliate compensation levels in the fast growing industries were above the levels for all U.S. businesses in those same industries in 1986.¹⁰

Differences in national and regional growth rates of employment and assets by industry caused a few of the Southeast's industry concentration ratios to shift significantly in the 1977-1986 period. Most importantly, the region's concentration in chemicals disappeared, while specialties developed in metals, machinery, and other manufacturing industries, helping to diversify the region's industrial base. In services, an above average concentration developed in retail trade, reflecting the especially fast growth of the Southeast market. Shifts in concentration ratios for the book values of industry assets showed similar patterns of change.

The regional affiliate employment distribution (and growth) by country of origin of FDISE in 1987 was similar to the nation's, with the Southeast's employment shares for Canada and Europe close to the shares nationally (Table 11). Otherwise, the Southeast was favored compared to the remainder of the country by Latin American and Middle East investors. Concentrations by value of assets generally show a similar pattern. The major shifts in the Southeast's affiliate shares by country of origin in the 1977-1987 period included sharp increases in employment shares for Canada, Japan, Australia, New Zealand, South Africa, and the Middle East and a drop in share and concentration for Latin America (that is undoubtedly related to debt problems in Latin American countries).

Industry and country of origin specializations are linked. For example, European chemical producers own chemical plants across the

¹⁰The share of affiliates in the Southeast that employed only 1-5 workers in 1986 was 43.8 percent, compared to 40.9 percent. Several researchers have argued that small firms grow faster but pay lower wages than large firms. If true and if the relative mix of large and small companies is the same as the affiliate mix geographically, then the trade-off of employment growth for wage growth referred to in this paragraph would hold to an even greater degree.

region. Similarly, the Southeast has been a favorite place for foreign ownership of agricultural land (Table 12). Much of that ownership is in the region's vast forests, and several of the biggest foreign owners are companies from Canada. Currently, Japanese investment interest in Florida citrus cropland and Alabama ranchland is growing, and Japanese activity in the automobile assembly and parts industries is large. (See Appendix A.)

Emerging Trends and Future Prospects

Foreign investment patterns are exerting a discernible influence on the economic landscape of both the nation and the Southeast. Moreover, several new or only dimly perceived trends are emerging that dramatically may affect future investment flows from abroad to the United States and the Southeast and vice versa. There are several reasons for optimism that the trend toward globalization of production by MNCs will be as prominent a feature of the 1990s as it was in the 1980s.

Concerning the overall foreign investment outlook for the Southeast, it is clear that the region represents a large and fast growing part of the U.S. market, helping to make it a good place for foreign companies to locate subsidiary plants. Foreign investors who have built new plants in the region as well as governors of southeastern states who have participated in the groundbreaking ceremonies for many of these plants have proclaimed the importance of this factor in attracting investment to the region. Other reasons typically cited to explain the Southeast's special attraction for foreign investment are:

- * Availability of good quality labor and good labor relations;
- * Low cost of land and other physical resources;
- * Enthusiastic, cooperative, and welcoming attitudes of southeasterners;
- * Relatively low tax rates and other assistance from state and local government;
- * Regional proximity to major national markets via excellent transport facilities;
- * Good quality of life such as mild climate and low cost of living.

Because there are few signs that the region's advantages are eroding, it is likely that foreign investors coming to the United States will continue to favor the Southeast.

Even though southeastern states are likely to benefit from continuing foreign investment, surveys of affiliate managers have revealed several issues that may limit their foreign investment; a few of

these issues relate to regional shortcomings. For example, the accounting firm Peat Marwick annually surveys foreign companies with U.S. headquarters in Georgia. (See KPMG Peak Marwick [10].) Surveys before 1988 identified the lack of quality education in Georgia (and probably elsewhere in the Southeast) as one of the top two concerns, although in some instances it was perceived as an image problem rather than one requiring attention. Moreover, in the most recent survey, inadequate labor quality and availability increased in importance as a perceived key issue of concern to headquarters management. Generally tighter labor markets may indicate that this is a growing problem across the nation.

Beyond regional influences that may reduce the Southeast's future comparative advantage in attracting investment lie a host of country-specific and some broad international influences that could restrain growth.¹¹ Protectionist legislation, the tax environment, and the availability of investor incentive programs, for example, are factors of major concern to foreign investors.

In addition to being fast growing, foreign investment in the region is developing in interesting directions as it expands and matures. Geographically, it is spreading into nonmetro areas. Second tier companies increasingly are entering the region, especially among the Japanese, either to supply larger companies with facilities here and/or to carve independent market niches. In business, one opportunity often leads to another, and so it is with foreign investment. Growing trade, transportation, and investment linkages between the Southeast and countries around the world are creating new investment opportunities in a broad array of industries.

Several specific international economic and political developments and agreements suggest that inward and outward foreign investment will continue to grow in the 1990s. Examples of investment-enhancing influences include the Caribbean Basin Initiative, Mexico's new law encouraging foreign investment, the U.S.-Canada Free Trade Agreement, Europe's 1992 integration plan, the USSR's policy of Glasnost, and some other potential developments in Asia and elsewhere:

¹¹Generally, the current surge in foreign investment may reflect an attempt by foreign companies to establish a specific presence in U.S. industry. For example, eight Japanese manufacturers are building capacity to produce around 2 million vehicles per year here. To the extent that foreign investment represents an attempt to erase a gap between actual and desired stocks, future investment activity can be expected to slow as the stock adjustment process matures.

- * The six year old Caribbean Basin Initiative (CBI) was designed to help Caribbean nations develop their economies by giving them duty free access to the U.S. market and encouraging American businesses to invest in the Caribbean Basin. Before the CBI, exports to the United States from companies with manufacturing operations in the Basin were subject to U.S. customs duties. Now, most U.S. firms can benefit from low labor costs there by operating subsidiaries in the region and also export to the United States duty free. Although the apparel industry is excluded from this favorable duty treatment, the low cost of labor and the need to pay duty only on the value added abroad has encouraged U.S. apparel manufacturers to establish sewing operations in the Basin in growing numbers;
- * The Mexican government announced a liberalization of its direct investment regulations in May that will permit total foreign ownership of companies with assets up to \$100 million. It also announced that it would remove most restrictions on foreign investment in the tourist industry and give foreign investors access to previously restricted sectors such as glass, cement, iron, steel, and cellulose;
- * The U.S.-Canada Free Trade Agreement took effect at the beginning of 1989. This agreement will eliminate all tariffs between the United States and Canada over the next ten years, assure national treatment so that U.S. and Canadian businesses are free of discriminatory subnational laws, and loosen Canadian restrictions on U.S. investment. The agreement is expected to boost growth in Canada and spur U.S. investment there;
- * Europe 1992 will substitute a single European Community (EC) market for a dozen separate national markets. The EC holds 320 million persons with production capacity about equal to that of the United States. If the EC market stays open to foreigners, the standardization brought by the initiative will enable U.S. companies to operate more freely and cheaply, thereby reducing their production and distribution costs. Removal of physical barriers will lower transportation costs and encourage development of a Pan-European marketing effort, while elimination of technical barriers via uniform regulations and standards should enable companies to register economies of scale in production;
- * Some other countries also have a strong potential for absorbing U.S. foreign investment. South Korea, like Mexico, is liberalizing its investment regulations, although it still will

require majority Korean ownership in key industries such as high tech, industries involving large imports of raw materials for processing with a high value added, and defense and related industries. Other developing countries in Asia, Africa, and Latin America offer investment opportunities as well, as do some of the socialist countries, including the USSR under its current policy of openness and reform.

Foreign MNC interest in acquiring or establishing U.S. businesses also is likely to continue to be strong, although the current growth rate may not be sustainable as the base becomes larger. Numerous large foreign companies do not yet have a strong direct presence here and thus are likely to buy or develop U.S. enterprises that can improve their global market positions. In addition to expanding their manufacturing capability, foreign MNCs also are seeking access to new technology and operations that complement existing product lines or furnish a well-known brand name. U.S. and foreign MNCs also are likely to enter into more partnerships and temporary deals that will increase foreign investment in the United States. All of these factors suggest that the amount of foreign investment is likely to remain high in the next decade.

Summary

The world economy is in the midst of a surge in foreign investment. Outlays by foreign investors to acquire or establish U.S. businesses have risen sharply since 1977 and are at record levels. Large foreign MNCs are seeking to expand and diversify in world markets, including especially the large, fast growing, and stable U.S. market. Their investments in the United States have improved the competitiveness of U.S. industry by introducing improved technology and management practices. Employment and worker income growth also may have been stimulated.

The Southeast has captured an above average share of foreign investment, especially for new plants and activities. Its lures have been its favorable business climate, above average economic growth, and plentiful profit opportunities. The economies of regional states have become stronger in several ways because of foreign investment--they are more diversified and stable and also faster growing. Newly developing investment opportunities in the United States and abroad suggest that the globalization process will continue unabated in the decade of the 1990s.

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Table 1
Selected Data for U.S. and Foreign Affiliates, 1987*

| | Total Assets (\$ millions) | Sales (\$ millions) | Employee Compensation | Number of Employees |
|--------------------|-------------------------------|------------------------|--------------------------|------------------------|
| Foreign Affiliates | 1,098,166 | 1,052,260 | 134,715 | 6,234,600 |
| U.S. Affiliates | 926,042 | 731,392 | 93,652 | 3,159,700 |

*Data compiled by the U.S. Department of Commerce, Bureau of Economic Analysis

Table 2
Shares of Assets and Employment for U.S. and Foreign Affiliates, by Country, 1987

| | Assets | | Employment | |
|---|--------------------|-----------------|--------------------|-----------------|
| | Foreign Affiliates | U.S. Affiliates | Foreign Affiliates | U.S. Affiliates |
| Canada | 13.8 | 15.2 | 14.6 | 18.7 |
| Europe | 48.0 | 50.5 | 41.2 | 60.2 |
| France | 4.3 | 3.7 | 5.7 | 5.8 |
| Germany | 8.3 | 6.3 | 8.9 | 11.5 |
| Netherlands | 4.6 | 7.6 | 2.1 | 8.5 |
| Switzerland | 3.4 | 8.0 | 0.8 | 5.8 |
| United Kingdom | 15.7 | 16.9 | 12.8 | 19.9 |
| Japan | 9.7 | 21.1 | 5.5 | 9.0 |
| Australia, New Zealand, & South Africa | 4.3 | 3.0 | 7.2 | 4.0 |
| Latin America | 14.7 | 3.5 | 19.7 | 4.5 |
| Middle East | 2.2 | 1.9 | 1.6 | 1.0 |
| Other Africa, Asia, & Pacific | 6.1 | 2.1 | 9.7 | 1.4 |

See Table 1 for total assets and number of employees

Table 3
Shares of Assets and Employment for U.S. and Foreign Affiliates, by Industry, 1987

| | Assets | | Employment | |
|---|--------------------|-----------------|--------------------|-----------------|
| | Foreign Affiliates | U.S. Affiliates | Foreign Affiliates | U.S. Affiliates |
| Mining | 1.4 | 1.3 | 1.6 | 0.8 |
| Petroleum | 17.9 | 8.7 | 4.7 | 3.7 |
| Manufacturing | 38.8 | 23.6 | 65.4 | 48.0 |
| Food & Kindred | 3.2 | 2.5 | 6.5 | 4.6 |
| Chemicals & Allied | 8.1 | 8.2 | 9.3 | 12.2 |
| Primary & Fabricated Metals | 2.4 | 2.5 | 4.2 | 5.0 |
| Machinery | 10.4 | 3.5 | 19.3 | 10.2 |
| Other | 14.7 | 7.0 | 26.1 | 16.0 |
| Wholesale Trade | 9.1 | 10.5 | 7.9 | 9.9 |
| Retail Trade | 1.4 | 2.9 | 8.7 | 18.0 |
| Finance, excluding Banking, Insurance, & Real Estate | 26.0 | 48.0 | 2.5 | 6.5 |
| Agriculture | 0.2 | 0.3 | 1.5 | 0.4 |
| Construction | 0.4 | 0.4 | 0.8 | 1.3 |
| Transportation, Communication, & Utilities | 1.8 | 1.0 | 1.4 | 2.9 |
| Services | 2.9 | 3.2 | 5.6 | 8.5 |

See Table 1 for total assets and number of employees

Table 4
Manufacturing Assets and Sales of U.S. and Foreign Affiliates and All U.S. Businesses, 1986

| | Assets of: | | U.S. Total | Concentration Ratio | |
|---------------------------------|-----------------|--------------------|------------|---------------------|--------------------|
| | U.S. Affiliates | Foreign Affiliates | | U.S. Affiliates | Foreign Affiliates |
| Manufacturing | | | | | |
| Chemicals & Allied Products | 240,524 | 355,646 | 1,994,118 | 2.69 | 1.95 |
| Stone, Clay, & Glass Products | 70,497 | 75,638 | 217,166 | 1.89 | 0.40 |
| Primary Metal Industries | 10,660 | 3,340 | 46,784 | 1.70 | 0.80 |
| Petroleum & Coal | 15,138 | 10,537 | 73,942 | 1.24 | 1.01 |
| Printing & Publishing | 50,049 | 60,576 | 334,952 | 0.97 | 0.10 |
| Electric & Electronic Equipment | 11,064 | 1,717 | 94,154 | 0.94 | 1.28 |
| Food & Kindred Products | 19,662 | 39,556 | 173,262 | 0.79 | 0.73 |
| Paper & Allied Products | 20,998 | 28,595 | 219,791 | 0.67 | 0.84 |
| Fabricated Metal Products | 5,568 | 10,329 | 69,082 | 0.63 | 0.77 |
| Instruments & Related Products | 6,456 | 11,582 | 84,491 | 0.53 | 1.30 |
| Machinery, Except Electrical | 4,008 | 14,646 | 62,943 | 0.46 | 1.51 |
| Textile Products | 11,636 | 56,982 | 211,901 | 0.37 | 0.44 |
| Rubber & Plastics Products | 1,182 | 2,101 | 26,729 | 0.33 | 1.40 |
| Transportation Equipment | 1,660 | 10,343 | 41,329 | 0.24 | 1.55 |
| Other | 7,172 | 69,456 | 251,406 | 0.46 | 0.89 |
| | 4,784 | 13,725 | 86,187 | | |

Table 4 (continued)
Manufacturing Assets and Sales of U.S. and Foreign Affiliates and All U.S. Businesses, 1986

| | U.S. Affiliates | Sales of: | | U.S. Total | Concentration Ratio | |
|---------------------------------|--------------------|-----------------------|--------------------|---------------|---------------------|-----------------------|
| | | Foreign Affiliates | U.S. Affiliates | | U.S. Affiliates | Foreign Affiliates |
| Manufacturing | 219,724 | 450,037 | | 2,220,931 | | |
| Chemicals & Allied Products | 60,602 | 80,301 | | 205,778 | | 1.93 |
| Stone, Clay, & Glass Products | 10,709 | 3,630 | | 52,901 | | 0.34 |
| Primary Metal Industries | 16,258 | 9,684 | | 85,523 | | 0.56 |
| Petroleum & Coal | 30,985 | 85,037 | | 226,519 | | 1.85 |
| Printing & Publishing | 8,656 | 2,345 | | 107,552 | | 0.11 |
| Electric & Electronic Equipment | 22,774 | 46,033 | | 193,892 | | 1.17 |
| Food & Kindred Products | 21,578 | 44,536 | | 317,523 | | 0.69 |
| Paper & Allied Products | 5,315 | 11,236 | | 74,844 | | 0.74 |
| Fabricated Metal Products | 7,346 | 14,099 | | 115,694 | | 0.64 |
| Instruments & Related Products | 3,600 | 15,956 | | 63,152 | | 0.58 |
| Machinery, Except Electrical | 12,284 | 71,204 | | 201,284 | | 0.62 |
| Textile Products | 1,572 | 2,235 | | 46,226 | | 0.34 |
| Rubber & Plastics Products | 2,210 | 13,217 | | 60,596 | | 0.37 |
| Transportation Equipment | 11,030 | 110,834 | | 322,438 | | 1.70 |
| Other | 4,805 | 16,497 | | 147,009 | | 0.55 |

Table 5
Employment Distribution and Employee Compensation per Worker for U.S. Affiliates
and All U.S. Businesses by Industry 1986*

| | Employment Distribution | | Employee Compensation Per Worker | | | | 1986 Ratio: Affiliate to Total |
|------------------------------|-------------------------|------------|----------------------------------|------------------|------------|------------------|---|
| | U.S. Affiliates | | U.S. Affiliates | | Total U.S. | | |
| | U.S. Affiliates | Total U.S. | 1986 | % Change 1977-86 | 1986 | % Change 1977-86 | |
| Mining | 1.5 | 1.0 | 42,849 | 144.0 | 28,899 | 74.3 | 148.3 |
| Metal Mining | 0.3 | .0 | 36,048 | 106.0 | 29,647 | 95.8 | 121.6 |
| Coal | 0.5 | 0.2 | 55,214 | - | 31,970 | 82.3 | 172.7 |
| Oil & Gas Extraction | 0.5 | 0.5 | 37,617 | 137.9 | 24,537 | 53.3 | 153.3 |
| Manufacturing | 49.8 | 23.0 | 33,513 | 106.5 | 24,441 | 78.7 | 137.1 |
| Food & Kindred Products | 5.5 | 1.7 | 24,339 | 83.3 | 20,886 | 66.6 | 116.5 |
| Chemicals & Allied Products | 12.8 | 1.0 | 36,235 | 105.8 | 29,359 | 85.4 | 123.4 |
| Primary Metal Industries | 2.7 | 0.9 | 41,177 | 124.6 | 26,528 | 57.0 | 155.2 |
| Fabricated Metal Products | 2.5 | 0.8 | 31,014 | 95.8 | 23,139 | 66.1 | 134.0 |
| Machinery, Except Electrical | 3.5 | 2.4 | 34,029 | 95.4 | 26,255 | 77.3 | 129.6 |
| Electric & Electronic Equip. | 7.5 | 2.4 | 32,628 | 142.6 | 25,315 | 91.5 | 128.9 |
| Petroleum & Coal Products | 2.6 | 0.2 | 44,776 | 96.1 | 34,444 | 78.3 | 130.0 |
| Textile Mill Products | 0.7 | 0.8 | 21,008 | 76.5 | 16,139 | 75.3 | 130.2 |
| Apparel & Other Textile | 0.5 | 1.3 | 20,106 | 72.9 | 12,364 | 64.3 | 162.6 |
| Lumber & Wood Products | 0.2 | 0.8 | 27,961 | 107.0 | 18,021 | 62.5 | 155.2 |
| Furniture & Fixtures | 0.4 | 0.6 | 16,001 | 62.9 | 17,365 | 74.4 | 92.1 |
| Paper & Allied Products | 1.4 | 0.7 | 34,802 | 102.3 | 26,730 | 87.0 | 130.2 |
| Printing & Publishing | 2.8 | 1.7 | 30,041 | 104.9 | 21,778 | 73.5 | 137.9 |
| Rubber & Plastics Products | 0.6 | 0.9 | 29,007 | 136.3 | 20,520 | 70.3 | 141.4 |
| Stone, Clay, & Glass | 2.4 | 0.7 | 35,039 | 139.5 | 23,406 | 73.6 | 149.7 |
| Transportation Equipment | 2.0 | 2.2 | 41,562 | 155.3 | 31,747 | 84.2 | 130.9 |
| Instruments & Related | 1.1 | 0.7 | 27,636 | 110.1 | 25,526 | 86.9 | 108.3 |
| Miscellaneous Manufacturing | 0.6 | 0.4 | 26,653 | 106.3 | 18,032 | 76.4 | 147.8 |

Table 5 (continued)
Employment Distribution and Employee Compensation per Worker for U.S. Affiliates
and All U.S. Businesses by Industry 1986*

| | Employment Distribution | | Employee Compensation Per Worker | | 1986 Ratio: Affiliate to Total | | |
|---|-------------------------|---------------|----------------------------------|---------------------|---|-----------------------------------|-------|
| | U.S. Affiliates | Total U.S. | U.S. Affiliates | | | | |
| | | | 1986 | % Change 1977-86 | | Total U.S. % Change 1977-86 | |
| Wholesale Trade | 11.1 | 6.9 | 32,656 | 97.0 | 24,147 | 75.5 | 135.2 |
| Retail Trade | 19.5 | 21.0 | 13,602 | 37.7 | 10,988 | 57.3 | 123.8 |
| Finance, Insurance, & Real Estate | 5.4 | 5.7 | 50,643 | 227.1 | 24,857 | 108.7 | 203.7 |
| Agriculture | 0.4 | 0.5 | 15,949 | 26.7 | 13,819 | 58.7 | 115.4 |
| Construction | 1.7 | 5.6 | 29,855 | 122.6 | 22,430 | 48.4 | 133.1 |
| Transportation, Communication, & Utilities | 2.1 | 5.9 | 32,213 | 64.4 | 26,150 | 71.9 | 123.2 |
| Services | 8.3 | 27.4 | 18,655 | 73.0 | 16,627 | 81.0 | 112.2 |
| Total Amount | 2,964,492 | 83,380,465 | | | | | |

*To make the foreign affiliate employment data and the total U.S. industry employment data comparable, certain categories were slightly reorganized. Also, components do not always add to industry totals

Table 6
Exports of U.S. Affiliates and All U.S. Manufacturing Industries: Shares of Sales, in Percent

| | U.S. Affiliates | | Total U.S. | | Concentration Ratios* | |
|--|-----------------|------|------------|------|-----------------------|------|
| | 1977 | 1986 | 1977 | 1986 | 1977 | 1986 |
| Manufacturing | 5.3 | 5.7 | 6.5 | 7.2 | 0.83 | 0.80 |
| Food & Kindred Products | 4.5 | 2.0 | 3.5 | 3.5 | 1.26 | 0.58 |
| Chemicals & Allied Products | 6.1 | 8.8 | 8.4 | 10.2 | 0.72 | 0.87 |
| Primary Metals | 5.6 | 5.5 | 3.4 | 4.0 | 1.68 | 1.38 |
| Fabricated Metals | 8.7 | 4.3 | 5.7 | 4.5 | 1.51 | 0.95 |
| Machinery Except Electrical | 15.5 | 9.9 | 16.0 | 16.1 | 0.97 | 0.62 |
| Electric & Electronic Equipment | 7.4 | 9.2 | 8.0 | 9.4 | 0.93 | 0.98 |
| Paper & Allied Products | 11.9 | 4.2 | 4.6 | 5.4 | 2.59 | 0.77 |
| Printing & Publishing | 2.4 | 1.5 | 1.4 | 1.2 | 1.69 | 1.29 |
| Rubber & Plastics Products | 1.9 | 3.3 | 4.3 | 4.9 | 0.43 | 0.67 |
| Stone, Clay & Glass | 1.7 | 0.8 | 3.1 | 2.9 | 0.56 | 0.26 |
| Transportation Equipment | 9.0 | 10.0 | 11.0 | 11.2 | 0.81 | 0.89 |
| Instruments & Related | 9.1 | 7.5 | 14.0 | 13.5 | 0.66 | 0.56 |
| Petroleum & Coal** | 4.0 | 3.7 | 0.7 | 1.4 | 5.82 | 2.70 |
| Other | 12.6 | 6.1 | 5.2 | 5.5 | 2.41 | 1.11 |
| (Textile, Tobacco, Leather, Apparel, Lumber & Furniture Products, & Miscellaneous) | | | | | | |

*Concentration ratios are affiliate export shares of industry sales divided by comparable export shares for all U.S. businesses in an industry

**U.S. affiliates' exports in the petroleum category are assumed to correspond to the petroleum and coal products category in total U.S. exports

Table 7
Affiliate Employment and Growth, 1977-1987*

| | Total Employment Amount | | Percent Change |
|---------------|----------------------------|-----------|-------------------|
| | 1977 | 1987 | |
| Alabama | 14,313 | 35,100 | 145.2 |
| Florida | 28,250 | 116,800 | 313.5 |
| Georgia | 30,693 | 117,700 | 283.5 |
| Louisiana | 18,367 | 50,800 | 176.6 |
| Mississippi | 5,734 | 17,600 | 206.9 |
| Tennessee | 26,215 | 80,700 | 207.8 |
| Southeast | 123,572 | 418,700 | 238.8 |
| United States | 1,218,711 | 3,159,700 | 159.3 |

Table 8
Affiliate Employment and Growth, By Industry, 1977-1987*

| | Southeast | | | United States | | | Percent Change 1977-87 |
|-----------------|----------------|----------------|--------------|------------------------|------------------|------------------|------------------------|
| | Number 1987 | Number 1977 | 1987 Share % | Percent Change 1977-87 | Number 1987 | Number 1977 | |
| Mining | 2,535 | 2 | 0.6 | 126,650.0 | 29,269 | 15,511 | 88.7 |
| Petroleum | 17,149 | 6,363 | 4.1 | 169.5 | 121,981 | 89,923 | 35.7 |
| Manufacturing | 189,317 | 74,558 | 45.2 | 153.9 | 1,399,602 | 685,617 | 44.3 |
| Food | 16,526 | 5,998 | 3.9 | 175.5 | 161,675 | 72,090 | 104.1 |
| Chemicals | 43,203 | 22,479 | 10.3 | 92.2 | 378,802 | 197,508 | 124.3 |
| Metals | 21,433 | 6,947 | 5.1 | 208.5 | 154,431 | 85,237 | 91.8 |
| Machinery | 46,739 | 14,821 | 11.2 | 215.4 | 325,563 | 160,151 | 81.2 |
| Other | 54,210 | 17,175 | 12.9 | 215.6 | 379,131 | 170,631 | 103.3 |
| Wholesale Trade | 32,990 | 13,439 | 7.9 | 145.5 | 304,515 | 152,968 | 122.2 |
| Retail Trade | 85,787 | 11,206 | 20.5 | 665.5 | 578,798 | 141,969 | 99.1 |
| Finance | 2,325 | 267 | 0.6 | 770.8 | 52,629 | 9,639 | 307.7 |
| Insurance | 10,776 | 2,287 | 2.6 | 371.2 | 73,941 | 33,258 | 446.0 |
| Real Estate | 6,873 | 2,004 | 1.6 | 243.0 | 34,715 | 8,058 | 122.3 |
| Other | 51,890 | 130 | 12.4 | 39,815.4 | 369,042 | 81,768 | 330.8 |
| Total | 418,700 | 123,572 | 100.0 | 238.8 | 3,159,700 | 1,218,711 | 159.3 |

*Components do not add to totals because some detailed data are not published to prevent disclosure of information on individual firms. The effect of data suppression may be to lower the calculated share for the Southeast in a few instances

Table 9
Affiliate Employment by Industry, 1987*

| | Employment | Southeast Share (%) | Employment | United States Share (%) | Southeast Share of Total Employment | Southeast Concentration Ratio |
|-----------------|------------|---------------------|------------|-------------------------|-------------------------------------|-------------------------------|
| Mining | 2,535 | 0.6 | 29,269 | 0.9 | 8.7 | 0.65 |
| Petroleum | 17,149 | 4.1 | 121,981 | 3.9 | 14.1 | 1.06 |
| Manufacturing | 189,317 | 45.2 | 1,399,602 | 44.3 | 13.5 | 1.02 |
| Food | 16,526 | 3.9 | 161,675 | 5.1 | 10.2 | 0.77 |
| Chemicals | 43,203 | 10.3 | 378,802 | 12.0 | 11.4 | 0.86 |
| Metals | 21,433 | 5.1 | 154,431 | 4.9 | 13.9 | 1.05 |
| Machinery | 46,739 | 11.2 | 325,563 | 10.3 | 14.4 | 1.08 |
| Other | 54,210 | 12.9 | 379,131 | 12.0 | 14.3 | 1.08 |
| Wholesale Trade | 32,990 | 7.9 | 304,515 | 9.6 | 10.8 | 0.82 |
| Retail Trade | 85,787 | 20.5 | 578,798 | 18.3 | 14.8 | 1.12 |
| Finance | 2,325 | 0.6 | 52,629 | 1.7 | 4.4 | 0.33 |
| Insurance | 10,776 | 2.6 | 73,941 | 2.3 | 14.6 | 1.10 |
| Real Estate | 6,873 | 1.6 | 34,715 | 1.1 | 19.8 | 1.49 |
| Other | 51,890 | 12.4 | 369,042 | 11.7 | 14.1 | 1.06 |
| Total | 418,700 | 100.0 | 3,159,700 | 100.0 | 13.3 | -- |

*Components do not add to totals because some detailed data are not published to prevent disclosure of information on individual firms. The effect of data suppression may be to lower the calculated shares for the Southeast in a few instances

Table 10
Affiliate Gross Book Value of Property and Plant, \$millions, by Industry, 1987*

| | Gross Book Value | Southeast Share (%) | Gross Book Value | United States Share (%) | Southeast Share of U.S. | Southeast Concentration Ratio |
|-----------------------|------------------|---------------------|------------------|-------------------------|-------------------------|-------------------------------|
| Mining | 915 | 2.1 | 11,372 | 3.3 | 8.0 | 0.63 |
| Petroleum | 8,786 | 19.8 | 81,951 | 23.7 | 10.7 | 0.83 |
| Manufacturing | 15,936 | 35.8 | 112,995 | 32.6 | 14.1 | 1.10 |
| Food | 623 | 1.4 | 8,037 | 2.3 | 7.8 | 0.60 |
| Chemicals | 6,800 | 15.3 | 50,280 | 14.5 | 13.5 | 1.05 |
| Metals | 1,483 | 3.3 | 15,339 | 4.4 | 9.7 | 0.75 |
| Machinery | 1,705 | 3.8 | 13,800 | 4.0 | 12.4 | 0.96 |
| Other | 4,339 | 9.8 | 25,540 | 7.4 | 17.0 | 1.32 |
| Wholesale Trade | 3,532 | 7.9 | 19,990 | 5.8 | 17.7 | 1.38 |
| Retail Trade | 2,290 | 5.1 | 14,454 | 4.2 | 15.8 | 1.23 |
| Finance, except Banks | 166 | 0.4 | 3,364 | 1.0 | 4.9 | 0.38 |
| Insurance | 317 | 0.7 | 2,687 | 0.8 | 11.8 | 0.92 |
| Real Estate | 8,241 | 18.5 | 52,739 | 15.2 | 15.6 | 1.22 |
| Other | 2,493 | 5.6 | 18,054 | 5.2 | 13.8 | 1.07 |
| Total | 44,475 | 100.0 | 346,212 | 100.0 | 12.8 | -- |

*Components do not add to totals because some detailed data are not published to prevent disclosure of information on individual firms. The effect of data suppression may be to lower the calculated shares for the Southeast in a few instances

Table 11
Affiliate Employment and Investment, by Country, 1987*

| | Southeast | | Employment | | Southeast Share of U.S. | Southeast Concentration Ratio |
|----------------------|-----------|-----------|------------|-----------|----------------------------|-------------------------------------|
| | Number | Share (%) | Number | Share (%) | | |
| Canada | 85,500 | 20.4 | 590,500 | 18.7 | 14.5 | 1.09 |
| Total Europe | 234,100 | 55.9 | 1,903,700 | 60.2 | 12.3 | 0.93 |
| France | 25,800 | 6.2 | 183,600 | 5.8 | 14.1 | 1.06 |
| Germany | 30,600 | 7.3 | 363,300 | 11.5 | 8.4 | 0.64 |
| Netherlands | 39,300 | 9.4 | 269,500 | 8.5 | 14.6 | 1.10 |
| Switzerland | 17,300 | 4.1 | 183,400 | 5.8 | 9.4 | 0.71 |
| United Kingdom | 82,800 | 19.8 | 630,100 | 19.9 | 13.1 | 0.99 |
| Japan | 29,300 | 7.0 | 284,600 | 9.0 | 10.3 | 0.78 |
| Other Asia & Pacific | 19,500 | 4.7 | 149,500 | 4.7 | 13.0 | 0.98 |
| Latin America | 34,400 | 8.2 | 143,600 | 4.5 | 24.0 | 1.81 |
| Middle East | 5,200 | 1.2 | 32,500 | 1.0 | 16.0 | 1.21 |
| Africa | 1,900 | 0.5 | 19,900 | 0.6 | 9.5 | 0.72 |
| United States | 3,800 | 0.9 | 35,500 | 1.1 | 10.7 | 0.81 |
| All Countries | 418,700 | 100.0 | 3,159,700 | 100.0 | 13.3 | -- |

Table 11 (continued)
Affiliate Employment and Investment, by Country, 1987*

| | Property, Plant, and Equipment (\$ millions) | | | | Southeast Share (%) | United States Share (%) | Southeast Share of U.S. | Southeast Concentration Ratio |
|----------------------|---|--------|---------|---------|------------------------|----------------------------|----------------------------|-------------------------------------|
| | Number | Number | Number | Number | | | | |
| Canada | 9,350 | | | | 21.0 | 21.2 | 12.8 | 0.99 |
| Total Europe | 24,675 | | 73,241 | 193,091 | 55.5 | 55.8 | 12.8 | 0.99 |
| France | 2,266 | | 19,692 | 19,692 | 5.1 | 5.7 | 11.5 | 0.90 |
| Germany | 2,833 | | 26,737 | 26,737 | 6.4 | 7.7 | 10.6 | 0.82 |
| Netherlands | 2,613 | | 47,907 | 47,907 | 5.9 | 13.8 | 5.5 | 0.42 |
| Switzerland | 2,011 | | 14,188 | 14,188 | 4.5 | 4.1 | 14.2 | 1.10 |
| United Kingdom | 6,251 | | 65,344 | 65,344 | 14.1 | 18.9 | 9.6 | 0.74 |
| Japan | 2,598 | | 31,325 | 31,325 | 5.8 | 9.0 | 8.3 | 0.65 |
| Other Asia & Pacific | 1,367 | | 15,541 | 15,541 | 3.1 | 4.5 | 8.8 | 0.68 |
| Latin America | 2,423 | | 10,394 | 10,394 | 5.4 | 3.0 | 23.3 | 1.81 |
| Middle East | 606 | | 12,242 | 12,242 | 1.4 | 3.5 | 5.0 | 0.39 |
| Africa | 86 | | 8,048 | 8,048 | 0.2 | 2.3 | 1.1 | 0.08 |
| United States | 74 | | 2,329 | 2,329 | 0.2 | 0.7 | 3.2 | 0.25 |
| All Countries | 44,475 | | 346,212 | 346,212 | 100.0 | 100.0 | 12.8 | - |

*Components do not add to totals because some detailed data are not published to prevent disclosure of information on individual firms. The effect of data suppression may be to lower the calculated shares for the Southeast in a few instances

Table 12
Land Owned and Mineral Rights Leased or Owned
by Foreigners, 1987*
 (thousands of acres)

| | Acres of Land Owned | Acres of Mineral Rights Leased or Owned |
|----------------|------------------------|--|
| Alabama | 625 | 405 |
| Florida | 893 | 737 |
| Georgia | 709 | 70 |
| Louisiana | 720 | 889 |
| Mississippi | 369 | 593 |
| Tennessee | 108 | 98 |
| Sixth District | 3,424 | 2,792 |
| United States | 13,829 | 42,531 |

*Data compiled by the U.S. Department of Commerce, Bureau of Economic Analysis

Appendix A

Japanese Investment In The Southeast

Data compiled by the Consulate General of Japan in Atlanta show that 496 Japanese-affiliated establishments operated in the Southeast at the beginning of 1989, employing 41,608 workers. The amount invested in the region (excluding Louisiana) at that time was estimated at \$4.96 billion. Moreover, the many newspaper headlines this year announcing new Japanese investments suggest that the rapid pace of Japanese investment is continuing and, based on the number of investor inquiries reported by state and local government development agencies, that activity seems unlikely to slow any time soon.

Just how fast has growth been? As measured by official U.S. government statistics, Japanese investment activity in the United States has been above average compared to most other major countries over the past decade. Employment, assets, and sales of U.S. affiliates of Japanese companies have all grown at a substantially faster pace than comparable indicators for the United States' other major trading partners.

Japanese investment has grown even faster regionally than nationally. By year-end 1987, more than one job of ten at Japanese U.S. subsidiaries was in this region. Total nonagricultural employment in the Southeast grew more than 50 percent faster than it did nationally in the 1977-1987 period. For Japanese affiliates, the growth disparity favored the region even more. In the last half of the 1980s, regional affiliate employment probably has grown at a rate about double the pace nationally.

Capsule reviews of Japanese subsidiaries' activities in the individual southeastern states follow. They give a flavor of the scope of Japanese investment in southeastern states and the employment in these operations.

ALABAMA. At the beginning of 1989, 30 Japanese subsidiaries operated in the state, employing 5,000 workers, most of them in manufacturing. Total investment in the state amounted to \$751 million according to the Consul General's office. Japanese subsidiaries such as Dunlop Tire (an affiliate of Sumitomo Rubber Industries), Mitsubishi, and Sony are major employers in the state.

Huntsville appears to be a location especially favored by Japanese investors. Besides Dunlop's tire facility, Futaba produces vacuum fluorescent displays, Hitachi Seiki makes machine tools, and TDK manufactures electronic components. The Japanese have been attracted to this thriving city largely because of its high tech qualities. An excellent infrastructure and an enthusiastic, hospitable, and

cooperative environment were reported to be the major factors causing JVC to locate its compact disc manufacturing plant in Tuscaloosa.

Looking ahead, Alabama seems particularly suited to host auto parts plants because of its proximity to car makers' assembly plants to the north and east. Alabama also is a favorable location for capital-intensive production facilities to process the state's abundant natural resources. For distribution, the state has a good network of highways, rail lines, and navigable waterways.

FLORIDA. Over 85 establishments employ 4,470 workers in the Sunshine state. Some Japanese manufacturers, such as Fujitsu (computer components), Dainippon Ink's Reichhold Chemicals (resins), and Sony (recording equipment) employ a substantial number of workers. Most workers in Japanese affiliates are concentrated in service sector jobs (with smaller staffs) rather than in manufacturing, which makes Florida unique in this respect among southeastern states.

Japanese affiliates operate in a broad range of service activities, including sales, distribution, and servicing; banking and finance; transportation; and real estate. Resort and real estate investments are especially fast growing investment interests, with recent Japanese purchases of Florida golf courses attracting widespread media attention. Miami is a strategic and hospitable center for companies that have international business with countries in Latin America and the Caribbean.

GEORGIA. The Peach state has been especially favored by Japanese investors, with the second largest employment figure and the highest number of establishments in the region. Georgia is a leader among all states of the nation in these respects, with several major Japanese manufacturers operating sizable facilities in the state and employing large workforces. Altogether, manufacturing affiliates employ nearly two-thirds of the 14,700 employees in Japanese affiliates, but the number of white collar jobs in service, transportation, banking, and trade industries also is large. A survey conducted by the Peat Marwick accounting firm found that 33 Japanese companies had their U.S. headquarters based in Georgia in 1988.

Several noteworthy trends have developed in Georgia. For example, investments by electronics firms and golf equipment suppliers are surging. Smaller Japanese companies also are coming to the state in impressive numbers. Increasingly, Japanese companies are establishing plants farther and farther away from the Atlanta metro area. In Atlanta, Japanese investments in real estate have increased sharply, while its airport continues to be a major factor in attracting Japanese investors to the city, state, and southeastern region.

LOUISIANA. Among southeastern states, Louisiana has the least Japanese investment. Japanese affiliates located in the state

apparently number about eleven, and their total employment is 768, with 464 jobs in the manufacturing sector. Kentwood Spring Water, Inc. (Suntry International Corp.) and Firestone Synthetic Rubber Latex Co. (Bridgestone Tire Co.) employ close to 80 percent of the Japanese affiliate workforce. New Orleans is a major U.S. port and distribution center, and several Japanese companies involved in providing shipping services, grain exporting, and freight forwarding have operations there.

Louisiana is heavily dependent on exploitation of natural resources, especially in the energy sector. Historically, Japan has not been a major investor in this industry in the United States. Looking ahead, business and government leaders in the state are working to formulate a long-term economic development plan to diversify Louisiana's economy from its reliance on the energy sector. Such a plan likely will incorporate a strategy to attract more foreign investment. Japanese companies may find new opportunities especially in the agricultural, forestry, and fishing sectors, and their increased activity could contribute to building a more balanced state economic structure.

MISSISSIPPI. Japanese investment in Mississippi is estimated at \$125 million. Of a total of 12 affiliates, seven are manufacturers. Manufacturing employs 1,303 workers or about four-fifths of the total number of all affiliate jobs. The largest employers by far is P.E.P., a manufacturer of auto and truck wire harnesses that is a subsidiary of Alcoa Fujikura, Ltd.; it employs close to 800 workers.

As measured by employment, Japan's share of affiliate employment is lower in Mississippi than is its share of overall U.S. affiliate employment. Like Louisiana, Mississippi's heavy concentration in the natural resource industries has meant less investment from Japan. Mississippi, however, also has experience with foreign direct investment in auto parts and assembly-type businesses. Japanese companies do have a pattern of investment in this area. With the growth of Japanese investment in the U.S. to produce parts, there is an opportunity for added growth in auto-related manufacturing in Mississippi.

TENNESSEE. Among southeastern states, Japanese affiliates in Tennessee employ the largest number of workers (15,000) and invest the greatest amount in manufacturing (\$2.3 billion). Bridgestone, Matsushita, Nihon's Calsonic Corp., Sharp, and Toshiba employ many workers in producing tires, auto and electronic components, TVs, and microwave ovens. Nissan's auto and truck assembly complex in Smyrna employs thousands of workers and represents the largest Japanese investment in the United States. Nissan's presence in Tennessee has lured Japanese auto parts suppliers to the state to provide just-in-time parts service to the auto maker.

The presence of Nissan and the location of other Japanese and U.S. auto makers with assembly plants in nearby states practically insures that auto-related parts plants will continue to cluster in the state. These companies are likely to locate along or near the interstate highways that cross the state. Manufacturers of consumer appliances, seeking strategic locations to promptly, efficiently, and economically transport goods to the nation's principal markets and population centers, also are expected to locate near the highways.

Appendix B

Foreign Investment From The Southeast

Just how active internationally are companies headquartered in the Southeast? According to data compiled by the Conference Board, large manufacturing companies based in the six district states with activities abroad had about \$33.4 billion in total sales and \$5.4 billion in foreign sales in 1987. Regional companies with foreign investments and with sales greater than \$100 million numbered only 32, however, or about 3.2 percent of all large U.S. multinational corporations (MNCs). Among the district states, Florida was home to the greatest number of MNCs--just 12 firms compared to 150 headquartered in California.

Based on these data, it appears that southeastern companies are not especially active internationally. Apparently, although the district attracts a comparatively large share of foreign investment from abroad, its share of home-based businesses maintaining international activities is small relative to the rest of the country. Because the size distribution of firms in the Southeast compared to the rest of the nation is unknown, it is possible that the region is not the headquarters for many large companies. Moreover, the district could be home to a significant number of companies that are active internationally, but which are small or medium-sized firms. Finally, many big corporations based outside the Southeast have branch plants in the region that are sister plants to foreign subsidiaries of the parent MNC. Thus, including activity of all these firms could reveal that the Southeast's international production linkages are extensive.

Although 32 large Southeast-based manufacturing companies hold investments abroad, they do not necessarily have foreign plants. The data show that the region's multinationals own 967 principal U.S. plants and only around 82 foreign plants. Many of the firms may hold licensing agreements with host country companies and/or have sales and service departments abroad. In general, the southeastern multinationals tend to concentrate in technology-intensive industries and are distributed all over the world. This pattern is in contrast to foreign investors to the region who seem to be predominantly European, Canadian, or Japanese and tend to specialize in the resource-intensive industries.

The following paragraphs present a picture of international investment activities of companies headquartered in each Sixth District state. They include comments on where the multinationals have made investments, both geographically and by industry. Any unique characteristics about a state's foreign business involvements also are noted.

ALABAMA. Four companies headquartered in Alabama (QMS Inc., Russell Corp., SCI Systems Inc., and Vulcan Materials Co.) are active

internationally. Of these four, only SCI Systems, Inc. owns foreign plants, with one in Singapore and one in the United Kingdom. These four firms have made investments abroad in the clothing and apparel, machinery, electronics, industrial chemicals, concrete, and plastic products industries.

FLORIDA. All but one of Florida's 12 multinational firms have plants abroad. The Milton Roy Company, manufacturer of general industrial machinery and equipment, optical instruments, and lenses, maintains the highest number of foreign facilities, with plants in Belgium, Canada, France, Ireland, and the United Kingdom. Florida's other multinational firms chiefly produce various types of machinery and equipment, electronics, plastics products, and fabricated rubber. The two most common sites for investment seem to be Canada and the United Kingdom.

GEORGIA. The Peach state has the second highest count of multinationals (10), but the largest share of sales among the region's states. In 1987, MNCs headquartered in Georgia earned about \$20.3 billion in sales or three-fifths of total sales by regional MNCs. The Coca-Cola Company, with over half of its \$7.7 billion sales from foreign markets, has an encompassing global presence. The corporation owns at least 19 foreign plants all over the world. Its closest state rival in terms of foreign facilities is West Point-Pepperell Inc., a manufacturer of fabrics and carpets, with 13 foreign plants in five countries. Popular countries for foreign investment by Georgia's multinationals are Canada, the United Kingdom, and the Dominican Republic.

LOUISIANA. With only two companies maintaining foreign affiliates, Louisiana hosts the second least number of internationally active firms among the states in the region. Newpark Resources, Inc. and McDermott International, Inc. both produce construction machinery and equipment, as well as build and repair ships and boats. The two companies have a total of nine foreign plants in Singapore, the United Kingdom, Canada, Egypt, Indonesia, Nigeria, and the United Arab Emirates.

MISSISSIPPI. Mississippi appears to be the least active internationally of the district states. In 1987, the state was not credited as home to any large MNC. Peavey Electronics, based in Meridian, Mississippi and described as the world's largest sound systems manufacturer, is an example of a smaller sized firm with international activities. The company operates 17 facilities in the state, a video production studio in Los Angeles, and owns subsidiaries in Canada, England, and the Netherlands.

TENNESSEE. Tennessee, like Alabama, has a total of four large firms with investments abroad and just two foreign plants between them. The plants are located in Canada and Mexico. The companies are

involved in a variety of industries, including machinery and equipment, household furniture, drugs, detergents and cosmetics, and miscellaneous apparel and wood products. World sales are about \$1.1 billion, 3.4 percent of total regional multinational sales.