

FOREIGN DIRECT INVESTMENT IN TENNESSEE



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Tennessee continues to attract foreign investment. The state ranked #1 in the nation for job creation during 2015 through foreign-direct investment (FDI), according to *IBM-PLI's Global Location Trends 2016* report. This marked the second time in three years that Tennessee topped the nation in job creation through foreign direct investment. Tennessee is a destination of choice for companies with its strong workforce, logistical advantages and ideal location. Currently, 919 foreign-based establishments operate across the state and have invested \$33.3 billion in Tennessee while employing more than 123,000. TNECD's recruitment of foreign-direct investment propels the diversification of the state's economy while also increasing its employment and Gross Domestic Product.

The Tennessee Department of Economic and Community Development Agency's (TNECD) Center for Economic Research in Tennessee (CERT) completed the following overview of foreign direct investment in Tennessee while detailing major investments by country and company. In addition, CERT analyzed recent FDI projects that received TNECD FastTrack funding to estimate the economic and fiscal impacts these projects could have on the state over a 10-year period.

Foreign Operations in Tennessee

Tennessee is home to 919 foreign-based establishments, a 43.4 percent increase from the state's 640 establishments in 2007. The growth of foreign-based operations is supported by an ever-increasing footprint of the automotive industry in the state. Anchored by foreign automotive OEMs Nissan and Volkswagen, and major suppliers such as Denso and Bridgestone, Tennessee has seen large increases in capital investments by foreign operations.

Over \$18.4 billion of capital has been invested in Tennessee in the last 10 years. Businesses headquartered in Japan, Germany, Canada, the United Kingdom, and South Korea are the largest sources for foreign investment in the state, encompassing over 83 percent of all capital investment in Tennessee (\$27.8 B). Companies locating to Tennessee consider the state's pro-business environment, proximity to customers, and state support as major factors in their location decisions.

Tennessee continues to be one of the main destinations for Japanese investment in the United States, bolstered by a large cluster of Japanese-based companies such as Nissan, Bridgestone, Denso, Calsonic Kansei, M-Tek, and Yorozu. According to the *fdiMarkets* database, Tennessee ranks third in the nation for Japanese foreign direct investment projects. Of the 123,000 Tennessee jobs created by foreign-owned companies, 39.8 percent were jobs created by Japanese-based firms. In addition, Japanese-based companies account for 53.3 percent of total foreign-owned company investment in the state. TNECD's office in Japan has played an important role in the department's efforts to attract and support Japanese investment in Tennessee.

To accelerate foreign direct investment, TNECD recently added recruitment representatives in Germany, Italy and South Korea, with the intent to add additional offices in China, the United Kingdom and Benelux (the western European region including Belgium, the Netherlands, and Luxembourg).

Top Countries for Foreign Investment in Tennessee

Parent Country	No. of Tennessee Establishments	Total Tennessee Employment	Total Investment in Tennessee
Japan	184	49,104	\$17,803,072,945
Germany	103	13,855	\$5,235,823,085
Canada	74	7,497	\$2,357,150,016
United Kingdom	110	9,810	\$1,417,931,919
South Korea	10	1,610	\$998,177,000
Italy	38	3,219	\$841,725,889
France	73	6,840	\$838,943,406
Switzerland	46	4,446	\$607,187,279
Sweden	34	6,775	\$576,186,500
China	16	1,363	\$457,738,684
All Countries	919	123,267	\$33,387,910,930

Largest Foreign-Based Establishments in Tennessee

Company	Location Employees	Location	Parent Country
Nissan North America, Inc.	8,000	Smyrna (Rutherford)	Japan
Denso Manufacturing Tennessee, Inc.	3,150	Maryville (Blount)	Japan
Electrolux Home Products North America	2,563	Springfield (Robertson)	Sweden
Nissan North America, Inc.	2,500	Franklin (Williamson)	Japan
Volkswagen Group of the Americas	2,372	Chattanooga (Hamilton)	Germany
Smith & Nephew, Inc., Orthopedic Division	1,931	Memphis (Shelby)	United Kingdom
Yorozu Automotive Tennessee, Inc.	1,885	Morrison (Warren)	Japan
Nissan Power Train Assembly, Decherd	1,778	Decherd (Franklin)	Japan
Goodman Company, LP	1,600	Fayetteville (Lincoln)	Japan
Denso Manufacturing Athens Tennessee, Inc.	1,337	Athens (McMinn)	Japan
M-Tek, Inc.	1,317	Manchester (Coffee)	Japan
Pilgrim's Pride Corporation	1,300	Chattanooga (Hamilton)	Brazil
UBS	1,277	Nashville (Davidson)	Switzerland
Technicolor Home Entertainment Services	1,200	Memphis (Shelby)	France
CalsonicKansei North America, Inc.	1,173	Lewisburg (Marshall)	Japan
Trane U.S. Inc.	1,150	Clarksville (Montgomery)	Ireland
Bridgestone Firestone, Inc.	1,100	Morrison (Warren)	Japan
Mahle Industries, Inc.	1,100	Morristown (Hamblen)	Germany
Bridgestone Americas Tire Operations, LLC	1,070	Nashville (Davidson)	Japan
Unipres U.S.A., Inc.	1,013	Portland (Sumner)	Japan

From Q1 2011 through Q2 2016, there have been 251 foreign-based projects that have committed 39,744 new jobs and \$8,848,380,788 in capital investment in Tennessee. Notable projects include South Korean-based Hankook Tire locating a 1.5 million square foot tire manufacturing facility on a 469-acre site in Clarksville, which is expected to create 1,800 jobs and be operational by the end of 2016. In addition to Hankook's first North American manufacturing facility, the tire company will also locate its North American headquarters in Nashville, Tennessee. German-based Volkswagen is expanding production in Chattanooga by adding 2,000 new jobs to produce the CrossBlue SUV. Tennessee is also home to

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Japanese-based Bridgestone North America's U.S. headquarters, which is under construction in downtown Nashville. In March 2015, Swiss-based UBS announced its decision to locate in Nashville with the creation of 1,000 jobs and \$36.5 million investment in the region.

Top Foreign Projects, by Number of Jobs (2011-2016 YTD)

Project Date	Company	New Job Commitments	Capital Investment	Location	Parent Country
July 2014	Volkswagen Group of the Americas	2,000	\$600,000,000	Chattanooga (Hamilton)	Germany
October 2013	Hankook Tire Co., Ltd	1,800	\$800,000,000	Clarksville (Montgomery)	South Korea
October 2012	Nissan North America, Inc.	1,400	\$0	Smyrna (Rutherford)	Japan
March 2012	SL Tennessee, LLC	1,000	\$80,500,000	Clinton (Anderson)	South Korea
March 2015	UBS	1,000	\$36,500,000	Nashville (Davidson)	Switzerland
July 2014	Volkswagen Group of the Americas	1,000	\$0	Chattanooga (Hamilton)	Germany
August 2013	Nissan North America, Inc.	1,000	\$160,000,000	Smyrna (Rutherford)	Japan
June 2013	Nissan North America, Inc.	900	\$0	Smyrna (Rutherford)	Japan
June 2012	Automotive Lighting North America	800	\$53,700,000	Pulaski (Giles)	Italy
January 2012	Nissan North America, Inc.	800	\$325,000,000	Smyrna (Rutherford)	Japan
March 2014	Fresenius Medical Care	665	\$140,000,000	Knoxville (Knox)	Germany
November 2014	Bridgestone Americas Tire Operations, LLC	607	\$232,600,000	Nashville (Davidson)	Japan
May 2015	FICOSA North America	550	\$57,947,584	Cookeville (Putnam)	Spain
September 2013	CalsonicKansei North America, Inc.	526	\$49,884,000	Lewisburg (Marshall)	Japan
June 2015	Gestamp Corporation	510	\$180,155,000	Chattanooga (Hamilton)	Spain
August 2015	Denso Manufacturing Tennessee, Inc.	500	\$400,000,000	Maryville (Blount)	Japan
September 2013	CalsonicKansei North America, Inc.	489	\$57,600,000	Shelbyville (Bedford)	Japan
April 2015	Automotive Lighting North America	450	\$70,100,000	Pulaski (Giles)	Italy
August 2011	C & F Group	450	\$12,500,000	Kingsport (Sullivan)	Ireland
February 2015	Unipres U.S.A., Inc.	435	\$61,500,865	Portland (Sumner)	Japan

Recent Foreign Growth

During FY16, the majority of investment by foreign-owned companies was made by Japan (\$710 million), followed by China (\$254 million) and Canada (\$115 million). Projects with the highest investments were Denso Manufacturing (\$400 million in Maryville), JTEKT Automotive (\$218 million in Vonore), and American Wonder Porcelain (\$150 million in Lebanon). Foreign investments in Tennessee totaled \$1.2 billion for FY16. These investments include 39 projects with 4,769 new job commitments. Projects with the largest number of job commitments were Denso Manufacturing, Sinomax USA, and Yanfeng US Automotive Interior System, announcing 300+ new jobs in Tennessee.

FY16 Tennessee Projects by Foreign-Based Businesses

Parent Country	# of Companies	Total Employment	Total Investment
Japan	11	1,664	\$710,025,350
China	6	903	\$254,958,973
Canada	6	567	\$115,891,717
Germany	4	275	\$50,600,000
Hong Kong	1	350	\$28,000,000
Mexico	1	70	\$23,258,120
Switzerland	1	15	\$9,000,000
Italy	2	131	\$7,000,000
Israel	1	180	\$6,250,000
Korea	1	200	\$4,960,000
Spain	1	74	\$3,770,000
United Kingdom	2	205	\$3,100,000
Netherlands	1	65	\$1,500,000
New Zealand	1	70	\$915,000
Total	39	4,769	\$1,219,229,160

Economic Impact and Return on Investment

In FY16, TNECD secured significant job and capital investment commitments in Tennessee from 39 foreign-owned operations. CERT conducted an analysis of these commitments to estimate the anticipated economic and fiscal impacts the projects will have on the state over a 10-year period.¹ Of the 39 foreign direct investment (FDI) project commitments, the 30 receiving grant funding from TNECD were included in this analysis. The nine (9) projects that did not receive this funding were excluded from the analysis.

FY16 FDI Projects			
	Direct Impacts	Indirect and Induced Impacts	Total Impacts
New Jobs	4,106	6,994	11,100
New Incomes	\$1.69 billion	\$2.51 billion	\$4.20 billion
Economic Impact	\$1.01 billion	\$1.24 billion	\$2.25 billion
Taxable Sales and Purchases expected in the State	\$1.53 billion	\$673.7 million	\$2.20 billion

The 30 FDI projects included in the analysis are projected to create 11,100 jobs for Tennessee residents over a 10 year time period. This includes 4,100 direct jobs created directly through the expansion and re-location activities of companies analyzed, and an additional 7,000 induced and indirect jobs created in the regional economy in support of the direct growing business activity. These jobs are projected to generate \$4.2 billion in new income for Tennessee workers over a 10 year time period. The 4,100 direct jobs created by the projects will pay an average wage of \$47,000 per year resulting in \$1.7 billion in new salaries. The

¹ Model Information: This analysis utilizes a customized impact model developed and supported by economic consulting firm Impact DataSource. The projections reflect impacts occurring over a 10 year time period, from the time the projects establish operations. CERT's analysis relies on prospective estimates that may not be realized. The economic impact estimates are based on the Regional Input-Output Modeling System (RIMS II), a widely used regional input-output model developed by the U. S. Bureau of Economic Analysis.

7,000 indirect and induced jobs are expected to create \$2.5 billion in new income, paying an average of \$40,700 annually. In addition to job creation, the foreign-based companies will make significant capital investments in the state. An estimated \$1.2 billion in new capital investment is anticipated by the time each project is fully operational.

The projects analyzed are projected to generate \$2.25 billion in economic output over 10 years for the state of Tennessee. For every \$1 in new economic output the projects create, the state will realize approximately \$1.24 in additional output. Economic output is the value of goods and services produced in the state as a result of the project. Economic output can be thought of as the new revenue generated by the direct business and spin-off businesses. These projects will result in new job creation and other economic activity across virtually every sector of the economy. The largest sector impacted will be manufacturing, which is projected to add 5,000 new Tennessee jobs and \$1.25 billion in economic output. Other sectors that will see significant impacts include wholesale trade, finance and insurance, real estate, health care and social assistance, retail trade, and food services.

In addition, CERT estimates various taxable sales and purchases from these projects to total \$2.2 billion over a ten-year period in the state. Taxable sales and purchases include activity associated with the projects and worker spending in the community. Direct taxable sales and purchases from the 30 analyzed projects are estimated to total \$1.53 billion over a 10-year period.

CERT also estimates the anticipated fiscal benefits, costs and net benefits of the FDI projects to the state over a 10-year period. Fiscal benefits for the State of Tennessee include the generation of new taxes including sales, franchise, excise and miscellaneous taxes and user fees. Local benefits, including property taxes generated from each project, are not included in the analysis. The projects are expected to generate \$140.7 million in new tax collections and fees for the state over a 10-year period. The fiscal benefits are net of assumed tax credits available to the analyzed projects.

In addition, each project may result in new residents moving to the state. The new business and resident growth resulting from these 30 projects may generate additional costs to the state for providing services. These services include transportation and infrastructure, education, law and safety services, health and social services, and other government services. CERT estimates that the state will incur a cost of an estimated \$23.1 million over a 10-year period to provide new government services as a result of the analyzed projects. Therefore the FDI projects are estimated to generate **\$117.6 million in net fiscal benefits** to the state over a 10-year period. Net benefits represent additional tax revenue generated, less costs of additional services to new residents and businesses.

To support foreign direct investment and business growth in Tennessee, the State of Tennessee will spend \$21.2 million in non-tax incentives for the 30 projects included in this analysis. This commitment includes FastTrack grants, location assistance and other state support. The financial non-tax incentives may be considered an investment in the projects made by the state. CERT estimates the **annual rate of return** on the State's investment in these projects to be an impressive **56.4 percent** as a result of the anticipated economic and fiscal impacts. The model treats incentives and state support as the initial investment and net fiscal benefits to the state as the return on investment.

In addition, CERT estimates the payback period from these investments to be 2.0 years. The payback period is the number of years that it will take the state to recover the cost of incentives from the

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additional state revenues that will be generated as a result of the projects. The investments made by the state are expected to result in significant benefits to the state and its residents.

The attraction of foreign direct investment to Tennessee is a well-leveraged opportunity for the state to strengthen its economy. Thousands of Tennessee jobs are supported by foreign investment. For decades, Tennessee has been successful in recruiting new companies that provide strong economic and fiscal impacts to the state. TNECD will continue pursuing projects that afford new opportunities for Tennesseans with a significantly positive impact on the state.