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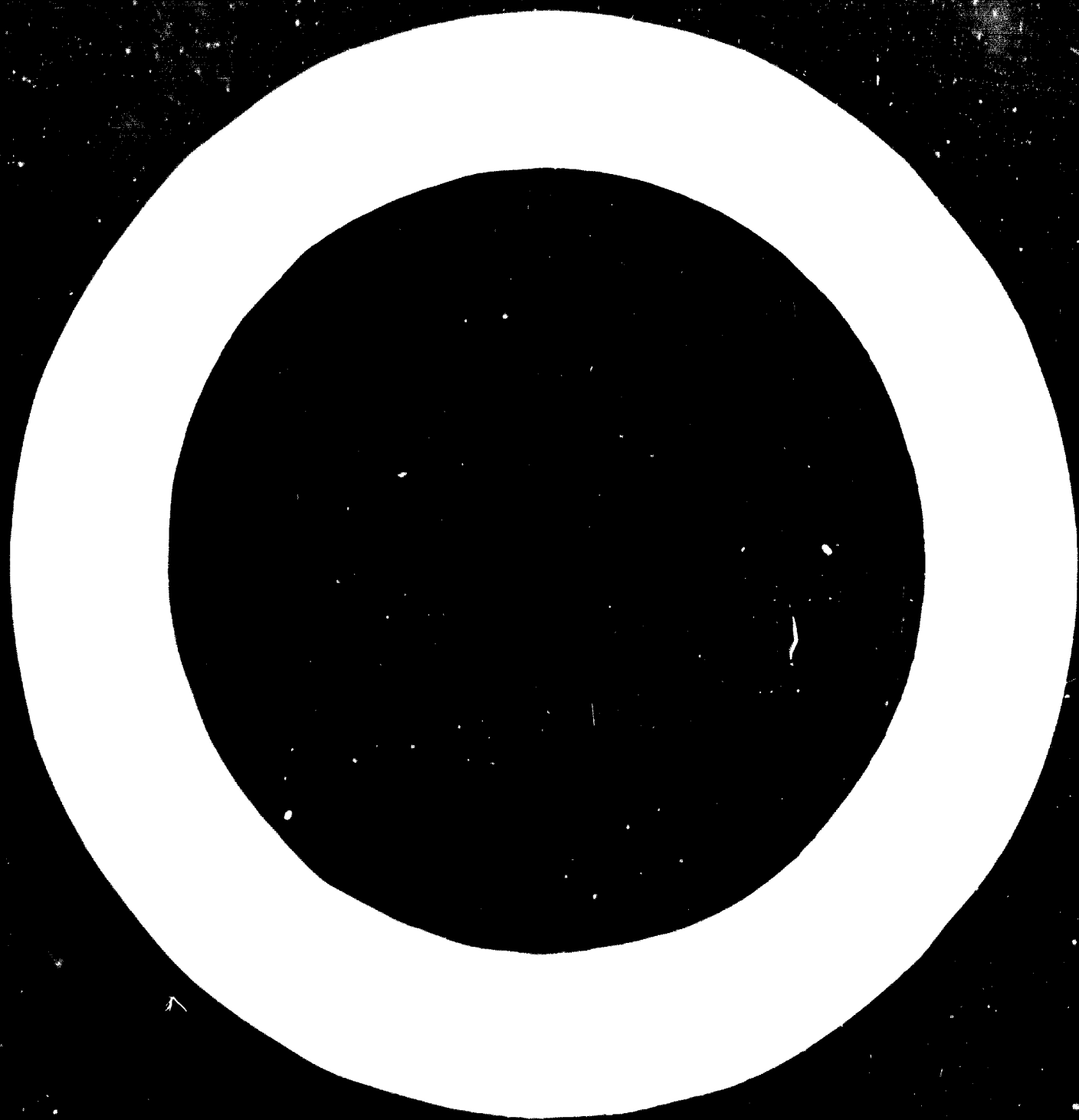
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1/ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO.

• Informal translation, not edited in English.

This note has been prepared on the basis of a paper submitted for the Conference in French by Mr. Abdelaziz Mathari, President and General Manager, Société Tunisienne de Banque, entitled "Possibilités de Sous-Traitance en Tunisie".

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This paper describes the possibilities and advantages for foreign companies to establish sub-contracting operations in Tunisia to manufacture all or part of their products for eventual sale in Tunisia, the Maghreb, the Middle East, the EEC and other markets.

The growth of international trade and industrial co-operation with developing countries is most frequently realized in the form of foreign investment in these countries.

It therefore appears useful to mention a new form of industrial co-operation. This is the possibility offered by international sub-contracting implemented by industrial enterprises in developing countries to the order of foreign companies. This form of co-operation does not necessarily require on the part of the foreign industrialist an investment in the developing country. It is, in fact, an intermediate phase which does not exclude the possibility of investment but on the contrary it is a way of permitting a foreign industrialist to prepare for his venture with better chances of success.

We will aim in this note to show the possibilities and advantages inherent in this new form of industrial co-operation with the developing countries and more particularly with Tunisia.

I. - THE IMPACT OF SUB-CONTRACTING ON INDUSTRY IN DEVELOPING COUNTRIES

1.1 - It is important to define what one means by "sub-contracting".

We will use the definition of Messrs. Salles and Schlegel:

"The sub-contractor is an industrialist or an artisan who fulfils a special order at the request of another industrialist; the item covered by the order consists of a part or sub-assembly which will be included in a final product."

The practice of sub-contracting was developed in the industrially advanced countries of the West and in Japan. In the course of the last twenty years it has played an increasingly important role in the development of industry in these countries, for example:

- In the U.S.A. the Du Pont Corporation follows a policy of not making an investment in production facilities unless it has proved impossible to replace this investment by a sub-contracting contract.
- The case of General Motors, which employs 20,000 sub-contractors, is also frequently cited. Nearly one half of the turnover of

General Motors is placed with sub-contractors.

- In Japan the proportion of the cost of the final product contributed by sub-contractors has been established as follows:

- 70% in the manufacture of rolling stock
- 70% in ship building
- 62% in the manufacture of cars
- 34% in the manufacture of textile machinery

In general the motivation for sub-contracting reduces to this principle: "To obtain in collaboration with other factories the optimum level of efficiency of industrial production."

In practice we find that there are motivations which are particular to the sub-contractor, but usually it depends on the givers of the orders, it is up to them to take the initiative in establishing the practice of sub-contracting. It is usual to distinguish the following three sorts of sub-contracting on the basis of quality, quantitative production and prices:

- Sub-contracting of a technical nature: The large business cannot possess all the necessary equipment to diversify its production and is often interested to use the equipment of a sub-contractor to manufacture certain necessary items of a highly technical nature.
- Sub-contracting which enhances production capacity: This form is generally used when the ordering business faces a "bottle-neck" in its own factory.
- Sub-contracting to lower the price: The practice of this form of sub-contracting is usually based on the cost and availability of manpower.

These definitions help to show that the practice of sub-contracting is closely tied to the structure of modern economies. For this reason if industries find it difficult to expand rapidly in the industrially advanced countries because of the shortage of manpower then those firms who despite increasing mechanization have continued to use a substantial labour force may be seriously affected by the lack of adequate labour supplies. Thus at the time

when the scarcity of labour creates a danger of putting a brake on the economic expansion of these countries, there exists in the developing countries an unemployed labour force the possibility of starting industrial production in these countries is a way of solving this problem.

1.2 - There are two aspects to the practice of sub-contracting work to developing countries:

- The competitive element in sub-contracting
- Sub-contracting as a means of co-operation

1.2.1 - The competitive element:

In the relationship between the two business parties involved, sub-contracting has the following consequences:

- For the givers of the order: Apart from the advantages inherent in the application of the practice of sub-contracting, a solution is often found to the delicate problem of immigration and to the difficulties which arise in exporting due to the high cost of transportation.
- For the developing countries: Sub-contracting allows the employed enterprise to put its labour force to work, it facilitates the acquisition of know-how and it helps the utilisation of capacity which is often very important for the internal market.

1.2.2 - The means of co-operation

As we have seen sub-contracting will be the origin of a new form of co-operation within the plan of international relations. It does indeed not mean aid by industrially advanced countries to developing countries, with all the numerous problems which this creates, but rather provides an opportunity to construct a fertile relationship firmly based on an industrial interdependence and giving satisfaction to both parties. This interdependence could eventually lead to a specialization by the developing countries in certain sectors of industry, thus helping them

create increasingly competitive cost structures for these industries.

Having quickly reviewed the characteristics of sub-contracting and its advantages when it is implemented by business firms in certain developing countries, it is now appropriate for us to describe in particular the possibilities in Tunisia.

2. - SUB-CONTRACTING: ITS APPLICATION IN TUNISIA

The advantages of sub-contracting in Tunisia can be examined under three headings:

- its geographical position
- its labour force
- its international commercial agreement

2.1 - The advantageous geographical position of Tunisia and related transport facilities

Tunisia may be considered as a crossroads between Europe, Africa and the Middle East.

Its ports (Tunis - Goulette, Sousse, Sfax, Bizerte and shortly Gabes) are well placed as distribution centres for international commerce; they meet all the needs of business and are linked to the interior of the country by a well developed network of roads and railways. Also to be noted are the transport possibilities of the regular airline services between Tunisia and Europe, the Maghreb countries and the Middle East. Thus when exports from the industrially advanced countries to Africa and the Middle East are limited to an important extent by the cost of transport of the final product, it is worth considering whether advantages can be realized by arranging for the product to be produced by Tunisian industries.

2.2 - Three aspects of the Tunisian labour force

The quantitative aspect:

The last population census in Tunisia (1966) revealed the following population structure

18.5%	between the ages of	- 5 years
27.8%	" " " "	5 - 15 "
43.2%	" " " "	15 - 60 "
5.5%	" " " "	more than 60 years

The high proportion of young people guarantees a labour force with important potentialities.

The qualitative aspect:

It is worth noting on this subject that the Tunisian authorities have made considerable efforts to improve the educational system; in particular the Office de la Formation Professionnelle et de l'Emploi which was created in 1967. One of the principal tasks of this organisation is to assure that appropriate skills are developed for all branches of industry. The spectacular results achieved by this organisation suggest that the size of the trained labour force will double during the period covered by the next Development Plan.

It is also worth noting that a number of European industrial enterprises are unanimous in acknowledging the adaptability and trainability of Tunisian labour and its capacity for sustained work.

Labour costs:

One of the important characteristics of the Tunisian labour force is its low cost.

In Tunisia minimum hourly wage rates have been established at the following levels:

Tunis and suburbs	0.094 Dinar	(1)
Biserte, Sousse, Sfax and suburbs	0.084 Dinar	
Other towns	0.066 Dinar	

Social security charges do not exceed 37% of the wage paid.

(1) 1 Dinar = 1.9 U.S. \$

These wage levels may be of interest to certain enterprises in the industrially advanced countries which are subject to serious problems because of the important part which labour costs play in their business operations.

As an example we can note that studies have shown that labour costs play an important role in the following industries:

- Foundry and metal fabrication
- Manufacture of precision instruments and clocks and watches
- Articles of clothing
- Manufacture of household utensils and furniture

For these industries wages account for between 30 and 47 per cent of the value added and between 18 and 26 per cent of the final cost.

It is worthwhile for firms manufacturing these products to consider the opportunity of sub-contracting the manufacture of all or part of these products to Tunisian enterprises.

Already Tunisian enterprises are working as sub-contractors in the fields of clothing, furniture, etc. at the request of enterprises in the U.S.A., Germany and France for the mutual benefit of both parties.

2.3 - The favourable position of Tunisia as regards international economic relations

It is not worth describing the good relations which Tunisia enjoys with all other countries. We can however note the recent Agreement which Tunisia has signed with the European Economic Community and the advantages which will result for industries established in Tunisia. The effect of this Agreement is that the six countries of the EEC authorise free entry without taxes or customs duties or quantitative restrictions for all the industrial products of Tunisia except for products described in the agreement relating to petroleum products, products of the ECSC and cork products.

Therefore thanks to the numerous opportunities which are available

to Tunisia, a favourable climate exists for sub-contracting on behalf of foreign industrial enterprises.

Therefore, if with the availability of the communication facilities described above, transportation still discourages certain industries from using sub-contractors in Tunisia, then it may be appropriate for a firm to make maximum use of the opportunity by installing manufacturing facilities in Tunisia on its own account. This solution has the following consequences:

- The industry will benefit from the particular advantages accorded to foreign enterprises which establish themselves in Tunisia under this option.
- It will allow the firm to exploit to the maximum the sub-contracting business which is offered. A clearing house to be established in Tunisia for sub-contracting work will greatly facilitate this opportunity.
- Apart from this optimum exploitation, the industrial enterprise will control more easily the execution of its sub-contracting orders.
- It will also be evident that it will be much easier to develop markets in the Maghreb and Middle East.
- The advantages offered by using the Tunisian labour force will not only positively affect that part of the manufacturing process which is sub-contracted, but also on the whole manufacturing process which can only result in an increased competitiveness of the enterprise.

Thus we see that from assembling finished goods to the setting-up of enterprises by the foreign manufacturer on his own account, there is indeed a 'Tunisian solution' to your sub-contracting problems.

Permit us to conclude by pointing out to foreign industrialists who might wish to take advantage of the possibilities of sub-contracting in Tunisia that the government departments administering industrial development, the specialized institutions, and the large commercial banks are at your disposal to help you to investigate these possibilities.

These organisations, thanks to their detailed knowledge of the structure of the Tunisian economy, are in a position to advise on the possibility of all sub-contracting projects which are proposed to them.

Thus the foreign industrialist will have the possibility to discuss a project with the concerned Tunisian industrial enterprises and to study with them the possibility of establishing sub-contracting operations in Tunisia.





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