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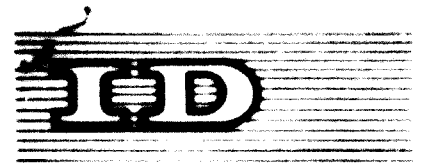
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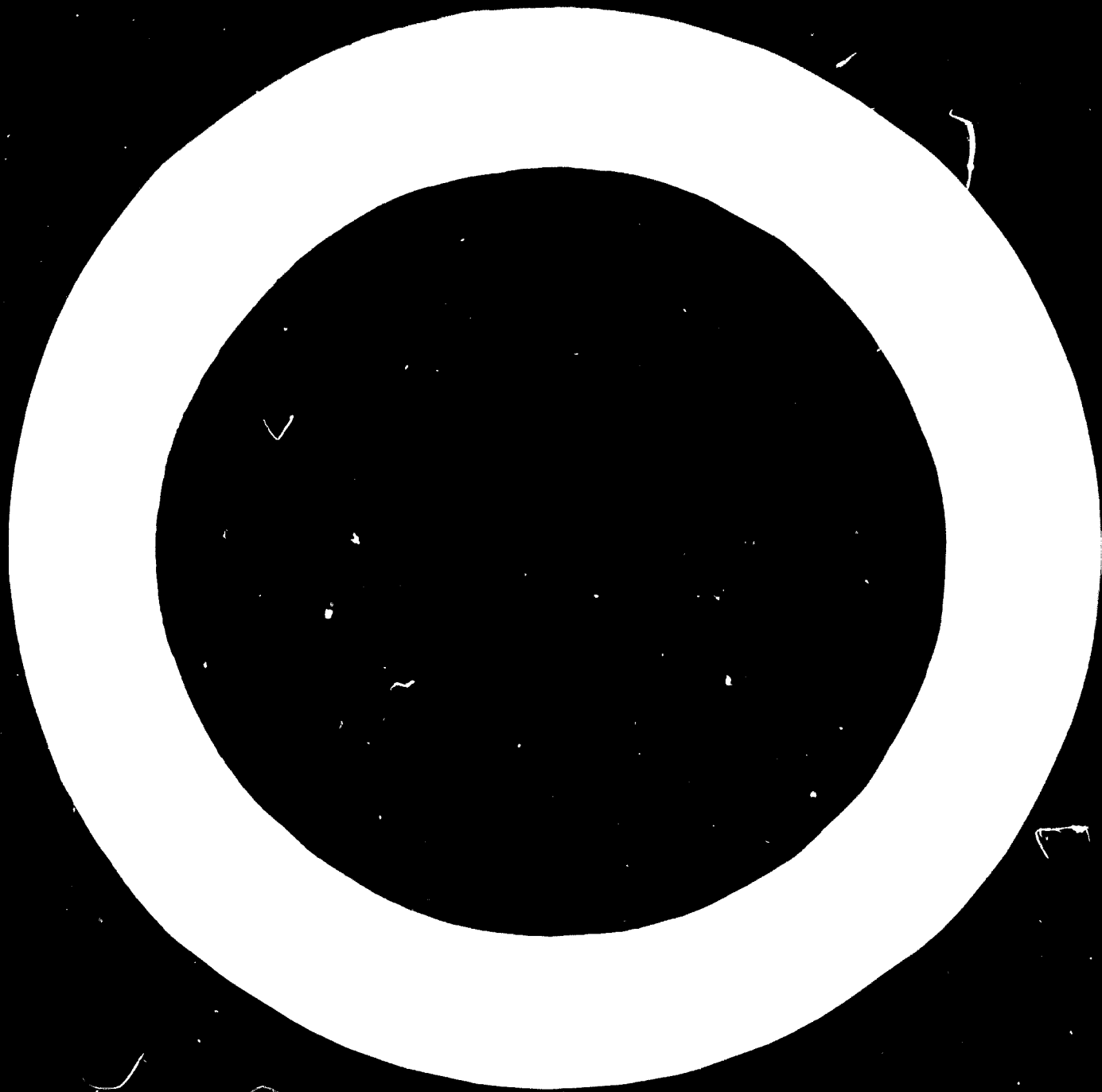
**THE SCOPE AND NATURE OF SUB-CONTRACTING IN JAPAN**  
**AS A GENERAL FACTOR OF INDUSTRIALISATION** 1/

by

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## **FOREWORD**

It is no doubt that sub-contracting businesses have been, and still are, playing a vital role for, and in, the development of industrial activities all over the world.

In spite of this fact, to the limited knowledge of the author, there has not been any intensive research or study made for analysing the nature of this type of business with the intention of promoting sub-contracting businesses within the over-all framework of national economic development programme.

To prove this, I might mention that even the definition of sub-contracting business is obscure; or mixed with other similar terms such as subsidiaries or ancillary businesses.

In the past, some intensive studies were made for criticising large businesses for sweating the potential income of those who worked at sub-contracting businesses and taking an advantage of cheaper wages due, mostly to an abundance of skilled workers. These studies are generally done from socio-politico aspect and do not necessarily contribute in developing appropriate and practical measures to be taken for the healthy development of sub-contracting businesses.

Because of this, the paper has been prepared to disclose the inherent character of sub-contracting business, with the intention of identifying the problems peculiar to this type of business. However, the biggest hinderance to this intention is the fact that each country is quite different in economic, politic, social and other environments which will eventually influence the nature as well as the course of development of sub-contracting business. Recognising this fact, the paper is prepared in a way to present our experiences in Japan and leave to the people who read this paper adoption or adaptation of any of the contents with due consideration to the prevailing condition of respective country and/or business.

1. **HISTORICAL REVIEW OF THE DEVELOPMENT OF SUB-CONTRACTING BUSINESS IN RELATION WITH INDUSTRIALISATION OF JAPAN**

**ROLE OF SUB-CONTRACTING BUSINESS**

According to the latest statistical figures, small businesses occupy about 99.5 per cent of the total number of business enterprises in Japan which amounts to over four million. Workers employed at small businesses, amounting to twenty-five millions, share 79.5 per cent of the total number of workers in the nation, and contributing 50.8 per cent of the total national industrial output.

In the category of manufacturing industries, it is estimated, in 1966, that 53.6 per cent of small businesses are considered to be sub-contracting businesses. (See Table 1).

**TABLE 1**

**BREAK-DOWN OF SUB-CONTRACTING BUSINESSES**

(as of 1966)

Type of Business	Exclusively contracting with one prime contractor	Contracting with several contractors	Undertaking both sub-contracting and other transactions	
	A	B	C	A+B+C
	%	%	%	%
Manufacturing business	24.2	18.8	10.6	53.6
Machineries	26.6	26.9	18.1	71.6
Electric Machineries	28.8	34.3	14.4	77.5
Transportation facilities	27.7	32.0	9.6	69.3
Textiles	50.6	22.2	6.8	79.6
Textile Products	42.0	21.0	6.7	69.7

**Source:** Small Business Administration Agency here, sub-contracting business transaction means the one constantly exchanged between the prime contractor and sub-contractors.

From the standpoint of large enterprises, 17.3 per cent of the total output is shared by sub-contractors. (See Table 2).

**TABLE 2**

**DEGREE OF THE UTILISATION OF SUB-CONTRACTORS  
BY LARGE BUSINESS (as of September, 1967)**

Average in Manufacturing Industries	17.3
Machineries	25.7
Electric appliances	25.7
Transportation facilities (Automobiles)	20.0 (46.2)
Textiles	10.8
Textile products	32.4

Ratio are given as total amount of production delivered from sub-contractors to contractors.

Source: Small Business Administration Agency.

By the special survey made in 1968, it is estimated that for the coming five years, about 42 per cent of prime contractors will increase the utilisation of sub-contractors and only less than 6 per cent of them foresee the possibility of reducing the degree of utilisation. As we see in these, we can't ignore the important role of sub-contracting businesses in Japanese industrial activities.

**INDIGENOUS SMALL BUSINESS AS FOREIGN CURRENCY EARNER**

With these facts in mind, let us review briefly the historical development of sub-contracting business in Japan.

At the end of the nineteenth century, Japan finally lifted her isolation policy which lasted nearly 300 years and introduced modern science and civilisation from abroad. Even before the introduction of foreign technology, some industries had been relatively developed during the feudalistic period. They were: cotton, silk, iron, ceramic, lacquer, paper, tea, vegetable oils, rice wine and others.

Foreign currencies were earned by old, indigenous industries, mentioned above, for financing modern industries. Agriculture did not make substantial progress and consequently it created the biggest source of cheap labour. Farmers comprised about 80 per cent of the total population at the beginning of the industrialisation. Consequently these businesses were run as household industry under the control of commercial capitals, i.e., wholesale dealers and trading houses. Introduction of modern industries on a large scale were made by public sector and a relatively large effort was made for the modernisation of the military arsenals. Major industries were: mining, steel and iron, foundry and textiles. After some years, most of them were handed down to the private sector as they could not be run on a sound financial basis.

Japan has been frequently referred to as a cheap labour market, but at this stage of industrialisation, being an under-developed nation, absolute level of wage was quite low compared with advanced countries and there was little gap between the wages paid in smaller businesses and those paid to larger businesses. As industrialisation went on, and by absorbing abundant cheap labourers from agricultural fields, we observed a considerable gap in the wage levels between small business workers and those of large businesses.

TABLE 3

GAP OF WAGE BETWEEN WORKERS IN SMALL BUSINESS  
AND LARGE BUSINESS

Scale of Business by No. of Workers \ Years	1912	1932	1952	1962	1964
4-9	(5-9) 100	54	-	32	32
10-29	97	(10-19) 68	-	59	58
30-49	94	(20-29) 78	(30-99)	64	64
50-99	94	84	55	-	-
100-499	97	100	79	(100-299) 70	71
300-999	-	-	-	81	82
500-999	94	-	(500) 100	-	-
more than 1000	100 %	-	-	100	100



## DEVELOPMENT OF SUB-CONTRACTING BUSINESS UNDER CAPITAL OF COMMERCIAL ORIGIN

Some other imported industries did not grow up as large ones and remained as small scale businesses. They were: knitted goods, towel, soaps, matches, brushes etc.

Around 1900, iron and steel industries were firmly established and related processing industries began to develop along with other businesses mentioned above. They were casting, forging, metal processing, machine tools, clocks, bicycles and others. You will see that these businesses are found in the list of sub-contracting business today.

After two difficult wars with China and Russia, industrialisation was greatly advanced. Various small businesses also developed in urban areas, especially around slums, by utilising cheap labourers. They contributed a great deal in export promotion and were under the control of commercial capitals. After World War I, heavy and mechanical industries achieved tremendous progress and household industries were modernised and some of them were developed to so-called light industries. However, as was mentioned before, these small industries were mostly under the control of commercial capitals and there were not many conflicts and competition with other line of industrial businesses.

## RATIONALISATION OF SMALL BUSINESS AND DEVELOPMENT OF SUB-CONTRACTING BUSINESS IN SUPPLEMENT TO LARGE BUSINESS

In the nineteen thirties, people suffered from recessions, and criticism for Japanese exports as "social dumping" emerged during that period. Cotton products, silk, electric bulb, matches, rubber products, bicycles were major export items. Cheap labour was undoubtedly one of the major reasons which made Japanese goods competitive enough but we should not overlook the fact of mechanisation and rationalisation. For instance, in the textile industry productivity was increased 2-3 times during the decade of the nineteen thirties.

In the nineteen forties, Japanese industrialisation was concentrated for military defence and self sustenance. During this period, rapid progress of sub-contracting businesses was observed around large businesses and arsenals, and we recognise the following significant facts:

1. Technological gap between large business and small businesses was too great for making integrated and homogeneous industrial activities among them;
2. Commercial capitals were deadly drawn back as Industrial Trade Associations and/or co-operatives took over their places;

Anyway during this period, small businesses were mobilised for war-making industries and had brought about in some extent a technical improvement and large number of people trained as skillful workers.

After the war, Japan started its industrial restoration by taking concentrated efforts on basic industries. Once again, labour incentive small businesses became the source of foreign currency to finance the rehabilitation of war-devastated basic industries. The situation reminds us of the similar one we encountered in the initial stage of industrialisation. But it is quite different in the respect of the following fact.

Since Japan lost its large Asian markets, once enjoyed by small businesses for exporting products of a labour incentive nature, industrial activities are more or less concentrated on heavy and mechanical industries. Thus, it became imperative for small businesses, especially sub-contractors, to improve technical levels in order to supplement large businesses, the prime contractors.

In pre-war days, small businesses and large businesses were, more or less, independent and did not interfere or compete with each other. But now they have become more dependent on each other and supplement each other. Thus, we see the development of so-called subsidiaries or ancillary businesses.

2. SPECIAL CHARACTER OF SUB-CONTRACTING BUSINESSES AND REASONS OF THEIR EXISTENCE

LOW LABOUR COST OF SUB-CONTRACTING BUSINESSES

We have learnt, through the historical review of the development of sub-contracting businesses in Japan, that they are not equal in nature as well as "raison d'être". Some of them are under the control of commercial capitals while others are under industrial capitals. Some of them are existing with large businesses, or from a national economic view point, they are the source of foreign currencies to help develop large, basic industries. Some of them are under the umbrella of large business to supplement the production of large businesses.

In spite of these, by mere prejudice, we consider that cheap labour is one of the major reasons for the existence of sub-contracting businesses.

TABLE 4

**INTERNATIONAL COMPARISON OF WAGES AND PRODUCTIVITY  
IN RELATION TO THE SCALE OF BUSINESSES**

Scale of Business by No. of Workers	JAPAN (1966)		U.S.A. (1964)		WEST GERMANY (1968)	
	Value added/worker	Wage/Worker	VA	Wage	VA	Wage
1-9	-	-	60.0	60.0	60.0	60.0
(4-9)	25	32	-	-	-	-
10-19	-	-	67.2	67.2	67.2	67.2
(10-29)	39	58	-	-	-	-
20-49	-	-	67.4	67.4	72.0	70.0
(30-99)	45	64	-	-	-	-
50-99	-	-	70.0	70.0	75.0	81.0
100-199	-	-	74.5	72.0	77.1	84.1
(100-299)	59	71	-	-	-	-
200-499	-	-	78.8	75.1	83.1	86.4
(300-999)	77	82	-	-	-	-
500-999	-	-	89.0	81.0	85.1	89.9
1000-	100%	100	100	100	100	100

In this way, sub-contracting business is treated almost synonymously to small business when we talk about low productivity, profitability and underpaid wages. The discussion of whether small business workers are paid less because of low productivity or exist because of cheaper wages is merely a problem of which

comes first, egg or hen? In Table 4, we see the gap of wages between small businesses and large businesses even in advanced countries. And we quickly observe that wage level is somewhat a reflection of relative productivity. Thus we understand that when we tackle the problem of under-payment of small businesses, we must deal with the problem of promoting productivity.

Nevertheless we cannot ignore the fact that small businesses, especially sub-contracting businesses, took the low rate of wages as their advantages and made it as their reason of existence. In this respect, we also see the substantial difference between sub-contractors and independent manufacturing business regardless of their scale.

In Table 5, we see the gap of wages exists between independent companies and sub-contracting businesses.

**TABLE 5**  
DIFFERENTIALS OF WAGE LEVELS BETWEEN SUB-CONTRACTING BUSINESS AND INDEPENDENT BUSINESS ALSO IN RELATION TO NUMBER OF WORKERS

Scale of Business by number of workers	Differentials(1)	Differentials(2)
Less than 5	66	50
5-9	76	57
10-29	103	90
30-49	90	67
50-99	100%	75
Independent Business		100

**TABLE 6**  
SHARE OF SUB-CONTRACTORS IN NUMBER OF BUSINESS AND PRODUCTION PER HEAD IN TAISHO-WARD, OSAKA

(as of 1939)

No. of Workers	Independent Manufacturer		Sub-contractors	
	No. of business	Production amount per worker	No. of business	Production amount per worker
Less than 5	-	-	34	1,333
5-9	1	4,412	116	2,096
10-29	14	10,445	64	3,074
30-49	6	8,891	12	5,001
50-99	7	4,634	1	5,038
100-199	4	3,677	-	-
200-499	2	56,545	-	-
>500	2	7,980	-	-
(Average)	(36)	15,272	(227)	2,345
		YEN PER MONTH		

TABLE 7

**BALANCE OF SUB-CONTRACTORS AND INDEPENDENT BUSINESSES  
IN NUMBER OF PLANTS, WORKERS AND TOTAL PRODUCTION  
IN TAISHO-WARD, OSAKA**

(as of 1939)

	No. of Plants	No. of Workers	Total Production
Independent	11.1	59.2	88.7
Sub-Contractors	88.9	40.8	11.3
Total	100%	100%	100%

TABLE 8

**NUMBER OF MOTORS AND HORSE POWER  
USED IN SMALLEST FIRMS**

Scale of Business by No. of Workers	No. of Motors used	H.P. used
Less than 5	0.349	0.427
More than 200	1.873	2.604

In 1939, when Japan initiated its effort for the development of small businesses as to supplement large businesses in Mechanical and related businesses, Osaka municipal office made an intensive survey of sub-contracting business in one district. In Tables 6-8, we see that:

- (1) Productivity is smaller at sub-contractors than independent small businesses;
- (2) The said reason may partially be proved by the difference of mechanisation;
- (3) Concentration of sub-contracting businesses are seen in smallest and smaller size of business.

**SUB-CONTRACTING BUSINESS AS MEANS FOR LIVING**

These facts lead to the other aspect of sub-contacting businesses, i.e., the basic nature of this line of business. Generally sub-contracting businesses are of household and/or cottage industry. Because of this the composition of the workers are somewhat different from other types of business.

TABLE 9

**BREAK DOWN OF LABOUR FORCE IN SUB-CONTRACTING BUSINESS**

	No. of Business	Family Members	Apprentices	Regular Workers	Total
Independent Business	36	0.1	4.2	95.7	100%
Sub-contractors	287	12.2	36.9	50.9	100%
Less than 5 workers	94	41.6	41.3	17.1	} 100%
5-9	116	15.2	50.7	34.1	
10-29	64	7.0	31.1	61.9	
30-49	12	1.2	21.3	77.4	
50-99	1	-	46.3	53.7	

TABLE 10

**CLASSIFICATION OF PEOPLE ENGAGING IN SIDE BUSINESS AT HOME**

	1956	1939
	%	
Widows	5.1	} 11.8
The unemployed	10.1	
Day labourers	3.0	6.5
Employee at small stores & shops	3.4	4.9
Factory workers	39.9	54.9
Salaried people	30.5	7.9
Merchants, Peddlers & others	7.1	11.4
Casual labourer	0.5	
Others	0.4	

Source: Osaka Municipal Office

As we see in Table 9, sub-contracting businesses are more or less family work for living, especially at the smallest level of businesses, and often, a part of their businesses are taken care of by family members or part-time workers as side business as shown in Table 10 and Table 11. This may prove the reason that wages are much lower at sub-contracting businesses.

TABLE 11

COMPARISON OF AVERAGE WORKING HOURS PER WORKER PER MONTH  
ACCORDING TO SCALE OF BUSINESS

Scale of Business Years	No. of Workers		
	More than 500	100-499	99-30
	hours		
1951	190.0 (100%)	194.0 (102.1)	195.2 (102.7)
1952	189.5 ( " )	199.3 (105.2)	200.0 (105.5)
1953	191.4 ( " )	199.2 (104.1)	202.7 (105.9)
1954	190.5 ( " )	198.4 (104.1)	201.5 (106.3)
1955	190.9 ( " )	199.6 (104.6)	207.2 (107.7)
1956	198.9 ( " )	206.6 (103.8)	212.4 (106.8)

LABOUR INCENTIVE, FLEXIBILITY GROUND SUB-CONTRACTORS

Also we come to realise, quite naturally, that these sub-contractors are selling labour hours instead of technology or products. Because of this, the payment from prime-contractors is based on the amount of work processed and raw materials are usually supplied by the contractor. When we look at Table 12 with the understanding that 54 per cent of manufacturing industries are occupied by sub-contractors, we can see that there are considerable number of labour ground processing type sub-contractors.

TABLE 12

**SHARE OF LABOUR-GROUND PROCESSING SUB-CONTRACTORS  
IN THE TOTAL NUMBER OF INDUSTRIAL ENTERPRISES**

Size of business by number of employees	Share of Manufacturing Business	Share of sub-contractors paid on piece-rate labour cost
TOTAL	%	%
1-3	75.8	24.2
4-9	71.2	28.8
10-19	77.4	22.6
20-29	81.4	18.6
30-49	83.1	16.9
50-99	83.9	16.1
100-199	86.2	13.8
200-299	88.1	11.9
300-499	89.2	10.8
500-999	91.6	8.4
more than 1000	92.7	7.3
	97.5	2.5

More reliable evidence of this character can be traced in the background of the owners of sub-contractors. As we see in Table 13, many of them were employees of the same line of business.

An ambitious person will soon find it preferable to become an independent businessman rather than staying at a large business where he cannot expect much opportunity to become a head of the organisation or to be a member of top management. At the beginning he will tactfully and advantageously use the informal relationship with ex-supervisors at the business where he used to work by becoming a sub-contractor to it. The contractor may appreciate the craftsmanship of this person but as business grows up, the sub-contractor takes its flexibility as its speciality. It can handle any amount of diversified orders with short notice.



**TABLE 13**

**ORIGIN OF THE ENTREPRENEURS OF SUB-CONTRACTING BUSINESSES**

Scale of Business by number of workers	Less than 5	5-9	10-29	30-49	50-99	Total
Through heredity	7(7.5)	13(11.2)	5(7.8)	5(41.7)	-	30(10.5%)
Became independent from the same line of business	80(85.1)	25(81.9)	48(75.0)	7(58.3)	1(100)	231(80.5)
Changed line of business from other industrial activities	2(2.1)	1(0.9)	2(3.1)	-	-	5(1.7)
Changed line of business from commercial business	5(5.3)	-	5(7.8)	-	-	10(3.5)
Changed line of business from agricultural business	-	2(1.7)	-	-	-	2(0.7)
Others	-	5(4.3)	4(6.3)	-	-	9(3.1)
	94(100%)	116(100%)	64(100%)	12(100%)	1(100%)	287(100%)

Sometimes they even ignore labour standard law by working late at night starting from early in the morning in order to meet the date of delivery strongly requested by the contractor.

#### STABLE AND CONTINUOUS TRANSACTIONS BETWEEN THE CONTRACTOR AND SUB-CONTRACTOR

After several years, the sub-contractor grows up in relation with the development of the contractor thus ties among them become stronger day by day. They are now interdependent with each other and have become the integrate part of business activities. Soon, the contractor will find it necessary to extend exclusive technical assistance to the sub-contractor as quality of the products (or processing) of the sub-contractor determines the total quality of the product of the prime-contractor. This stimulates further the close and integrate relationship between the two.

#### SUBSIDIARY, FINANCIAL AND/OR PERSONAL TIES WITH CONTRACTOR

As time goes on, the contractor will ask the sub-contractor to expand his business in order to meet the ever-increasing demand of market. Being a family business, he finds it difficult to get sufficient amount of funds to finance the required expansion project. There are alternatives of:

- (1) To accept financial assistance and thus to become a subsidiary business to the contractor;
- (2) To reject the offer and by financing with its own equity to secure the ownership with the sacrifice of expanding its business;
- (3) To reject the offer and try to get loans from bank or other financial institutions thus to find ways to become an independent business. The sub-contractor should have high standard of technical know-how with which it can seek orders from other clients.

If financial assistance is given from the contractor, the sub-contractor must prepare for the possibility of accepting people from the contractor. There are practices in sub-contracting business engaging contracts from government or public-service organisations to accept retired personnel from the contractor for securing orders.

In Table 14 and 15, we see the actual picture of these different types of sub-contracting businesses.

**TABLE 14**

**DIFFERENT TYPES OF RELATIONSHIP BETWEEN PRIME-CONTRACTOR AND SUB-CONTRACTORS**

(as of Sept., 1969)

	Subsidiaries with financial connection	Subsidiaries with personnel (top MGT.)	Exclusive technical assistances	Constant business transactions	Free contracts
Share in total MFG industries	5.4%	3.9	26.4	57.8	6.5
Automobile parts MFG industry	3.1	1.6	24.4	63.2	7.7
Electric home appliance MFG industry	2.7	2.2	20.4	20.8	3.9
Machine tool MFG industry	2.5	1.7	22.7	63.0	10.1
Cotton and rayon staple cloth MFG industry	9.6	10.8	34.9	34.9	9.8
Synthetic fibre MFG industry	6.3	1.8	57.7	30.6	3.6

**Source:** Small Business Administration Agency

**TABLE 15**

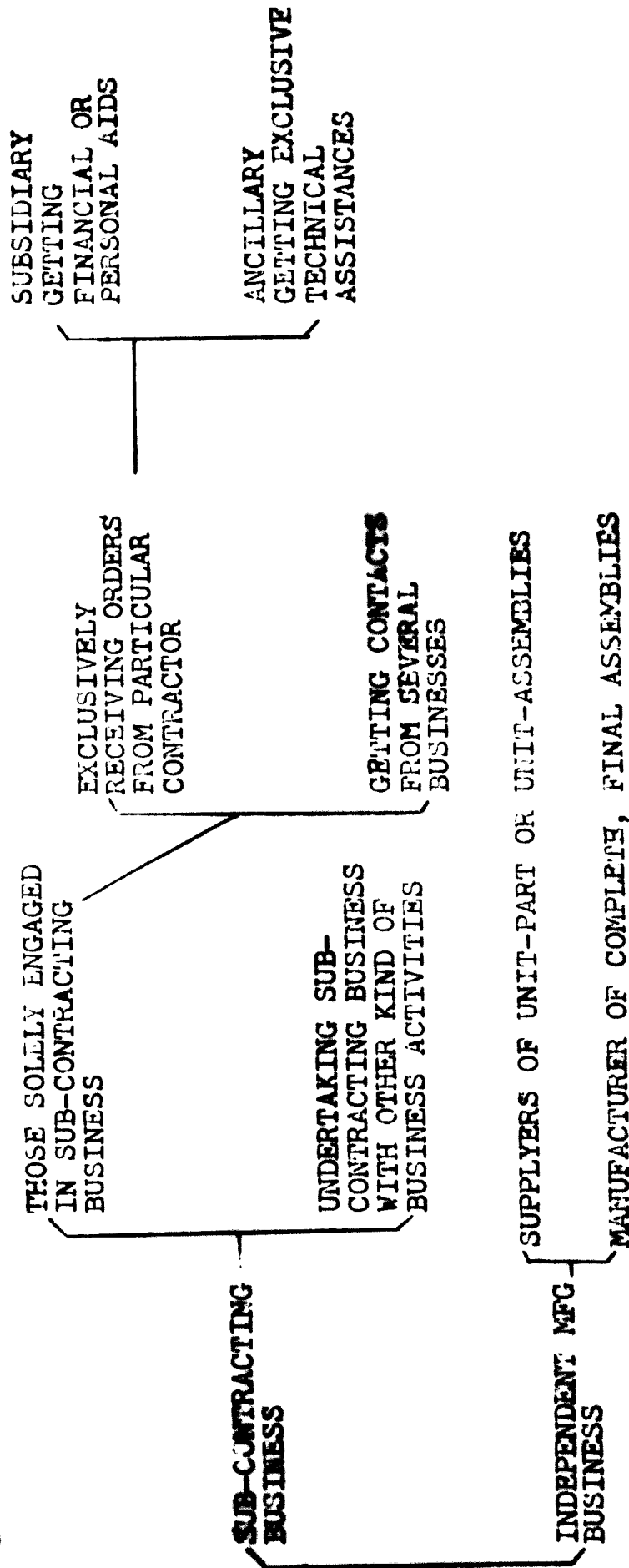
**RELATIONS BETWEEN SUB-CONTRACTORS AND FOUR MAJOR AUTOMOBILE MANUFACTURERS**

	1963		1964		1965		1966		1967		1968	
	1/2	2/2	1/2	2/2	1/2	2/2	1/2	2/2	1/2	2/2	1/2	2/2
No. of sub-contractors, prime-contractors holding stocks	55	56	71	75	75	81	83	88	94	98	-	105
No. of sub-contractors where director(s) is despatched from contractors	-	10	15	21	18	20	23	28	32	36	-	39
No. of sub-contractors having financial aid (loan) from contractors	-	6	8	11	11	17	17	19	18	22	-	21

Source: Fair Trade Commission

**CLASSIFICATION OF SUB-CONTRACTING BUSINESSES AND THEIR RAISON D'ETRE**

**By reviewing the foregoing facts we can classify sub-contractors as follows:**



As to the reasons of utilising sub-contractors on the part of contractors, or raison d'être of sub-contracting business, can be classified as follows:

- CHEAPER COST** .... Exclusively labour cost
- FLEXIBILITY** ..... Can take care of any small amount of diversified items with short notice
- SHOCK ABSORBER** .. Absorbing excessive production on the part of prime-contractors as economical, seasonal and other fluctuation occurs
- DIVERSIFICATION**.. To produce different kinds and and specification of items to make it possible for the prime-contractor to enforce standard mass production system prior to the assembly plant yet to produce highly diversified final products
- SUPPLEMENTARY** ... Specialised in the selected area of manufacturing process and to act as an integral part of the total production activity of the prime-contractor.

Distribution of these different kinds of sub-contractors are quite different from industry to industry, and sub-contractors move from one category to others with dynamic and flexible manner as time goes on and as the situation changes. Problems of sub-contractor will vary according to these changes. One way to guess the problem is to find the reasons why contractors try to eliminate sub-contractors. For these please refer to Tables 16 and 17.

TABLE 16

NUMBER OF SUB-CONTRACTING BUSINESSES USED BY DIFFERENT CATEGORIES OF BUSINESSES

(as of 1957)

	No. of sub-contractors used per plant		Share of businesses with less than one million cap.	Degree of utilization of sub-contractors as to total production	
	Max.	Average		Max.	Average
1. Ship building	531	157	898	54.48	12.5
2. Rolling Stock	166	85	84	51.0	18.
3. Automobiles	177	136	73	45.9	25.3
4. Auto-tricycles	208	101	86	36.7	36.6
5. Bicycles	216	70	88	58.0	55.7
6. Electric Machineries	183	96	93	67.0	23.8
7. Electric Wires	9	6	100	7.0	2.6
8. Communication Equipmts.	206	102	84	53.6	28.3
9. Gauges and metres	261	129	93	62.0	30.2
10. Industrial machineries	118	41	91	36.8	15.1
11. Mining machineries	48	25	95	22.0	16.4
12. Machine tools	50	32	84	44.7	22.3
13. Weaving machineries	303	102	96	55.4	32.0
14. Motors	150	41	85	56.0	18.1
15. Sewing machineries	147	81	97	97.5	51.4
16. Weapons	89	48	91	14.9	7.2
17. Optical Equipments	123	57	96	53.8	31.3
18. Measuring Instruments	32	20	96	40.0	21.6
19. Clocks	71	48	97	31.1	19.4
20. Textiles	155	40	67	100.0	15.4
21. Textile wholesales	188	80	62	-	-
22. Printings	299	100	99	45.0	17.8
23. Medical supplies	70	25	87	24.0	8.5
24. Aluminium processing	41	29	93	9.3	5.9
25. Ceramics	38	28	90	36.3	17.1
26. Plastic products	66	80	94	23.0	8.5
27. Cannings	10	7	83	8.2	5.7
28. Repairing mining machineries	19	9	100	-	-
29. Textile processings	217	70	83	61.5	44.3
TOTAL			88		22.1

Source: Fair Trade Commission

TABLE 17

REASONS FOR DISCONTINUATION OF THE UTILISATION OF SUB-CONTRACTORS

	Average in MFG industries	Machinery industries	Textile industries
Technological deficiency	26.74	30.3	33.3
No merit is found in cost reduction	26.1	27.0	16.7
Because of severe competition	19.4	21.7	10.7
Has transferred to its own production	19.6	13.8	25.0
Insufficient production quantity	8.2	7.2	8.3

3. MEASURES TAKEN FOR FOSTERING AND PROTECTION OF SUB-CONTRACTING BUSINESSES

3-1 Policies and measures taken by the Government to foster the development of small sub-contracting businesses. As was mentioned frequently, sub-contracting businesses are mostly on a small scale. Because of this fact, it is safe to say that the majority of the measures taken by the government to help develop small enterprises are equally shared by sub-contracting businesses.

The following are some of the distinguished ones chiefly for the purpose of protecting sub-contracting businesses.

(1) Rectifying unfavourable business transactions between prime-contractors and sub-contractors.

(a) Protection from excessive competition appropriate, yet flexible measures will be taken for protecting small businesses from excessive competition. Such a protective action will be made with due consideration to the benefit of consumers and the industry concerned. The measures may involve the control or restriction of production, sales, production facilities, and price through co-operative actions.

(b) Rectifying the unfavourable term of business transaction by effective use of "Anti-trust law" and "Act for prohibiting exaggerated advertisement and undue premium".

(2) Fostering Sub-contracting businesses.

(a) Fair trade commission and Small Business Administration Agency will collaborate with each other for the execution of "Law on Preventing Deferment of Payment". (See Table 17).

(b) Reinforcement of the activities of Sub-contracting Business Promotion Association. There are fourteen of these associations extending managerial and technical assistances as well as services for securing contracts for smaller businesses.

(3) Special assistance to help sub-contractors to become an independent specialised manufacturer S.B.A.A. takes it as the most important measure in the year 1970, and is making every possible preparation. There would be intensive financial, technological and taxation assistances. More co-operative activities will be advocated for the development of technical standard among small sub-contracting businesses.



**TABLE 18**

**INDICATION OF DEFERRED PAYMENT BY PRIME-CONTRACTORS**

(as of 1954)

Term of sight of bills	Distribution %
Less than 60 days	6.1
60 days	8.7
90 days	45.4
120 days	32.5
150 days	5.4
More than 150 days	1.9

**TABLE 19**

**MAJOR ACTIVITIES BY TRADE ASSOCIATION AND/OR CO-OPERATIVES**

Joint purchasing	52.5%	Percentage shows the ratio of organisations taking the said project to the total number of organisations
Giving loans	36.5	
Joint sales	30.7	
Information services	30.0	
Joint activities for stabilising prices	23.8	
Joint activities for sales promotion	30.5	
Guarantee for loans	19.0	

**TABLE 20**

**COMMON FACILITIES OWNED BY TRADE ASSOCIATION OR CO-OPERATIVES**

Office, Conference room, Hall	57.5%
Manufacturing facilities	30.4
Storage	23.9
Transportation facilities	21.6
Sales facilities	13.8
Advertisement facilities	11.0
Others (inspection, welfare training laboratory)	

3-2 Co-operative activities by sub-contracting businesses. For this subject, Tables 19 and 20 will demonstrate the general outline of the activities taken by co-operatives or trade-associations.

3-3 Assistance by big businesses. As competition becomes more severe day by day, big businesses find it mandatory and consider them as an integral part of total business activity to share the fate of the future business. But ironically enough, considerable in view of quality of product, technical standard, production systems are achieved as a result of constant pressure for "cost reduction" from the prime-contractors. Big firms established organisation specialised in "Guidance and Assis-tances" of sub-contractors. Such managerial techniques as value analysis, quality control and production control are most effectively implemented by the assistance of big firms. Usually, there exist organisations composed of the sub-contractors of a particular contractor to make closer co-operation and communi-cation among them. The contractor, who is a third person to this organisation, however, will extend every possible assistance for the organisation to achieve the objectives. Management, supervisory and workers trainings are usually held by this organisation.

TABLE 21 RELATIONS BETWEEN SUBCONTRACTORS AND PRIME CONTRACTORS (1)

TYPE OF BUSINESS	AUTO-MOBILE	AUTO-MOBILE PARTS	ELECTRIC HOME APPLIANCE	ELECTRONIC	MACHINE TOOL	SHIP BLDG.	MACHINERIES
Total amount purchased or sub-contracted	60.8	36.6	41.4	29.2	32.8	65.4	47.2
Total production							
Total amount sub-contracted	44.6	19.6	23.6	14.5	15.1	17.9	20.7
Total production							
No. of sub-contractors per prime contractor	110	52	91	50	86	127	62
Total amount of work processed by sub-contractors with less than 50 workers against total amount of work done by sub-contractors	10.2	40.2	35.8	52.8	47.2	44.6	29.6
No. of prime contractors using sub-contractors because of cheaper labour cost against total no. of prime contractors	18.2	22.7	40.0	27.7	25.0	38.5	26.6
No. of prime contractors expecting the increased usage of sub-contractors against total no. of prime contractors	63.6	89.5	91.2	92.3	93.1	84.6	88.0
No. of prime contractors preparing for the standardization of product to be subcontracted against total no. of prime contractors	83.4	54.2	73.7	69.2	68.2	61.5	60.2
No. of prime contractors planning to make subcontractors as subsidiaries against total no. of prime contractors	36.4	54.9	56.1	56.9	59.1	57.9	52.6
No. of prime contractors planning to urge subcontractors to organize cooperatives against total no. of prime contractors	63.6	25.5	17.5	9.2	29.5	30.8	20.6

TABLE 22 LATEST FACTS OF SUBCONTRACTING IN MACHINING INDUSTRIES  
(as of June, 1969)

Amount of purchasing and sub-contracting against total production		47.2%
Amount of subcontracting against total production		29.7
Average no. of subcontractors employed per business		62
Amount of work processed by subcontractors of less than 50 workers		29.6
Types of work processed by subcontractors	Final assembly	23.0
	Press work	28.8
	Machining	21.3
Reasons for utilizing subcontractors	Wage differentials	26.6
	Saving labours & equipment	71.4
	Specialised technical know-how	59.4
	Transactions for many years	30.2
	Buffer for economical recession	9.3
Relationship between subcontractor & prime contractor	Financial connection	10.4
	Stabilized transactions	49.8
	Technological assistance	16.4
	Intermittent transactions	3.8
Assistances have been given to subcontractors	Sharing stocks	18.7
	Despatching director	18.3
	Financial & managerial assistance	63.9
No. of prime contractors relying on subcontractors for the total processing of the following items against total no. of prime contractors	Final assembly	19.3
	Press work	17.9
	Machining	15.8
	Casting	9.8
	Threading	8.1
No. of prime contractors asked subcontractors to work on large unit of subcontracting order against total no. of prime contractors	Final assembly	31.7
	Machining	20.2
	Press work	16.0
	Casting	7.5
No. of prime contractors accomplished standardization of subcontracting works against total no. of prime contractors		56.4%
No. of prime contractors desiring the development of sub-contractors to the following types <del>Subsidiary-Independent</del> in the near future against total No. of prime contractors	Subsidiary	52.6
	Independent	17.6
	No change	11.5
No. of prime contractors extending assistance to subcontractors for organizing cooperatives or trade association against total prime contractors	Cooperatives	37.7
	Trade Association	16.9





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