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Programme

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Multinational enterprises and subcontracting in the Third World: A study of inter-industrial linkages

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Note:
Working papers on themes studied within the ILO
are intended to stimulate discussion and
critical comment.

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I. INTRODUCTION

As with all Working Papers, this one is also intended to stimulate discussion and critical comment. In addition, however, this particular Working Paper is being published for two other reasons. First of all, it will serve to make available the results of a large-scale inquiry into the impact on subcontracting of multinational investments which up until now have only been available in German.* Given the paucity of concrete information on this subject and the absence of recent empirical research, it is deemed relevant to make this information available to a wider audience. Secondly, it is hoped to generate interest in the subject and, depending on the response shown, to eventually undertake a follow-up survey which could either trace developments in some of the same enterprises over time, or permit an in-depth study of a particular sector or region which might either take a more concrete look at employment questions or examine the totality of indirect effects (other than just backward linkages). [Editor's note.]

II. OBJECTIVE, METHODOLOGY AND STRUCTURE OF THE STUDY

This Working Paper thus provides a brief summary of the findings of a study which attempted to analyse the structural impact on the subcontracting industry of investments by multinational enterprises in developing countries. It sets out to obtain a clearer picture of the relationship between the two business partners involved in this process, i.e. the multinational enterprise and the subcontractor. The study deliberately omitted the analysis of purely income-induced consequences of an investment (multiplier, accelerator effects, etc.) and focused exclusively on the nature and extent of the inter-industrial linkages caused by the original decision to invest, and analyses at the same time the reasons for this process. The main problems encountered within this framework and the ways of overcoming them were also looked at.

Although subcontracting has occasionally been touched upon and examined by the relevant literature, there has not yet been a systematic treatment of the data available, nor a complementary analysis of the evolution of inter-industrial subcontracting relationships in the Third World designed to back up and supplement existing research findings.

To carry out the study, it was originally intended to personally interview only a dozen large enterprises and to contact another 20, as well as a few subcontractors by mail-out questionnaire. However, it soon became clear that this methodological approach would have been highly inadequate. With such a limited number of individual cases, the target requirement of including enterprises of various national origin, with different production lines (branches) in at least four separate host countries would have made it impossible to claim any universal validity for the results. For this reason, we opted at an early stage for a substantial increase in the number of firms to be contacted both personally and by mail-out questionnaire. In the end, 112 subsidiaries of foreign multinational enterprises, two large national enterprises and 30 local subcontractors were included in the survey. The regional and sectoral break-down of these firms is presented in table 1.

* Axel J. Halbach: Multinationale Unternehmen und Zulieferindustrien in der Dritten Welt: Ihr Beitrag zum Aufbau einer interdependenten Industriestruktur (Frankfurt, Campus/IRM, 1985).

Table 1: Number of multinational affiliates questioned in regard to branches, home country and host country

Branch	Total	Home country/region of the TNCs			Host region of the TNCs		
		Europe	US	Japan	Asia	Latin America	Africa/ Europe
Motor vehicle industry	30	6	7	17	20	7	3 ^a
Electrical industry	41	22	12	6	27 ^b	9	5 ^c
Machinery and precision instruments	24	18	4	1	13 ^b	9	2 ^c
Food processing industry	8	4	3	1 ^d	8	-	-
Textile industry	4	2	1	1	4	-	-
Pharmaceutical industry	5	5	-	-	5	-	-
Total	112	57	27	26	77	25	10

^a Africa. ^b Including a large national venture. ^c Europe.
^d Singapore.

In order to facilitate and standardise the evaluation of research results at a later stage, separate questionnaires were compiled for the interviews with the multinational enterprises and with the subcontractors. Naturally, personal interviews with the enterprises went into greater depth than the written questionnaires. The questionnaires used are attached in Appendix C to this report.

There was some considerable difficulty with regard to the selection of the companies interviewed. Despite the extensive contacting of several hundred parent companies as well as their subsidiaries throughout the world in writing, only a relatively small number showed their willingness to co-operate. The home country of the majority of these companies was the Federal Republic of Germany, which thus predominated among the companies of European origin. There were particular difficulties with regard to the inclusion of Japanese multinational enterprises (MNEs) due both to language problems and company strategy. It was only possible to overcome at least some of these problems with the help of a research institute in Tokyo and after the questionnaire had been translated into Japanese (see Appendix C). The personal interviews attempted to iron out any unbalanced structures resulting from the findings of the written replies to the questionnaire. However, this was not possible in all cases, since the degree of willingness to co-operate shown by the subsidiaries varied considerably too. The empirical survey results were supplemented by an extensive and detailed analysis of the literature on the subject (which have not been repeated here but are found in the German original).

The interviews were limited exclusively to the east and south-east Asian countries (Republic of Korea, Taiwan (China), the Philippines, Indonesia and

Malaysia). The mail-out survey, on the other hand, was not limited to this region and included in particular the newly industrialising countries in Latin America as well. There were, however, only a few African countries among the host countries.

In sectoral terms, the analysis focused on the motor vehicle industry, the electrical and electronics industry, the machinery and precision instruments sector and the food processing industry, even though the latter was not directly comparable with the other branches of industry under review on account of its special character. The textile and clothing industry, which was originally planned as a further sector for in-depth analysis, turned out to be less suitable for the questions relevant to this study due to the weak intensity of its subcontracting relations; the same applies to the pharmaceuticals industry, as revealed by sample surveys in the Republic of Korea. It can, therefore, be assumed that the sectors of industry selected for this analysis represent all those fields which have a comparatively strong spillover impact on other, upstream industries; the positive structural effect of all other investments in the industrial sector can be regarded as much more limited.

As opposed to the multinational enterprises, which were both interviewed and contacted in writing, the subcontractors could only be contacted via personal interviews in the case study countries in east and south-east Asia. As the emphasis here was on small and medium-sized firms of local origin, it was not possible beforehand to also establish contacts in writing. The surveying of subcontractors was primarily designed to establish the most important problem areas and the resultant need for assistance and, in this context, to clearly outline possible differences in assessing the situation compared with their major multinational business partners. Additional information derived from the literature made it possible to present a complete picture for this group of companies.

The full study was structured in such a way (cf. on this point, the detailed table of contents of the original German study which is appended) that an introductory chapter begins by defining relevant concepts, presenting general statements on the advantages and disadvantages of subcontracting from the point of view of the firms involved, providing a general problem-oriented rundown of subcontracting, and, finally, discussing the most important economic policy measures taken by developing countries to extend their domestic subcontracting capacities. The next section gives an account of country-specific research conducted up to now on subcontracting, in so far as this does not relate to the branches of industry dealt with empirically in this analysis (automobiles, electrical and machinery industries). The results of research on these branches has been summarised as an analysis of the literature, and placed before the main section which presents the findings of the enterprise survey. In this central part of the analysis, the empirical research findings are initially discussed on a branch-specific basis before a final cross-section analysis once again compares the individual industrial sectors to uncover common or distinguishing features.

The summary presented here has been primarily drawn from the final chapter of the more detailed German report and supplemented with additional information as necessary. The tables in Appendix B, A-1 to A-11 (automobile industry), E-1 to E-11 (electrical industry), M-1 to M-10 (machinery and precision instruments) and F-1 to F-9 (food processing industry), contain the statistical results of the individual survey findings.

The study's major objective was to gain an insight into the indirect effects multinational enterprises have on their host countries in the Third World. The starting point for the analysis is not the direct and indirect

income effects of investment and production in the developing country, but the branch-specific linkage potential with the local economy especially in the field of manufacturing together with the degree of integration actually achieved with reference to the line of production, the target market, company policies, the level of economic development and the economic policy pursued by the host country. Of key importance for this analysis are the relations between the contractual parties - the multinationals (MNEs) and the subcontractor. Finally, the problems and shortcomings which emerge at various levels allow suggestions to be made on which measures could be taken to improve the positive structural effect of activities by multinational enterprises in the Third World and how this effect can be optimised. The reader is, of course, referred to the original book for full details on all points.

III. DEFINITION AND IMPORTANCE OF SUBCONTRACTING

When defining subcontracting and distinguishing this field from other forms of business relationships between two industrial units, most of the literature dealing with development policy (UNCTAD and UNIDO) refers to the following conceptual definition, which also served as a basis for our study:

Subcontracting is an arrangement between two manufacturing units, under which one of the units (the subcontractor) provides the other (the principal), on agreed terms and conditions, with products (components or final goods) that are used or marketed by the principal under his sole responsibility. Subcontracting orders may include the processing, transformation or finishing of materials or parts by the subcontractor at the request of the contractor. Subcontracting can be domestic, when both units work in the same country. Otherwise it is international. (UNCTAD, 1975.)

The only subcontracting field relevant to our study is the domestic one. Such a relationship, therefore, is said to exist if an enterprise requests another firm to produce parts of its product or requests that firm to carry out processing, transformation or finishing stages of production on its behalf. The nature of the product manufactured distinguishes the subcontractor from other suppliers. The subcontractor does not produce final products, but merely parts and components, which can only meaningfully fulfil their function in connection with the main product. In many cases, the subcontracted product or the processing, transformation or finishing activities carried out by the subcontractor are exclusively geared to utilisation for the main or final product of the contractor. The most important characteristic of a subcontracting relationship, therefore, is that certain organisational business functions no longer need be carried out by the subcontractors themselves (e.g. marketing, product design).

In practice, however, such clearly defined contours rarely exist. On the one hand, it is almost impossible to draw a dividing line between semi-finished products and subcontracted components; and in fact, no consistent conceptual definition could be found either in the literature consulted or among the firms surveyed. Many studies go beyond the above-mentioned more narrow definition of subcontracting and relate their definition to the entire procurement process of intermediate products, including raw materials. The replies given by the firms we interviewed also frequently revealed a much broader interpretation of the term subcontracting than outlined in our definition.

Controversial discussions concerning the activities of multinational enterprises in Third World countries frequently argue that large foreign companies displace national firms from the market or impair their development. On the other hand, the activities of large enterprises can induce industrial development via the stimuli created in the field of subcontracting. This study deals with this second aspect.

The intensity of inter-industrial linkages not only reflects the individual level of development of a given economy, but can also serve as an indicator for the ability of a certain sector of the economy to generate growth incentives for other sectors. This applies both for the individual sectors of the economy and for individual enterprises.

A network of inter-industrially linked firms cannot evolve from one day to the next but can only develop over the course of time. The impetus for this development must be provided by one side or the other. As a rule, this impetus is the demand for a certain product and, more specifically, the activities of the firm behind this demand. In the less developed and undercapitalised economies of developing countries it is fair to assume that the autonomous creation of such demand via domestic enterprises or the public sector is only possible to a limited degree. Presumably, at least this is our hypothesis, the financially powerful enterprises of foreign origin are more likely to produce the kind of extensive demand stimuli which can lead to a more broadly based industrial sector more rapidly, interlinked via a network of subcontractors and final consumers.

Since subcontracting involves voluntary vertical co-operation between legally and economically independent industrial units, both sides can generally expect to benefit from such a co-operation. However, this type of business relationship is a kind of inter-company division of labour, a situation which always implies a certain loss of independence for the enterprise involved. This can above all have serious effects if co-operation takes place between economically strong and economically weak partners. The characteristic problems of subcontracting relationships arise within this sphere of conflict. Although these problems can be found in both industrialised and developing countries alike, they will probably tend to be more pronounced in the Third World, where rather inexperienced and small national firms are faced by large, technologically advanced and internationally operating enterprises.

The institution of subcontracting makes it easier for smaller firms to establish themselves in the industrial sector. The positive contribution of subcontracting for the economy as a whole lies in the structural effect of an industrial sector which complements itself in an optimal manner in terms of size, in the dissemination of technology and technological skills resulting from the inter-industrial linkages, and in the more economical utilisation of labour and capital. Since, in many cases, subcontractors, are usually small- or medium-sized, there is an additional advantage in terms of development policy. Part of the production process can be carried out on a more labour-intensive basis than would have been the case without such subcontracting. This in turn counteracts any increase in uneven income distribution. The possible disadvantages for the economy as a whole are above all to be seen in the reduction of competition, a phenomenon which virtually accompanies any relationship in which there is some form of economic interdependence.

For the contractor (the large enterprise) the decisive criterion for subcontracting is the price advantage; in-plant production, if at all possible, is associated with much greater costs. The disadvantages accepted in return are generally connected with the technological and organisational

backwardness of small subcontractors together with the resulting problems. The main advantages for subcontractors are the greater uniformity of capacity utilisation, the (usually) improved regularity of payments, the possibilities of longer-term commitments and specialisation, and the fact that the subcontractors no longer require their own marketing. The major disadvantages are the frequently considerable dependence on the large buyer, the associated weak negotiating position, and the often cut-throat competition in this field, especially in times of recession.

All studies conducted so far on the subject of subcontracting have shown that the existing autonomous trend towards the evolution of subcontracting relationships can be markedly accelerated by appropriate economic policy measures of the host country. In this context, the most important measure for increasing local value-added is the prescription of local content percentages. Such provisions, however, cannot be viewed in isolation, but must be seen as a part of a consistent economic policy. The decisive feature of such an economic policy is the creation of preconditions enabling the attainment of the prescribed local content within a given period and on acceptable terms. In practice, therefore, a whole set of measures will be needed, the individual elements of which may, on account of their differing development policy objectives, even be mutually incongruent. As a result, no single economic policy can be aimed at promoting inter-industrial linkages alone. Varying measures are required, depending on the branch of industry involved, the manufacturing technology and the sales market (domestic/overseas), if the desired objectives are to be achieved. Exact knowledge of the overall situation together with an optimal orientation of measures towards the industrial sector to be promoted, and a continual adaptation to a changing economic setting are consequently vital prerequisites for an economic and development policy designed to support and promote the field of subcontracting.

IV. EXISTING RESEARCH FINDINGS: AN OVERVIEW

Aspects of inter-industrial linkages in the Third World have occasionally been the topic of scientific studies. The nature of the extremely heterogeneous studies range from comprehensive, country-specific comparisons of different branches of industry on the basis of input-output tables (the findings of which are much too general for the questions dealt with here) to single firm studies, the results of which in their turn can rarely be generalised due to their very individual character. The varying approaches of these analyses and case studies do not, in most cases, permit generalisations about many of the problems they have addressed. None the less, certain basic characteristics do emerge which are relevant for the overall results of this study which can be summarised as follows:

- The overall economic and specific industrial level of development in any one country would appear to be a decisive factor for its inter-industrial linkage capacity. The respective intensity of subcontracting relations attained within a given period of time, therefore, reveals considerable regional differences. The most advanced countries in this respect have up to now been the large newly industrialising countries in Latin America, followed by south-east Asian countries, which have closed the gap appreciably during recent years and even surpassed Latin American levels with regard to certain export-oriented lines of production. These two groups are followed by the south Asian States, and, finally, by Africa, where industrial subcontracting generally plays a very minor role. Many of the branches of industry which have formed the basis for

growing inter-industrial linkages in Latin America and Asia are virtually non-existent in Africa, or reveal a strongly insular character with only weak links to the remaining industrial environment.

- Since individual branches of industry depend to varying degrees on intermediate supplies, it is probable, if other factors are disregarded, that there will be clear branch- and product-specific differences in the intensity of subcontracting relations. Studies so far have revealed the decisive plant-level determinants for the nature and intensity of the evolving subcontracting relations are company size, the degree of technological specialisation and product quality.
- A target-oriented economic policy by the host country is of paramount importance for the development of subcontracting relations and, consequently, for growing inter-industrial linkages. The major starting points in this context are trade policy measures (local content provisions, customs barriers, import quotas and bans) together with specific promotional measures by the government with regard to subcontracting activities. Large-scale projects of the State with clear domestically oriented procurement structures could serve as a further starting point. Of vital importance for the success of economic policy measures are, on the one hand, the binding nature of such measures and, on the other hand, the ability of the host country to respond with corresponding domestic production. If a local content policy which is in principle correct is taken too far, the result is often excessive costs, poor quality and a long-term lack of competitiveness on international markets.
- Another undoubtedly decisive factor is the autonomous time factor. Favoured or handicapped by the respective industrialisation policies pursued and the level of economic development already reached, autonomous market forces can also automatically lead to growing local inter-industrial linkages over time. Additional impulses are, however, required after a certain level of autonomously induced integration has been achieved.
- All studies to date indicate that investments aimed at import substitution take less time to lead to much more intensive local linkages than if production is mainly or totally export-oriented. Leaving aside product-specific influences, the major reason for this phenomenon lies in the fact that export productions must be internationally competitive, a necessity which finds its expression in economic policy provisions and measures by the government in the host country which differ from those aimed at import substitution.
- Enterprises of foreign origin are usually in the beginning less inclined to purchase locally than domestic firms; this fact, however, would appear to become less important as the foreign company becomes more and more familiar with the host country. There was no evidence to support the claim often forwarded that foreign enterprises always show a greater inclination to import. The speed with which subcontracting evolves would also seem to be strongly influenced by the importance a company attaches to a more or less development-oriented general policy of its own.
- Although indirect "employment" effects were not the topic of the original study, a few examples of such effects were discussed in order to present an overall picture. The examples show that indirect employment effects vary substantially from one country to the next and from one branch to another. Although it is impossible to generalise in view of the limited number of examples considered, the following assertions can, with

reservations, be made: ignoring the extreme values, the indirect effect on employment attributable to backward linkages of foreign investments reaches a level of between 25 and 75 per cent of the jobs directly created, depending on the respective branch of industry. The relationship between the extent of direct and indirect employment in any one branch of industry would seem to correlate in such a way that a high level of direct job creation compares with a relatively low level of indirect employment effects, and vice versa. The automobile and food processing industries would appear to belong to the branches marked by comparatively high indirect effects on employment, whereas the textile and clothing industry, the electronics industry and the mechanical engineering industry show below-average effects.

- The most important forms of assistance extended to subcontractors by their contractors are technical consultation and product design, the provision of technical equipment, production/process/quality control. However, only a minority of subcontractors evidently took advantage of technical assistance. The primary reason seems to be the fear of becoming economically dependent. There are hardly any cases of bilateral financial equity investments and direct financial support. Other forms of assistance such as procurement of materials, provision of machinery and tools as well as business-management or administrative support would appear to be rare.
- The problem for the MNEs resulting from local subcontracting above all relate to quality and cost aspects, and difficulties, on the part of the subcontractors, to meet agreed delivery dates also play a part. In addition, there is a partial dependence on monopolistic or oligopolistic structured procurement markets in the host country.
- Three main problems became apparent among the subcontractors: the subcontractors' own firm-specific problems relate to technical (production process, quality), financial (equity capital, liquidity) and management aspects. Complaints made to respective governments relate to the frequently inadequate tariff protection and the lack of direct support measures. With regard to the MNEs most of the criticism is related to pricing pressure, delayed payments and excessively tough quality standards in regard to the subcontracted products.

With regard to three of the branches of industry under review in our study, the automobile, the electrical and the machinery and precision instruments industry, the following can briefly be summarised:

- The automobile industry belongs to the most internationalised branch of industry. In addition, as an assembly industry, it has very favourable prerequisites for the evolution of local subcontracting on account of its highly divisible process of production. In all branches, yet in particular in this specific industry, jumps in quality with increasing degrees of difficulty are necessary to successively achieve higher local content levels. Local shares in production of up to 10 per cent generally result during the course of time without special government support. The next jumps - 10 to 25 per cent (1st stage), 30 to 40 per cent (2nd stage), and 50 per cent and above (3rd stage) - require a markedly higher level of technology in each case, levels which can only be achieved via specific economic policy measures in connection with the additional technological know-how required. The size of the market (domestic and overseas) is also important in that it helps determine the feasible level of domestic subcontracting via the technology-based economies of scale.

- Since the production process in the electrical and in particular the electronics industry is also based to a large degree on assembly work, this branch is particularly appealing for international subcontracting due to wage differentials. The possible extent of local subcontracting primarily depends on the nature of the product manufactured and/or the production stages transferred to a developing country within a wide range of simple to high complex technology. Due to the heterogeneous production programme in this branch, the subcontracting potential differs according to each product group. At the lower end of the scale we find the high-technology electronics sector with levels of only 10 to 20 per cent; consumer electronics in the broader sense take a mid-field position (20 to 40 per cent), whereas household electrical appliances and related areas take the lead with 50 to 80 per cent.
- The machinery and precision instruments industry is also very heterogeneous in structure and, in addition, primarily oriented to the domestic market of the host countries. The generally still limited scope of the domestic market, the multitude of different products and the great demands made on accuracy and precision often lead to very small production runs and to frequently changing specifications. These special characteristics often result in technical production problems for the subcontractors and act as an incentive for multinational enterprises to produce a higher degree themselves. The single-stage subcontracting of technologically relatively simple raw and semi-finished products still prevails even in the more advanced newly industrialising countries. Due to very product-specific manufacturing programmes and small production runs, subcontractors appear to be more dependent on just one (or only a few) contractors than is the case for the other branches under review.

V. INTER-INDUSTRIAL COMPARISON OF INTERVIEW RESULTS

Whereas the survey findings are also discussed branch by branch in the more detailed report (cf. on this point, the tables in Appendix B), this Working Paper summary is based, among other things, on the four most important branches of industry studied, and the respective survey findings are presented in an inter-industrial comparison in table 2.

It can already be stated at this stage that the enterprise-specific characteristics dependent on the country of origin (Europe - Japan - United States - large domestic enterprises) have not played the role envisaged in the literature. In individual cases where differences might have been due to factors of nationality, these were not particularly pronounced or of decisive importance; chance may well have played a part concerning the individual results. This also applies to the subsidiaries of Japanese companies, which are generally reputed to have an inclination to stick, wherever possible, to the tried and tested business links with their home country resulting in a more pronounced tendency to import, or preference for other Japanese subsidiaries operating locally. Although the latter tends to be true, this can already be explained by the general predominance of Japanese investors in south-east Asia. Even if the national element is of greater importance to Japanese firms than to firms from other regions (the activities of United States enterprises, for example, are mainly aided by aspects of quality, costs and investment return), such primarily national influences cannot be explained by any significant differences in company policy according to our investigation.

Table 2: Sectoral Comparison of the Questionnaire Results

Questions	Answers by sectors				
	Motor Vehicle Industry	Electrical Industry	Machinery and Precision Instruments	Food Industry	
a) <u>Situation of ownership</u>					
- Fully owned by foreign parent	yes	27 %	55 %	43 %	38 %
	no	73 %	45 %	57 %	62 %
- Joint venture with majority equity share		50 %	44 %	43 %	100 %
	minority equity share	50 %	56 %	57 %	0 %
- The domestic partner belongs to the					
	private sector	91 %	78 %	92 %	60 %
	public sector	9 %	22 %	8 %	40 %
- Total employment					
	up to 300	0 %	29 %	48 %	0 %
	300 - 1.000	55 %	32 %	22 %	50 %
	above 1.000	45 %	39 %	30 %	50 %
- Export share in total sales					
	0 %	77 %	15 %	9 %	50 %
	1- 10 %	17 %	28 %	35 %	25 %
	10- 25 %	6 %	10 %	9 %	25 %
	25- 50 %	0 %	10 %	9 %	0 %
	50-100 %	0 %	37 %	39 %	0 %
b) <u>Significance of subcontracting relations</u>					
<u>for the original investment decision</u>					
- Investment decision independent of local subcontracting potential	yes	54 %	61 %	83 %	.
	no	46 %	39 %	17 %	.
- Important business partners were already located in the host country	yes	46 %	56 %	50 %	86 %
	no	54 %	44 %	50 %	14 %
- At the same time, important business partners were investing in the host country	yes	32 %	51 %	39 %	25 %
	no	68 %	49 %	61 %	75 %
- At a later time, important business partners invested in the host country	yes	54 %	54 %	38 %	0 %
	no	46 %	46 %	62 %	100 %
- In our investment decision, these considerations played a					
	decisive role	19 %	12 %	8 %	12 %
	moderate role	44 %	44 %	46 %	50 %
	minor/no role	37 %	44 %	46 %	38 %
c) <u>Economic policy of the host country</u>					
- Major influence of the host country's economic policy	yes	100 %	76 %	78 %	100 %
	no	0 %	24 %	22 %	0 %
- Prescription of local content percentages					
	relevant	83 %	66 %	67 %	37 %
	less/not relevant	17 %	34 %	33 %	63 %
- High import duties on subcontracting requirements					
	relevant	90 %	50 %	48 %	86 %
	less/not relevant	10 %	50 %	52 %	14 %
- Reservation of certain industrial activities					
	relevant	69 %	39 %	35 %	33 %
	less/not relevant	31 %	61 %	65 %	67 %
- Products/parts to be purchased domestically					
	relevant	90 %	56 %	48 %	29 %
	less/not relevant	10 %	44 %	52 %	71 %

Questions	Answers by sectors			
	Motor Vehicle Industry	Electrical Industry	Machinery and Precision Instruments	Food Industry
(d) Type of existing subcontracting relationships				
- Regular, longer-term subcontracting				
predominantly	90 %	71 %	71 %	37 %
less frequently	3 %	15 %	12 %	37 %
not at all	7 %	14 %	17 %	26 %
- Temporary subcontracting				
predominantly	0 %	18 %	8 %	-
less frequently	59 %	49 %	46 %	33 %
not at all	41 %	33 %	46 %	67 %
- Other				
predominantly	4 %	8 %	8 %	-
less frequently	-	-	-	-
not at all	-	-	-	-
- Average share of subcontracted supplies in total production	29 %	20 %	23 %	high
- Average share of subcontracted supplies in total material inputs	43 %	40 %	49 %	high
(e) Evolution of subcontracting relationships				
- The importance of subcontracting has increased	93 %	76 %	75 %	75 %
remained unchanged	7 %	24 %	25 %	25 %
declined	0 %	0 %	0 %	0 %
- Interest in a further expansion of subcontracting				
yes	80 %	95 %	100 %	100 %
no	20 %	5 %	0 %	0 %
- In this respect one anticipates chances				
good	64 %	82 %	67 %	75 %
not so good	36 %	18 %	33 %	25 %
- Access to information is considered to be				
good	37 %	56 %	46 %	88 %
sufficient	50 %	29 %	33 %	12 %
bad	13 %	15 %	21 %	0 %
(f) Specification of subcontractors				
- Number of domestic subcontractors				
up to 30	40 %	61 %	36 %	.
30-100	33 %	12 %	27 %	.
above 100	27 %	27 %	37 %	.
- Location of domestic subcontractors				
up to 30 km	60 %	46 %	47 %	10 %
30 - 100 km	26 %	32 %	27 %	60 %
above 100 km	14 %	22 %	26 %	30 %
- Origin of subcontractors				
domestic	66 %	65 %	74 %	87 %
foreign	34 %	35 %	26 %	13 %
- Share of 10 major subcontractors in total subcontracted volume	70 %	70 %	65 %	.
- Duration of cooperation with subcontractors				
long-term throughout	59 %	69 %	64 %	50 %
changes in part	38 %	29 %	36 %	50 %
changes more frequently	3 %	2 %	0 %	0 %
- Share of subcontracted items purchased from				
only one firm	56 %	31 %	24 %	.
several suppliers	44 %	69 %	76 %	.
- Satisfaction with subcontracting structure				
satisfied	20 %	68 %	63 %	71 %
not very satisfied	63 %	32 %	37 %	29 %
very unsatisfied	17 %	0 %	0 %	0 %
- Characterization of subcontractors				
industrial firms	84 %	80 %	76 %	.
workshops	14 %	19 %	24 %	.
homeworkers etc.	2 %	1 %	0 %	.

Answers by sectors

Questions		Motor Vehicle Industry	Electrical Industry	Machinery and Precision Instruments	Food Industry
(g) Type of contract with subcontractors					
- Short-term limited ad-hoc contracts	frequently	20 %	57 %	46 %	17 %
	rarely/not at all	80 %	43 %	54 %	83 %
- General annual contracts	frequently	87 %	80 %	70 %	63 %
	rarely/not at all	13 %	20 %	30 %	37 %
- Annual contracts guaranteeing a certain quantity	frequently	3 %	12 %	0 %	14 %
	rarely/not at all	97 %	88 %	100 %	86 %
- Long-term (multi-year) contracts	frequently	17 %	0 %	13 %	29 %
	rarely/not at all	83 %	100 %	87 %	71 %
(h) Technical support and decision aid					
- Development of initiatives	frequently	27 %	15 %	8 %	57 %
	rarely/not at all	73 %	85 %	92 %	43 %
- Cooperation in capacity- and production planning	frequently	43 %	20 %	38 %	67 %
	rarely/not at all	57 %	80 %	62 %	33 %
- Consulting on technical organization and purchasing of machinery	frequently	13 %	22 %	21 %	50 %
	rarely/not at all	87 %	78 %	79 %	50 %
- Supply of blueprints ^{a)}	frequently	80 %	83 %	83 %	67 %
	rarely/not at all	20 %	17 %	17 %	33 %
- Supply of (used) machinery	frequently	10 %	2 %	13 %	17 %
	rarely/not at all	90 %	98 %	87 %	83 %
- Supply of (special) tools	frequently	27 %	49 %	46 %	17 %
	rarely/not at all	73 %	51 %	54 %	83 %
- Assistance in the procurement of raw materials	frequently	13 %	32 %	38 %	43 %
	rarely/not at all	87 %	68 %	62 %	57 %
- Other technical support	frequently	47 %	27 %	21 %	-
	rarely/not at all	53 %	73 %	79 %	-
- This support was granted to domestic business partners only	frequently	70 %	76 %	87 %	80 %
	rarely/not at all	30 %	24 %	13 %	20 %
- foreign business partners also	frequently	43 %	29 %	22 %	13 %
	rarely/not at all	57 %	71 %	78 %	87 %
(j) Aid in business-organizational know-how					
- General business-organizational assistance	frequently	3 %	2 %	8 %	33 %
	rarely/not at all	97 %	98 %	92 %	67 %
- Accounting and book-keeping support	frequently	7 %	0 %	4 %	33 %
	rarely/not at all	93 %	100 %	96 %	67 %
- Business management assistance	frequently	7 %	2 %	0 %	67 %
	rarely/not at all	93 %	98 %	100 %	33 %
- Technical management assistance	frequently	27 %	32 %	29 %	-
	rarely/not at all	73 %	68 %	71 %	-
- Support in technical production and quality control	frequently	67 %	78 %	63 %	100 %
	rarely/not at all	33 %	22 %	37 %	0 %
- This support was granted to domestic business partners only	frequently	63 %	76 %	67 %	100 %
	rarely/not at all	37 %	24 %	33 %	0 %
- foreign business partners also	frequently	23 %	17 %	13 %	38 %
	rarely/not at all	77 %	83 %	87 %	72 %

a) Food Industry: Extension Service.

Answers by sectors

Questions	Motor Vehicle Industry	Electrical Industry	Machinery and Precision Instruments	Food Industry
(k) Financial assistance				
- Contribution to subcontractor's risk capital	frequently 0 % rarely/not at all 100 %	0 % 100 %	4 % 96 %	16 % 84 %
- Granting of repayable loans at commercial rates	frequently 3 % rarely/not at all 97 %	0 % 100 %	4 % 96 %	0 % 100 %
- Granting of repayable loans on concessional terms	frequently 0 % rarely/not at all 100 %	0 % 100 %	0 % 100 %	16 % 84 %
- Giving of non-repayable financial grants	frequently 0 % rarely/not at all 100 %	2 % 98 %	0 % 100 %	0 % 100 %
- Pre-financing of materials, tools, etc.	frequently 20 % rarely/not at all 80 %	20 % 80 %	38 % 62 %	16 % 84 %
- Pre-payment of orders placed	frequently 15 % rarely/not at all 85 %	27 % 73 %	38 % 62 %	50 % 50 %
- Other financial support	frequently 0 % rarely/not at all 100 %	0 % 100 %	8 % 92 %	. .
- This support was granted to				
.domestic business partners only	frequently 13 % rarely/not at all 87 %	34 % 66 %	46 % 54 %	50 % 50 %
.foreign business partners also	frequently 11 % rarely/not at all 89 %	10 % 90 %	8 % 92 %	40 % 60 %
(l) Price determination				
- Prices are determined by the market	frequently 37 % rarely/not at all 63 %	51 % 49 %	38 % 62 %	100 % 0 %
- Prices are determined by negotiation	frequently 100 % rarely/not at all 0 %	93 % 7 %	92 % 8 %	100 % 0 %
- Price negotiations are difficult	frequently 23 % rarely/not at all 77 %	34 % 66 %	38 % 62 %	12 % 88 %
(m) Problems in relations with subcontractors				
- Technical infrastructure problems	frequently 50 % rarely/not at all 50 %	29 % 71 %	38 % 62 %	38 % 62 %
- the problems have diminished	yes 67 % no 33 %	86 % 14 %	86 % 14 %	71 % 29 %
- Socio-cultural communication problems	frequently 43 % rarely/not at all 57 %	20 % 80 %	42 % 58 %	0 % 100 %
- the problems have diminished	yes 65 % no 35 %	94 % 6 %	92 % 8 %	80 % 20 %
- Problems caused by spatial distance	frequently 10 % rarely/not at all 90 %	5 % 95 %	13 % 87 %	0 % 100 %
- the problems have diminished	yes 79 % no 21 %	75 % 25 %	60 % 40 %	80 % 20 %
- Problems because of quality deficiencies	frequently 70 % rarely/not at all 30 %	56 % 44 %	75 % 25 %	50 % 50 %
- the problems have diminished	yes 68 % no 32 %	87 % 13 %	94 % 6 %	50 % 50 %
- Failure to meet date of delivery	frequently 67 % rarely/not at all 33 %	53 % 47 %	70 % 30 %	. .
- the problems have diminished	yes 62 % no 38 %	76 % 24 %	81 % 19 %	. .
- These problems occurred with				
.domestic partners only	frequently 63 % rarely/not at all 37 %	75 % 25 %	75 % 25 %	67 % 33 %
and have diminished	yes 50 % no 50 %	84 % 16 %	90 % 10 %	60 % 40 %
.foreign business partners also	frequently 27 % rarely/not at all 73 %	33 % 67 %	42 % 58 %	20 % 80 %
and have diminished	yes 63 % no 37 %	93 % 7 %	100 % 0 %	80 % 20 %

Different statistical bases make it difficult to establish significant differences or common characteristics merely on the basis of the number of replies for the respective branches. For this reason, table 2 has expressed the individual answers given as a percentage of the total numbers of companies interviewed (100 per cent) to allow similar or differing structures and developments to be recognised without difficulty. In so far as this was possible, the food processing industry was also included in the comparison despite its fundamentally different structure. However, it must be taken into account that most of the business partners of this branch are agricultural enterprises, whereas in the case of other branches these business partners belong to the manufacturing industry. The analysis itself runs along the lines of the structure of the questionnaire.

Ownership structures, employment figures and sales orientation

To begin with, one of the main structural characteristics observed was that of joint ventures (cf. on the following remarks, section 2(a) of table 2) with local firms, a form of co-operation which already plays an important role in all branches. The 100 per cent wholly owned foreign subsidiary which marked the early days of entrepreneurial activity in the Third World is gradually becoming the exception rather than the rule in the industrial sector too; in the motor vehicle industry, for example, only one in four of the subsidiaries are still fully owned by the parent company. With the exception of the food processing industry, there is a slight predominance of majority equity shares of the local partner in joint ventures. Most of these local partners belong to the private sector; at least in the basically market-oriented developing and newly industrialising countries under review here, the State has so far very rarely acted itself as entrepreneur.

The figures on the number of persons employed show a broad spectrum ranging from medium-sized to large and very large firms, a range which can be viewed as representative for the overall situation. The same applies to subcontractors, a group in which small to medium-sized domestic firms were primarily approached as the survey's original target group. Domestic enterprises engaged in subcontracting which already have achieved a high technological standard often have foreign (minority) equity shares to ensure the necessary know-how and transfer of technology.

The branches and sub-branches under review reveal very clear differences in the level of subcontracting attained with regard to their target markets. Motor vehicle production in the Third World is still primarily marked by a domestic market orientation (only a few of the newly industrialising countries in Latin America reveal significant export shares). Apart from a few typical export lines of production (for example, palm oil and pineapple), the food processing industry also primarily caters for the host country market. The situation in the other branches studied, however, varies substantially due to the much more heterogeneous range of products manufactured. All combinations can be found, from total import substitution to fields of production solely earmarked for export. The electrical and precision instruments industries are much more export-oriented than firms in the automotive and machinery field of production.

Among the subcontractors, direct exports are as yet only relevant in the already more advanced newly industrialising countries, and here specifically in the motor vehicle industry. The same applies to the possibilities of directly producing for the local spare-parts market independent of subcontracting orders. Whereas in the case of the subcontractors these two factors decisively influence the degree of dependence on the large companies

or principals, among the MNEs (especially in the electrical industry) there is a strong correlation between sales orientation (target market) and the interest shown in the local subcontracting potential. Whereas mainly export-oriented firms generally show weaker linkages with the local economy, since cost aspects and competition on world markets discourage MNEs to rely too heavily on local subcontractors (a fact taken into account by economic policies, such as the establishment of export processing zones, etc.), investments aimed at import substitution combined with the corresponding economic policy stipulations generally result in much stronger linkages with the economy of the host country. A greater degree of inter-industrial linkages, therefore, can generally be expected in the case of production initially geared to import substitution than in the case of a pure export orientation. The only exception here, which can lead to a reversal of this basic trend, is the GSP preference system granted to developing countries by the industrialised countries for certain export products.

The replies given by the companies clearly show that considerations of this nature are all the more important, the more firmly a line of production is embedded in the international division of labour. Vehicle assembly work and food processing take the lead in this respect, whereas among the remaining branches studied only one in two of the firms confirmed such considerations. They are least important in the industries characterised by little subcontracting, such as the textile and the pharmaceuticals industries.

As was to be expected, the subcontracting possibilities already existing in the host country at the time of investment only had a bearing on the original investment decision if the branch involved was characterised by particularly intensive subcontracting (as, for example, in the case of automobile assembly work) and if respective economic policies in the host countries prescribed certain percentage levels of local subcontracting (cf. section 2(b) of table 2). Purely economic considerations free of any form of political intervention generally lead to no more than a basic core of autonomous local linkages varying from branch to branch since for cost and quality reasons companies initially show a basic preference to import. The mere setting up of a production plant potentially intensive in subcontracting is, therefore, a necessary yet by no means an adequate stimulus alone for the creation of spillover effects in the host country. Only firms pertaining to the food processing industry are an exception in this respect.

However, if an initial investment is supplemented by a further determinant, namely a domestic economic policy aimed at raising the local share of value-added (cf. section 2(c) of table 2), the result in most cases will be a very dynamic process. Once placed in a framework of economic, legal, and contractual necessities, and assuming that there is no great discrepancy between government policy measures and the economic potential of the domestic economy, the multinational enterprises soon show themselves to be both willing and able to comply with the conditions laid down by the host country and thus contribute towards the latter's industrial development. This can be realised by the incentive for local firms to themselves produce previously imported products (if need be, with the help of foreign know-how) for an already existing market and by the follow-up investments of other foreign subcontractors, whose markets could otherwise be lost to their competitors. Above all, foreign follow-up investments in the field of high technology products (which, in their turn, lead to further industrial linkages) often decisively contribute towards enabling the qualitative enhancement of domestic value-added. The existing multinational enterprises frequently play an important part in initiating such investments. Follow-up investments of this kind have been confirmed by many firms, especially those operating in the motor vehicle and electrical industries, whereas they are of no significance in the food processing industry. On the whole, therefore,

even those investments for which the question of subcontracting was originally absolutely irrelevant represent a substantial indirect contribution towards inter-industrial linkages in the host country. On the other hand, increased internationalisation, in particular of the electrical industry, together with rapid technology advances, have an adverse effect on domestic firms wishing to move into more sophisticated fields of production. For them, having to compete with the more efficient multinational enterprises often means a serious handicap and initial drawback.

Influence of economic policy measures

The crucial importance of economic policy measures (cf. section 2(c) of table 2) for the evolution and further development of subcontracting relations has already been pointed out. Ignoring the purely export-oriented fields of production, this fact was confirmed by all firms interviewed. It can, therefore, be categorically stated that, in most cases, investments by MNEs can only have the desired positive structural effect when accompanied by stipulations laid down by the host country. Market conditions in which substantial inter-industrial linkages also evolve autonomously (such as a high level of general economic development, a particularly favourable investment climate and a large domestic market) could only be confirmed in isolated cases and at best in specific sectors within the newly industrialising countries. Appropriate economic policy measures, therefore, are not only an indispensable part of any industrialisation policy, but, if applied in an optimum manner, also have the positive effect of rendering themselves superfluous over the course of time (and only then can one talk of structural development in its true sense).

From the point of view of the MNEs, developing countries have in many cases made very effective use of their economic policy instruments. However, there are exceptions. Assuming a comparable range of products, country-specific differences in the domestic level of subcontracting can, of course, be traced back to structural factors - level of development, training standards, entrepreneurial abilities. A sub-optimal industrial policy framework may also share responsibility for such a situation.

Above all, the binding nature of relevant measures and guide-lines proved to be a critical factor. The fact that the prospective host country is still in competition with other countries in the region during the negotiation period of an intended investment also plays a major role. The bargaining power of the host country as against the MNEs largely depends on the size of its domestic market, the general appeal of the industrial location and the regional alternatives open to the MNE. The interviews and analyses of the relevant literature made it clear that most of the comparatively tough (and correspondingly successful) measures to step up local content were taken after a certain industrial branch had already been set up. For later investments, however, these stipulations had to be taken for granted. The governments of the host countries often had to exhibit considerable tact and caution so as not to upset the investment climate and thus jeopardising the inflow of foreign capital. It was therefore just as essential to avoid sudden and unforeseeable changes in administrative procedures and economic policy measures (which was not always possible) as it was necessary not to impose targets overshooting local productive capacity and ability (including expected follow-up investments).

As regards the policy instruments applied to promote local subcontracting potential, there were very similar points of emphasis in all branches under review. From the point of view of the MNEs, binding local content targets changing over time combined with an efficient protective tariffs policy or

similarly effective measures (such as, for example, the stipulation that certain products must be produced domestically; import quotas and licensing; reservation of certain industrial activities for purely domestic firms; tax benefits once certain local content levels have been reached) are generally regarded as the decisive stimulating factors for the development of subcontracting relations. The greater the orientation towards the domestic market of any particular branch generally or during the initial investment period (as, for example, in the case of the motor vehicle industry), the greater the importance of these measures. In the case of a primarily export-oriented production, the GSP import preferences granted by industrialised countries led to similar effects for those products for which the preferential access to the market of the industrialised countries was dependent on the attainment of a certain local content share (from developing countries altogether) as, for example, in the case of consumer electronics products.

Another approach which could claim success in a number of countries was the setting up of large public enterprises which deliberately concentrated on procuring intermediate products from domestic suppliers. The extent of local content could thus be much more speedily increased, and to a much higher level, than was generally the case via multinational enterprises of foreign origin. However, it must be remembered that this is only true of public enterprises for which cost aspects are apparently a less important factor than in the private sector. Large privately owned domestic firms, on the other hand, revealed an economic behaviour pattern resembling that of the MNEs, although their generally greater familiarity with the local market has somewhat tended to favour the choice of domestic suppliers initially.

It could not be clearly ascertained whether and how a foreign equity share influences the willingness to take advantage of local subcontractor services.

Additional aspects were of importance in the views of the subcontractors themselves, in particular the smaller local firms. Although subcontractors in most cases stated that they fundamentally benefited from the tariff policy pursued by their respective governments, they were less frequently the recipients of direct financial and other support measures by the State; the examples of the Republic of Korea and Taiwan (China) show how such measures can exert a decisive influence on the quantitative and qualitative level of subcontracting. In general, the statements made can be summarised as follows: domestic subcontractors feel that they are often inadequately supported by their governments (both financially and with regard to the need for skilled personnel), that there is an information and communication deficit, that tariff policies often fail to adequately protect them from foreign competitors, and that the policies of financial and tax concessions towards foreign investors frequently lead to unequal starting conditions for subcontractors of local firms in comparison with those of foreign origin. It becomes clear that in most cases the primary beneficiaries from the host country's investment policies are large enterprises, whereas the smaller firms frequently lack the necessary prerequisites. Finally, there is a definite risk that the indispensable foreign technology may lead to a situation of competition resulting in national displacements, thus initiating a process of concentration within the branch at the expense of small- and medium-sized firms. However, this was not the case of the branches under review in this study, with lines of production which did not previously exist in the host countries.

In most cases, therefore, it is the combination of investments and economic policy measures which definitely leads to the creation of any noticeable inter-industrial linkage structure. A fact also confirmed is that

the existing potential could be much better utilised with the help of more optimal industrial policy relations. In the case of some countries and certain products there would especially appear to be a definite current lack of adequate protection for local firms against foreign competition. In addition, there is an indication of insufficient temporary support designed to help overcome initial take-off difficulties. Both aspects, however, should not result in a policy which permanently shields off domestic enterprises from competition on the world market as a prerequisite for effectiveness, further growth and stability.

Structural characteristics of subcontracting firms

Now that the framework has been set, within which subcontracting relations stand a more or less good chance of evolving, the next question which emerges relates to the structural characteristics typifying these subcontracting relations in the Third World.

If the special case of the food processing industry is ignored, with its pronounced agricultural linkage pattern, the subcontractors to the MNEs can overwhelmingly be classified as industrial firms. In addition, however, workshop production also plays a part mainly in the field of machinery and precision instruments, and, to a lesser extent, in vehicle assembly.

The number of domestic firms with which multinational enterprises co-operate has already reached an appreciable level (cf. section 2(f) of table 2), underlining the already existing broad linkages with the local economy. Only in the field of certain export productions are inter-industrial linkages of a less intensive nature, above all in the electrical industry. The same can be generally said of all branches with a weaker subcontracting potential, e.g. the textile and pharmaceuticals industries. The number of subcontractors (and thus the degree of integration with the host country) correlates primarily with the respective line of production and only with the host country's level of development in the second place.

Among the domestic subcontractors there is a predominance of producers of local origin (in terms of number of firms), whereas with regard to the volume (or in terms of value) the subsidiaries of other foreign MNEs generally take the lead. The extremely high concentration of a large share of supplies recorded in all branches for a small number of suppliers is indicative of this situation. Of the branches under review, the most intensive contacts to firms of local origin can be found in the field of mechanical engineering (machinery).

Even though the majority of subcontractors are located in the immediate vicinity of, or not particularly far away from, the MNE, the actual distance between the supplier and the consumer is no longer of major importance today thanks to the existing infrastructure in most of the newly industrialising countries. The spatial industrial structure is more decisively determined by the industrial location policy pursued by the respective host countries' governments.

Leaving aside the subsidiaries of other multinational enterprises, most of the remaining subcontractors are small or medium-sized, and in every respect independent enterprises whose production does not generally meet international standards. On the whole, the production processes employed are comparatively simple and machinery and equipment are not the newest. Moreover, most enterprises in this group operate on a single-stage subcontracting basis. The generally inadequate level of development of the

subcontractors' suppliers results in the subcontractor being obliged to import most of his primary materials. This not only gives rise to the risk of administrative delays, but is the decisive reason why a great number of subcontractors are assemblers rather than manufacturing firms in the true sense. This in return leads to the fact that many of the intermediate products subcontracted by the multinational enterprises from the host country already contain varying import shares, which means that the effective domestic subcontracting ratio is usually lower than officially stated. Subcontractors chiefly work according to blueprints provided by the contractor, and hardly conduct any independent research and development activities of their own.

Development of mutual relations and types of contracts

The time factor is of paramount importance to the evolution of subcontracting relations. Almost without exception, the enterprises pertaining to the motor vehicle industry confirmed a steady increase in their domestic procurements over the years. The decisive factor was the continuous diversification of subcontracted items rather than growth in volume. The same applies to the other branches under review, with the exception that stagnation had already been recorded in one of the four companies questioned due to the fact that in accordance with the prevailing circumstances maximum subcontracting levels had already been reached (cf. section 2(e) of table 2). From the point of view of the subcontractors, cyclical factors also played a role, together with a diversification of their production programme. Recessionary tendencies on the world market and an often accompanying downswing of the domestic economy have often presented serious problems to subcontractors. Accordingly, the replies given by the MNEs' business partners were restrained and reflected the economic recession of the early 1980s which was characterised by stagnation and even decline.

On the whole, while there was considerable interest in a further expansion of subcontracting relationships, the prospects in this respect were not always regarded favourably. With slight differences from one branch to another, the interview findings show that good chances for more intensive business relations are seen in two-thirds to three-quarters of the cases under review. The chances of a further expansion of subcontracting are rated least favourably in cases where existing technological know-how is regarded as inadequate for a higher degree of import substitution without the additional transfer of technology from abroad. As frequently stated, the investments of multinational enterprises, therefore, not only play an important part as a contractor in industrial development, but also often assume a leading role among subcontractors as the main source of technological upgrading. Finally, both contractors and subcontractors feel that market transparency with regard to the locally existing subcontracting potential leaves a great deal to be desired; an improvement in this context - generally, a task for the government - could open new opportunities as well.

The multinational enterprises usually maintain long-term relations with their subcontractors (cf. section 2(d) of table 2) extending beyond the individual contractual periods, which generally last no longer than one year (cf. section 2(g) of table 2). The long-term nature of these business relationships represents an extremely important basis for the steady evolution of subcontracting, where investment decisions depend on the reliability of the planning data provided. The picture presented in the survey by the MNEs is by and large supported by their business partners, even though there are exceptions which result in uncertainty, surplus capacities and/or misinvestments. The main points of criticisms in this respect are the inadequacy of information provided and the frequently too optimistic sales

figures foreseen by the MNEs. The occasional change from one business partner (subcontractor) to another, a common practice in business dealings, was less strongly criticised. Subcontractors mostly regard their relations with the MNEs as (strictly) business-like, yet in part as helpful and friendly; only a small minority stated that from time to time relationships were rather tough.

Multi-year general contracts were only found to be frequent in the food processing industry, whereas they are very rare in the motor vehicle and machinery industries and do not exist at all in the electrical industry - a field marked by rapid technological change. Contracts guaranteeing the purchase of a certain quantity of supplies are generally very rare and only relevant in the food processing and, to a certain extent, the electrical industries.

Although short-term ad hoc contracts are generally common in business, their importance in the field of subcontracting varies from branch to branch. This type of contract is of minor importance to vehicle assembly and food processing and temporary subcontracting to overcome capacity bottle-necks is a rare exception. Ad hoc contracts figure much more prominently in the electrical, machinery and precision instruments industries and in fact constitute the predominant type of contract for a number of these firms. In most cases, these are individual orders determined by the production programme (a common feature of the machinery industry with its heterogeneous production pattern and small number of units) or the contracting out of certain components due to a lack of capacity, which is characteristic of the electronics industry.

The decisive contractual element in almost all cases is the price, which for annual contracts is stipulated for the entire contractual period without being subject to alteration. The price is almost always determined via bilateral negotiations with market prices frequently functioning as an important point of orientation (cf. section 2(1) of table 2). In accordance with the varying strength of the negotiating positions of the business partners the final prices agreed upon much more reflect the MNEs' ideas than those of the subcontractors. Whereas the MNEs often show too little consideration for local cost structures (which usually differ substantially from the accustomed structures in the home country), subcontractors sometimes have unrealistic ideas on attainable profit margins. Nevertheless, the majority of subcontractors (about two-thirds) refer to the price agreements reached with the contractors as tolerable; a third, however, felt the prices were very low, although they were not regarded in any case as being too low. Without substantial variation, this applied for all branches under review. This statement of the subcontractors also corresponded to the replies given by the MNEs, in so far as only one-third of the latter referred to difficult price negotiations with their business partners. In all probability, these cases concern those subcontractors who were dissatisfied with the price agreement reached.

A further important factor is that once the MNEs have reached an agreement on a certain price, it seems to be extremely difficult to persuade them to agree to a price increase during subsequent new contractual negotiations - even if the subcontractor can support his case via reference to demonstrable cost increases.

It is not, therefore, possible to talk of a generally excessive pricing pressure on the part of the MNEs. However, individual cases do undoubtedly exist, which are all the more unjustified when the subcontractor's cost structures do not permit any further concessions without endangering his very existence. This is true regardless of the fact that the often exorbitantly high domestic costs represent a considerable problem for the MNEs, not only

where they have to compete on the world market, but also on the domestic market where the selling price is subject to government regulation.

Dependency

The degree of mutual dependence has a considerable bearing on the strength of the respective negotiating positions. As clearly illustrated in section 2(f) of table 2, the branches of industry under review are in this respect characterised by large structural variances. The motor vehicle industry shows a particularly high purchasing risk on account of generally monopolistic or oligopolistic domestic market structures. There is a corresponding degree of dissatisfaction among the MNEs in this branch with regard to the currently existing subcontracting structure. On the other hand, only about half of this industry's subcontractors referred to a high degree of dependence on their principals; the local spare-parts market (with its relatively good prices) together with the possibility of additional exports have contributed substantially towards reducing dependence here or preventing such dependency to develop. In the case of the general metal-working firms with a partial workshop character, subcontracting only plays a supplementary role anyway. It can be assumed that the overwhelming majority of these firms supply roughly 80 per cent of their output directly to the consumer, whereas only 20 per cent depend on subcontracting orders.

The situation is different in the case of the electrical and machinery industries. In these fields, the MNEs feel that only about a quarter of their purchased supplies are confronted by unfavourable market structures, although this need not necessarily imply a high purchasing risk. Only a minority of the MNEs are dissatisfied with the current situation here, but their judgement is based not only on structural factors, but also on qualitative and other aspects. The degree of mutual dependency in the electrical industry is strongly determined by the production programme. The subcontracting market for electronic products is characterised by only a few final consumers and a correspondingly high degree of dependency; though the product range and demand structure in the field of traditional electrical engineering is much more differentiated, the opportunities of establishing a greater degree of independence via exporting directly or selling spare-parts are much more limited in this field than in the automotive industry.

Volume of subcontracted inputs and subcontracting potential

A particularly interesting aspect is the volume of subcontracted supplies (expressed as the percentage share in total production (sales) or in total material inputs), attained in the case study countries. A broad range emerges. Averages of 20 to 30 per cent (in terms of total sales) or 40 to 50 per cent (of material inputs) are, however, not very meaningful and, as shown in section 2(d) of table 2, blur any differences between individual branches. As already explained in detail, the respective level of subcontracting attained depends on the length of time that the MNE has been in the host country, the nature of the final product manufactured, the level of development in the host country, the economic policy pursued by the government of that country, the target market and a number of other factors, the effects of which are either accumulative or mutually exclusive. Since these determinant factors have already been dealt with elsewhere in detail, it would appear more meaningful at this stage to focus on a few of the basic inter-relationships and characteristics.

To begin with, it is important to emphasise that the theoretical subcontracting potential, and, correspondingly, the extent of subcontracting actually achieved, is highly dependent on the specific characteristics of individual branches and products. The branch with the undoubtedly most pronounced subcontracting relations is the motor vehicle industry, a typical assembly industry, in which, according to interview findings, subcontracted supplies can reach percentages of 70 per cent or more of the sales figure. The subcontracting potential in the field of machinery and precision instruments showed itself to be much more limited on account of the extremely heterogeneous production programme; in this field, only those product areas involving primarily assembly activities reach subcontracting shares of 50 per cent or more. Figures of 40 to 50 per cent are also possible in the consumer electrical and electronics industries, whereas in many cases levels of only 10 to 15 per cent were recorded with regard to the production of electronic components. The local linkage potential is understandably very high in the food processing industry (if the raw materials required are included), whereas branches with weak subcontracting potential (such as, for example, the textile and clothing or the pharmaceuticals industries) hardly show more than 5 to 10 per cent subcontracting shares. The large enterprises active in this field show a high tendency towards vertical industrial integration, which further reduces subcontracting possibilities. In addition, the local services utilised and other purchases can generally be estimated at 3 to 5 per cent of the annual turnover of the MNE.

The large differences in local content actually attained from country to country (expressed as a percentage) are indicative for the rather high potential of quite a number of NICs for further industrialisation in the field of subcontracting alone. In general, it can be presumed that branches intensive in subcontracting, even under free trade conditions, will independently achieve a level of about 10 per cent local subcontracting over time. However, qualitative jumps are required to surpass this level, and the higher the level to be achieved, the greater the degree to which local subcontractors will have to rely on foreign capital and foreign know-how. Given a favourable general economic setting, regular annual subcontracting share increases of between 3 and 5 per cent are possible.

The subsidiaries of multinational enterprises in the newly industrialising countries of Asia and Latin America show the greatest linkage-intensity with the local economy, whereas, in so far as the branches under review were represented in Africa to any mentionable degree, these were at the lower end of the scale.

Trans-border subcontracting from other developing countries is still of minor, albeit growing, importance, particularly for the electronics branch. But even here, the corresponding procurements are generally limited to the immediate neighbouring States and very specialised products. If imports are essential, preference is given to imports from industrialised countries, unless special circumstances - such as, for example, the GSP preference system - make it advantageous to import from other Third World countries.

Only the interaction of numerous factors allow an investment by an MNE in a developing country to contribute a sustainable industrialisation process. Certain branches are particularly well-suited for setting this process in motion, while other fields of production remain comparatively detached from their industrial environment. Important in this respect is the realisation that investments effected by foreign enterprises for individual company-strategic and not developmental reasons can only then lead to a noticeable structural adjustment in the host country extending beyond the direct and indirect effects on employment and incomes if the host country itself constantly endeavours to create the economic and socio-political

framework necessary to achieve the desired level of industrialisation. Assuming the existence of such a framework, multinational enterprises have shown themselves willing and able, albeit in their own interests and for primarily economic reasons, to contribute substantially towards solving the difficulties and problems which emerge during the course of this process.

Support measures

We have seen that the economic policy setting in the respective host country assumes an extremely decisive role with regard to the evolution of subcontracting relations. From the point of view of the subcontractors, however, such measures are mainly in the form of indirect support by making the entry of foreign competitors to the domestic market more difficult. Direct support by the government, on the other hand, was comparatively rare. However, in cases where such support was granted, such as, for example, in the Republic of Korea and Taiwan (China), it has proven extremely successful.

The situation is quite the reverse with regard to the relations between the MNE and its subcontractors. It is precisely this lack of direct state assistance and the fact that the MNE has no option but to co-operate with local firms which results in a more or less intensive consultative and supportive relationship between the MNE and its major domestic business partners. The MNE, of course, does not act out of brotherly love, but assists the firms in this way for quality and other reasons, i.e. because of its economically based self-interest. The subcontractor, on the other hand, benefits considerably in technological and general business management terms without, in most cases, having to accept a foreign equity share or even a complete take-over in return. This relationship, therefore, reveals advantages on both sides, although the MNE alone bears the costs particularly those for the consulting and assisting technical personnel, costs which are thus part of the MNE's production costs.

The remarks which follow clearly show a number of fundamental structures characterising the relationship between the MNEs and their subcontractors, only marginal differences existing in most cases between individual branches. In so far as possible, the interview findings will be commented on in a summarised form, whereas the individual details are presented in the tabular comparison (cf. sections 2(h) to 2(k) of table 2).

The special character of the food processing industry means that this branch is more different than the other industrial branches studied. The co-operation of MNEs in helping establish subcontracting businesses in the food processing field has assumed a vital role, whereas otherwise similar initiatives have only been of some importance in the vehicle assembly field. The picture is similar with regard to co-operation in the fields of capacity and production planning as well as assistance in the procurement of raw materials and intermediate products. Finally, the difference becomes very obvious in the field of general business organisation and administrative support; this form of assistance is still very significant to the food processing industry, whereas it is rarely extended or accepted by the other branches under review. These marked variations are due, on the one hand, to the characteristics of the respective business partners, primarily agricultural production units with a considerable need for agricultural extension services and production-related co-ordination, and independent industrial firms, on the other hand, where subcontracting in many cases does not even represent the most significant part of their total production.

On the whole, the replies given by the MNEs regarding the assistance provided comply with statements by the subcontractors on the assistance they

have received. Together with the provision of blueprints, which can be regarded as the single most essential precondition for production, and co-operation in product design, technical support concentrates on constant supervision and individual consultation, production process planning, and the top priority assigned to quality control measures. Support relating to material and equipment (procurement of materials, provision of special tools and machinery) is, relatively speaking, rarely offered or accepted, and general administrative assistance is hardly provided at all. The same applies to the various kinds of financial measures. Whereas, above all in Japan, capital links between the contractor and his major subcontractors are typical forms of co-operation, relations of this kind are generally uncommon in the Third World. Liquidity support, in the form of prepayments for orders placed or pre-financing of materials and tools required, does have a certain degree of importance, if only among a minority of firms. The subcontractors primarily refer to the technical support provided by the MNEs as satisfactory, but not as very generous; only a minority felt that this support is insufficient.

With regard to the expansion of business relations the subcontractors' own efforts have apparently been the decisive factor, while recommendations by the MNEs to other potential clients at home and abroad have only played a supplementary role. Subcontractors generally regard the chances for a further expansion of their business relationships as good.

On the whole, therefore, a picture emerges which is very uniform throughout all the branches under review. The only measures which are of paramount importance are those transferring the know-how required for the technical side of the production process and those relating to the quality control of the manufactured products. Although there is undoubtedly a need for further support even in these areas and improvements could be achieved via closer co-operation, the majority of subcontractors were satisfied with the support extended. A surprising fact is that many of the forms of technical support provided are only taken advantage of by a minority of subcontractors, although there are differences from one country to the next. The background to this apparent contradiction between the need for support and the use made of support provided is the fact that many subcontractors are afraid that closer co-operation might endanger the independence of their own businesses, an independence which they wish to maintain at all costs. The high degree of independence among the subcontractors, as confirmed by this study, underlines the significance of this business policy consideration.

In so far as the various forms of support mentioned were provided, these have primarily, yet not exclusively, been used by subcontractors of local origin. Apart from the fact that domestic subcontractors are numerically in the majority, the need for consulting services is understandably not so great among firms of foreign origin. However, the MNEs provide their support to all business partners, regardless of their regional origin.

Problems encountered

The fact that the need for assistance is frequently greater than the extent to which use is made of this assistance (or, alternatively, the fact that the extent of assistance must be increased) is reflected in the broad spectrum of problem areas characterising the relationship between subcontractors and their major contractors and vice versa (cf. on this point, section 2(m) of table 2).

The problems experienced by multinational enterprises can be attributed to three different levels: the first relates to the new and, initially, unaccustomed infrastructure and socio-cultural environment facing the MNEs in

the host country; the second problem area relates to the central technical and qualitative questions; and, finally, the third level encompasses those difficulties which can be traced back to planning and management deficiencies of subcontractors.

Interview findings indicate that, although infrastructure problems occurred comparatively frequently at the start of activities in developing countries, their significance diminished substantially over time. Spatial distance from the subcontractors (only one aspect among many) is no longer relevant in the context. Even problems relating to socio-cultural communication and understanding never played a prominent role.

The main problem area, therefore, was - as one might have expected - the technical side of business operations. Most shortcomings in this respect concentrate on aspects of technical understanding and quality consciousness, which include many related problems and questions. In view of the generally lower standard of technology among subcontractors (in comparison with conditions in industrialised countries), there was an appreciable degree of uncertainty among the MNEs as regards the technical abilities of their prospective business partners right from the very start. This not only induced many MNEs to opt for as much in-plant production as possible, but also often led to extremely tough quality controls resulting in a high percentage of rejects. Lower quality and the none the less high prices of locally manufactured products due to simple production techniques and inadequate methods of quality control were the most frequent sources of worries for MNEs. Particularly at the beginning of a newly established business relationship, MNEs often found themselves confronted by a considerable lack of technical understanding, even though it was explicitly remarked that in the course of time subcontractors have exhibited a good and speedy ability to learn.

The overwhelming majority of MNEs confirmed that there were marked improvements in the course of their mutual co-operation; however, a qualified minority, above all from the motor vehicle and food processing industries, referred to continuing problems, made even more difficult by the frequent personnel fluctuation in the field of subcontracting.

The unreliability of business partners with regard to meeting agreed dates of delivery was just as important among the statements made by the MNEs as the quality aspect. Just as subcontractors are often unable to live up to their promises in the technical field, there appears to be a sometimes rather lax attitude towards delivery dates: for many subcontractors the main aim is to get the contract. Delayed deliveries, of course, have just as adverse an effect on the production process as below-standard components which cannot be used.

The replies given by the MNEs show that these problems have improved over the years. However, the percentage of firms unable to confirm such an improvement - ranging between 20 and 40 per cent depending on the individual branch - was even higher than in the case of the critical quality aspect, for which the corresponding percentage range (excluding the special case of the food processing industry) was 6 to 30 per cent.

Costs and/or prices, quality problems and failure to meet agreed delivery dates are, therefore, the main problems experienced by the MNEs in their co-operation with subcontractors. These problems are primarily, yet not exclusively, encountered in relations with subcontractors of local origin. In so far as these problems also occurred with regard to firms of foreign origin, they were much more clearly reduced over time than in the case of the domestic

group. Only the motor vehicle industry also revealed a comparatively high degree of dissatisfaction with subcontractors of foreign origin.

The subcontractors also revealed three major problem areas in their co-operation with multinational enterprises. The problems connected with the subcontractors' own businesses relate to technical (production process, quality), financial (equity capital resources, credit worthiness, liquidity) and management aspects. Complaints addressed to the government relate to the often inadequate, or lack of, tariff protection and the lack of or inadequate direct assistance measures. The main points of criticism facing the MNEs relate to pricing pressure, delayed payments and excessively tough quality criteria in regard to the products ordered. General communication problems of an infrastructural or socio-economic nature are, on the other hand, according to the replies given, virtually non-existent.

The most significant problems in the relations between the MNEs and the subcontractors are undoubtedly technical difficulties regarding the production process. Even though the subcontractors themselves do admit difficulties in this respect, their lack of emphasis on problems of this kind indicate a less critical attitude among subcontractors towards product quality and the need to meet delivery deadlines. A definite need for additional assistance is stated, on the other hand, with regard to the procurement of raw and intermediate materials required for production. The often unsuccessful search for adequately qualified personnel often has a negative effect on the technical field and the delivery dates agreed upon. In cases where qualified personnel is available in principle, these often move off into other branches after a certain period, set up their own business or are even hired by multinational enterprises, which with their higher pay levels and better fringe benefits are always attractive.

In the financial field the frequent lack of adequate risk capital must be emphasised, even though the majority of subcontractors did not regard this as a priority problem themselves. Due to their lack of bankable securities, smaller businesses often have difficulties in obtaining long-term credit on reasonable terms. For this reason, relatives and friends often serve as the most important sources of capital and credit. The problems are slightly different in the case of larger subcontracting firms, since these firms tend to finance most of their expansion via credits (which are easier to secure on account of their more substantial assets). Their equity base is frequently very weak and the collapse of such firms is not rare. Moreover, the MNEs for their part could also do more to ensure that such a development does not occur. With the MNEs in mind, subcontractors above all complain about the strictness of quality control, the pricing pressure often exerted and the fact that delayed payments by major contractors often exacerbates an already strained financial situation.

In general, the subcontractors see no problems in the management field, although there are exceptions. A decisive factor, however, is the inadequacy of information confirmed at various levels, a great deal of which is, of course, blamed on management. There are complaints about the inadequacy of planning data, of information relating to potential markets and, in particular, of information on new production techniques relevant to the specific branch in question. There is no doubt that small- and medium-sized subcontractors are particularly in need of support in these fields - whether from the government or the contractors themselves - especially with regard to the provision of technical equipment and capacity planning.

Although many of the above-mentioned difficulties can only be overcome via a process of learning by the subcontractors themselves, support by the state and multinational enterprises could definitely contribute towards

speeding up this process. When asked about the assistance still required from the government or the contractor, there were clear points of emphasis. The government could above all help the subcontractor in matters relating to training, in obtaining information on new markets, and, financially, via easier borrowing terms and preferential interest rates. The MNEs, on the other hand, could provide more comprehensive information than they have done up to now on the procurement of raw and intermediate materials, technical matters, and the MNEs' own production and marketing planning.

The food processing industry:
A special case

In so far as this was possible, the food processing industry has been taken into account during the rundown of company interview findings presented so far, even though the special character of this branch has not allowed a direct comparison with other sectors of industry in all cases. However, even at the risk of repeating certain statements, the following section will once again provide a brief summary of the findings relating to this branch of industry.

Multinational enterprises play an important role in the food processing industry of Third World countries. Their share of local food processing is generally estimated at 12 per cent. Although the MNEs pursue their own company policies being a primarily economically oriented unit, they must - not least on account of their size and significance - take many varying interests and factors into consideration. In doing so, it often proves difficult to harmonise the development policy objective of the host countries with the respective company policy objectives. Although the MNEs have undoubtedly and substantially contributed towards the development of the food processing industry and the field of agricultural production in developing countries - via the transfer of know-how, of foreign capital, the improvement of the local population's food supply situation, and the opening up of overseas markets - their size and their accompanying power means that they also find themselves in an area of conflict with regard to the governments of developing countries and the domestic food processing industries.

Up to now, hardly any analyses have been conducted on subcontracting relations in the food processing industry of developing countries. The analysis conducted within the framework of this study on the situation in the Philippines and Malaysia led to the following findings:

Most of the multinational enterprises were resident in their host countries long before the latter become independent. The subcontractor firms, on the other hand, were generally established after independence, and in many cases the investment decision itself was directly linked with the existence of the MNE, while there were no reverse relations of this kind. Whereas the American subsidiaries of the MNEs interviewed were still on the whole fully owned by the parent company, European MNEs favoured joint ventures with local partners with the parent company holding a majority equity share. The subcontractors (business partners) of the MNEs were in most cases owned by domestic businessmen, although foreign minority equity shares already played an important role. The production by the subcontractors was almost exclusively oriented towards the host country's domestic market, with the exception of a small percentage of exports generally destined for neighbouring countries. Both the MNEs and the subcontractors proved to be generally satisfied with the development of their business relations and referred to a steady upward trend. Great importance was attached to the host country's economic policies with the import tariffs for foreign subcontracted supplies playing a very important role. In addition, the economic policy pursued by

the host country is regarded as decisive for the business and thus investment climate.

As regards the nature, extent and duration of business relations, it was confirmed that both the MNEs and their subcontractors prefer co-operation on a longer-term basis, at the same time seeking possibilities to diversify to reduce the risk of any one-handed dependence. Short-term business relations only exist in the field of procurement/supply of agricultural raw materials, since agricultural production is often subject to seasonal fluctuations. Multinational enterprises generally purchase agricultural raw materials, and these primarily from small-holder enterprises (in so far as the products purchased are not plantation products such as palm oil or pineapples or in cases where the MNEs have their own plantations). Other important products purchased are all kinds of packaging material as well as services (transport and advertising). Co-packing, on the other hand, only exists to a limited extent, as opposed to the situation in industrialised countries; the multinational enterprises prefer to carry out the various processing stages for their products in their own manufacturing plants. Alongside intermediate products such as processed palm oil, cocoa, flour, sugar and dairy produce, subcontracting by business partners in the industrial field, therefore, primarily includes packaging material.

In line with the generally good business relations confirmed by both sides, the MNEs also provide their business partners with a certain amount of assistance, which, however, is not very significant and rarely demanded by most of the industrial subcontractor firms. In the cases where support is extended, it is mainly in the form of business-organisational assistance and consulting services of a technical nature (quality control). More frequent technical assistance is only granted to subcontractors in the field of agricultural production (agricultural extension services).

The majority of subcontractors saw no problem with regard to mutual business relations (problems relating to the fields of communication, financing, production techniques and management as well as adequate access to information). The only problems mentioned were communication problems of a technical nature. In the opinion of the multinational enterprises, on the other hand, problems still exist as a result of the poor technical infrastructure, with regard to the regular procurement of raw materials, and regarding the quality of the products supplies.

V. FUTURE PROSPECTS

This analysis did not set out to take a comprehensive quantitative look at the contribution of multinational enterprises towards industrial development in the Third World. In order to obtain representative results, it would not only have been necessary to conduct such an investigation on a much narrower regional and sectoral basis, but it would have also involved surveys and interviews so extensive that they would have gone beyond the scope of what was possible in this study.

The selection of enterprises, the nature of the questions asked, and the additional literature consulted, therefore, primarily concentrated on the qualitative aspect. Priority was given to the direct and indirect structural effects of multinational enterprises on industrialisation in the host countries. Answers were sought for the following questions:

- Which branches or sub-branches are on account of their production structure characterised by a particularly high or relatively low amount of subcontracting and thus structural adjustment potential?
- To what extent and under which conditions has this potential been utilised up to now in the countries studied (which can be regarded as representative for all developing and newly industrialising countries)?
- Which qualitative level of domestic subcontracting was attained in this process and, if assistance was provided, what kind?
- What kind of relations have evolved between domestic contractual partners, what were - or still are - the problems associated with co-operation, and which economic policy and company policy approaches have shown themselves to be useful for the future?

Of the multitude of findings - all of which will not be listed here again - the following can be emphasised:

- In most cases, investments by multinational enterprises have only been able to have a positive effect on structural development when combined with economic policy measures established by the host country. Contrary to the situation in industrialised countries, in the Third World market forces alone are not generally able to lead independently - as a consequence of an investment - to similarly positive structural developments.
- Whereas the potential volume of subcontracting depends mainly on the product involved, the degree of inter-industrial integration actually achieved is dependent on the level of technology reached and the skills of the local labour force. The existing level of subcontracting falls short of its theoretical potential as long as the overall framework is not available.
- In absolute terms, the full level has only been reached in a few isolated cases. In at least two-thirds of cases studied, especially in those fields characterised by intensive subcontracting (above all involving final assembly work) possibilities are seen for a further expansion of domestic inter-industrial linkages. However, any further increment in the level of technology, which would bring about a general extension of subcontracting opportunities, still depends on the transfer of technology from abroad, not only at the final stage of production, but also in the subcontracting field.
- Without external assistance, potential domestic subcontractors are usually not in a position to meet the rising requirements of increased subcontracting opportunities. Governments up to now have in most cases limited their assistance to indirect support in the form of creating a subcontractor-friendly policy framework. Multinational enterprises, on the other hand, have provided both immediate and direct assistance, albeit generally within the obvious framework of their own self-interests.

Most of the analyses dealing with the direct impact on employment of foreign direct investments in the Third World have not been able to confirm any substantial contribution towards the reduction of the generally high unemployment and underemployment levels. Even if the indirect creation of jobs in the upstream and downstream sectors of the economy are included, most cases only reveal effects which are 50 per cent or at most 100 per cent greater than the direct effects on employment.

However, the overall structural contribution of foreign direct investment towards economic development is of course much greater than just the effect on employment. Investments in branches with heavy subcontracting demonstrate a high degree of integration in the host economy. They do not lead to isolated islands of growth within the framework of an economy marked by increasingly dualistic structures, but on the contrary result in the broad creation of intensive industrial interaction. Although this process is accompanied by inevitable frictions, it is also accompanied by the positive effects of improved structural development. This process, which could not have been set in motion without foreign capital and know-how, has already emerged in the more advanced newly industrialising countries in a sustainable pattern of industrial growth.

Three ways of possibly speeding up this process and increasing the benefit of foreign investment for the host country should not be overlooked. In many countries, for example, direct government assistance seems necessary above and beyond the already existing framework if domestic subcontractors are to become more reliable and resilient and, above all, if the frequent single-stage subcontracting with its low level of inter-industrial linkages is to be overcome. This will include all measures designed to reduce or remove the handicap of unequal "take-off" conditions for enterprises of domestic and foreign origin. Secondly, measures should be considered which act as an incentive for multinational enterprises to assist local subcontractors more actively than they have done up to now, assistance which should extend beyond the company's own specific self-interest. Finally, the host country government should introduce a more sector-specific character to the subcontracting promotion measures aimed, on the one hand, at maximum utilisation of the product-specific subcontracting potential of multinationals and, on the other hand, at minimising the adverse effects (for example, employment displacement) in traditional fields of economic activity.

It must be remembered that in the case of all the statements and recommendations made here there can be no global universally valid or absolute form of industrial structure; individual country-specific characteristics will always play an important part. For the same reason, there can be no universally valid standard model for the structure of subcontracting. Each country must create the subcontracting structure best suited to its economic abilities and objectives and in accordance with existing economic and social conditions.

APPENDIX A

Detailed table of contents of the original German book*

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* Multinationale Unternehmen und Zulieferindustrien in der Dritten Welt: Ihr Beitrag zum Aufbau einer interdependenten Industriestruktur (Frankfurt, Campus Verlag, 1985).

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APPENDIX B

Tables (detailed interview results)

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E1 - E11: Electrical industry

M1 - M10: Machinery and precision instruments

F1 - F9: Food processing industry

A U T O M O B I L E I N D U S T R Y

Table A 1: General Data of the Companies Questioned¹⁾

a) MULTINATIONALS

Q u e s t i o n s

A n s w e r s

- Our company is fully owned by the foreign parent
- Our company is a joint venture of the foreign parent with
- The domestic partner belongs to the
- Our total employment is in the range of
- Our export share in total sales is in the range of

yes: 8 no: 22
 majority equity share: 11 minority equity share: 11
 private sector: 20 public sector: 2
 300-1000: 16 comp. 1000-5000: 10 comp. > 5000: 3 comp.
 0 %: 23 comp. 2 - 8 %: 5 comp. 13 - 25 %: 2 comp.

b) SUBCONTRACTORS

- Our company is of
- We have a foreign equity share
- Our company can be characterized as
- Total employment of the companies questioned
- Share employed for subcontracting

Local origin: 13 foreign origin: 1
 yes: 5 comp. (percentage distribution 2 - 30 %) no: 9 comp.
 industrial firm: 11 workshop: 3 other (homeworker): 0
 < 100: 8 > 100: 4 ca. 1000: 2
 100 %: 4 comp. 20-70 %: 9 comp. 10 %: 1 comp.

1) The figures in the table refer to the number of companies answering to the specific question, unless otherwise stated.

A U T O M O B I L E I N D U S T R Y

Table A 2: Significance of Subcontracting Potential for the original Investment Decision

a) MULTINATIONALS

Q u e s t i o n s

A n s w e r s

- Our investment decision was made independently of the local subcontracting potential

<u>yes</u>	<u>no</u>
15	13

- At the time of our investment important business partners were already located in the host country

13	15
----	----

- At the time of our investment decision important business partners were already investing in the host country

9	19
---	----

- At a later time, but in connection with our investment decision, important business partners also invested in the host country

15	13
----	----

- In our investment decision the above considerations played a

decisive role: 5	moderately important role: 12	minor role/no role: 10
------------------	-------------------------------	------------------------

b) SUBCONTRACTORS

- Our production was originally set up with no direct link to realized or planned investments of our main contractor(s)

<u>yes</u>	<u>no</u>
9	5

- Our production was originally set up with direct link to investments of our main contractor(s)

5	9
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AUTOMOBILE INDUSTRY

Table A 3: Structural Characteristics and Volume of Subcontracted Supplies

a) MULTINATIONALS

Q u e s t i o n s	A n s w e r s		
<u>Type of subcontractors</u>			
- Our subcontractors can be characterized as	<u>Industrial firms:</u> ø 84 %	<u>workshops:</u> ø 14 %	<u>homeworkers etc.:</u> ø 2 %
<u>Number, location and origin of subcontractors</u>			
- The number of our domestic subcontractors is in the range of	<u>up to 30:</u> 12 comp.	<u>>30-100:</u> 10 comp.	<u>> 100:</u> 8 comp.
- Our domestic subcontractors are located at a distance of	<u>30 km:</u> 60 %	<u>30-100 km:</u> 26 %	<u>> 100 km:</u> 14 %
- The share of our subcontractors in the host country is of	<u>domestic origin:</u> 30-60 % (13 comp.)	<u>70-100 % (16 comp.)</u>	ø 66 %
	<u>Foreign origin:</u> 0-30 % (17 comp.)	<u>40- 90 % (12 comp.)</u>	ø 34 %
- The share of our 10 major subcontractors in our total subcontracted volume is in the range of ø 70 %	<u>70-100 %:</u> 19 comp.	<u>30-60 %:</u> 5 comp.	<u>10-20 %:</u> 2 comp.
<u>Share of subcontracted supplies</u>			
- The share of subcontracted supplies in total production was in the range of ø 29 %	<u>5-15 %:</u> 8 comp.	<u>20-35 %:</u> 11 comp.	<u>> 35 %:</u> 9 comp.
- The share of subcontracted supplies in total material inputs was in the range of ø 43 %	<u>10-20 %:</u> 9 comp.	<u>30-50 %:</u> 8 comp.	<u>60-100 %:</u> 6 comp.

b) SUBCONTRACTORS

Q u e s t i o n s	A n s w e r s	
<u>Main production processes employed:</u>		
	<u>yes</u>	<u>no</u>
- Foundry / casting	3	11
- Metal cutting / tool making	11	3
- Heat treatment	9	5
- Solid metal forming	3	11
- Sheet metal forming	6	8
- Surface treatment	8	6
- Plastic processing	0	14
- Joining technique (simple assemblies)	11	3
- Packaging	4	10
- Other (e.g. welding)	4	10
<u>Production Facilities</u>		
- Our tools and machinery are mostly owned by us	14	0
- We work on the basis of our own blueprints	9	5
- We have our own research and development department	5	9

A U T O M O B I L E I N D U S T R Y

Table A 4: Nature of Subcontracting Relationships

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>		
<u>Our subcontracting can be specified as follows:</u>	<u>predominantly</u>	<u>less frequently</u>	<u>not at all</u>
- Regular subcontracting on the basis of longer-term contracts	26	1	2
- Temporary subcontracting to overcome capacity bottlenecks	0	16	11
- Other	1	0	0
- The cooperation with our subcontractors of domestic origin is	<u>long-term throughout: 19</u>	<u>changes in part: 12</u>	<u>changes more frequently: 1</u>

b) SUBCONTRACTORS

<u>Our subcontracting supplies are usually:</u>	<u>predominantly</u>	<u>less frequently</u>	<u>not at all</u>
- Permanent (regular and stable deliveries)	7	4	3
- Temporary (irregular demand of contractor)	5	6	3
- Other	0	0	0
Usually, our subcontracting relationships are	<u>long-term throughout: 8</u>	<u>changing from time to time: 8</u>	<u>changing rather often: 0</u>

AUTOMOBILE INDUSTRY

Table A 5: Development and future prospects of Subcontracting

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>		
- In recent years the importance of our subcontracting relationships in the host country has	<u>increased: 28</u>	<u>remained unchanged: 2</u>	<u>declined: 0</u>
- We are interested in a further expansion of our subcontracting relationships and anticipate in this respect	<u>yes: 24</u> <u>good: 16</u>	<u>no: 6</u> <u>not so good: 9</u>	<u>chances</u>
- Access to information regarding the local subcontracting potential is, in our view,	<u>good: 11</u>	<u>sufficient: 15</u>	<u>bad: 4</u>

b) SUBCONTRACTORS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>	
- In recent years, the importance of our subcontracting relationships with our main contractor(s)	<u>has increased: 6</u>	<u>remained unchanged: 5</u> <u>declined: 3</u>
- In general, our overall business has developed	<u>satisfactorily: 10</u>	<u>less satisfactorily: 4</u>
- The relationship with our main contractor(s) can be regarded as being:	<u>frequently</u>	<u>rarely</u>
- helpful and friendly	8	0
- strictly business-like	11	0
- from time to time rather tough	3	0
- Over time, these relationships have developed	<u>satisfactorily: 14</u>	<u>less satisfactorily: 0</u>
- Access to information regarding further subcontracting possibilities is, in our view	<u>good: 4</u>	<u>sufficient: 4</u> <u>bad: 5</u>

AUTOMOBILE INDUSTRY

Table A 6: Type of Contracts and Price Determination

a) MULTINATIONALS

Questions

Type of contract with subcontractors

The following types of contract are used by us in collaborating with our subcontractors

- Short-term limited ad-hoc-contracts as needed
- General annual contracts stating approx. demand; monthly orders according to actual need
- Annual contracts guaranteeing the purchase of a certain quantity
- Long-term (multi-year) contracts

Price determination

- The prices of supplied products are determined by the market
- The prices are determined by negotiation with the business partner
- Price negotiations with the business partner are difficult

Answers

frequently rarely/not at all

6	24
26	4
1	29
5	25
11	19
30	0
7	23

b) SUBCONTRACTORS

Questions

Type of contracts with contractors

- In general, the contracts concerning our subcontracting relationships can be characterized as:
 - Short-term limited ad-hoc-contracts according to the needs of the contractor
 - General annual contracts stating approx. demand; monthly orders according to actual need
 - Annual contracts guaranteeing the purchase of a certain quantity
 - Long-term (multi-year) general contracts

Price determination

- The prices for our subcontracted products are usually determined
 - by the market
 - by negotiations with the contractor
- We regard the prices agreed upon as
- We are obliged to keep large inventories of relevant products

Answers

frequently rarely

5	6
11	1
2	2
1	2
4	4
12	0

tolerable: 10 too low: 6 much too low: 0
frequently: 6 rarely: 8

A U T O M O B I L E I N D U S T R Y

Table A 7: Degree of Dependence on Subcontractors/Contractors

a) MULTINATIONALS

Q u e s t i o n s

- Share of domestically subcontracted items purchased from
- With our present subcontracting structure we are

A n s w e r s

only one firm: 70-100 %: 13 comp.; 0-20 %: 7 comp. Ø 56 %
 several suppliers: 0-30 %: 13 comp.; 80-100 %: 7 comp. Ø 44 %

satisfied: 6 not very satisfied: 19 very unsatisfied: 5

b) SUBCONTRACTORS

- The number of our main contractors ranges from
- Our dependence on orders from one/few contractors can be regarded as
- The share of our main contractor in total value of production is approx.

2 - 5: 5 comp. 10-20: 8 comp. >100: 1 comp.

high: 6 medium: 3 low: 4

50-70 %: 7 comp. 15-20 %: 3 comp. 5-10 %: 4 comp.

Market Structure

- Approx. share of subcontracting turnover in total value of production
- Approx. share of total value of production (subcontracting excluded)
- Permission to sell part of our production as spare parts directly to the consumer

100 %: 2 comp. 30-80 %: 6 comp. 3-25 %: 5 comp.

sold domestically: 90-100 %: 11 comp. 30-60 %: 3 comp.
exported: 40-70 %: 3 comp. 10-15 %: 3 comp. 0 %: 8 comp.
companies with export: 6 companies without export: 8

yes: 10 no: 4

AUTOMOBILE INDUSTRY

Table A 8: Influence of the Host Country's Economic Policy

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>	
The host country's economic policy had a major influence on the development of local subcontracting relationships	<u>yes: 30</u>	<u>no: 0</u>
<u>If yes: the policy's provisions relevant to our company consisted in</u>	<u>relevant</u>	<u>less relevant or not relevant</u>
- the governmental prescription of certain local-content-percentages	25	5
- high import duties on subcontracting requirements	27	3
- the reservation of certain industrial <u>activities</u> for purely domestic firms	20	9
- the determination of certain products/parts to be purchased domestically	26	3

b) SUBCONTRACTORS

<u>Q u e s t i o n s</u>	<u>yes</u>	<u>no</u>
- Assistance by an extension service promoting industrial development	4	9
- Provision of financial aid at preferential terms	2	11
- Provision of training facilities	4	9
- Procurement of information on business possibilities	7	6
- Reservation of certain industrial activities for domestic firms of national origin	4	9
- Determination of certain products/parts to be purchased domestically	7	6
- Other governmental assistance	0	13

A U T O M O B I L E I N D U S T R Y

Table A 9: Support of the Multinationals extended to Subcontractors, as seen by the Contractor

Q u e s t i o n s	A n s w e r s	
	<u>frequently</u>	<u>rarely/not at all</u>
<u>Technical support and decision aid</u>		
- Development of initiatives in establishing subcontracting enterprises	8	22
- Cooperation in capacity- and production-planning of the subcontractors	13	17
- Consulting on the technical organization and the purchasing of machinery	4	26
- Supply of blueprints	24	6
- Supply of (used) machinery	3	27
- Supply of (special) tools	8	22
- Assistance in the procurement of raw materials and intermediate products	4	26
- Other technical support	14	16
These types of support were granted		
- to business partners of domestic origin only	21	9
- also to business partners of foreign origin (located in the host country)	13	17
<u>Transfer of business/organizational know-how incl. training</u>		
- General business-organizational assistance	1	29
- Support for accounting and book-keeping	2	28
- Business management assistance	2	28
- Technical management assistance	8	22
- Support in technical production and quality control	20	10
These types of support were granted		
- to business partners of domestic origin only	19	11
- also to business partners of foreign origin (located in the host country)	7	23
<u>Financial assistance</u>		
- Contribution to the risk-capital of the subcontractor	0	30
- Granting of repayable loans at usual commercial rates	1	29
- Granting of repayable loans on concessional terms	0	30
- Giving of non-repayable financial grants	0	30
- Pre-financing of materials, tools, facilities, etc.	5	25
- Pre-payment of orders placed	4	26
- Other financial support	0	30
These types of support were granted		
- to business partners of domestic origin only	4	26
- also to business partners of foreign origin (located in the host country)	3	27

AUTOMOBILE INDUSTRY

Table A 10: Support of the Multinationals as seen by the Subcontractors

Questions	Answers	
<u>General Assistance</u>		
- Our main contractor(s) promoted the establishment of our business	2	12
- Without the investment of our present main contractor(s), our business would not have been established	4	10
<u>Assistance of contractor(s) to extend and diversify our activities</u>		
- Our main contractor(s) assist us in extending and diversifying our business	6	7
- by recommending us to other potential clients	3	10
- by supporting the direct marketing of our products	1	12
- by assisting us in diversifying our production programme	4	9
- We have so far been successful in diversifying		
- our production programme	11	2
- our marketing outlets	10	3
- We are interested in a further expansion of our subcontracting relationships	11	2
- The chances we see are	<u>good: 9</u>	<u>not so good: 4</u>
<u>Technical assistance of main contractor(s) in the field of</u>		
- Technical organization and management	0	14
- Production- and capacity planning	1	13
- Procurement and/or supply of raw materials	2	12
- Provision of (special) tools and/or machinery	2	12
- Provision of blueprints	12	2
- Production process- and quality control	6	8
- Other technical support	0	14
- We regard the technical assistance granted to us by the contractor(s) as	<u>very generous: 0</u>	<u>satisfactory: 8</u>
		<u>insufficient: 2</u>
<u>Administrative and financial assistance in the field of</u>		
- Administration, organization, management	0	14
- Accounting and book-keeping	0	14
- Granting of repayable loans at usual commercial rates	0	14
- Granting repayable loans on concessional terms	0	14
- Giving non-repayable financial grants	0	14
- Pre-financing of raw materials, tools, facilities, etc.	0	14
- Pre-payment of orders placed	3	11
- Other administrative or financial support	0	14

AUTOMOBILE INDUSTRY

Table A 11: Main Problems encountered and Additional Assistance needed

a) MULTINATIONALS

Questions	Answers			
	frequently	rarely/not at all	the problems have diminished as expected	
			yes	no
- Problems caused by inadequate technical infrastructure	15	15	14	7
- Socio-cultural communication problems (language, technical understanding, quality consciousness etc.)	13	17	13	7
- Problems caused by the spatial distance from the business partner	3	27	11	3
- Quality deficiencies/failure to meet standard specification	21	9	17	8
- Failure to meet date of delivery	20	10	16	10
These problems occurred				
- only with subcontractors of domestic origin	19	11	11	11
- also with subcontractors of foreign origin	8	22	12	7

b) SUBCONTRACTORS

Questions	Answers			
	frequently	rarely	additional assistance needed by government	needed by contractor
In the cooperation with our contractors we experienced the following problems:				
- Communication problems of a technical nature (transport, telephone, telex, etc.)	2	12	-	-
- Communication problems of a socio-cultural nature (language, habits and customs, etc.)	2	12	-	-
- Problems caused by the spatial distance from the contractor	2	12	-	-
- Financial constraints due to:				
- inadequate equity (risk capital)	4	10	-	-
- difficulties in obtaining credits	4	10	2	-
- delayed payments of contractors	7	7	-	-
- Problems to meet quality and standard specifications as prescribed by the contractor	4	10	1	1
- Difficulties to meet agreed date of delivery	4	10	-	2
- Technical problems regarding the production process	4	10	-	2
- Problems in obtaining the necessary raw and auxiliary materials	8	6	4	5
- Problems to find adequately qualified personnel	11	3	7	2
- General management problems	2	12	-	1
- Problems because of inadequate information on:				
- medium- and long-term production planning	4	10	-	1
- potential markets (domestic and/or overseas)	5	9	3	-
- new production techniques and processes	7	7	1	6
- Other problems	0	0	-	-

ELECTRICAL INDUSTRY

Table E2: Significance of Subcontracting Potential for the original Investment Decision

a) MULTINATIONALS	Q u e s t i o n s	A n s w e r s		minor role/ no role: 18
		yes	no	
	- Our investment decision was made independently of the local subcontracting potential	25	16	
	- At the time of our investment important business partners were already located in the host country	23	18	
	- At the time of our investment decision important business partners were already investing in the host country	19	18	
	- At a later time, but in connection with our investment decision, important business partners also invested in the host country	20	17	
	- In our investment decision the above considerations played a			decisive role: 5
				moderately important role: 18
b) SUBCONTRACTORS				
	- Our production was originally set up with no direct link to realized or planned investments of our main contractor(s)	4	1	
	- Our production was originally set up with direct link to investments of our main contractor(s)	1	4	

ELECTRICAL INDUSTRY

Table E 3: Structural Characteristics and Volume of Subcontracted Supplies

a) MULTINATIONALS

<u>Questions</u>	<u>Answers</u>		
<u>Type of subcontractors</u>			
- Our subcontractors can be characterized as	<u>industrial firms:</u> ø 80 %	<u>workshops:</u> ø 19 %	<u>homeworkers etc.:</u> ø 1 %
<u>Number, location and origin of subcontractors</u>			
- The number of our domestic subcontractors is in the range of	<u>up to 30:</u> 25 comp.	<u>> 30-100:</u> 5 comp.	<u>> 100:</u> 11 comp.
- Our domestic subcontractors are located at a distance of	<u>30 km:</u> ø 46 %	<u>30-100 km:</u> ø 32 %	<u>> 100 km:</u> ø 22 %
- The share of our subcontractors in the host country is of	<u>domestic origin:</u> 0-60 % (14 comp.) <u>foreign origin:</u> 0-30 % (27 comp.)	<u>70-100 % (27 comp.)</u> <u>40-100 % (14 comp.)</u>	ø 65 % ø 35 %
- The share of our 10 major subcontractors in our total subcontracted volume is in the range of ø 70 %	<u>70-100 %:</u> 23 comp.	<u>30-60 %:</u> 19 comp.	<u>10-20 %:</u> 2 comp.
<u>Share of subcontracted supplies</u>			
- The share of subcontracted supplies in total production was in the range of ø 20 %	<u>5-15 %:</u> 15 comp.	<u>20-35 %:</u> 14 comp.	<u>> 35 %:</u> 5 comp.
- The share of subcontracted supplies in total material inputs was in the range of ø 40 %	<u>10-20 %:</u> 11 comp.	<u>30-50 %:</u> 12 comp.	<u>60-100 %:</u> 10 comp.

b) SUBCONTRACTORS

<u>Questions</u>	<u>Answers</u>	
<u>Main production processes employed:</u>		
- Foundry / casting	<u>yes</u>	<u>no</u>
- Metal cutting / tool making	2	3
- Heat treatment	4	1
- Solid metal forming	5	0
- Sheet metal forming	1	4
- Surface treatment	3	2
- Plastic processing	4	1
- Joining technique (simple assemblies)	1	4
- Packaging	4	1
- Other (e.g. welding)	2	3
	0	5
<u>Production Facilities</u>		
- Our tools and machinery are mostly owned by us	5	0
- We work on the basis of our own blueprints	3	2
- We have our own research and development department	1	4

ELECTRICAL INDUSTRY

Table E 4: Nature of Subcontracting Relationships

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>		
	<u>predominantly</u>	<u>less frequently</u>	<u>not at all</u>
<u>Our subcontracting can be specified as follows:</u>			
- Regular subcontracting on the basis of longer-term contracts	29	6	6
- Temporary subcontracting to overcome capacity bottlenecks	7	19	13
- Other	3	0	0
- The cooperation with our subcontractors of domestic origin is	<u>long-term throughout: 29</u>	<u>changes in part: 12</u>	<u>changes more frequently: 1</u>

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b) SUBCONTRACTORS

<u>Our subcontracting supplies are usually:</u>	<u>predominantly</u>	<u>less frequently</u>	<u>not at all</u>
- Permanent (regular and stable deliveries)	4	1	0
- Temporary (irregular demand of contractor)	1	4	0
- Other	0	0	0
Usually, our subcontracting relationships are	<u>long-term throughout: 2</u>	<u>changing from time to time: 3</u>	<u>changing rather often: 0</u>

ELECTRICAL INDUSTRY

Table E 5: Development and future prospects of Subcontracting

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>		
- In recent years the importance of our subcontracting relationships in the host country has	<u>increased: 31</u>	<u>remained unchanged: 10</u>	<u>declined: 0</u>
- We are interested in a further expansion of our subcontracting relationships and anticipate in this respect	<u>yes: 38</u>	<u>no: 2</u>	
	<u>good: 32</u>	<u>not so good: 7</u>	<u>chances</u>
- Access to information regarding the local subcontracting potential is, in our view,	<u>good: 23</u>	<u>sufficient: 12</u>	<u>bad: 6</u>

b) SUBCONTRACTORS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>		
- In recent years, the importance of our subcontracting relationships with our main contractor(s)	<u>has increased: 3</u>	<u>remained unchanged: 1</u>	<u>declined: 1</u>
- In general, our overall business has developed	<u>satisfactorily: 4</u>		<u>less satisfactorily: 1</u>
- The relationship with our main contractor(s) can be regarded as being:	<u>frequently</u>		<u>rarely</u>
- helpful and friendly	2		0
- strictly business-like	4		0
- from time to time rather tough	1		0
- Over time, these relationships have developed	<u>satisfactorily: 5</u>		<u>less satisfactorily: 0</u>
- Access to information regarding further subcontracting possibilities is, in our view	<u>good: 2</u>	<u>sufficient: 2</u>	<u>bad: 1</u>

ELECTRICAL INDUSTRY

Table E 6: Type of Contracts and Price Determination

a) MULTINATIONALS

Questions

Type of contract with subcontractors

The following types of contract are used by us in collaborating with our subcontractors

- Short-term limited ad-hoc-contracts as needed
- General annual contracts stating approx. demand; monthly orders according to actual need
- Annual contracts guaranteeing the purchase of a certain quantity
- Long-term (multi-year) contracts

Price determination

- The prices of supplied products are determined by the market
- The prices are determined by negotiation with the business partner
- Price negotiations with the business partner are difficult

Answers

frequently rarely/not at all

21 16
32 8
5 36
0 41

b) SUBCONTRACTORS

Questions

Type of contracts with contractors

- In general, the contracts concerning our subcontracting relationships can be characterized as:
 - Short-term limited ad-hoc-contracts according to the needs of the contractor
 - General annual contracts stating approx. demand; monthly orders according to actual need
 - Annual contracts guaranteeing the purchase of a certain quantity
 - Long-term (multi-year) general contracts

Price determination

- The prices for our subcontracted products are usually determined
 - by the market
 - by negotiations with the contractor
- We regard the prices agreed upon as
- We are obliged to keep large inventories of relevant products

Answers

frequently rarely

2 3
4 1
0 3
0 3

tolerable: 4 too low: 2 much too low: 0
frequently: 1 rarely: 4

ELECTRICAL INDUSTRY

Table E 7: Degree of Dependence on Subcontractors/Contractors

a) MULTINATIONALS

Questions

- Share of domestically subcontracted items purchased from
 - With our present subcontracting structure we are
- ## b) SUBCONTRACTORS
- The number of our main contractors ranges from
 - Our dependence on orders from one/few contractors can be regarded as
 - The share of our main contractor in total value of production is approx.

Market Structure

- Approx. share of subcontracting turnover in total value of production
- Approx. share of total value of production (subcontracting excluded)
- Permission to sell part of our production as spare parts directly to the consumer

Answers

only one firm: 60-100 %: 9 comp.; 0-50 %: 31 comp. \emptyset 31 %
 several suppliers: 0-50 %: 12 comp. 60-100 %: 20 comp. \emptyset 69 %

satisfied: 28 not very satisfied: 13 very unsatisfied: 0

1 - 5: 3 comp.

30-50: 2 comp.

--

high: 2

medium: 2

low: 1

30 %: 3 comp.

10-15 %: 2 comp.

--

100 %: 2 comp.

70-75 %: 2 comp.

15 %: 1 comp.

sold domestically: 95-100 %: 2 comp.; 80 %: 1 comp.; 40 %: 1 comp.

exported:

100 %: 1 comp.; 20-60 %: 2 comp.; 5-0 %: 2 comp.

companies with export: 4

companies without export: 1

yes: 3

no: 2

ELECTRICAL INDUSTRY

Table E B: Influence of the Host Country's Economic Policy

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>	
The host country's economic policy had a major influence on the development of local subcontracting relationships	<u>yes: 31</u>	<u>no: 10</u>
<u>If yes: the policy's provisions relevant to our company consisted in</u>	<u>relevant</u>	<u>less relevant or not relevant</u>
- the governmental prescription of certain local-content-percentages	27	14
- high import duties on subcontracting requirements	20	20
- the reservation of certain industrial <u>activities</u> for purely domestic firms	16	25
- the determination of certain products/parts to be purchased domestically	23	18

b) SUBCONTRACTORS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>	
	<u>yes</u>	<u>no</u>
- Assistance by an extension service promoting industrial development	2	3
- Provision of financial aid at preferential terms	2	3
- Provision of training facilities	1	4
- Procurement of information on business possibilities	2	3
- Reservation of certain industrial activities for domestic firms of national origin	0	5
- Determination of certain products/parts to be purchased domestically	3	2
- Other governmental assistance	0	5

ELECTRICAL INDUSTRY

Table E 9: Support of the Multinationals extended to Subcontractors, as seen by the Contractor

Questions	Answers	
	frequently	rarely/not at all
Technical support and decision aid		
- Development of initiatives in establishing subcontracting enterprises	6	35
- Cooperation in capacity- and production-planning of the subcontractors	8	33
- Consulting on the technical organization and the purchasing of machinery	9	32
- Supply of blueprints	34	7
- Supply of (used) machinery	1	46
- Supply of (special) tools	20	21
- Assistance in the procurement of raw materials and intermediate products	13	28
- Other technical support	11	30
These types of support were granted		
- to business partners of domestic origin only	31	10
- also to business partners of foreign origin (located in the host country)	12	29
Transfer of business/organizational know-how incl. training		
- General business-organizational assistance	1	40
- Support for accounting and book-keeping	0	41
- Business management assistance	1	40
- Technical management assistance	13	28
- Support in technical production and quality control	32	9
These types of support were granted		
- to business partners of domestic origin only	31	10
- also to business partners of foreign origin (located in the host country)	7	34
Financial assistance		
- Contribution to the risk-capital of the subcontractor	0	41
- Granting of repayable loans at usual commercial rates	0	41
- Granting of repayable loans on concessional terms	0	41
- Giving of non-repayable financial grants	1	40
- Pre-financing of materials, tools, facilities, etc.	8	33
- Pre-payment of orders placed	11	30
- Other financial support	0	41
These types of support were granted		
- to business partners of domestic origin only	14	27
- also to business partners of foreign origin (located in the host country)	4	37

ELECTRICAL INDUSTRY

Table E 10: Support of the Multinationals as seen by the Subcontractors

<u>Questions</u>	<u>Answers</u>	
	<u>yes</u>	<u>no</u>
<u>General Assistance</u>		
- Our main contractor(s) promoted the establishment of our business	1	4
- Without the investment of our present main contractor(s), our business would not have been established	1	4
<u>Assistance of contractor(s) to extend and diversify our activities</u>		
- Our main contractor(s) assist us in extending and diversifying our business	2	3
- by recommending us to other potential clients	1	4
- by supporting the direct marketing of our products	0	5
- by assisting us in diversifying our production programme	2	3
- We have so far been successful in diversifying		
- our production programme	5	0
- our marketing outlets	5	0
- We are interested in a further expansion of our subcontracting relationships	5	0
- The chances we see are	<u>good: 4</u>	<u>not so good: 1</u>
<u>Technical assistance of main contractor(s) in the field of</u>		
- Technical organization and management	0	5
- Production- and capacity planning	0	5
- Procurement and/or supply of raw materials	0	5
- Provision of (special) tools and/or machinery	2	3
- Provision of blueprints	3	2
- Production process- and quality control	3	2
- Other technical support	0	5
- We regard the technical assistance granted to us by the contractor(s) as	<u>very generous: 1</u>	<u>satisfactory: 2</u>
		<u>insufficient: 1</u>
<u>Administrative and financial assistance in the field of</u>		
- Administration, organization, management	0	5
- Accounting and book-keeping	0	5
- Granting of repayable loans at usual commercial rates	0	5
- Granting repayable loans on concessional terms	0	5
- Giving non-repayable financial grants	0	5
- Pre-financing of raw materials, tools, facilities, etc.	0	5
- Pre-payment of orders placed	1	4
- Other administrative or financial support	0	5

ELECTRICAL INDUSTRY

Table E 11: Main Problems encountered and Additional Assistance needed

a) MULTINATIONALS

Questions	Answers			
	frequently	rarely/not at all	the problems have diminished as expected	
			yes	no
- Problems caused by inadequate technical infrastructure	12	29	19	3
- Socio-cultural communication problems (language, technical understanding, quality consciousness etc.)	8	33	16	1
- Problems caused by the spatial distance from the business partner	2	39	9	3
- Quality deficiencies/failure to meet standard specification	23	18	26	4
- Failure to meet date of delivery	20	18	22	7
These problems occurred				
- only with subcontractors of domestic origin	24	8	16	3
- also with subcontractors of foreign origin	8	16	13	1

b) SUBCONTRACTORS

Questions	Answers		additional assistance needed by	
	frequently	rarely	government	contractor
In the cooperation with our contractors we experienced the following problems:				
- Communication problems of a technical nature (transport, telephone, telex, etc.)	0	5	-	-
- Communication problems of a socio-cultural nature (language, habits and customs, etc.)	0	5	-	-
- Problems caused by the spatial distance from the contractor	0	5	-	-
- Financial constraints due to:				
- inadequate equity (risk capital)	1	4	-	-
- difficulties in obtaining credits	2	3	1	-
- delayed payments of contractors	2	3	-	-
- Problems to meet quality and standard specifications as prescribed by the contractor	0	5	-	1
- Difficulties to meet agreed date of delivery	2	3	-	1
- Technical problems regarding the production process	1	4	-	2
- Problems in obtaining the necessary raw and auxiliary materials	3	2	1	3
- Problems to find adequately qualified personnel	3	2	3	2
- General management problems	1	4	1	1
- Problems because of inadequate information on:				
- medium and long-term production planning	3	2	-	4
- potential markets (domestic and/or overseas)	3	2	2	1
- new production techniques and processes	3	2	-	3
- Other problems	0	0	-	-

MACHINERY AND PRECISION INSTRUMENTS

Table M 1: General Data of the Companies Questioned¹⁾

a) MULTINATIONALS

Q u e s t i o n s	A n s w e r s	
- Our company is fully owned by the foreign parent	<u>yes</u> : 10	<u>no</u> : 13
- Our company is a joint venture of the foreign parent with	<u>majority equity share</u> : 9	<u>minority equity share</u> : 4
- The domestic partner belongs to the	<u>private sector</u> : 12	<u>public sector</u> : 1
- Our total employment is in the range of	<u>100-300</u> : 11 comp.	<u>300-1000</u> : 5 comp. <u>>1000</u> : 7 comp.
- Our export share in total sales is in the range of	<u>0 - 10 %</u> : 11 comp.	<u>>10-50 %</u> : 4 comp. <u>>50 %</u> : 9 comp.

MACHINERY AND PRECISION INSTRUMENTS

Table M 2: Significance of Subcontracting Potential for the original Investment Decision

a) MULTINATIONALS

Q u e s t i o n s	A n s w e r s		
- Our investment decision was made independently of the local subcontracting potential	<u>yes</u> 20	<u>no</u> 4	
- At the time of our investment important business partners were already located in the host country	12	12	
- At the time of our investment decision important business partners were already investing in the host country	9	14	
- At a later time, but in connection with our investment decision, important business partners also invested in the host country	9	15	
- In our investment decision the above considerations played a	deci- sive role: 2	moderately important role: 11	minor role/ no role: 11

1) The figures in the table refer to the number of companies answering to the specific question, unless otherwise stated.

MACHINERY AND PRECISION INSTRUMENTS

Table M 3: Structural Characteristics and Volume of Subcontracted Supplies

a) MULTINATIONALS

Q u e s t i o n s

A n s w e r s

Type of subcontractors

- Our subcontractors can be characterized as

industrial firms: 0 76 % workshops: 0 24 % homeworkers etc.: 0 %

Number, location and origin of subcontractors

- The number of our domestic subcontractors is in the range of

up to 30: 8 comp. > 30-100: 6 comp. > 100: 8 comp.

- Our domestic subcontractors are located at a distance of

30 km: 47 % 30-100 km: 27 % > 100 km: 26 %

- The share of our subcontractors in the host country is of

domestic origin: 20-60 %: 7 comp.; 70-100 %: 16 comp. 0 74 %
foreign origin: 0-30 %: 16 comp.; 40- 80 %: 7 comp. 0 26 %

- The share of our 10 major subcontractors in our total subcontracted volume is in the range of 0 65 %

70-100 %: 9 comp. 30-60 %: 13 comp. 10-20 %: 1 comp.

Share of subcontracted supplies

- The share of subcontracted supplies in total production was in the range of 0 23 %

5-15 %: 11 comp. 20-35 %: 3 comp. > 35 %: 5 comp.

- The share of subcontracted supplies in total material inputs was in the range of 0 49 %

5 -20 %: 6 comp. 30-50 %: 4 comp. 50-100 %: 9 comp.

MACHINERY AND PRECISION INSTRUMENTS

Table M 4: Nature of Subcontracting Relationships

a) MULTINATIONALS

Q u e s t i o n s

A n s w e r s

Our subcontracting can be specified as follows:

predominantly less frequently not at all

- Regular subcontracting on the basis of longer-term contracts

17 3 4

- Temporary subcontracting to overcome capacity bottlenecks

2 11 11

- Other

2 0 0

- The cooperation with our subcontractors of domestic origin is

long-term throughout: 16 changes in part: 9 changes more frequently: 0

MACHINERY AND PRECISION INSTRUMENTS

Table M5: Development and future prospects of Subcontracting

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>		
- In recent years the importance of our subcontracting relationships in the host country has	<u>increased: 18</u>	<u>remained unchanged: 6</u>	<u>declined: 0</u>
- We are interested in a further expansion of our subcontracting relationships and anticipate in this respect	<u>yes: 24</u> <u>good: 12</u>	<u>no: 0</u> <u>not so good: 6</u>	<u>chances</u>
- Access to information regarding the local subcontracting potential is, in our view,	<u>good: 11</u>	<u>sufficient: 8</u>	<u>bad: 5</u>

MACHINERY AND PRECISION INSTRUMENTS

Table M6: Type of Contracts and Price Determination

a) MULTINATIONALS

<u>Q u e s t i o n s</u>	<u>A n s w e r s</u>	
	<u>frequently</u>	<u>rarely/not at all</u>
<u>Type of contract with subcontractors</u>		
The following types of contract are used by us in collaborating with our subcontractors		
- Short-term limited ad-hoc-contracts as needed	11	13
- General annual contracts stating approx. demand; monthly orders according to actual need	16	7
- Annual contracts guaranteeing the purchase of a certain quantity	0	24
- Long-term (multi-year) contracts	3	21
<u>Price determination</u>		
- The prices of supplied products are determined by the market	9	15
- The prices are determined by negotiation with the business partner	22	2
- Price negotiations with the business partner are difficult	9	15

MACHINERY AND PRECISION INSTRUMENTS

Table M 7: Degree of Dependence on Subcontractors/Contractors

a) MULTINATIONALS

Q u e s t i o n s	A n s w e r s		
- Share of domestically subcontracted items purchased from	only one firm: 70-100 %: 3 comp.; 0-30 %: 14 comp.		Ø 24 %
	several suppliers: 0-30 %: 3 comp.; 70-100 %: 16 comp.		Ø 76 %
- With our present subcontracting structure we are	<u>satisfied: 15</u>	<u>not very satisfied: 9</u>	<u>very unsatisfied: 0</u>

MACHINERY AND PRECISION INSTRUMENTS

Table M 8: Influence of the Host Country's Economic Policy

a) MULTINATIONALS

Q u e s t i o n s	A n s w e r s	
The host country's economic policy had a major influence on the development of local subcontracting relationships	<u>yes: 18</u>	<u>no: 5</u>
<u>If yes: the policy's provisions relevant to our company consisted in</u>	<u>relevant</u>	<u>less relevant or not relevant</u>
- the governmental prescription of certain local-content-percentages	16	8
- high import duties on subcontracting requirements	11	12
- the reservation of certain industrial activities for purely domestic firms	8	15
- the determination of certain products/parts to be purchased domestically	11	12

MACHINERY AND PRECISION INSTRUMENTS

Table M 9: Support of the Multinationals extended to Subcontractors, as seen by the Contractor

Q u e s t i o n s	A n s w e r s	
	frequently	rarely/not at all
<u>Technical support and decision aid</u>		
- Development of initiatives in establishing subcontracting enterprises	2	22
- Cooperation in capacity- and production-planning of the subcontractors	9	15
- Consulting on the technical organization and the purchasing of machinery	5	19
- Supply of blueprints	20	4
- Supply of (used) machinery	3	21
- Supply of (special) tools	11	13
- Assistance in the procurement of raw materials and intermediate products	9	15
- Other technical support	5	19
These types of support were granted		
- to business partners of domestic origin only	20	3
- also to business partners of foreign origin (located in the host country)	5	18
<u>Transfer of business/organizational know-how incl. training</u>		
- General business-organizational assistance	2	22
- Support for accounting and book-keeping	1	23
- Business management assistance	0	24
- Technical management assistance	7	17
- Support in technical production and quality control	15	9
These types of support were granted		
- to business partners of domestic origin only	16	8
- also to business partners of foreign origin (located in the host country)	3	21
<u>Financial assistance</u>		
- Contribution to the risk-capital of the subcontractor	1	23
- Granting of repayable loans at usual commercial rates	1	23
- Granting of repayable loans on concessional terms	0	24
- Giving of non-repayable financial grants	0	24
- Pre-financing of materials, tools, facilities, etc.	9	15
- Pre-payment of orders placed	9	15
- Other financial support	2	22
These types of support were granted		
- to business partners of domestic origin only	11	13
- also to business partners of foreign origin (located in the host country)	2	22

MACHINERY AND PRECISION INSTRUMENTS

Table M 10: Main Problems encountered and Additional Assistance needed

a) MULTINATIONALS

Q u e s t i o n s	A n s w e r s			
	frequently	rarely/not at all	the problems have diminished as expected	
			yes	no
- Problems caused by inadequate technical infrastructure	9	15	12	2
- Socio-cultural communication problems (language, technical understanding, quality consciousness etc.)	10	14	11	1
- Problems caused by the spatial distance from the business partner	3	21	6	4
- Quality deficiencies/failure to meet standard specification	18	6	16	1
- Failure to meet date of delivery	16	7	13	3
These problems occurred				
- only with subcontractors of domestic origin	18	6	9	1
- also with subcontractors of foreign origin	10	14	8	0

Table F1: REASONS FOR AND EVOLUTION OF BUSINESS RELATIONSHIPS

Q u e s t i o n s	A n s w e r s				
1. <u>Significance of business relations for the original investment decision (C, R, S) a)</u>	yes	no	decisive role	moderately important role	minor role/ no role
- At the time of our investment important business partners were already located in the host country	6	1	.	.	.
- At the time of our investment decision important business partners were already investing in the host country	1	3	.	.	.
- At a later time, but in connection with our investment decision, important business partners also invested in the host country	-	3	.	.	.
- In our investment decision the above considerations played a	.	.	1	4	3
2. <u>Economic policy of the host country</u>	yes	no	relevant	less relevant	
- The host country's economic policy had a major influence on the development of local business relationships (C, R, S) a)	8	0	.	.	
<u>If yes:</u> the policy's provisions relevant to our company are for example:					
- The governmental prescription of certain local-content-percentages	.	.	3	5	
- High import duties on raw material and other requirements	.	.	6	1	
- The reservation of certain industrial activities for purely domestic firms	.	.	2	4	
- The determination of certain products/parts to be purchased domestically	.	.	2	5	
3. <u>Type of existing business relationships (C, R, S) a)</u>			predominantly	less frequently	not at all
Our business relationships can be specified as follows:					
- Regular subcontracting on the basis of longer-term contracts			3	3	2
- Temporary subcontracting to overcome capacity bottlenecks			0	2	4
- Other, as for example own plantations			1	0	3
4. <u>Evolution of the business relationships (C, R, S) a)</u>	yes	no	increased	remained unchanged	declined
- In recent years the importance of our business relationships in the host country has	.	.	6	2	0
- We are interested in a further expansion of our business relationships and anticipate	8	0	good 6	not so good 2	chances
5. <u>Access to information</u>			good	sufficient	bad
Access to information regarding the local potential business partners is, in our view,			7	1	0

a) Co-packing, raw materials, services.

FOOD PROCESSING INDUSTRY (Multinational Enterprise)

Table F2: CURRENT BUSINESS RELATIONSHIPS IN DETAIL

Q u e s t i o n s	A n s w e r s		
1. <u>Duration of cooperation with the business partner (C, R, S)</u>	is long-term throughout	changes in part	changes more frequently
- The cooperation with our business partner of domestic origin is:	5	5	0
2. <u>Degree of dependence on business partners (C, R, S)</u>	satisfied	not very satisfied	unsatisfied
- With our present subcontracting structure we are	5	2	0
3. <u>Type of contract with business partners (C, R, S)</u>		frequently	rarely/ not at all
The following types of contract are used by us in collaborating with our business partners:			
- Short-term limited ad-hoc-contracts as needed		1	5
- General annual contracts stating approx. demand; monthly orders according to actual need		5	3
- Annual contracts guaranteeing the purchase of a certain quantity		1	6
- Long-term (multi-year) contracts		2	5
- Other types of contract (please specify)		-	-

Table F3: PROBLEMS IN THE RELATIONS WITH THE BUSINESS PARTNER (C, R, S)

Q u e s t i o n s	A n s w e r s			
	frequently	rarely/ not at all	The problems have diminished as expected	
			yes	no
- Problems caused by inadequate technical infrastructure	3	5	5	2
- Socio-cultural communication problems (language, technical understanding, quality consciousness, etc.)	0	8	4	1
- Problems caused by the spatial distance from the business partner	0	8	4	1
- Quality deficiencies / failure to meet standard specification	4	4	3	3
- Problems caused by irregular supply of raw materials	3	6	5	2
These problems occurred:- only with business partners of domestic origin	4	2	2	3
- also with business partners of foreign origin	1	4	4	1

Table F4: TYPE OF SUPPORT EXTENDED TO THE BUSINESS PARTNER

Q u e s t i o n s	A n s w e r s	
	frequently	rarely/ not at all
1. <u>Technical support and decision aid</u>		
- Assistance in establishing plantations / small-holder production / other subcontracting enterprises	4	3
- Cooperation in capacity- and production-planning of the business partner	4	2
- Maintenance of agricultural extension services	4	2
- Consulting on the technical organization and the purchasing of machinery	3	3
- Supply of (special) tools and/or machinery	1	5
- Assistance of the procurement of raw materials and intermediate products	3	4
- Other technical support	1	2
These types of support were granted		
- to business partners of domestic origin only	4	1
- also to business partners of foreign origin (located in the host country)	1	3
2. <u>Transfer of business/organizational know-how incl. training</u>		
- General business-organizational assistance	2	4
- Support for accounting and book-keeping	2	4
- Management assistance	4	2
- Support in technical production and quality control	7	0
These types of support were granted		
- to business partners of domestic origin only	7	0
- also to business partners of foreign origin (located in the host country)	3	2
3. <u>Financial assistance</u>		
- Contribution to the risk-capital of the business partner	1	5
- Granting of repayable loans at usual commercial rates	0	6
- Granting of repayable loans on concessional terms	1	5
- Giving of non-repayable financial grants	0	6
- Pre-financing of materials, tools, facilities, etc.	1	5
- Pre-payment of orders placed	3	3
- Other financial support	1	3
These types of support were granted		
- to business partners of domestic origin only	3	3
- also to business partners of foreign origin (located in the host country)	2	3
4. <u>Price determination</u>		
- The prices of supplied products are determined by the market	8	0
- The prices are determined by negotiation with the business partner	7	0
- Price negotiations with the business partner are difficult	1	7

FOOD PROCESSING INDUSTRY (Business Partners)

Table F5: GENERAL DATA OF THE COMPANY

Questions	Answers		
	yes	no	
1. Original Investment Decision			
- Our production was originally set up with no direct link to realized or planned investments of our main contractor(s)	7	4	
- Our production was originally set up with direct link to investments of our main contractor(s)	4	7	
2. Situation of Ownership			
- Our company is of:			local origin foreign origin
			8 2
- We have a foreign equity share	8	2	
3. Our company can be characterized as:			
			plantation small-holder industrial firm
			1 0 11
4. In recent years, the importance of our business relationships with our main contractor(s)			
			has increased remained unchanged declined
			6 3 2
5. In general, our overall business has developed:			
			satisfactorily less satisfactorily
			10 1

Table F6: PRODUCTION PROGRAMM AND SUBCONTRACTING

Questions	Answers				
	yes	no	pre-dominantly	less frequently	not at all
1. Our subcontracting supplies are usually:					
- permanent (regular and stable deliveries)	.	.	11	0	0
- temporary (irregular demand of contractor)	.	.	0	4	1
- Other	.	.	0	0	0
2. Main production processes employed:					
- plantation production	1	6	.	.	.
- small-holder production	1	6	.	.	.
- co-packing	0	11	.	.	.
- our production facilities are mostly owned by us	11	0	.	.	.

Table F7: CHARACTERISTICS AND EVOLUTION OF SUBCONTRACTING RELATIONSHIPS

Questions	A n s w e r s		
1. Degree of dependence on contractors			
	high	medium	low
- Our dependence on orders from few contractors can be regarded as:	8	2	1
- The prices for our subcontracted products are usually determined:	frequently	rarely/not at all	
- by the market	9	0	
- by negotiations with the contractor	8	3	
	tolerable	too low	much too low
- We regard the prices agreed upon as	10	1	0
2. Characterization of relationships with contractors			
- The relationship with our main contractor(s) can be regarded as being:	frequently	rarely/not at all	
- helpful and friendly	10	1	
- strictly business-like	4	4	
- from time to time rather tough	2	7	
	satisfactorily	less satisfactorily	
- Over time, these relationships have developed	10	0	
	long-term throughout	changing from time to time	changing rather ofte
- Usually, our subcontracting relationships are	9	3	0
3. Types of contracts			
- In general, the contracts concerning our subcontracting relationships can be characterized as:	frequently	rarely/not at all	
- Short-term limited ad-hoc-contracts according to the needs of the contractor	2	6	
- General annual contracts stating approx. demand; monthly orders according to actual need	6	3	
- Long-term/annual contracts guaranteeing the purchase of a certain quantity	4	7	
4. Assistance of contractor(s) to extend and diversify our activities			
	yes	no	
- Our main contractor(s) assist us in extending and diversifying our business	4	7	
- by recommending us to other potential clients	4	7	
- by supporting the direct marketing of our products	2	9	
- by assisting us in diversifying our production programme	2	9	
- We have so far been successful in diversifying:			
- our production programme	9	1	
- our marketing outlets	7	2	
- We are interested in a further expansion of our subcontracting relationships	11	0	
	good	not so good	
- The chances we see are	10	1	
	good	sufficient	bad
- Access to information regarding further subcontracting possibilities is, in our view	4	7	0

FOOD PROCESSING INDUSTRY (Business Partners)

Table F8: ASSISTANCE PROVIDED BY CONTRACTOR(S) / GOVERNMENT

Questions	Answers		
Our main CONTRACTOR(S) provide assistance to our company in the following form:			
1. <u>General assistance</u>	Yes	No	
- Our main contractor(s) promoted the establishment of our business	3	7	
- Without the investment of our present main contractor(s), our business would not have been established	2	8	
2. <u>Technical assistance of main contractor(s) in the field of:</u>	frequently	rarely/ not at all	
- Technical organization and management	2	3	
- Production- and capacity planning	1	4	
- Procurement and/or supply of raw materials	2	4	
- Provision of (special) tools and/or machinery	1	4	
- Provision of an agricultural extension service	0	5	
- Production process and quality control	2	3	
- Other technical support	1	3	
- We regard the technical assistance granted to us by the contractor(s) as	very generous 1	satis- factory 3	in- sufficient 1
3. <u>Administrative and financial assistance in the field of:</u>	frequently	rarely/ not at all	
- Administration, organization, management	1	4	
- Accounting and book-keeping	0	5	
- Granting of repayable loans at usual commercial rates	0	5	
- Granting repayable loans on concessional terms	0	5	
- Giving non-repayable financial grants	0	5	
- Pre-financing of raw materials, tools, facilities, etc.	1	5	
- Pre-payment of orders placed	0	6	
- Other administrative or financial support	0	2	
4. <u>The GOVERNMENT of our home country assisted us in the following ways to overcome initial and/or structural difficulties:</u>	Yes	No	
- Assistance by an extension service promoting agricultural/ industrial development	2	7	
- Provision of financial aid at preferential terms	3	6	
- Provision of training facilities	1	8	
- Procurement of information on business possibilities	6	3	
- Reservation of certain industrial activities for domestic firms of national origin	7	2	
- Determination of certain products/parts to be purchased domestically	4	4	
- Other governmental assistance	3	3	

FOOD PROCESSING INDUSTRY (Business Partners)

Table F9: MAIN PROBLEMS ENCOUNTERED

Questions	Answers	
In the cooperation with our contractors we experienced the following problems:	frequently	rarely/not at all
- Communication problems of a technical nature (transport, telephone, telex, etc.)	3	7
- Communication problems of a socio-cultural nature (language, habits and customs, etc.)	0	9
- Problems caused by the spatial distance from the contractor	0	8
- Financial constraints due to:		
- inadequate equity (risk capital)	1	8
- difficulties in obtaining credits	1	8
- delayed payments of contractors	1	9
- Problems to meet quality and standard specifications as prescribed by the contractor	0	10
- Difficulties to meet agreed date of delivery/to maintain necessary regular supplies	0	9
- Technical problems regarding the production process	0	9
- Problems in obtaining the necessary raw and auxiliary materials	3	7
- Problems to find adequately qualified personnel	1	8
- General management problems	0	9
- Problems because of inadequate information on:		
- medium- and long-term production planning	2	8
- potential markets (domestic and/or overseas)	3	7
- new production techniques and processes	1	9
- Other problems	0	2

APPENDIX C

Questionnaires used

1. Questionnaire for the multinational company:
 - (a) English version
 - (b) Japanese version
 - (c) English version (food processing industry)
2. Questionnaire for subcontractors

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Subcontracting Relations of Multinational Corporations in Developing Countries

Definition of 'Subcontracting': A subcontracting relationship exists when a company (the contractor) places an order with another company (the subcontractor) for the production of parts, components, sub-assemblies or assemblies to be incorporated into a product to be sold by the contractor (excluded are raw and auxiliary materials.) Such orders may include the processing, transformation or finishing of materials or parts by the subcontractor at the request of the contractor. If not specifically mentioned, subcontracting here further implies only domestic purchases (national subcontracting), but not purchases from other countries (international subcontracting).

I. GENERAL DATA OF THE COMPANY

1. Name and address :
2. Location of the foreign parent company :
3. Contact person / person responsible for this survey :
4. Situation of ownership:
 - Fully owned (100 %) subsidiary of the foreign parent .
 - Joint venture (of the foreign parent) with majority equity share with minority equity share
 - The domestic partner belongs to the: private sector public sector
5. Start of production (year):
6. Actual employment:
7. Production programme: (indicate major products/product groups only)

8. Sales market: Share of exports in total sales approx. %

II. REASONS FOR AND EVOLUTION OF SUBCONTRACTING RELATIONSHIPS

1. Significance of subcontracting relations for the original investment decision

	yes	no
- Our investment decision was made independently of the local subcontracting potential	<input type="checkbox"/>	<input type="checkbox"/>
- At the time of our investment important subcontractors were already located in the host country	<input type="checkbox"/>	<input type="checkbox"/>
- At the time of our investment decision important subcontractors were also investing in the host country	<input type="checkbox"/>	<input type="checkbox"/>
- At a later time, but in connection with our investment decision, important subcontractors also invested in the host country	<input type="checkbox"/>	<input type="checkbox"/>
- In our investment decision the above considerations played a <div style="display: flex; justify-content: space-around; align-items: center;"> decisive role <input type="checkbox"/> moderately im- portant role <input type="checkbox"/> minor role <input type="checkbox"/> </div>	<input type="checkbox"/>	<input type="checkbox"/>
2. Economic policy of the host country

	yes	no
- The host country's economic policy had a major influence on the <u>development of local subcontracting relationships</u>	<input type="checkbox"/>	<input type="checkbox"/>
<u>If yes</u> : the policy's provisions relevant to our company consisted/consist in:	relevant	less relevant
- the governmental prescription of certain <u>local-content-percentages</u>	<input type="checkbox"/>	<input type="checkbox"/>
- high <u>import duties</u> on subcontracting requirements	<input type="checkbox"/>	<input type="checkbox"/>
- the <u>reservation of certain industrial activities</u> for purely domestic firms	<input type="checkbox"/>	<input type="checkbox"/>
- the determination of certain <u>products/parts</u> to be purchased domestically	<input type="checkbox"/>	<input type="checkbox"/>
- the following stipulations:	<input type="checkbox"/>	<input type="checkbox"/>
.	<input type="checkbox"/>	<input type="checkbox"/>

3. Type of existing subcontracting relationships

Our subcontracting can be specified as follows:

	predominantly	less frequently	not at all
- regular subcontracting on the basis of longer-term contracts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- temporary subcontracting to overcome capacity bottlenecks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Volume of subcontracted supplies from the host country

- Share of subcontracted supplies in <u>total production</u> (sales)	<input type="checkbox"/>	%
- Share of subcontracted supplies in <u>total material inputs</u> (incl. raw materials etc.)	<input type="checkbox"/>	%

5. Evolution of the subcontracting relationships

- In recent years the importance of our subcontracting relationships with the host country has increased remained unchanged declined

- We are interested in a further expansion of our subcontracting relationships yes no

- If yes: for this we anticipate . . . good not so good chances.

6. Access to information

Access to information regarding the local subcontracting potential is, in our view

	good	sufficient	bad
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

III. CURRENT SUBCONTRACTING RELATIONSHIPS IN DETAIL

1. Subcontracted products

The following products/product groups are purchased by us from subcontractors:

- in the host country:
- in other developing countries:
- in the home country or other industrialized countries:
- in terms of quantity the subcontracted supplies originate at % in the host country % in other developing countries

2. Number of subcontractors

- The number of our domestic subcontractors is approx.

- Our domestic subcontractors are located

- within 30 kms of our company at %
- at a distance of between 30 and 100 kms from our company at %
- at a distance of more than 100 kms from our company at %

The share of our subcontractors in the host country is:

- of domestic (national) origin at %
- of foreign origin (subsidiaries of other multinational corporations and joint ventures) at %
- The share of our 10 major subcontractors in our total subcontracted volume is at %

3. Duration of cooperation with the subcontractors

The cooperation with our subcontractors of domestic origin

is long-term throughout changes in part changes more frequently

3. Financial assistance

frequently rarely

- Contribution to the risk-capital of the subcontractor
- Granting of repayable loans at usual commercial rates
- Granting of repayable loans on concessional terms
- Giving of non-repayable financial grants
- Pre-financing of materials, tools, facilities, etc.
- Pre-payment of orders placed
- Other financial support (please specify):
-
- These types of support were granted - to subcontractors of domestic origin only
- also to subcontractors of foreign origin (located in the host country)

4. Price determination

frequently rarely

- The prices of subcontracted products are determined by the market
- The prices are determined by negotiation with the subcontractor
- Price negotiations with the subcontractor are difficult

V. PROBLEMS IN THE RELATIONS WITH THE SUBCONTRACTOR

In our cooperation with the subcontractors we experienced primarily the following problems:

The problems have diminished as expected

- | | frequently | rarely | yes | no |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| - Problems caused by inadequate technical infrastructure | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Socio-cultural communication problems (language, technical understanding, quality consciousness, etc.) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Problems caused by the spatial distance from the subcontractor | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Quality deficiencies / failure to meet standard specification | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Failure to meet date of delivery | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Other (please specify): | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| These problems occurred: - only with subcontractors of <u>domestic origin</u> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - also with subcontractors of <u>foreign origin</u> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Thank you very much for your cooperation!



回 答 票

「下請け」の定義：ある企業（請負企業）が自社製品の組立ての際に材料として使用する部品、半製品、製品類（原材料は除く）の生産を他の企業（下請け企業）に発注するような場合、上記2つの企業は下請け関係にあるという。このような種類の発生は請負企業の要請に応じて下請け企業による材料、部品の加工、変形、仕上げ作業をも含むうる。特に断りが無い限りここでの下請けは日本企業を含めた現地での買付け（現地下請け）のみを意味し、日本を含めた外国からの買付け（国際下請け）は含まない。

I 基礎データ

- 1. 企業名（現地） _____
住所（現地） _____
- 2. 親会社（本社）名及び住所 _____
- 3. 回答者（氏名） _____ （役職） _____
- 4. 出資比率
 - 親会社 100%
 - 合 弁 親会社マジョリティ マイノリティ
 - 現地パートナーは..... プライベート・セクター パブリックセクター
- 5. 操業開始 _____ 年（西暦）
- 6. 従業員数 _____ 人（うち日本人 _____ 人）
- 7. 生産品目（主要品目／製品グループのみ記入） _____
- 8. 販売先：総販売額に占める輸出比率 %

II 下請関係締結の理由とその発展

- 1. 投資決定のための下請関係の重視度

	yes	no
- 投資決定は現地での下請化可能性とは切り離して行われた	<input type="checkbox"/>	<input type="checkbox"/>
- 投資時点で、有力な下請企業がすでに現地に存在していた	<input type="checkbox"/>	<input type="checkbox"/>
- 投資の意思決定時点で、有力な下請企業もまた現地へ投資を行っている	<input type="checkbox"/>	<input type="checkbox"/>
- 投資の意思決定に関連し、その後、有力な下請企業もまた現地へ投資した	<input type="checkbox"/>	<input type="checkbox"/>
- 投資の意思決定において、上記諸考慮の果たした役割は.....		
決定的に重要 <input type="checkbox"/> やや重要 <input type="checkbox"/> 重要でない <input type="checkbox"/>		
- 2. 投資受入国の経済政策
 投資受入国の経済政策は現地での下請関係の進展に
 重要な影響を持った.....

yes	no
<input type="checkbox"/>	<input type="checkbox"/>

yes の場合

貴社に関わる政策条項は……………

- 国産部品使用率（義務）の政府規定
- 海外（日本など）からの部品に対する高い輸入関税
- 地場企業（保護）のための特定産業分野の活動の制限
- 特定製品／部品の国内調達義務
- その他の規定

関係ある	関係少ない
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

3. 既存の下請関係のタイプ

下請関係は下記のように言える

- 長期契約に基づく恒常的下請
- キャパシティのネックを補う一時的下請
- その他（記入して下さい）_____

主にそうである	めったにない	全くない
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. 現地での下請供給量

- 総生産高（売上高）に占める下請供給のシェア …………… %
- 総原材料原価（粗原料等を含む）に占める下請供給のシェア…………… %

5. 下請関係の発展

近年、投資受入国での下請関係の重要性は……………

増加した 変らない 減少した

貴社は下請関係の一層の拡大に関心を持っている

yes	no
<input type="checkbox"/>	<input type="checkbox"/>

yes の場合

拡大を行なう機会は 多い 少ない と見込んでいる

6. 情報の入手

現地の下請の可能性に関する情報へのアプローチは……………

良い 十分 悪い

Ⅲ 下請関係の現状

1. 下請による製品

下記の製品／製品グループを下請企業から購入している。

- 投資受入国 _____
- 他の発展途上国 _____
- 日本もしくは他の先進国 _____

-量的に、下請による供給は 投資受入国 %
他の発展途上国 %

2. 下請企業の数

現地の下請企業の数、ほぼ 社

現地の下請企業の位置は.....

貴社から 30 km 以内 %

貴社から 30 ~ 100 km %

貴社から 100 km 以上 %

投資受入国における下請企業のシェアは

- 地場企業 %

- 外資企業 (他の多国籍企業, 合併企業の子会社) %

- 貴社の総下請発注量に占める主要下請 10 社のシェアは %

3. 下請企業との協力の期間

地場の下請企業との協力は.....

長期に亘っている 一部分変る しばしば変る

4. 下請企業への依存度

購入リスクを次のように多様化している

- ただ一社から購入する地場下請品目のシェア %

- 数社から購入する地場下請品目のシェア %

- 現在の下請の構造に.....

満足している 満足していない 非常に不満足

5. 下請企業のタイプ

下請企業 (なん種類かのタイプがある場合, それらの割合は)

industrial firms % workshop % homeworkers 等 %

6. 下請企業との契約のタイプ

下記の契約が下請企業との提携で採られている

- 必要に応じた短期の特別契約

多い	まれ
<input type="checkbox"/>	<input type="checkbox"/>

- 大よその需要を明記した年間契約, 月間の発注は必要量による。

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

- 一定量の購入を保証した年間契約

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

- 長期 (数年間) 契約

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

- その他の契約 (明記して下さい)

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

IV 下請企業へのサポートのタイプ

下請企業へ下記方法でサポートしている

多い まれ

1. 技術的サポートと decision aid

- 下請企業設立におけるイニシアチブの開発

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

- 下請企業のキャパシティ, 生産計画への協力

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

- ブループリントの提供
 - (中古)機械の提供
 - (特殊)道具の提供
 - 原材料, 中間製品の周旋による支援
 - その他技術的サポート
- これらのサポートを与えるのは…………… 地場の下請企業に対してのみ
…………… 現地にある下請企業(外資)に対しても

2. 訓練を含めたビジネス/組織的なノウハウのトランスファー
- 組織面での一般的な援助 多い まれ
 - 会計, 簿記に関するサポート
 - ビジネス・マネジメントの援助
 - 技術管理に対する援助
 - 生産技術, 品質管理のサポート
 - これらのサポートを与えるのは…地場の下請企業に対してのみ
 - …………… 現地にある下請企業(外資)に対しても

3. 財政援助
- 下請企業のリスク・キャピタルを分担 多い まれ
 - 通常のコマーシャル・レートでの融資
 - 条件を優遇した融資
 - 資金贈与
 - 原材料, 工具, 設備等の事前融資
 - 発注時の前払い
 - その他財政援助
- これらのサポートを与えるのは…地場の下請企業に対してのみ
…………… 現地の下請企業(外資)に対しても

4. 価格決定
- 下請生産製品の価格は市場価格
 - 価格は下請企業とのネゴミエーションによって決められる
 - 下請企業との価格決定ネゴミエーションは困難

V 下請企業との問題点

- 下請企業との関係において, 下記のような問題を経験した
- | | 多い | まれ | yes | no |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| - 不十分な技術的インフラに起因する問題 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - 社会文化的コミュニケーション・プロブリン
(言葉, 技術理解, 品質意識等) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - 下請企業からの距離的なものに起因する問題 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - 標準仕様に合致する品質等の欠陥, 失敗 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - 納期の失敗 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - その他 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <hr/> | | | | |
| これらの問題発生は…………… 地場の下請企業のみ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| …………… 現地の外資系企業 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

予期したように
問題は減少した

解答にご協力いただきお礼申し上げます。

Business Relations of Multinational Corporations in Developing Countries

Definition of "Business Relations": Under "business relations" we understand the activities of "co-packing" (C), supply of "raw materials" (R) and the supply of "services" (S). Co-packing means the supply of semi-finished produce of varying finishing degree by independent firms to the multinational corporation for final finishing and labelling. Supply of raw-materials means the purchase of raw materials from small-holders and/or plantations by the co-packers and/or the multinational corporation. Supply of services means the purchase of industrial goods by the multinational corporation such as packing materials as well as the purchase and use of transport and advertisement/marketing facilities.

I. GENERAL DATA OF THE COMPANY

1. Name and address :
2. Location of the foreign parent company :
3. Contact person / person responsible for this survey :
4. Situation of ownership:
 - Fully owned (100 %) subsidiary of the foreign parent .
 - Joint venture (of the foreign parent) with majority equity share with minority equity share
 - The domestic partner belongs to the: private sector public sector
5. Start of production (year):
6. Actual employment:
7. Production programme: (indicate major products/product groups only)

8. Sales market: Share of exports in total sales approx. %

II. REASONS FOR AND EVOLUTION OF BUSINESS RELATIONSHIPS

1. Significance of business relations for the original investment decision (C, R, S)

	yes	no
- At the time of our investment important business partners were already located in the host country	<input type="checkbox"/>	<input type="checkbox"/>
- At the time of our investment decision important business partners were also investing in the host country	<input type="checkbox"/>	<input type="checkbox"/>
- At a later time, but in connection with our investment decision, important business partners also invested in the host country	<input type="checkbox"/>	<input type="checkbox"/>
- In our investment decision the above considerations played a <div style="display: flex; justify-content: space-around; align-items: center;"> decisive role <input type="checkbox"/> moderately im- portant role <input type="checkbox"/> minor role <input type="checkbox"/> </div>	<input type="checkbox"/>	<input type="checkbox"/>

2. Economic policy of the host country

	yes	no
- The host country's economic policy had a major influence on the <u>development of local business relationships</u> (C, R, S)	<input type="checkbox"/>	<input type="checkbox"/>
<u>If yes</u> : the policy's provisions relevant to our company are for example:	rele- vant	less relevant
- the governmental prescription of certain <u>local-content-percentages</u>	<input type="checkbox"/>	<input type="checkbox"/>
- low <u>import duties</u> on raw material and other requirements	<input type="checkbox"/>	<input type="checkbox"/>
- the <u>reservation of certain industrial activities</u> for purely domestic firms	<input type="checkbox"/>	<input type="checkbox"/>
- the determination of certain <u>products/parts</u> to be purchased domestically	<input type="checkbox"/>	<input type="checkbox"/>
- the following stipulations:	<input type="checkbox"/>	<input type="checkbox"/>
.	<input type="checkbox"/>	<input type="checkbox"/>

3. Type of existing business relationships (C, R, S)

Our business relationships can be specified as follows:

- regular subcontracting on the basis of longer-term contracts predominantly
- temporary subcontracting to overcome capacity bottlenecks less frequently
- Other, as for example own plantations (please specify) not at all

4. Volume of subcontracted supplies from the host country (C, R, S)

- Share of subcontracted supplies in total production (sales) C %
- Share of subcontracted supplies in total material inputs R %

5. Evolution of the business relationships (C, R, S)

- In recent years the importance of our business relationships in the host country has increased remained unchanged declined
- We are interested in a further expansion of our business relationships yes
- If yes: for this we anticipate good not so good chances: no

6. Access to information

Access to information regarding the local potential business partners is, in our view good

sufficient bad

III. CURRENT BUSINESS RELATIONSHIPS IN DETAIL

1. Subcontracted products (C, R, S)

The following products/product groups/services are purchased by us from our business partners:

- in the host country (please state products and share of total supplies):
- in other developing countries (please state products and share of total supplies):

2. Number and nature of business partners (C, R, S)

- The number of our domestic business partners is approx. C
- Regarding our raw material supplies, our domestic business partners are primarily (please state percentage share): R
- small-holders % plantations % S
- Our main business partners are located
- close to our company at %
- at a larger distance from our company at %
- The share of our business partners in the host country is:
- of domestic (national) origin at %
- of foreign origin (subsidiaries of other multinational corporations and joint ventures) at %

3. Duration of cooperation with the business partners (C, R, S)

The cooperation with our business partners of domestic origin is long-term throughout changes in part changes more frequently

4. Degree of dependence on business partners (C, R, S)

We diversified our purchasing risk as follows:

- | | C | R | S |
|---|----------------------------|----------------------------|----------------------------|
| - Share of domestically subcontracted items purchased from <u>only one supplier</u> | <input type="checkbox"/> % | <input type="checkbox"/> % | <input type="checkbox"/> % |
| - Share of domestically subcontracted items purchased from <u>several suppliers</u> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Own supplies | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - With our present subcontracting structure we are
satisfied <input type="checkbox"/> not very satisfied <input type="checkbox"/> unsatisfied <input type="checkbox"/> | | | |

5. Type of business partners (C, R, S)

Our business partners are (please specify approx. share of total supplies):

- small-holders % plantations % Industrial companies % Service enterprises %

6. Type of contract with business partners (C, R, S)

The following types of contract are used by us in collaborating with our business partners:

- | | frequently | rarely |
|---|--------------------------|--------------------------|
| - Short-term limited <u>ad-hoc-contracts</u> as needed | <input type="checkbox"/> | <input type="checkbox"/> |
| - <u>General annual contracts</u> stating approx. demand; monthly orders according to actual need | <input type="checkbox"/> | <input type="checkbox"/> |
| - Annual contracts <u>guaranteeing the purchase of a certain quantity</u> | <input type="checkbox"/> | <input type="checkbox"/> |
| - <u>Long-term (multi-year) contracts</u> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Other types of contract (please specify) | <input type="checkbox"/> | <input type="checkbox"/> |

IV. TYPE OF SUPPORT EXTENDED TO THE BUSINESS PARTNER

We have supported our business partners (C, R, S) in the following ways:

1. Technical support and decision aid

- | | frequently | rarely |
|---|--------------------------|--------------------------|
| - Assistance in establishing plantations / small-holder production / other subcontracting enterprises | <input type="checkbox"/> | <input type="checkbox"/> |
| - Cooperation in capacity- and production-planning of the business partners | <input type="checkbox"/> | <input type="checkbox"/> |
| - Maintenance of agricultural extension services | <input type="checkbox"/> | <input type="checkbox"/> |
| - Consulting on the technical organization and the purchasing of machinery | <input type="checkbox"/> | <input type="checkbox"/> |
| - Supply of (special) tools and / or machinery | <input type="checkbox"/> | <input type="checkbox"/> |
| - Assistance in the procurement of raw materials and intermediate products | <input type="checkbox"/> | <input type="checkbox"/> |
| - Other technical support (please specify): | <input type="checkbox"/> | <input type="checkbox"/> |
| These types of support were granted - to business partners of <u>domestic origin</u> only | <input type="checkbox"/> | <input type="checkbox"/> |
| - also to business partners of <u>foreign origin</u> (located in the host country) | <input type="checkbox"/> | <input type="checkbox"/> |

2. Transfer of business/organizational know-how incl. training

- | | frequently | rarely |
|---|--------------------------|--------------------------|
| - General business-organizational assistance | <input type="checkbox"/> | <input type="checkbox"/> |
| - Support for accounting and book-keeping | <input type="checkbox"/> | <input type="checkbox"/> |
| - Management assistance | <input type="checkbox"/> | <input type="checkbox"/> |
| - Support in technical production and quality control | <input type="checkbox"/> | <input type="checkbox"/> |
| - These types of support were granted - to business partners of <u>domestic origin</u> only | <input type="checkbox"/> | <input type="checkbox"/> |
| - also to business partners of <u>foreign origin</u> (located in the host country) | <input type="checkbox"/> | <input type="checkbox"/> |

3. Financial assistance

frequently rarely

- Contribution to the risk-capital of the business partner
- Granting of repayable loans at usual commercial rates
- Granting of repayable loans on concessional terms
- Giving of non-repayable financial grants
- Pre-financing of materials, tools, facilities, etc.
- Pre-payment of orders placed
- Other financial support (please specify):
-
- These types of support were granted - to business partners of domestic origin only . . .
- also to business partners of foreign origin
- (located in the host country)

4. Price determination

frequently rarely

- The prices of supplied products are determined by the market
- The prices are determined by negotiation with the business partner
- Price negotiations with the business partners are difficult

V. PROBLEMS IN THE RELATIONS WITH THE BUSINESS PARTNER (C, R, S)

In our cooperation with our business partners we experienced primarily the following problems:

The problems have diminished as expected

- | | frequently | rarely | yes | no |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| - Problems caused by inadequate technical infrastructure | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Socio-cultural communication problems (language, technical understanding, quality consciousness, etc.) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Problems caused by the spatial distance from the business partner | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Quality deficiencies / failure to meet standard specification | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Problems caused by irregular supply of raw materials | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Other (please specify): | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| These problems occurred: - only with subcontractors of <u>domestic origin</u> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - also with subcontractors of <u>foreign origin</u> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Thank you very much for your cooperation !

IFO-INSTITUTE FOR ECONOMIC RESEARCH

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Characteristics and Problems of Subcontracting Relations with Multinational Corporations

Definition of Subcontracting: A subcontracting relationship exists when a company (the contractor) places an order with another company (the subcontractor) for the production of parts, components, sub-assemblies or assemblies to be incorporated into a product to be sold by the contractor (excluded are raw and auxiliary materials). Such orders may include the processing, transformation or finishing of materials or parts by the subcontractor at the request of the contractor.

I. GENERAL DATA OF THE COMPANY

1. Name and address:
2. Year of establishment and main field of activity:
 - Our production was originally set up with no direct link to realized or planned investments of our main contractor(s) yes no
 - Our production was originally set up with direct link to investments of our main contractor(s) yes no
3. Contact person / person responsible for this survey:
4. Situation of ownership:
 - Our company is of local origin: foreign origin: home country:
 - We have a foreign equity share yes no
 - if so, this share amounts to %
5. Total employment: ; share employed for subcontracting: %
6. Our company can be characterized as an industrial firm: workshop: other:
7. In recent years, the importance of our subcontracting relationships with our main contractor(s)
 - has increased: remained unchanged: declined:
8. In general, our overall business has developed in a satisfactory less satisfactory way

II. PRODUCTION PROGRAM AND SUBCONTRACTING

1. Major products / product groups manufactured:
2. Market structure:
 - Approx. share of subcontracting turnover in total value of production: %
 - Approx. shares of total value of production (subcontracting excluded)
 - sold domestically: % exported: %
 - Our subcontracting relationship permits us to sell part of our production as spare parts directly to the consumer yes no
 - Our subcontracting supplies are usually

	predominantly	less frequently	not at all
- permanent (regular and stable deliveries)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- temporary (irregular demand of contractor)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Main production processes employed:

	yes	no		yes	no
- Foundry / Casting	<input type="checkbox"/>	<input type="checkbox"/>	Surface treatment	<input type="checkbox"/>	<input type="checkbox"/>
- Metal Cutting / Tool making	<input type="checkbox"/>	<input type="checkbox"/>	Plastic processing	<input type="checkbox"/>	<input type="checkbox"/>
- Heat treatment	<input type="checkbox"/>	<input type="checkbox"/>	Joining technique (simple assemblies)	<input type="checkbox"/>	<input type="checkbox"/>
- Solid metal forming	<input type="checkbox"/>	<input type="checkbox"/>	Packaging	<input type="checkbox"/>	<input type="checkbox"/>
- Sheet metal forming	<input type="checkbox"/>	<input type="checkbox"/>	Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

4. Production facilities:

	yes	no
- Our tools and machinery are mostly owned by us	<input type="checkbox"/>	<input type="checkbox"/>
- We work on the basis of our own blueprints	<input type="checkbox"/>	<input type="checkbox"/>
- We have our own research and development department	<input type="checkbox"/>	<input type="checkbox"/>

III. CHARACTERISTICS AND EVOLUTION OF SUBCONTRACTING RELATIONSHIPS

1. Degree of dependence on contractors:

- Number of main contractors
- Our dependence on orders from one: few: contractors can be regarded as high medium low
- The share of our main contractor in total value of production is approx. %
- The prices for our subcontracted products are usually determined: frequently rarely
 - by the market
 - by negotiations with the contractor
- We regard the prices agreed upon as tolerable: too low: much too low:
- We are obliged by our main contractor(s) to keep large inventories of relevant products

2. Characterization of relationships with contractor:

- The relationship with our main contractor(s) can be regarded as being frequently rarely
 - helpful and friendly
 - strictly business-like
 - from time to time rather tough
- Over time, these relationships have developed: satisfactorily less satisfactorily
- Usually, our subcontracting relationships are
 - long-term throughout: changing from time to time: changing rather often:

3. Types of contracts:

- In general, the contracts concerning our subcontracting relationships can be characterized as: frequently rarely
 - Short-term limited ad-hoc-contracts according to the needs of the contractor
 - General annual contracts stating approx. demand; monthly orders according to actual need
 - Annual contracts guaranteeing the purchase of a certain quantity

V. ASSISTANCE PROVIDED BY THE GOVERNMENT (ECONOMIC POLICY TO PROMOTE SUBCONTRACTING)

The Government of our home country assisted us in the following ways to overcome initial and/or structural difficulties:

	yes	no
- Assistance by an extension service promoting industrial development	<input type="checkbox"/>	<input type="checkbox"/>
- Provision of financial aid at preferential terms	<input type="checkbox"/>	<input type="checkbox"/>
- Provision of training facilities	<input type="checkbox"/>	<input type="checkbox"/>
- Procurement of information on business possibilities	<input type="checkbox"/>	<input type="checkbox"/>
- Reservation of certain industrial activities for domestic firms of national origin	<input type="checkbox"/>	<input type="checkbox"/>
- Determination of certain products / parts to be purchased domestically	<input type="checkbox"/>	<input type="checkbox"/>
- Other governmental assistance (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

VI. MAIN PROBLEMS ENCOUNTERED AND ADDITIONAL ASSISTANCE NEEDED

In the cooperation with our contractors we experienced the following problems:

	frequent-ly	rare-ly	Additional assis- tance needed by	
			Govt.	contractor
- Communication problems of a technical nature (transport, telephone, telex, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Communication problems of a socio-cultural nature (language, habits and customs, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Problems caused by the spatial distance from the contractor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Financial constraints due to:				
- inadequate equity (risk capital)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- difficulties in obtaining credits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- delayed payments of contractors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Problems to meet quality and standard specifications as prescribed by the contractor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Difficulties to meet agreed date of delivery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Technical problems regarding the production process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Problems in obtaining the necessary raw and auxiliary materials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Problems to find adequately qualified personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- General management problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Problems because of inadequate information on:				
- medium- and long-term production planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- potential markets (domestic and/or overseas)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- new production techniques and processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Other problems (please specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you very much for your kind cooperation!