

Globalisation, Sub-contracting Structures in Japan and Women's Working Conditions

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Abstract: An important feature of the Japanese economy is that there remains a wide divergence in payments, employment conditions and fringe benefits between those employed in large companies and those in smaller companies. This is at variance with the pattern seen in Western industrial countries. Japanese wage rates vary according to firm size, gender and region. Related to this the existence of multi-stratified sub-contracting structures in manufacturing. The main reason for this is that enterprise unionism results in wage rates being determined at each enterprise. Wages of part-time workers, who are typically women and temporary workers, are normally paid a time wage, often at minimum rates. The rising yen after 1985 compelled Japanese companies dependent on the export market to move overseas. The dual structure of the labour market and the pay differentials between manufacturing firms remains present in Japan. By necessity, Japanese firms abroad seek to replicate these structures, with a similar multi-stratified sub-contracting system.

Japan is now one of the richest countries in the world. However, despite Japan's economic success, its society in terms of working conditions, is still behind the West. In this paper I discuss divided wage rates and working conditions and employment terms for each enterprise, the enterprise-centred society as its result, and divided gender roles in Japan. Furthermore, I present some data on Japanese direct investment in Asia, indicating the globalisation of Japan's multi-stratified sub-contracting structure.

The Enterprise-Centred Society and Divided Gender-Roles in Japan

Wage-differentials between firms of different sizes are more or less common in every industrial capitalist economy. An important feature of the Japanese economy, however, is the fact that there is still a wider divergence in payments, employment conditions, and fringe benefits between those employed in large-size companies and those in small companies compared to those in the industrial countries of the West. In 1990 the percentage of those who work in establishments of fewer than ten employees was 16 percent in Japan, compared to three percent in the U.S. and two percent in the former West Germany. In addition, the proportion of self-employed and family employees is relatively high in Japan. In 1996, the percentage of own-account workers in Japan was nine percent compared five in Germany; family workers in Japan was six percent compared with 0.1 in the U.S. and just one percent in Germany (ILO, 1997). Related, there occurs the multi-stratified sub-contracting structure or pyramidal structure peculiar to Japanese manufacturing. In iron mills and shipyards, more than half the workers come from outside sub-contracting companies. Japanese electric firms often choose the form of an affiliated firm when they set up a new branch factory, particularly in rural areas. This is because in the former, the large steel and shipbuilding enterprises can make use of cheaper labour from their sub-contracting companies than their own, relatively more expensive employees. In the latter case the parent companies can calculate the advantages gained from regional wage differentials.

In assembly-type industries, such as electrical-goods and the motor industry, the final-assembly makers buy in the many parts they need and produce the remaining ones in-house. Main assembly makers order systems components from their first-tier suppliers, which are subsidiaries of the former company in many cases. These first-tier suppliers are capable of manufacturing completed parts with their own design and deal directly with

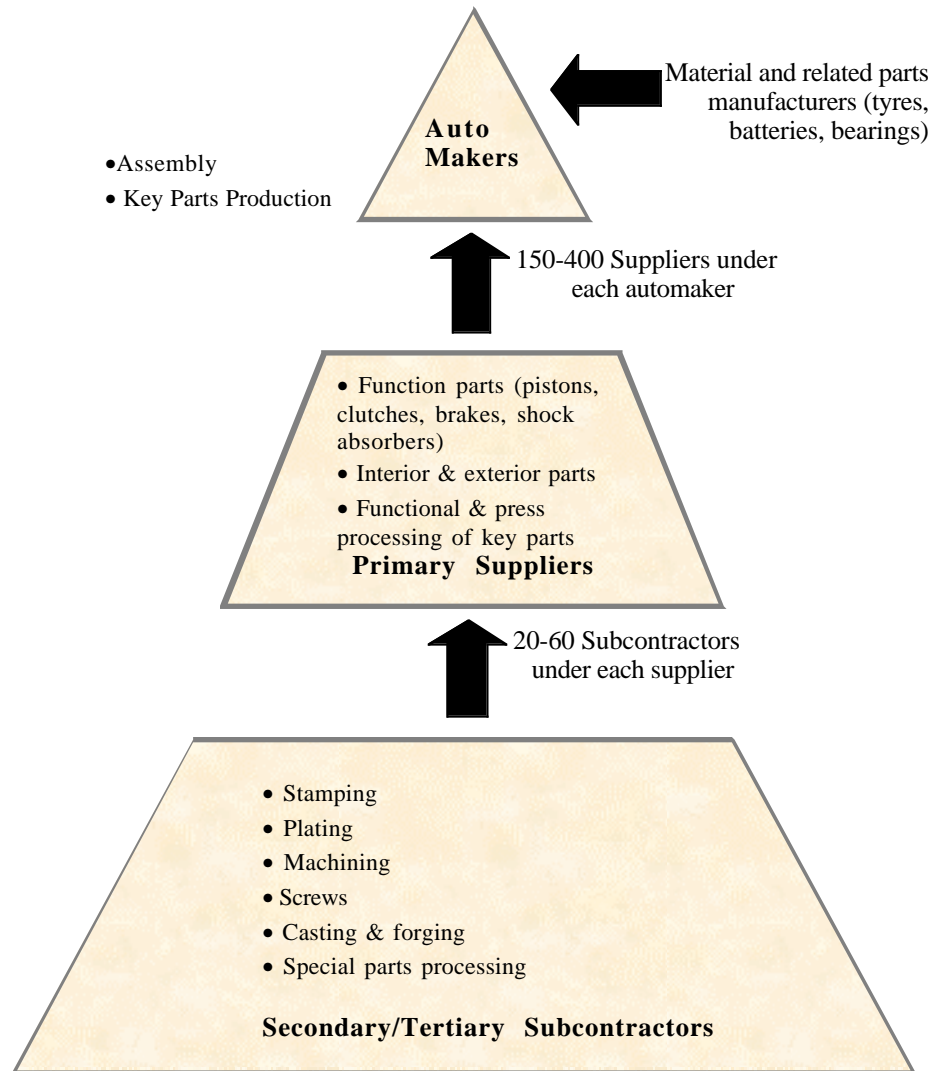
assembly makers. Recently some authors attribute the competitiveness of Japanese enterprises to the economy of transaction costs because of this close relationship between assembly makers and their first-tier suppliers (Asanuma 1997). The modular manufacturing in the recent U.S. automotive industry might be a variation of the Japanese sub-contracting system. United Auto Workers President Steve Yokich denounced modular manufacturing, calling it, 'just another word for ... outsourcing ... another way to destroy good-paying jobs and benefits' (Slaughter 1999: 8). In addition, Slaughter (1999) indicates the assembly makers' advantage over their module suppliers to make use of the competition between them in order to 'make the most concessions'. According to Slaughter (1999), in modular manufacturing 'most of the work will be done by supplier companies, which deliver large chunks of the vehicle ('modules') already assembled. One company might provide the chassis, another the 'cockpit' (interior), a third take over the paint operation'.

Although the relationship between assembly makers and their first-tier supplier might be relatively equal, the relationship with the still lower sub-contractors is not. The first-tier suppliers further make use of a cluster of second-tier sub-contractors for specialised parts, and then second-tier sub-contractors order discrete parts or labour intensive work from third-tier sub-contractors, and so on. In many cases, the parent corporations treat small or medium-sized firms as if their sub-contracting firms are their branch factories. Figure 1 illustrates the structure operating in the automotive industry.

The organisation of Japanese enterprises, with both enterprise unionism and non-union labour, is a cause of the multi-stratified sub-contracting structure. The wage (earnings, salary) rates vary according to firm size, gender and region. The main reason for this is that wage rates are determined at the enterprise level due to the existence of enterprise unionism. While there are many industrial unions, their control over enterprise unions is weak. One might argue that because of job security arising from practices like lifetime employment (in fact, long-term employment because there is a mandatory retirement age) and seniority-based wages and promotion, a Japanese enterprise secures employee loyalty. This enables investment in human-capital through on-the-job training, which pays off later in the workers' careers. Further, Japanese workers are less likely to oppose the introduction of new technologies such as microelectronics, but co-operate on the grounds that it does not threaten their employment. In return, they have to accept transfers to other departments or to subsidiaries in times of financial difficulty. Some theorists attribute the competitiveness of Japanese companies since the 1980s to their peculiar production methods or working habits. However, these studies are usually limited to the large firms (Asanuma 1997). In any event, Japan's employers have faced little worker resistance to the introduction of new technology, and this is one of the reasons why Japan's economy overcame the global depression after the oil crisis of 1973 and drew increasing attention from the rest of the world.

We should bear in mind that the high productivity in Japan's large companies is sustained by the enormous number of small-and medium-sized firms acting as sub-contractors. Furthermore, the types of employment utilised in Japan are also quite varied. The company workers, who are under Japanese employment practices including lifetime employment and seniority-based wages, are relatively few in the regular full-time workforce, and women are almost entirely excluded. These workers receive bonuses twice a year, averaging the equivalent of about two to five months' wage, and a lump-sum payment upon retirement equivalent to thirty to forty months' wage. They also receive social insurance. Apart from these regular full-time workers, there are many types of casual or temporary workers in Japan. In particular, the wages of part-time workers, who are typically temporary workers in Japan and most are women, are usually paid a time wage, often at only the minimum wage level. In round figures the women temporary workers, working less than 35 hours a week, totalled more than seven million in 1997 (see Table 1).

**Figure 1: Parts Sourcing Structure of the Japanese Automotive Industry
Traditional Pyramidal Structure**



Source: Dodwell Marketing Consultants (1993: 4).

Table 1: Basic Statistics on Working Women

(units: ten thousand, %)

<i>year</i>	<i>1965</i>	<i>1975</i>	<i>1985</i>	<i>1997</i>
<i>1 labour force</i>	1903	1987	2367	2760
<i>2 female share of total labour force</i>	39.8	37.3	39.7	40.7
<i>3 participation rate</i>	50.6	45.7	48.7	50.4
<i>4 employed</i>	1878	1953	2304	2665
<i>5 unemployed</i>	25	34	63	95
<i>6 rate of unemployment</i>	1.3	1.7	2.7	3.4
<i>7 employee</i>	913	1167	1548	2127
<i>8 female share of total employees</i>	31.7	32	35.9	39.5
<i>9 percentage of employee by marital status</i>				
<i>-unmarried</i>	50.3	38	31.3	33.2
<i>-married</i>	38.6	51.3	59.2	57.3
<i>-divorced/widowed</i>	11.1	10.8	9.6	9.5
<i>10 temporally worker</i>	82	198	333	746
<i>-percentage of total</i>	9.6	17.4	22	35.9
<i>11 wage gap by sex</i>	52.1	60.2	58.1	61
<i>12 percentage of unions</i>				
<i>-female</i>	30.9	29	21.9	16.8
<i>-male</i>	38.2	36.4	32.4	27.3

Sources: categories 1-10; Management and Co-ordination Agency, category 11-12; Ministry of Labour.

The pay differentials between enterprises arising from enterprise unionism have resulted in what some have identified as an 'enterprise-centred society'. As Gordon (1998: 177) argues, with the aid of state social welfare policies, policymakers

.... have designed universal but hierarchical systems of unemployment insurance, old-age pensions, and health insurance that forced workers to depend less on the state and more on employers, especially large companies, for social security. The health insurance system, put in place between 1957 and 1961, provided universal support, but it did so through a hierarchy of company- and state-run insurance unions, the former generously subsidized and inexpensive for members, the latter charging higher premiums and offering less comprehensive benefits. The pension system likewise took on its basic two-tiered shape in the 1950s and early 1960s. It offered a meager basic pension to all citizens, to wives only as dependants of husbands, and encouraged corporations to top this off with generous tax-advantaged pensions for long-term employees. An employee who depended on such largesse was of course discouraged from supporting a union that sharply challenged his provider, and dependent wives were also hard pressed to challenge the gender hierarchy that still undergirds the corporate system.

Women in Japan, under the impact of Confucian values, even now are expected to be devoted exclusively to the family. Under the civil law system in pre-war Japan, the wife assumed the husband's family name when she got married. If her husband died, the inheritance went to direct lineal descendants, not to the wife. Women were always subordinate to men. Unmarried girls were expected to obey their fathers, married women had to obey their husbands, and a widow was meant to obey her children. The family is the central pillar of the Japanese-style social welfare system, and above all the traditional three-

generation core family is assumed to be the desirable family. The welfare society arising from the enterprise-centred society:

... assumed that the family would play an active role by saving for illness and old age and by caring for ailing and elderly members. Behind the abstraction of 'the family' stood particular wives and mothers; social policy reinforced and relied on a sharply gendered division of labor. The wife provided social service to others, and she gained her own social security, whether pension or health insurance, primarily through her husband. The family was a site of intersection between education, welfare, and labor policies (Gordon, 1998: 177).

Divided gender roles are therefore indispensable for sustaining the enterprise-centred society in Japan because it compensates the poor public social welfare service and enables men to devote their efforts to the companies.

On the one hand, policymakers put the responsibility for housework and social service on women, but on the other hand they have made use of women as a cheap labour force (temporary workers, part-time workers, and family employees). The number of women temporary workers has increased, however they are marginal workers in the sense that they generally operate outside Japanese employment practices. One takes it for granted that women shoulder the burden of housework. Female workers are always assumed to be auxiliary and therefore cheap workforce because their paid work must not prevent their household responsibilities. Japanese employment practices, including enterprise unionism, thus result in divided wage rates and work conditions for each enterprise and a multi-stratified sub-contracting structure. In addition, working conditions for women are marginal and their divided gender roles, such as part-time workers and family employees, have prevented any generalised betterment of their working conditions.

Dual Structure Labour Markets and the Globalisation of Japanese Manufacturing

Table 2 presents some typical cases studies by the Economic Research Institute of Chuo University (1985) from 1984. Their research shows that working conditions, particularly wage rates, vary according to gender. While the case studies were undertaken in 1984, what matters is that the 'dual structure' (*niju kozo*) in Japan still exists.

Nagano Prefecture is about 150 kilometres from Tokyo, and the regions in these field-work studies are all rural villages. The wage rates in the countryside are lower in general, even though the workers are men. The assembly of wire harnesses is labour-intensive work, and the secondary sub-contractor in case 2 makes use of large numbers of women home workers at the lowest wages. However it is becoming increasingly difficult to find these cheap women workers. The average age of workers in the following case is generally middle aged.

According to a recent econometric study by Ishikawa and Dejima (1994), the labour market is divided into primary and secondary labour markets: workers in the primary sector have many training opportunities and high wages, and workers in the secondary sector have unstable employment and low wages. In 1990, the percentage of workers who belonged to the primary sector in Japan was about 35-40 percent and in the secondary sector it was about 60-65 percent. By comparison, the percentage in the primary sector in the USA using the same research method was 55 percent, and in the secondary sector was 23 percent. This shows that workers in the secondary sector in Japan are too many by international standards. Investigations of the dual structure have so far been used to compare the wage rates and other working conditions in small size establishments with ones in large sized establishments. However it cannot distinguish differences of wage caused by

the difference of worker's quality. The merit of their approach is that they investigated the existence of the dual structure of labour market by the individual worker's sample, each about 15,000 in 1980 and 1990. According to their survey, total time wage of firms fewer than 100 employees is 40 percent lower than that of firms over 1,000 employees. While half of this difference can be explained by sex, school careers, and working careers, the remaining 20 percent cannot (Ishikawa and Dejima, 1994: 203).

Table 2: Examples of Dual Structure, Nangano Prefecture

Case 1: Secondary Sub-contractors of Primary Suppliers N Industrial (Brake Assembly Maker) No. of Employees: 1,500 (including 9 affiliate companies) Annual Sales: 25 billion yen Paid-up Capital: 800 million yen	
N Aoki Works is located at Aoki Village, Chi-sagata District, Nagano Prefecture	
Number of Employees	50 (male 13; female 37): women workers are mainly housewives and the average age is 44-45 years.
Wage Rates	Women workers 4,500-6,000 yen (US\$18.95-25.26)/day; average: 5,000 yen (US\$21.05)/day; male workers average: 6,000 yen (US\$25.26)/day.
N Yazu Works is located at Tobu Town, Chi-sagata District, Nagano Prefecture	
Number of Employees	120 (male 28; female 92). Average age of women workers is 50
Wage Rates	Regular workers are paid monthly, and their time wage is 520 yen (US\$2.19)/hour plus a bonus equivalent to 4.8 monthly pays. The average monthly pay is about 110,000 yen (US\$463.12) after tax, which is 95,000 yen (US\$399.97) to 140,000 yen (US\$589.42), with 6 hours overtime work per week; temporary workers are paid by the hour at 520 yen (US\$2.19)/hour.
Case 2: Secondary Sub-contractors of Primary Suppliers T Electric Wire (Wire Harnesses). Second largest wire harnesses company in Japan No. of Employees 2,750 (including 5 plants, 3 business offices) Annual Sales: 25 billion yen Paid-up Capital: 957 million yen	
S Harnesses is a subsidiary of T Electric Wire, Ueda City, Nagano Prefecture	
Number of Employees	110 (male 33; female 77). Women workers are mainly farming housewives, and the average age of all workers is 34.6 years.
Wage Rates	The sub-contracting firms of S Harnesses are 6, and they mainly order home workers for housewives, whose wage is 350 yen (US\$1.47)/hour.

According to Tomita (1998), who surveyed working conditions and skills in press processing sub-contracting firms in 1993, the earnings of workers in the assembly parent

maker are about twice that of the first supplier. In this case, the workers are all male full-time workers, but there are still pay differentials between firm sizes. Furthermore what matters is that the first supplier organised six secondary sub-contractors, one secondary sub-contractor orders four third level sub-contractors and another secondary sub-contractor orders eleven third level sub-contractors. Japanese companies are likely to ask for outside orders or set up subsidiaries rather than in-house production. This is because they can make use of the pay differentials among firms because of enterprise unionism peculiar to Japan.

Table 3: Trend of Average Monthly Earnings in Manufacturing, by Gender for Major Asian Countries (US\$)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<i>China men & women</i>	30.82	31.72	39.90	44.29	36.41	35.93	41.92	48.42	41.41	51.58	56.55
<i>Japan men & women</i>	1,812.33	2,165.17	2,486.64	2,440.19	2,431.25	2,731.88	2,941.92	3,339.53			
<i>Japan men</i>	2,215.31	2,635.08	3,072.99	3,007.98	3,012.19	3,343.00	3,588.49				
<i>Japan women</i>	940.84	1,133.46	1,285.00	1,254.69	1,244.93	1,433.54	1,563.82				
<i>Korea men & women^{1,2}</i>	334.10	399.60	537.36	732.18	834.69	941.31	1,022.93	1,103.07	1,272.64	1,457.21	1,568.65
<i>Korea men</i>	425.20	502.51	670.62	906.87	1,023.62	1,149.29	1,234.56	1,314.99	1,501.90	1,704.59	1,819.13
<i>Korea women</i>	206.25	252.76	341.42	457.88	514.67	583.70	637.06	686.96	795.20	921.99	989.00
<i>Malaysia men & women</i>	246.38	248.85	236.75	236.27	244.00	261.45	311.69	329.44	353.62		
<i>Malaysia men</i>	326.95	332.59	323.81	318.96	327.18	346.17	407.08	420.34	442.40		
<i>Malaysia women</i>	154.95	159.15	150.07	155.05	163.78	179.99	219.05	237.75	257.97		
<i>Singapore men & women</i>				637.29	769.66	898.24	1,035.11	1,125.02	1,306.34	1,522.01	1,645.04
<i>Singapore men</i>				832.18	991.72	1,140.37	1,305.95	1,402.53	1,619.62	1,865.39	1,996.60
<i>Singapore women</i>				449.26	542.51	634.87	730.94	801.15	926.67	1,087.34	1,187.52
<i>Thailand men & women^{3,4}</i>				116.57	144.15	156.22	162.92	168.17			

- Notes: 1. Including family allowances and the value of payments in kind.
 2. Average wage rates for normal/usual hours of work
 3. March of each year

E.G. Earnings include: direct wages and salaries, remuneration for time not worked (excluding severance and termination pay), bonuses and gratuities and housing and family allowances paid by the employer directly to this employee.

R.T. Wage rates include basic wages, cost-of-living allowances and other guaranteed and regularly paid allowances, but exclude overtime payments, bonuses and gratuities, family allowance and other social security payments made by employers.

Sources: ILO (1997), IMF, various issues.

The appreciating yen after the 1985 Plaza Accord compelled Japanese companies dependent on the export market to move overseas. As Table 3 shows, the pay in Japan, converted to U.S. dollars, has increased even for women workers. The average male earnings (see the notes to Table 3) of Korea and Singapore are close to those of Japanese women. Those of Malaysia and Thailand, however, are still under one-tenth of Japan. In addition, as above mentioned, it is becoming very hard to find domestic cheap workers in Japan. Further, the conditions for foreign direct investment have been prepared in Asian countries. The pay in Asian countries is surprisingly cheap by Japanese standards. Indeed, the direct investment by Japan into China, where wages were only one-seventieth of those in Japan in 1993, has increased significantly (see Tables 4 and 5). Minebea, a world famous Japanese bearing company, has a global network of factories. In 1972 Minebea set up its first manufacturing company in Singapore then followed by Thailand in 1980, and China in 1994. The total production percentage of Minebea's factory in Asia is 77.3 percent. Asia occupies the largest manufacturing position for Minebea.

Table 4: Japanese Direct Investment in Asia, by Countries (100 million yen)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<i>Indonesia</i>	844	773	840	1615	1628	2142	952	1808	1548	2720	3085
<i>Hong Kong</i>	1621	2159	2502	2610	1260	966	1447	1179	1106	1675	853
<i>Singapore</i>	754	984	2573	1232	837	875	735	1101	1143	1256	2238
<i>China</i>	1854	389	587	511	787	1381	1954	2683	4319	2828	2438
<i>Thailand</i>	374	1134	1703	1696	1107	849	680	749	1196	1581	2291
<i>Malaysia</i>	246	509	902	1067	1202	919	892	772	555	644	971
<i>Korea</i>	987	639	799	419	357	291	289	420	433	468	543
<i>Taiwan</i>	548	487	662	653	554	376	343	292	439	587	552
<i>Philippine</i>	110	175	269	383	277	210	236	683	692	630	642
<i>India</i>	32	30	24	44	20	160	39	101	125	247	532
<i>Vietnam</i>			0	1	0	13	52	177	192	359	381

Source: Ministry of Finance.

Table 5: Japanese Direct Investment in Asia, by Countries (%)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<i>Indonesia</i>	1.7	1.2	0.9	1.9	2.9	4.8	2.3	4.2	3.1	5.0	4.7
<i>Hong Kong</i>	3.2	3.5	2.8	3.1	2.2	2.2	3.5	2.8	2.2	3.1	1.3
<i>Singapore</i>	1.5	1.6	2.8	1.5	1.5	2.0	1.8	2.6	2.3	2.3	3.4
<i>China</i>	3.7	0.6	0.6	0.6	1.4	3.1	4.7	6.3	8.7	5.2	3.7
<i>Thailand</i>	0.7	1.8	1.9	2.0	1.9	1.9	1.6	1.7	2.4	2.9	3.5
<i>Malaysia</i>	0.5	0.8	1.0	1.3	2.1	2.1	2.1	1.8	1.1	1.2	1.5
<i>Korea</i>	2.0	1.0	0.9	0.5	0.6	0.7	0.7	1.0	0.9	0.9	0.8
<i>Taiwan</i>	1.1	0.8	0.7	0.8	1.0	0.8	0.8	0.7	0.9	1.1	0.8
<i>Philippine</i>	0.2	0.3	0.3	0.5	0.5	0.5	0.6	1.6	1.4	1.2	1.0
<i>India</i>	0.1	0.0	0.0	0.1	0.0	0.4	0.1	0.2	0.3	0.5	0.8
<i>Vietnam</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.4	0.7	0.6

Source: Ministry of Finance.

These trends will continue for a while in spite of the recent economic crisis in Asia. As a Japanese saying has it, 'the crab makes a hole that suits its shell'. The dual structure of the labour market and the pay differentials between firm sizes in manufacturing are still present in Japan. By necessity, Japanese firms abroad seek for the similar multi-stratified sub-contracting system they can make use of there. In addition there are still wide wage-differentials between men and women in many Asian countries as well as in Japan. Watanabe (1999) showed the regional division of labour within Southeast Asian countries in the case of the air-conditioner manufacturing sector, and the trend of Japanese foreign direct investment from Southeast Asia to China means another move to the cheaper labour countries. Further, the Japanese assembly makers form a similar system to the Japanese sub-contracting system and Japanese supplier firms have made inroads into Asian countries and the local firms. We would watch whether the globalisation of Japanese enterprises brings the pay-differentials structure through making the sub-contracting structure like Japan.

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