

CHAPTER FOUR

4. STRATEGIC DIRECTIONS

History indicates that the textile and apparel industry in Malaysia began when the MNCs started relocating their manufacturing operations in mature product-areas to the low-cost countries in South-East Asia. In the early years, the country welcomed investments in the industry because of the capacity of the textile and apparel industry to generate employment opportunities, value-added and foreign exchange. Having played such a pivotal role in the country's industrialisation process, it comes as no surprise that this sector was included in the country's First Industrial Master Plan (IMP 1, 1986-1995) and again in the recently-launched IMP 2 among other industrial sectors considered important to the development of the Malaysian economy.

The overall national objective is that the textile and apparel industry should continue to develop and further improve its contribution to the Malaysian economy. How could this be achieved?? Having elaborated on the key issues, what should now be done is to match strengths and weaknesses inherent within the industry with opportunities and to devise appropriate strategies that could be adopted so that this objective could be attained.

Survey findings indicate that the manufacturers are enthusiastic about the opportunities for the industry and have of their own accord sought ways and means to

accommodate changes in the internal and external environments. In that sense a big hurdle seems to have been overcome - we have a resilient group of textile and apparel manufacturers who have a vision!!

However, it is recommended that the following pre-requisites be met to support any strategic initiatives for the textile and apparel industry:-

- (a) The Textile and Apparel Industry Task Force that was set up following IMP 1 be revitalised to facilitate co-operative action between the industry and the policy makers;
- (b) A centralised computerised database for the Textile and Apparel Industry be set up to facilitate co-ordinated and quick responses to market needs as well as to facilitate decision-making by policy-makers and other interested parties.

Accordingly, the following broad-based strategies are proposed to meet the challenges posed by the textile and apparel industry's new operating environment.

4.1. ENHANCING CLUSTER DEVELOPMENT

Thus far, the development of the textile and apparel industry has been hampered by the absence of strong inter and intra-industry linkages. As pointed out in the preceding chapters, although present, linkages within and between the three tiers defined in the industry group map are weak. It is precisely these weak

linkages that threaten the continued viability of a Malaysian textile and apparel industry. The concept of clustering pre-requisites that all subsets in an industrial cluster must be strongly linked. The absence of strong linkages means that such a cluster is a mere agglomeration of individual factories. In light of this, such individual factories are liable to succumb to the vagaries of economy. A cluster with strong linkages is, not only able to withstand economic vicissitudes but also grow as a self-sustaining organism that is capable of giving rise to other industries in the future. Foreign exchange can be earned through two means - increased exports and increase DVA. DVA can be increased through the development of strong cross-linkages between all sub-sectors of the textile and apparel industry including fostering enhanced linkages between Tier 1 and Tier 2.

The current and future textile and apparel industry cluster map is provided respectively in Table 15 below.

Table 15: Textile & Apparel Industry Cluster Map

Tier 1 or key industry sectors

Current	Textile subsector based on cotton, polyester cotton, polyester rayon spinning, weaving & weft knitting	Apparel subsector mainly order takers for medium to low value products	Apparel subsector based on imported fabrics	Knitting mills & apparel manufacturers predominate
Future	Emphasis mainly on synthetic fibres and filament yarn	Apparel subsector manufacturing high value-added products & evolving from being order takers to being active sellers in world market by the manufacture of Malaysian designs & brandnames	Malaysian-made fabrics to form the backbone of the Malaysian textile & apparel industry	Offshore processing or satellite production will be fed by fabrics produced and exported from Malaysia.

Tier 2 or intermediate suppliers & support services

Current	Bleaching, Dyeing & Printing & Finishing available but largely basic.	Accessories subsector versatile but constrained by size of local market	Lack of design & sourcing houses	Absence of textile machinery, & component manufacturers
Future	Internationally competitive leaching, dyeing, printing & finishing facilities	Vibrant accessories subsector supplying to local and offshore apparel manufacturers and actively exporting to other markets	A proliferation of Malaysian design and fashion operations and Malaysian based international buying houses	Presence of textile machinery & component manufacturers

Tier 3 or foundations

Current	Inadequate emphasis on HRD. Lack of facilities for HRD.	Technological foundations weak due to inadequate emphasis on R&D.	Finance is not a serious impediment	Government provides conducive tax & regulatory environment.
Future	Comprehensive facilities for HRD including certificate, diploma & degree courses	A mechanism to facilitate technology diffusion to all industry players.	Financial institutions providing strong support for the textile & apparel industry.	Conducive tax and regulatory environment maintained.

4.1.1. Development of a strong synthetic primary textiles sub-sector

One of the prime considerations relating to the subject of enhancing cluster development is the determination of the generic base of the textile industry. Besides negligible quantities of silk, it should be noted that neither cotton nor wool is produced in Malaysia. By comparison, Malaysia has a relatively developed petroleum industry and substantial petroleum reserves. In light of this, it is obvious that the textile and apparel industry in Malaysia should be based on synthetic fibres which is petroleum-based. In addition, *world consumption trends indicate the growing popularity of synthetics.*

4.1.2. Removal of structural impediments

To foster greater linkages particularly within Tier 1, steps could be taken to remove structural impediments. Such measures would include

the removal of restraints on local sale by FZs and LMWs, or conversely, modifying and/or eliminating compulsory export of output by companies located FZs and LMWs and, promoting physical proximity of all sub-sectors in the textile and apparel industry group.

4.1.3. Establishment of a national R&D Institution for the textile and apparel industry

Within Tier 3, the foundations for the industry could be strengthened through the increased promotion of HRD and R&D activities. In respect of R&D in particular, it is proposed that a national R&D facility be established so that indigenous research could be done with the vision of creating high value-added products such as is being done even in Japan and South Korea. This should be a co-operative effort between the Government and the industry - with the Government providing the initial start-off funding and supported by the industry both in terms of manpower and funds.

4.2. MARKET DEVELOPMENT AND PENETRATION

An analysis of trade statistics provided in Chapter Three indicates that over the years, the chief destinations for Malaysian exports of textile and apparel products have been the developed countries such as the USA and the EU. In 1995, USA and the EU accounted for RM1.68 billion (26.3%) and RM1.48 billion (23.1%) respectively of total exports amounting to RM6.4 billion.

In recent years there has also been substantial Malaysian exports to developing countries such as Vietnam, Sri Lanka and the Philippines. In 1995, exports to Vietnam, Sri Lanka and the Philippines were RM117.0 million (1.8%), RM100.92 million (1.6%) and RM96.22 million (1.5%) respectively.

There are substantial opportunities for market penetration into these countries since Malaysia's contribution to global production of textile and apparel is only about one (1) percent by value. In order to achieve this, the basic strategy would be to effect a change in orientation of local manufacturers from the traditional production orientation to that of being market-oriented. The production-orientation of the industry stems from the traditional sub-contracting and outward processing activities practised by foreign manufacturers and buyers. The majority of the apparel companies were established basically to serve such markets. The change in orientation would progressively enable these manufacturers to gain some independence from the contract work givers, principally consisting of foreign buying houses or their agents, and achieve an interdependence directly themselves and selling their own collection. This marketing orientation would necessitate companies to identify their specific market niches and customers precise requirements. This would also necessitate having an active marketing/selling arm supported by flexible manufacturing as well as the development of marketing management skills in areas such selling, styling and market demand forecasting.

The markets for Malaysian textile and apparel products are grouped here into three categories i.e. the developed countries, developing countries and the domestic market and the respective strategies for market penetration and development into these respective markets are discussed below:-

4.2.1. Developed countries

Capacity constraints and lack of promotion are two commonly cited factors that explain Malaysia's insignificant presence in respect of the global market for textile and apparel products. In the past, poor market presence was also attributed to lacks in quality and long turnaround time.

Today, quality and turnaround times are no longer critical obstacles to market growth particularly in respect of apparel products. The field interviews confirmed this fact i.e. that foreign buyers prefer to pay a premium for Malaysian-manufactured products as compared to products from some of the lower-cost countries because Malaysian manufacturers have a reputation for meeting delivery schedules and quality requirements.

In view of this, market penetration efforts should be targeted towards promoting awareness among existing markets. Promotional efforts must be aggressive, conducted on a large scale and sustained over a long

period of time. Such promotional efforts requires close co-operation and co-ordination between the Government and the industry.

Thus far, efforts have been confined to participation in some international trade fairs, none specifically to promote Made-in-Malaysia textile and apparel products. In order to put Malaysia on the world map in respect of this industry, efforts must be directed towards drawing the attention of the fashion world to look favourably at Malaysia as a fashion centre.

It is suggested that the country emulate the strategies of our neighbour Thailand who, according to MTMA, has been aggressively holding fashion shows at home where international guests and buyers are hosted by the country. This has done much to alleviate the country's image and reputation as a renown fashion capital. By doing the same, Malaysia could interest large international buying and fashion houses to locate here with the anticipated attendant result being a move by the apparel industry towards higher-value chain activities which requires skills in fashion designing, modelling, fashion intelligence, branding and advertising services. This could spearhead the transformation of the apparel industry from the status of "order-taker" (production-oriented) to that of an active seller (marketing-oriented) which would definitely increase Malaysia's share of the world market by value because the

country simply cannot hope to compete in terms of capacity with countries like India and China.

For the lower-end products where labour cost is still the key determinant of competitiveness, companies should now move in the direction that was followed by the developed countries, principally by Germany - undertake outward processing and international sub-contracting. However, such activities are currently restricted by the Rules of Origin imposed by principal markets. Offshore processing or satellite production units may be established in lower-cost countries to do this.

4.2.2. Developing countries

In general, many of these countries that were previously viewed as unattractive by international marketers are fast gaining prominence even as economic development propel growth in consumption in these countries. In South East Asia, China and India, the presence of Malaysian manufacturers is insignificant. China is today one of the world's biggest importers of textiles, buying US\$7.7 billion worth of yarns and fabrics in 1993. The opening of China's market is also evident from its apparel imports which has seen a more than sevenfold increase from 1991 (US\$61 million) to 1993 (US\$552 million). The market opportunities in China are tremendous since the 1993 imports of clothing works out to only 46 US cents per head based on a population

base of 1.2 billion consumers!! Even as Malaysian companies ride on the back of the country's high political profile particularly among developing countries and invest in these nations, efforts should be directed towards establishing distribution channels that could support niche marketing of Malaysian textile and apparel products.

Malaysian apparel manufacturers could also increasingly step up the use of offshore processing as a strategy to meet the intensification of competition from low-cost countries. The practice of offshore processing will accelerate the securing of export markets for Malaysian primary textiles and textile accessories.

4.2.3. Domestic market

Import statistics for the period 1992-1995 indicates that there has been growth both in the imports of textile and apparel. While the growth in imports of textiles can be attributed to the need to support the growth in the apparel sub-sector, the growth in apparel imports may be attributed to increasing affluence supported by a vibrant economy.

Currently the domestic market for textile and apparel products is protected by an import tariff of between 10-20 per cent. However, with the complete implementation of the CEPT programme by 1.1.2000, this tariff structure will be changed so that imports among ASEAN countries

will be subject to a maximum of 5 per cent. With the CEPT firmly in place, the country is expected to be subject to a flood of cheap textile and apparel imports that may spell the demise, particularly, of manufacturers supplying apparel to the domestic market.

In the face of such a threat, a defensive strategy that is being proposed is to increase the emphasis on branding. Branding will be the vehicle to create customer loyalty and allow Malaysian-made apparel products to command a premium over imports from other ASEAN countries. In conjunction with this subject, it should be noted that some Malaysian brands have managed to make significant inroads into the domestic market - they include brands such as *Bonia*, *Anak-ku*, *John Master*, *Donna* and *Ladybird* which are medium to premium market products. The recent efforts by MTMA to endorse products is also a move towards boosting the image of locally-made products.

4.3. TECHNOLOGY UPGRADING

If the Malaysian textile and apparel industry were to survive, expand and compete internationally, then, the issue of technology cannot be ignored. Any strategic response would have to incorporate industry-wide diffusion of technology. The widespread adoption of new technologies in developed countries has had the effect of partially reversing, or at least slowing down the decline in competitiveness of their textile industries. A viable line of defence

for Malaysia at this stage when the country is confronted with lacks in human resources is actually to focus on the development of the technology-intensive textile sub-sectoral activities.

While it is generally recognised that there are limitations to the application of MRIs in apparel manufacture, automation, nevertheless would have the effect of significantly eroding the advantage of low labour costs, which would have implications on offshore processing strategies.

Upgrading technology would require significant investments particularly in the processing sub-sector not only because dyeing, printing and finishing investment per unit of the output is the most costly of all the textile production areas but also because it will provide the main bridge to increasing the inter-linkage between the sub-sectors (Gherzi Study, 1990).

There is a need for the industry to upgrade its technical capabilities in process technology to improve product quality and product design. This mandates that the rate of technology transfers be accelerated with emphasis on the use of information technology i.e. the increasing use of CAD/CAM (Computer-Aided Design/Computer-Aided- Manufacturing) in production per se.

The use of information technology should not be confined to the production floor. Instead the use of information technology should be promoted as a means

to provide companies with a competitive advantage in world markets. Electronic Data Interchange (EDI) for example, allows companies to lower inventory levels, improve customer service, and reduce payroll expenses by sending specially formatted documents such as invoices and purchase orders from one company's computer to another. It has been reported in the Business Week (August, 1987) that ".....In businesses such as the US\$55 billion textile industry, which has suffered as retailers doubled their purchases of cheap Asian apparel over the past five years, adopting EDI has become a way to get an edge over foreign rivals. Led by textile magnate Roger Milliken, 220 top retail and clothing executives convened earlier this year to back industry standard formats for purchase orders, shipping documents and other forms. Their purpose is to beat Asian rivals by making it easier for retailers to deal with US suppliers. 'This is the beginning of a revolution in our industry' says Milliken....."

In view of the competitive advantages that could be offered by building up the industry's technological foundations, it is felt that there should be developed a mechanism within the industry to speed up technology diffusion in the industry. The role of this mechanism is to collect and disseminate information *vis-a-vis* textile technology, and also to assist in the evaluation and selection of the appropriate technology. This would be of invaluable help particularly to the smaller, indigenous textile and apparel firms seeking to upgrade technology.

This mechanism should also assist manufacturers in utilising incentives for technology upgrading.

4.4. HUMAN RESOURCE TRAINING AND DEVELOPMENT (HRD)

A strong human resource base is the foundation for long term economic growth. At present, we can conclude that this is absent from Malaysia with the textile and apparel industry beset by shortages of manpower - in terms of supply shortages, shortages in skills and rising labour costs. Skill shortages can basically be attributed to the lack of Human Resource Training and Development facilities in the country. From the survey, it can also be seen that a misplacement of priorities and attitudes towards training, particularly among the smaller companies who are overwhelmed by operational functions, has also contributed towards this situation.

In light of this scenario and taking into cognisance Malaysia's advantage in that there is in place a sound education system, what then are the strategies that could be formulated to institute that strong human resource foundation??

The first step is to change mindsets viz overall perceptions and attitudes towards human resource training and development. Manufacturers must be convinced that training is not a cost in absolute terms; they must be persuaded to see training as an indispensable investment - one that can ensure the competitiveness of the company in the long term. To effect this, probably a

series of industry seminars could be organised jointly by MTMA-Human Resource Ministry to 'sell' the need and the long-term advantages of participation by the industry in human resource training and development.

A parallel effort could then be made to convince educationists regarding the need to develop courses in line with the needs of the industry - in areas such as textile technology, fashion and design.

The HRDF should continue to be promoted and be given the necessary coverage to ensure that the industry continues to subscribe and utilise the fund to achieve the objectives of the fund. The existence of this fund should act as the catalyst for those in textile education to design appropriate courses to provide continuous training to the industry.