CHAPTER 4

THE GARMENT INDUSTRY IN MALAYSIA: THE ROLE OF SUBCONTRACTING

4.1 Introduction

This chapter presents the findings on the garment industry based on the interviews with the Malaysian Textile Manufacturers Association (MTMA) and its members as well as the sample of sixty-two garment makers. It also draws from secondary sources i.e. the records and documentation of MTMA and trade information of the Textile and garment industry.

Here the growth and nature of the garment industry is described. It discusses the issues related to the industry; especially issues related to the shortage of labour in this labour intensive industry and the reasons subcontracting including home-based subcontracting as a vital contribution to the industry.

4.2 Malaysian Textile Manufacturers Association (MTMA)

The Malaysian Textile Manufacturers Association (MTMA) was incorporated in 1973 as a company limited by guarantee. It is a recognized national representative body for the textile and garment industry. Its members
are from all sectors of the textile and garment manufacturing. The total combined paid up capital of the members’ represents approximately 80% of the total equity in the textile and garment industry in Malaysia. Its operation is financed mainly from subscriptions of members and professional services provided to members of the industry.

Its main objective is to promote, preserve and protect the interests of all textile and garment manufacturers in the country. It acts as a main voice and liaison for the sector with the government and other institutions. It also is also a focal point for its members to discuss issues and solve common problems. It also works closely with the Malaysian Textile and Apparel Centre (MATAC), a training centre jointly established by the government and MTMA to organize appropriate training courses for the development of the human resources in the industry.

4.3 The Garment Makers: Profile

The sample of sixty two garment manufacturers were drawn from members of the Malaysian Textile Manufacturers Association, those who advertised in Telekom Malaysia Yellow Pages 1992 for Selangor and Wilayah Persekutuan and contacts made in previous research and introduced by garment makers and home-based subcontractors. Sixty of those interviewed were Chinese and two were Malay. This is probably why the garment industry is often referred to as a ‘Chinese’ industry. The two Malay entrepreneurs entered the
industry less than five years ago in 1996. Both had contracts with the
government to supply uniforms to the civil servants and armed forces. Most of
their staff, however, is Chinese. One of the Malay manufacturers employs a
number of deaf and dumb workers. The lady owner explained that they initially
took a mute girl out of charity. She proved to be such a good worker; they
decided to employ three more.

Of these sixty-two garment makers, fifteen (24%) employed less than
fifty workers; sixteen (26%) had 51-100 workers; twelve (19%) had 101-150
workers and nineteen (31%) had more than 150 workers. Of the fifteen with less
than fifty workers, eleven (about 52%) were owner operators. Of the total
interviewed, twenty-two were public listed or owned by public listed companies.
There was a wide dispersion in the size of the firms.

As to the size of the authorized and paid-up capital, the public listed
companies and their subsidiaries and larger enterprises, reported capital of more
than a million ringgits. The annual gross turnover averaged about three times the
amount of authorized capital. The small and micro-sized garment makers were
mainly uncertain about the capitalization of their business. The answers
received were probably inaccurate and therefore the reliability of the
information given was doubtful. A probable reason was the lack of proper
accounting. Similarly responses received to the question on profitability were
also not meaningful. Twenty percent said their annual sales averaged over
RM1million; 45% said RM500,000 to RM1,000,000 and 15% RM100,000 to
RM500,000 and 20% below RM100,000. Estimates were possibly kept conservative, probably for fear of taxation.

The kinds of garments made are a combination of apparel for men, women and children and others. They manufacture under their own brand names as well as famous brands for the world market including Nike, Adidas, Levi, Liz Clairborne and Givenchy.

The main product was women’s clothing. Eighty five percent made women’s clothing together with other apparel. Three factories specialized in uniforms; one stitched school uniforms and the other two secured government contracts to tailor uniforms for the armed forces and civil servants. Ten micro-enterprises made only women’s blouses, dresses and skirts. The other common product was jogging suits and tracksuits (45%). Three factories made only children and infant clothing. One concentrated on furniture covers such as bed-sheets, pillowcases, duvets, cushion covers and tablecloths. Eight factories made accessories like caps, hats, furniture covers, shoulder-pads, travelling bags and other bags.

Most, about 90% of the garment factories interviewed produced for export or a combination of export and domestic markets. Few produced only for the domestic market. Those producing solely for domestic markets principally catered for special clients or on a contractual basis such as uniforms for government employees.
4.4 Growth and Development of the Textile and Garment Industry

The Textile and Garment Industry is regarded as an important industry in Malaysia. It has been a main source of foreign exchange and the second largest export earner after the electronics industry. In 1992 the electronics industry and the garment and textile industry had a 57% and 9% share of total manufactured exports respectively. Although its percentage of total share is small, its net benefit to the country is great. The textile and garment industry is regarded as a successful import substitution case, a policy of the 1960s. When industrialization policy reformed in 1968, to an export oriented one, the garment industry changed along with it and developed into a net exporter.

According to the MTMA, there are a few vital points, which evidently demonstrate the importance of the textile and garment industry. Textile and garment industry, firstly, has a long history in Malaysia. It has a long tradition of micro and small local enterprises catering mainly for domestic needs. In 1954, a major establishment was set up. It was a weaving mill with about 100 looms in Johore Bahru making cotton fabrics for the domestic market. More manufacturing enterprises grew and spread fairly widely along the West Coast of Peninsular Malaysia. The area of highest concentration of textile and garment manufacturing was in Johore especially the Batu Pahat region and Penang and Northern Perak. Kuala Lumpur and its vicinity became prominent later in the 1980s.
Part of the reason for accelerated growth of the textile and garment industry was aggressive embarkation by the Malaysian government to attract foreign investors. The Free Trade Zone Act of 1971 provided many privileges such as minimum customs formalities and low cost infrastructure in the Free Trade Zone (FTZ) areas. Firms outside of the FTZ were allowed to establish a Licensed Manufacturing Warehouse for easy customs clearance. This suited the textile and garment manufacturers in search of low cost and flexible labour in this trend of new international division of labour.

From the archives of the MTMA, it appears that the first large textile group established in Malaysia was the Textile Alliance, which was jointly owned by the Malaysian government (60%), C.Itoh of Japan (20%) and Toray of Japan (20%). It was based in the Penang Free Trade Zone, operating eight fully integrated factories in the 1970s. The world recession of the early 70s caused the Textile Alliance heavy losses. Toray took over the company. Toray, thus, became the first Japanese company to invest in Malaysia. Kanebo, another Japanese company, later bought into other spinning and weaving operations in Malaysia.

Hong Kong companies started investing in Malaysia in the 1970s but mainly in the garment and knitting operations. Eastern Garment was one of the largest garment factories established by a Hong Kong entrepreneur. Dragon & Phoenix, another premier garment factory, was set up with Hong Kong capital and later floated on the Kuala Lumpur Stock Exchange. The largest investor
from Taiwan was the Hualon Group of companies. By 1993, this same company had expanded to have almost 900 looms in its weaving units and also had spinning and fabric processing sections. Singapore, though smaller in total amount of investment, has the largest number of projects i.e. 108 projects. The relocation is primarily to Johore.

The export of textiles and garments grew from RM1, 700.1 million in 1986 to RM6, 988.8 million in 1993. In the first half of 1994 (January to September) exports reached RM5,673.6 million which was 11.4% higher than that for the same period in 1993. Garments in 1993, which accounted for more than 60% of total exports of textiles and garments increased by another 3.5% (Department of Statistics, 1994).

In the 1980s, a world recession again affected the textile and garment industries causing a re-organization within the industry. Weaker companies were taken over by stronger ones. Taiping Textiles was taken over by Arab Malaysian Development Corporation and Allied Malayan Development by Pan Global. Sri Hartamas took over the Folex Industry; Public Textiles became part of Mount Pleasure Holdings; India Malaysia Textiles became Imatex and the Malayan Textile Industries became Ematex.

The executive director of the MTMA, Mr. Choy Ming Bil explained that the re-organization had a positive impact on this recession sensitive industry. The shakeout left the textile sector with 283 companies with a total paid-up capital of RM 1.2 billion and combined fixed assets worth RM700 million. The
garment sector too slimmed down to become the fittest and the most competitive of companies. It was more difficult to estimate the size of the industry then as a substantial percentage of the garment industry was small and informal. In 1985, the Government commissioned a study, Malaysia Textile Study by Gerhzi Textile Organization, Zurich, to review the textile and garment industry structure. The Gerhzi Report described the industry as fragmented and non-complementary.

The government introduced more interventions including more incentives given under the Investment Promotion Act, 1986 and the Income Tax Act 1967 to increase the advantages for the industry. The garment companies too launched a more aggressive marketing campaign to increase its own exports especially licensed manufacturing. The expansion of the industry is mainly export-driven.

The strategy interacting with the economic boom brought a remarkable growth in export earnings. From Table 4.1, it can be seen that the export earnings of the textile and garment industry grew from a mere RM 820 million per annum in 1980 to RM1361 in 1985, a 66% increase in five years. It further increased by an impressive 245% over the five-year period to RM 4699 million in 1990. The annual export of garments had increased by almost 40% during the years 1987 and 1998. It then declined gradually and stabilized at approximately 10% in the early 1990s. The export earnings of garments was more than twice as much as that of textiles in the years 1985 to 1990 and was even more in 1991.
and 1992. By 1994, the export value of articles of Apparel and Clothing Accessories was RM5, 416.1 million—an increase of RM 1,861.4 million, more than 50% increase.

**Table 4.1: Malaysia’s Exports of Textiles and Garments 1980 – 95 (RM Million)**

<table>
<thead>
<tr>
<th>Year Sector</th>
<th>'80</th>
<th>'85</th>
<th>'86</th>
<th>'87</th>
<th>'88</th>
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<th>'92</th>
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<td>Textile</td>
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<td>522</td>
<td>592</td>
<td>736</td>
<td>875</td>
<td>1011</td>
<td>1152</td>
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<td>1968</td>
<td>2491</td>
<td>3186</td>
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<td>+%</td>
<td></td>
<td></td>
<td>13.4</td>
<td>24.3</td>
<td>18.9</td>
<td>15.5</td>
<td>13.9</td>
<td>27.2</td>
<td>13.7</td>
<td>18.1</td>
<td>26.6</td>
<td>27.9</td>
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<tr>
<td>Garment</td>
<td>328</td>
<td>839</td>
<td>1108</td>
<td>1544</td>
<td>2169</td>
<td>2891</td>
<td>3547</td>
<td>4203</td>
<td>4767</td>
<td>5021</td>
<td>5416</td>
<td>5681</td>
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<tr>
<td>+%</td>
<td></td>
<td></td>
<td>32.1</td>
<td>39.4</td>
<td>40.5</td>
<td>33.3</td>
<td>22.7</td>
<td>18.5</td>
<td>11.3</td>
<td>10.5</td>
<td>10.8</td>
<td>10.5</td>
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<tr>
<td>Total</td>
<td>820</td>
<td>1361</td>
<td>1700</td>
<td>2280</td>
<td>3044</td>
<td>3902</td>
<td>4699</td>
<td>5668</td>
<td>6433</td>
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<tr>
<td>+%</td>
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<td>24.9</td>
<td>34</td>
<td>33.6</td>
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<td>20.6</td>
<td>13.5</td>
<td>8.6</td>
<td>11.3</td>
<td>11.2</td>
</tr>
</tbody>
</table>

*Source: Calculated from Annual Survey of Manufacturing Companies, Department of Statistics, quoted in MTMA Textile Directory 1992 page 224 and Directory 1997 98 page 168*

### 4.5 Characteristics of the Textile and Garment Industry

While some of the garment manufacturers are large-scale concerns with 1,000 employees, the majority (85%) of the establishments are small or micro-enterprises. The list of products include men’s shirts, ladies’ blouses, dresses, skirts, sportswear, T-shirts, knitted garments, boutique and designer haute couture dresses, jeans and denims, jackets, blazers, ski-jackets, trousers, pants, shorts, jumpers, overalls, dungarees, outerwear, jogging suits, tracksuits, raincoats, children and infant wear, brassieres, briefs, panties and slips, singlets,
vests, nightgowns, pyjamas and other night-wear, batik garments, beach-wear and swimming suits and swimming trunks.

The foreign direct investments were mainly from Taiwan, Hong Kong and Singapore relocating to Malaysia due to the lower cost of operations. Another motivation for the relocation was to take advantage of the quota allocated to Malaysia. Under the Multi-Fibre Agreement (MFA), each importing and exporting country agreed on the maximum number of items within each category, which an exporter was allowed to supply. Many of the companies especially from Hong Kong relocated to Malaysia in order to use Malaysia’s quota to gain access to European and United States markets. This caused a disadvantage to small local firms especially the new ones as they had great difficulty to gain entry into foreign markets.

Most of the clothing articles produced by the Malaysian garment manufacturers are produced under license. Their own designs and brand names are yet to penetrate the foreign markets. The designs and materials are normally given by the designer houses and Malaysian manufacturers sew them according to the specifications. These clothing maybe for well known international brand names e.g. Yves Saint Laurent, Van Heusen, Reebok, Adidas, Arrow Manhattan, Christian Dior and Benetton as well as for chain stores like Marks and Spencer and mail order firms like J C Penny & Co. As a result, the value-added gains were small, as most raw materials had to be imported.
The large foreign manufacturers normally had strong support from parent companies back in Hong Kong, Taiwan or South Korea, to secure more lucrative orders. They were more experienced in the international market, gained greater bargaining power, better network and marketing strategies to source quality raw materials at lower costs for the production. These parent companies also distributed the orders among the various subsidiaries to gain greater advantage from the division of production. The smaller local companies, in the early years, ended up picking the crumbs through subcontracting from these giants. However, this experience gained has contributed to the building of capacity of the local companies. Twenty of the companies interviewed, reported that they learnt the ropes from these giants and ventured into the international market. Five of the entrepreneurs were former employees in these foreign companies who had benefited from hands-on experience and the training received. They learnt the standard and quality required by foreign markets as well as the best international practices in production management, preparing them for their own enterprises. This experience is very similar to the one described by G. S. Shieh (1992) about the Taiwan experience in his book "Boss" Island - The Subcontracting Network & Micro-entrepreneurship in Taiwan's Development'. These spin-offs had led to the establishment of over 1000 garment manufacturing companies, big and small, between 1985 and 1990.

The textile and garment industry is a labour-intensive one. In 1985 the textile and garment industries employed 31,094 workers. This number was
doubled in 1990 to 64,157 workers. In mid 1989, there were over a thousand garment manufacturers employing over 100,000 workers operating 30,000 sewing machines (UNIDO, 1994). By 1993, the industry employed 120,000 people representing 10% in the manufacturing sector. Eighty five percent of the employees were female. The garment industry has always been regarded as a ‘female’ industry.

4.6 Workers in the Textile and Garment Industry

According to the MTMA executive director and the majority of garment makers interviewed, women are preferred to men as the nature of the garment industry demanded characteristics such as manual dexterity, ability to sit for long hours and ability to do intricate work under strict supervision.

They viewed Malaysia in the 1980s, as having an ideal demographic structure for the industry. There was a ready pool of young women (18-24 years of age) to enter the workforce. This group born in the 1960s more than women born in the earlier generations had a greater access to basic formal education. While the preferred ‘feminine’ jobs like teaching and nursing did not grow as fast and thus were in short supply, the factory jobs were abundantly available. The policy change in the medium of instruction in schools and training institutions to Malay also disadvantaged a large number of Chinese girls rendering them unqualified for these white-collar jobs. These young women
drifted into the jobs in the garment industries in the late 1970s and 1980s. This industrial reserve army of labour was activated to fill the newly created jobs.

The workforce of the garment industry in Malaysia is composed of predominantly Chinese women. In 1981, 79% of the workforce in garment production were Chinese and only 18% Malay. This was about 11 times higher than the ratio of Chinese-Malay workers in the textile industry which stood at 25% Chinese and 62% Malays (Hing, 1986). This was also unlike the workforce composition of the electronics industry, which were predominantly Malay women.

One reason, cited by the garment makers, is that the foreign investors are Chinese from Taiwan, Singapore and Hong Kong. The Foreign Direct Investment guideline allows for 100% foreign ownership of the companies if at least 80% of the production is directly exported. There is a mutual ethnic preference bias on both the employer and employees resulting in a greater concentration of Chinese in the textile and garment industry.

This seems to confirm a study by Hing Ai Yun of a yarn spinning and garment factory in the early 1980s, a possible reason for the concentration of Chinese in the garment industry. She wrote that

1 Chinese workers tend, thus, to gravitate to jobs providing some chances of skill-learning which could form the basis of future self-improvement. Aspirations of garment workers depict a greater desire for self-employment rather than a better post as a
wageworker. Where a majority of Malay operatives aspired for white collar jobs such as nursing, teaching, supervisory and clerical posts, 27% of garment machinists wanted to establish their own tailoring shop. *(Hing, 1986:39)*.

The garment makers explained that the Chinese employees, have little schooling, mostly six years or so, and thus have little possibility of advancing themselves in other industries. With the current emphasis on the use of *Bahasa Malaysia*, they are even more aware of their diminishing chances of getting preferred administrative or sales job. They are attracted to a piece-rate system of payment. This system increases their possibility to earn more through diligence and speed achieved through familiarity with the associated skill.

### 4.7 Issues Affecting The Garment Industry

The MTMA and the garment makers interviewed identified a few key issues affecting the garment industry.

#### 4.7.1 Shortage of Skilled Labour

With rapid industrialization, Malaysia practically achieved full employment in 1995. The unemployment rate decreased to 2.9%.
This led to a shortage of skilled and semi-skilled workers. As one manager explained,

"Labour shortage is our biggest headache. You can see the 'worker wanted' banner is perpetually hanging outside, 365 days a year. Ours is a labour intensive industry. We cannot run away from this problem."

"We have the highest number of vacancies next to the electrical and electronic sector. Our members reported about 3,500 vacancies in 1992. Of these, I would say, 75% are urgently required. Last year we recruited some 5,000 male workers and 9,000 female workers but it is also true we lose them very fast in this full employment situation. It is very frustrating especially when we lose them after training them. The bulk of the vacancies are for sewing machine operators. Without them, we cannot produce," explained the MTMA Executive Director.

The highest demand for employees were reported by the establishments in the Klang Valley area, followed by those in Penang/Butterworth region.

Seventy-five percent of the vacancies were for women production workers especially sewing machine operators. All the firms interviewed, relied heavily on women workers, the lowest percentage of women workers was 45% (mostly large firms) and the highest being 100% (mainly micro-enterprises). Most of the small, medium and large factories employed about 75% women.
A comment by an established member of the MTMA was that the female workforce is transient in nature. He explained,

"The reason for the shortage of workers is because we are dealing with women. We would not have the problem if our workers are men like in the metal or furniture industry. Women after marriage, lack commitment to the work. If she is not married, she is often more interested to look beautiful to get a big 'fish', marry a rich husband and stop working. It is frustrating, train them and they just get married and resign to look after the children."

When asked if management would prepare child care facilities to ease the problems women workers face, most managers were uncomfortable with the idea. Of the companies interviewed none had childcare facilities even though the majority of their workers were women. None of the factories had plans to provide childcare services. When told that the government through the Ministry of Human Resources would like factories to set up childcare facilities, the immediate response was that such measures were unrealistic. It would be too much trouble to administer such a facility. ¹

To them the one-stop Centre for application of such facilities was only an 'eye-wash' or a feeble attempt to help. The bureaucracy was still immense.

¹ An enquiry at the Labour Department in July 1995, showed that since the inception of one-stop Centre for application to set up child care Centre in factory premise in 1992, only 16 employers had applied and only five were operating child care centers.
A manager at TM commented,

"Everything involving application to the government is messy and a waste of time. We business people do not have time to do all these useless things."

The main reason cited against the setting up of child care centers on the premises for the workers was that workers might be distracted and over-concerned about their children and thus might not concentrate whole-heartedly on their work. The women workers might take time to visit their children if these children were on the company premises. Such distractions might lead to low productivity, industrial accidents and loss of man-hours.

Management said that the employees also were not in favor of childcare at work as a feasible solution to their problems for the following reasons:

i) It would be difficult for the workers to bring the small children of differing ages to the workplace as these workers travelled by company buses not licensed to carry children or by over-crowded public transport. Carrying milk bottles, schoolbags, change of clothing and uniforms and ushering the children for fear of their safety on the roads and on the buses would be just too difficult and impractical.

ii) According to the policy of the Ministry of Education, children should attend schools near their homes and not necessarily near their parents’ workplace. The children walked to schools or went by school bus. These buses had fixed routes.
If the mothers were on shift work, the school buses might not be able to send the children on some days to the homes and on others to the factory child care centers.

iii) If a woman had children of different ages, some school going, others toddlers, childcare centers at work would not be a practical solution. In Malaysia most schools had two sessions. The children might be in the morning or afternoon session schools. Where two schools shared the same premises, one school might be 6 months in the morning and the other six months in the afternoon. In one family, there would probably be children attending different sessions. Such changes in school time would be upsetting to the mothers’ work schedule. If the mothers were at work, the school going children would often be latchkey kids.

"So you see, even if we prepare a childcare centre, it will not solve the problem. This is Malaysia, looking after children are a woman's job. Besides that women also have to care for the elderly especially of ailing parents or parents-in-law. It is the duty of the woman of the house. This is very much the culture of Malaysia for all the races. The children are expected to be filial to the parents and look after them in their old age."

The above explanation was given by a human resource manager at DQ, trying to justify the lack of childcare facilities in factories.
4.7.2 *Wages and Earnings*

A well-established member of MTMA, when asked about the exploitative and extractive nature of the garment industry, explained:

"People generally accuse the garment industry as being exploitative and extractive. We are said to be the lowest paying industry. But that is not entirely true. It is true we pay less than the electronics factories but certainly we are not the lowest. The electronics industry pays about RM12 a day and we pay about RM8 a day. But there are others who pay RM5. We give a lot of incentives, which are not reflected in the daily wages. These are Chinese workers, they rather have cash incentives than fixed wages. Our members too prefer to motivate their workers with incentives to achieve higher productivity. Our starting pay is low, no doubt, but the average earnings is comparable to other industries."

He also hinted that most of the Chinese establishments were not keen to declare too much expenses or ‘they might invite trouble from Income Tax’.

His views are shared by the majority (80%) of the garment makers interviewed. They explained that the low starting salary was necessary because the majority of first time machine operators were unskilled and a lot of time was consumed in training them. Incentives are more effective in retaining the workers for long periods. He explained that the practice in the industry was to
offer higher incentives to attract experienced and skilled workers. This apparently is testimony of the industry norm of 'pinching' workers rather than investing time and money in training.

There was division of work by gender in the factories. Most of the women are sewing machine operators and men do the heavier jobs such as cutting, moving the work-in-progress and storage. Cutting is considered a skilled job to ensure the saving of cloths. It also requires a lots of strength to manipulate the cutting machine. It was a job dominated by men till recent technological advancements using Computer Aided Design and Computer Assisted Manufacturing, opened opportunities to women. Men now dominate maintenance and managerial posts. Stitching is the most labour intensive work in the production process and requires about fifty percent or more of labour time. This is a skilled job which women excel in, as it needs dexterity and good eye and hand co-ordination for speed stitching.

Even when men and women do the same work there is a wage difference. The average daily rate for a sewing machines operator among the manufacturers interviewed, was RM8 for men and RM7.90 for women. The average starting monthly salary for a male pattern maker was RM840 while for woman recruited for the same job was almost a hundred ringgit lower at RM730. Most managers tried to justify this difference based on objective evaluation of performance such as skills and qualifications. However, most of these reasons could be challenged. In desperation, one manager explained that
men were more attracted by higher initial salary and so the offer had to be higher to attract them. Women were more willing to enter at lower pay and worked themselves to higher remuneration.

A production manager tried to justify the wage difference by explaining,

"men do the harder work. They are less costly, take no maternity leave, take less leave because of children being sick and are less likely to be late for work because children are sick. Women workers are less reliable. Women who put more priority for attending weddings and funerals than coming to work cannot be good workers."

A woman worker in response to this comment said,

"The bosses do not see the men take leave for reasons of being tired after staying up the whole night watching World Cup or boxing. They also take frequent breaks to smoke. They fall sick often because of drinking or smoking. But they make a big issue out of a few of us taking maternity leave or leave to look after our sick children. How often does a woman take maternity leave? Most of us here only want one or two children. Most of us are happy to have a son and maybe a daughter."
It appears that the concept of the family or male wage does exist in the industry and women workers are paid less.

A supervisor at GH pointed out that the reason for the shortage of workers was the low wages. She explained,

"there are so many Malaysians working abroad. Why did they go and do those lousy jobs? It is obvious. They get so much higher salary even as a dishwasher. If we pay decent wages here, even those Malaysians will come back to work. Most of them do not like the life there. They are just there to earn money and come back to enjoy their old age. Tell them to pay more and even the married women will be able to afford to childcare and come back to work."

4.7.3 Rising Cost of Labour

Salaries and wages paid in the year 1992 to the employees in the manufacture of wearing apparel except footwear, was RM 517 million. Total number of paid employees at the end of 1994 totaled 71,417,000 persons. Basing on that figure the average salary or wage of a worker in the manufacturing of wearing apparel was estimated at about RM600 per worker per month.

It was plagued by a high labour turnover. The employees were job-hopping in search of better pay. The manufacturers too were pinching staff. There was also a high rate of absenteeism caused by staff taking days off to try
other jobs. Factories tried to provide attendance incentives to reduce time loss. Some factories gave employees an extra RM30 if the employee was not absent more than two days a month. Others gave an additional ringgit as transport allowance for each day the employee showed up for work.

These all consequently add up to rising labour costs especially in the top four areas of concentration of garment manufacturers i.e. Johore, Penang, Kuala Lumpur and Selangor. According to the MTMA, wages in the manufacturing sector increased by 8.7% in 1994. The highest daily basic wage was in Selangor (RM11-21), followed by Kuala Lumpur (RM11-18) and Penang (RM12-18), with the lowest wage being in Kelantan and Trengganu (RM6-10). The spiralling costs of production can be detrimental to this cost-sensitive industry.

4.7.4 Retraining and Upgrading of Garment Workers

Faced with the rising labour costs, the garment industry’s long term strategy to remain competitive is for Malaysia to manufacture in greater abundance higher value-added products. To do that, Malaysian textile and apparel industries had to upgrade their machines, automate to a greater extent and practice Total Quality Management. This certification, ISO 9000 is the formal standard for selected aspects of an organization’s quality management system to which certification is awarded and maintained based upon a third party audit. This certification is now necessary for exports of apparel into the
European Union. Some chain stores like Mark and Spencer have even higher quality specifications.

These requirements meant that the employees, the majority of whom are women, had to upgrade their skills and learn to meet these quality standards. For women workers who withdrew from the labour force after marriage and/or childbirth and child-minding, re-entry into the labour force definitely requires re-training to skill up grading.

The government and the private sector, principally the MTMA jointly initiated the Malaysian Textile and Apparel Centre (MATAC). It was established on 10 March 1994 to improve and develop a highly skilled and productive workforce in the textile and apparel industries. It was allocated a set-up grant of RM1.45 million by the government. Its principal function is to encourage, promote and provide various types of and levels of training programs. Through these courses, it is hoped that the employees can attain necessary skills and occupational competence. The MATAC also provides and maintains facilities for the promotion of further education, research and development, work skills and for the general development and technical advancement of the workforce. It also offers general and specific consultancy, advisory and management services especially in the area of individual and institutional capacity building in the textile and apparel industry.
Table 4.2: Added Value per Textile and Apparel Worker (USS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Malaysia</th>
<th>Korea</th>
<th>Japan</th>
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<td>2,000</td>
<td>2,600</td>
<td>7,300</td>
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<tr>
<td>1981</td>
<td>3,900</td>
<td>6,700</td>
<td>17,300</td>
</tr>
<tr>
<td>1985</td>
<td>4,100</td>
<td>7,200</td>
<td>21,600</td>
</tr>
<tr>
<td>1988</td>
<td>4,900</td>
<td>14,000</td>
<td>37,200</td>
</tr>
</tbody>
</table>

Growth Rate (1976 - 88)  
7.75%  
15.06%  
14.53%  

Source: UN Industrial Statistics Yearbook, various issues  
Industrial Survey, Department of Statistics, various issues  
Quoted in Mah (1994), National Productivity Corporation, Malaysia.

Manufacturers felt that MATAC helped to reduce pinching of workers but more out of the need of the industry to move up-market and produce higher value-added items. Among the textile and apparel producing countries, Malaysia’s textile and apparel workers’ productivity in terms of value added was among the lowest as shown in Table 4.2. In 1975, the value added per worker of Malaysia was US$2000 while that of Korea was slightly higher at US$2,600 but by 1988, the difference was significantly lower i.e. Malaysia at US$4,900 while that of Korea was US$14,000 and that of Japan was US$37,200. The growth rate of added value per employee in the garment sector for 1986-91 averaged at 8.35% (Mah, 1994).
MATAC’s first course was a training for trainers. It was conducted in co-operation with the Institute of Textile and Clothing of Polytechnic Hong Kong. Other collaborators for courses on designing are the La Salle International Fashion Schools, International Fashion Training Centre and MARA Institute of Technology. The courses include merchandising, supervising, training for operators, cutters and sewers, computer-aided design (CAD) and computer-assisted manufacturing (CAM). There are also courses for mid management i.e. technical line supervisor, training instructor, quality inspector, production co-ordinator and garment technologist.

The number of participants of the fifteen MATAC courses in 1994 was 188. In 1996, the number had increased to forty-two courses with 1273 participants. The MATAC also introduced Certificate courses in Fashion and Clothing Manufacturing and Apparel Merchandising.

The manufacturers who contribute to Human Resource Development Fund (HRDF) can obtain reimbursement for the payments made for the MATAC courses. In January 1993 the Ministry of Human Resources established the HRDF for the retraining of skilled workers. The HRDF is a levy-grant or rebate scheme designed to reimburse firms for the cost of training as an incentive for firms to set up or expand in-service training programs. The HRDF also supports a wide-range of training courses from basic level to management, computer and higher technical skills. It also provides Double Deduction for Industrial Training (DDIT) for small and medium sized companies.
A MATAC executive lamented the poor response of the manufacturers to the training program:

"Most manufacturers are not willing to release their staff to come for training. When business is booming like now, they say they cannot spare the staff. When business is down, they will say that there is no point investing in training the staff since they may have to release some of them to cut cost. Most manufacturers are short-sighted. They are more concerned with making hay while the sun is shining. They think that training and upgrading of the skills is a long term strategy. They rather make do with what they have for now or pay more and pinch from others later."

4.7.5 The Need for Automation

In the garment industry, the sewing operation can take up to 75% of total cycle time as shown in Figure 4.1. To stay competitive in face of labour shortage and high costs, the sewing operation has to be automated. Computer aided design (CAD) and computer aided manufacturing (CAM) can ensure higher productivity, cost saving and higher quality.

*Figure 4.1: Labour Force Distribution of a Typical Garment Company*
Among the manufacturers interviewed, most of the machines were less than five years old. About 30% of their machines were between five and ten years old. Thus most of the machines were not due for replacement yet.

The government initiated the Industrial Adjustment Allowance, which granted 60% allowance to firms in operation before 31.12.1990 to upgrade and automate. Manufacturers of textile products were also granted import duty exemption on plant, machinery and spare parts. Although the government had given encouragement and incentives for going high tech, the garment industry did not fully take advantage of these incentives. They rather remain labour intensive and continued to rely on foreign workers or subcontractors. A MTMA executive explained,
"To most, automation is still too expensive and has to be put off till later. You must remember it is not just the replacement of the machine. It is also the re-training of the staff. At this time of labour shortage, they are very unwilling to do this. It will slow down the production as well as result in more spoilage in the initial years. This is the crust of the problem. If they do not want to start now then when?"

The government in October 1995 had announced that bringing in of foreign workers was only a stop-gap (temporary measure) and within 5 years the industries must automate to reduce their reliance on foreign workers. Garment industrialists have to be more serious to automate.

4.8 Possible Short-term Solutions

The manufacturers pointed out that unlike the Malay and Indian women factory workers who are willing to travel to work, the Chinese women workers seem to prefer to work close to their homes. It explains the concentration of garment factories near Chinese New Villages or other Chinese dominant areas. However, while it is close to the pool of potential workers, it has its disadvantages. This may contribute to greater shortage of skilled employees. To combat the pinching of staff as a result of labour shortage, factories have three
options i.e. to relocate to other locality or resort to foreign labour or to subcontract to home-based workers.

4.8.1 Relocate

During this period of labour shortage, a few factories considered relocation. AK, an infant-wear manufacturer relocated to Segambut where there were fewer garment factories. TM shifted part of their Kepong operations to Batang Berjuntai. The owner explained,

"When we had labour shortage, we were desperate. There were so many orders to fulfill. To keep faith with the foreign buyers, we have to complete our orders and deliver on time. Sometimes, we have to subcontract to other factories because we cannot meet the deadline. One of our managers suggested that we should go into the estates to get workers. We were desperate enough to try. We went as far as Batang Berjuntai. We found a pool of young Indian girls in the estate willing to come for work. We have to send our vans early to get them. There were also others who come occasionally to get casual workers. Our van was late once and we found these girls taken by others. Since rental of the shop-lots there, was cheap, we decided to move part of our sewing operations there. We rented two shops and moved our machines there. We transferred two of our supervisors there to work with them. It is easier to transport two
supervisors than to bring ten to fifteen workers. I thought it was a brilliant idea."

The owner of PC Garment commented,

"Our company relocated away from Kepong to Balakong last month. We have no choice. When the workers don't come to us, we have to go to the workers. Balakong was a good area because the state government resettled many families in the long houses there. There were thousands of women without jobs. Because of the relocation and poor transport services, they were not able to return to their own jobs. So it was ideal for us to move there. Now more and more factories are opening up there. It is a matter of time before we have to fight for workers again. It is a real headache. I have even gone to Cambodia and Bangladesh to see the possibility of relocating our operations there. It is not that simple. Corruption and unfamiliarity with the language and the laws are real obstacles. After much thought, I think Malaysia is still a better place to work. Maybe I will have to look towards Trengganu or even to Sabah and Sarawak. Who knows?"
4.8.2 Foreign Workers

The factories with 45% women, relied on foreign (Bangladeshi) male workers. There were men who stitched clothing like brassieres (see plate 4.1). These men felt embarrassed initially to tell others about their work but eventually got used to it. According to these men, in Bangladesh, more men than
women worked in the garment factories as cultural factors confined women to their homes, restricting them from working outside.

The Management’s response to the problem of labour shortage has been to hire foreign workers. Most managers interviewed prefer the foreign migrant workers over part-time or flexi-time women workers as these foreign workers were less likely to be absent and more willing to work for longer hours and even on Sundays and public holidays. Most foreign workers had come to earn extra money to take home to their poor families. Working overtime would give them extra income.

As these workers were here without families or relatives, they often had no social functions to attend or recreation or places to visit as all these cost extra. The alternative to staying in their rooms or dormitories arranged by the companies during days off would be to continue working. The foreign workers often overseas for the first time and with limited knowledge of the local language are unfamiliar with new environment. They tend to confine themselves to their quarters living much like ‘bonded slaves’ of the feudal age says a female activist. Employers prefer this ‘bonded slave- master’ relationship to employing women with their child-bearing, and family commitment problems which at times makes them unreliable workers.
4.8.3 Sub-contracting

The executive director of the MTMA pointed out to a statement made by the organization to the national newspaper regarding subcontracting,

"Never before has sub-contracting been more vital to the local manufacturing industry than during the last three years, when the country started stepping up its export drive.

This is shown in the textile and apparel industries, which in the last few years, saw double digit expansion and is on its way to register a record RM 5 billion export earnings this year. However, the robust economy has led to problems ranging from labour shortages to lack of production space and equipment besides rising costs.

This has led many in the industry to sub-contracting as a solution to these problems as well as an indispensable 'tool' in the efforts to maintain steady export growth."

(The Star, 27/11/1995:8 Business)

As textile and apparel is a labour intensive industry, many in the industries are forced to meet their shortage of both skilled and semi-skilled labour and rising costs by farming out some of their operations such as dyeing and finishing, specialized embroidery work, cutting, sewing and finishing to women sub-contractors and home-based workers.
The nature of the garment industry permits the farming out of part of its production process vertically as well as horizontally. As shown in Figure 4.2, the vertical putting out can occur at many points. Normally designing, cutting of the material, finishing and packing are done in the factory, but even these can be subcontracted. The stitching and value-added work of embroidery, cut-out, buttoning, crochet or other forms of style enhancement can then be put out to other production units, whether individual home-based workers or to small or micro enterprises. The different parts of the garment e.g. collar, sleeves and zip can also be subcontracted out for stitching. Horizontal sub-contracting occurs when the type of work is put out to several production units and home-based workers.

Sub-contracting has several advantages and has become a vital part of the industry. It offers benefits related to capacity flexibility, access to specialized skills and equipment with heavy outlay; externalization of costs and risks (Watanabe, 1971; Mitra et al, 1980; Singh and Kelles-Viitanen, 1987; De Groot, 1993). An important way used to reduce costs is casualizing labour. In this way too, the garment makers need not assume responsibility to maintain or protect labour in periods of slackening market demand.
Figure 4.2: Flow Charts Of Production Process Including Farm Out Operations

- Incoming raw material e.g. fabric and accessories
  - Receiving/Issuing Store
    - Fabric
    - Cutting Department
      - Cut material
      - Sewing Department
        - Rejected garments sent back for rework
        - Quality Control Department
          - Company exercises 917 control at sub-contractor's premise
          - Laundry Department
            - Duly completed garments are returned to factory for washing
            - Trimming
            - Ironing Department
            - Packing Department
              - Garments are packed to order
              - Export

- Accessories e.g. button, zippers labels
  - Sub-contract operations
    - Including stitching, hemming, button, button hole, sewing, zipper, bartacking
    - Final Process
      - Including trimming, ironing and packing
The most frequently subcontracted operations are sewing and specialized work such as embroidery, patch work and cut-outs. Sewing is the most labour intensive work of the production process and is often more than half of the operation. As it does require much capital investment on the part of the subcontractor, it is most frequently farmed out. It also requires little supervision to ensure quality control. Though sewing is a skilled job, its minimum requirement is the ability to sew with a minimum speed. It requires good eye and hand co-ordination to sew according to stipulated lines or curves. Women often excel in this. Embroidery, patch work and cut-outs require specialized machines and often greater skills. Instead of investing in these machines or employing such skilled workers, a factory is more likely to subcontract these operations to a specialized subcontractor.

Most of the people who sew are women. Because of the loss of experienced workers due to marriage and child-bearing, skilled sewers are often encouraged to take home their work. According to one factory, DH Garments, in the course of its 25 years of business, this arrangement has evolved into subcontracting out most of their orders, cutting down staff from almost 100 to now around 20 full time sewers and cutters. Home-based sub-contracting is a means to retain such workers whose departure would be a certain loss to the factories.

Out of the 62 garment makers, fifty (80%) said they have used at one time or other home-based subcontractors. Although 83% of the factories
interviewed subcontract work to subcontractors, only 28 (45%) were currently using home-based subcontractors. The sub-contracting to non-home-based subcontractors was mainly value-added work such as embroidery (including brand name on the apparel). These were normally subcontracted to other small and medium-sized factories specializing in such work. Almost all the home-based subcontractors were women. There was only one who was male but he had the women in the family working on the contract. There was a tendency to resort to home-based subcontractors when there was a seasonal overload or when factories could not cope. Factories normally agree to accept orders even though they could not cope because they fear losing the client to someone else. Another reason for accepting was line balancing -- to keep the group that was idle and subcontract out to subcontractors if the line in the factory was too overloaded to cope.

The number of subcontractors in the list of factories was not many. Micro-sized garment markers could have more home-based subcontractors than own staff. Single owner operators (90%) were totally dependent on home-based subcontractors and had no workers in their employment, to reduce fixed cost. It was difficult for the garment-makers, except the micro and small factories, to give actual figures of the number of home-based subcontractors in their collaboration. They have a list of subcontractors, often a core group of 10 or so, with others to call on when necessary. Often they did not keep close tabs on these peripheral ones.

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Medium sized factories were more likely to be dependent on home-based subcontractors than the large or small factories for two reasons:

i. They were trying to grow - they were too small to pay attractive wages and too big to run like a family business and retain enough staff; and

ii. They were most likely to practice as well as suffer most from worker pinching as they could not afford to invest in training of workers and so were most eager to recruit skilled workers. They were also most likely to lose their good workers to others who could compensate their staff handsomely. Although there was mutual understanding not to pinch staff, the pressure at times of demand forced them to attract other workers. Some of these factories have perpetual worker-wanted signs displayed at their fences. The medium sized ones were also likely to recruit foreign workers, mainly Indonesian women and Bangladeshi men. While working together away from their own families, these workers often had illicit affairs, sometimes with the locals. This often led to fights among the racial groups, as the local or Indonesian men tend to be protective of their women. These social problems pose a challenge to the management, who prefer to consider these as personal problems and turn a blind eye to them. Some managers recruit only Bangladeshi men or Indonesian women as a way of avoiding the problem but this are not always successful.
All sub-contractors were taken on through recommendations and contracted out according to piece rate through verbal agreements. There were usually, little 555 notebooks used to record the number of pieces taken, number returned and offer piece rate price to be paid. This arrangement was very suitable for the parent company as it enabled it to take on any amount of orders without worrying about not being able to fulfill orders. They did not have to expand their factory floor area or buy more equipment even as their business expanded. Neither did they have to be concerned about ‘non-working’ overheads when orders were reduced during low periods.

Most of the home-based subcontractors had low mobility because of the lack of personal transport and because they had little children at home. Some were able to come to the factory to collect the cut material. It was a good routine to be out of the confines of the home, often detour to meet other subcontractors for coffee, shopping or socializing. Some had their husbands or children’s help to pick up the bundles. The majority however, preferred home delivery and pickups. Some of the owner operators had a fixed route delivering and picking up on a weekly or fortnightly basis. In this way they managed to have some form of quality control before completion.

The home-based subcontractors were paid on a piece rate basis and on a batch basis, often in dozen (12) or gross (144). Even on a batch basis, the calculation was based on a piece rate basis with some room for negotiation.
the subcontractors' children as a traditional Chinese New Year practice. It could be considered a form of bonus. Gifts of Chinese goodies during festive seasons were also common.

There were no medical benefits, contributions to Employees Provident Fund (EPF) or Social Security (SOCSSO). The manager of WB explained the parent companies' predicament,

"It is not because we do not want to give but these home-based subcontractors are not our employees. Government does not allow home-based employees to contribute to EPF or SOCSSO. Also it is hard for us to explain to the government. If the government recognized home-based work, then it will be easier for us to help these workers."

The relationship with sub-contractors ranged from loose - one time sub-contracting to dependent (or interdependent) relationship. Some companies are totally farming out a specific operation all the time. Almost all garment makers reported no legal contract, not even a letter of terms of offer was given by garment makers to the home-based subcontractors. The normal contractual form, for bigger factories, was a card for each subcontractor recording the piece rate and number of pieces taken and returned, rejected pieces and amount payable to her. For small and micro firms the same details were recorded in little booklets. For both each time, both sides will sign. The explanation given
by Mr. Liew of TM Garment was typical of the thinking of the garment makers on this matter of contractual agreement.

"This whole arrangement is based on trust with people we know. These women have little education. Legal contracts and letters of offer are all meaningless and a waste of time. All useless. The women know they need us to give them work and we know we need the women to work, the rest is all trust. Without trust, how can we do business."

There were occasions of disputes – primarily regarding quality. When there were mistakes, the subcontractors had to rework the garments - a very tedious job. Unpicking the stitches was intensely disliked by both sides. The colour of the thread selected was always closest to the colour of the fabric and this made them nearly invisible. A dark colour like black, red and bright colors made the unpicking even harder. After a while, the eyes become glazed. The fastest method was to use a sharp razor to cut the stitching but that would lead to a tear or strain on the fabric making it unacceptable. Most of the time, garments that needed more than 20% rework had to be discarded or if, completed, sold as seconds or rejects. Seconds and rejects were sold at 20% or less than the selling price of the finished product.
Factories explained that foreign buyers when faced with a low demand for a particular design that they had ordered, would try to reject the order using small excuses. Miss Lim from KH Garment explained,

"When an item is hot, you can make many mistakes, the foreign buyers will still take them. They will chase us for the orders with calls and faxes etc. But, when things go wrong and the design is not in vogue, it is us who have to chase them to take delivery. They will try to avoid us and try their best to reject our products. They will say the threads don't match or the stitching is not according to specification. You can be sure they try to reduce the payment due to us."

From observation, it is obvious that the factory or manufacturers having problems with the ordering company, have the same tendency to pass the buck down the line to the staff or subcontractors. The problem maybe at the ordering end. It can be a 'wrong' design or a 'wrong' colour, which has not become trendy during the season. The ordering company will find excuses to reject the order. The manufacturing company then tries to pressure the staff or the subcontractor to pass the buck down the line. The supervisors are pressured to fault the employees or subcontractors. They are penalized for minor mistakes resulting in the subcontractors having their earnings deducted.
In these days of upmarket fashion, quality work was the only way for Malaysia to stay competitive. New entrants like Cambodia and Vietnam offered lower cost labour. This experience is similar to the Newly Industrial Economies in the 1960s and 1970s. Hong Kong in 1950s and Singapore, South Korea and Taiwan in the 1960s were the largest textile and clothing exporters. In the 1980s, their international share declined as they relocated their factories to lower cost developing countries (Pawadee, 1993; UNIDO, 1993; ). Malaysia seemed to be undergoing the same experience with the industry growth slowing down and the factories being relocated to lower cost countries like Cambodia.

Thailand and Indonesia are strong competitors to Malaysia with not only lower labour cost but with higher quality artistic work. Thus, it was important for the garment industry in Malaysia to stay competitive by upgrading its machines and train its staff. As in other countries, increased automation and high technology favoured increased male participation and reduced female employment (Pawadee, 1993; UNIDO, 1993; Vagneron, 1999). Women workers who had less education were found to be less suitable for the high technology and automation. Women who withdrew from the labour force due to marriage and domestic commitments also found it harder to return to work.

The factories that remained in the lower market and/or continue to remain dependent on home-based subcontractors were willing to train selective home-based subcontractors who were regular. Fifteen of the garment makers said that they placed machines in the homes of subcontractors to save space and
overheads. These were very trusted long standing subcontractors. These subcontractors were those that the garment makers knew would not use their machines for other parent factories. It was out of necessity that factories did this as they needed the skills of these contractors.

Reasons cited for sub-contracting, ranked according to frequency from the survey conducted:

1. Manufacturers gave the main reason for sub-contracting as increased demand - because of the double digit growth and expansion of the garment industry over the last 10 years. The rapid expansion compounded by the lack of training in the industry has led to a shortage of skilled and unskilled workers especially in the sewing division. The high turnover of the labour force is the result of pinching of staff within the industry and by other industries due to the overall shortage of labour. Subcontracting allows the putting out work to other factories or home-based workers.

2. To create greater efficiency in production by improving line balancing, overcoming production bottlenecks and backlogs as well as reducing idle machine time. Manufacturers will take in orders in excess of capacity to prevent idle time should there be any delay in raw materials (fabric, thread, button and other accessories) supply. This is a production strategy used by most of the garment manufacturers.
3. Greater network linkages between manufacturers and subcontractors have allowed companies to reduce overheads through increased specialization among the manufacturers and subcontractors e.g. for embroidery and printing. Many manufacturers do not have printing and embroidery machines / sections in the factory. It may not be economical to install a section because it is not a regular feature of normal production. Factories may not wish to incur the high cost of setting up printing and embroidery production. These two sections also require highly skilled, experienced workers, which the factory may not have in its employment. The Association and other networks have played a great role in promoting better macro tie-ups and cooperation in the face of intense international competition.

4. Sub-contracting can lead to an effectual lowering of overheads and improve cost efficiencies. A factory may not have sufficient sewing machines and production space to meet the expansion needs of the factory. With particular home-based subcontractors, the factory owners can place the machines in the homes of the subcontractors, thus reducing overhead costs of salary, space and amenities as well as administrative workload as there will be less recruitment, hiring and firing and personnel matters to manage. Garment is a fashion industry where the manufacturer needs to keep pace with the changing trends that dictate the market demand. Trends are always
changing. New and modern designs often need value added, specialized work, which may not be available in the factory. Manufacturers need different machines for different jobs. Closeness and size of stitches differ according to the quality of clothes and cloth. Thus some of this work has to be farmed out to subcontractors.

5. An unstable market / seasonal market demand is a feature of the industry. Demand is often related to the festivities and celebrations in Malaysia. In a multiracial society like Malaysia, the demand is made even more difficult as traditional cultural clothing need different materials and skills for sewing e.g. stitching of saree blouses is a highly specialized skill. At times, sudden demands exceed capacity of the factory or planned supply. Often manufacturers are obliged to take orders bigger than their capacity to maintain the goodwill of the customers / clients. At short notice, it is also nearly impossible to increase its capacity, thus, the manufacturers have to sub-contract.

6. To improve product mix. A wholesaler or a buying house often has orders of mixed products. A manufacturer is sometimes obliged to accept a package order of mixed products from a regular client even though he may not have the capacity to manufacture the full mix. He does what his factory is capable of and subcontracts the rest.
However, in the private sector wage agreements compiled and analyzed by the Ministry of Human Resources, - a total of 161 agreements made during the period of January to July 1994- showed that the average wage increase in all sectors was 10% only with the manufacturing and the commercial sectors average increase being lower than that for a similar period in 1993. One unionist argued that the workers lost out because of the liberal foreign workers policy of the government and the poor enforcement thus allowing manufacturers to turn to the illegal migrant workers to keep wages down and have an edge over the union. A unionist explained:-

"We are having a labour shortage here, yet we have our workers working in Japan, Taiwan and the United States - why?
Because we pay low wages here! If we pay higher wages, many will return and work here. Even women will work!"

The most frequently mentioned disadvantage with home-based sub-contracting was that being separated by distance, the factories, the parent establishments would not be able to correct mistakes immediately. The mistakes would only be known when the consignment was completed and returned for inspection. By that time, it would be too late. If it were an advance part of the process, the loss would be even more severe as the initial work had already been completed by the earlier subcontractor. If the consignments were urgent, it
would mean penalty or damage to reputation for reliability for on time delivery. Because fashion is time-sensitive, the cost would go beyond just materials. The second challenge was that it took time to test out sub-contractors for their reliability and skills. Thus, it explained why factories prefer to take on subcontractors who had been working in their factory before or someone they were familiar with. Highly skilled sub-contractors can dictate a higher price, which often raised their fees.

As business improved, garment makers began to face the problem of labour shortage. Competition for labour intensified. Labour pinching was common. Others resorted to foreign labour. The factories were given permission to employ Bangladeshi male workers for the sewing operation. However, their work was not satisfactory. For higher quality sewing, many factories continued to subcontract out the work to home-based workers who were more experienced and highly skilled.

To keep overheads low, factories like TM Garment subcontracted out different processes. Labour shortage and tightening control of foreign labour regulations forced it to further subcontract. TM had plans for his company to be listed in the second board of the Kuala Lumpur Stock exchange in three years’ time. For the time being, the biggest obstacle before it seems to be a shortage of workers and rising wage rates.

There was consensus that the garment industry required the services of home-based sub-contracting to stay competitive. However, the government
authorities are generally silent on the existence of home-based sub-contracting. Most officers agree that it exists but dismiss it as an insignificant factor. There are no regulations to protect these subcontractors and like other workers in the informal sector, the government officials view is that it is better if these home-based subcontractors graduate into formal sector producers.

This article ‘Red Tape Giving Textile Exporters a Hard Time’ by Chan Tien Hin which appeared in The Star: Business (1995b) gave a good illustration of the problems the industry faces.

"The textile and apparel industry, Malaysia’s second biggest export earner, is in a state of dilemma, which may jeopardize its future as a reliable supplier to the world market.

Industry sources said many textile manufacturers, especially exporters had been facing delays in getting approvals for sub-contracting licenses since April this year.

They claimed that the Bahagian Analisa Cukai (Tax Analysis Division) of the Treasury was taking about one to six months to approve these licenses unlike one to four weeks previously. ‘These delays have seriously affected export orders and if this problem is not resolved fast, it may jeopardize Malaysia’s reputation as a reliable supplier,’ a source said.
Manufacturers who have secured overseas orders need to apply for duty exemption on raw materials, which have been specified by the importer. These applications have met with problems.

Applications for the transfer of certain imported raw materials to subcontractors have encountered long delays.

'As part of my marketing strategy, I will take a side order of 1,000 pieces of polo neck shirts from a foreign chain store, which wants 10,000 collared T-shirts,' a local manufacturer told Star Business.

'Although I specialize in making the expensive T-shirts, I don't have the machines to cater for the side order. Therefore, I have to farm it out. I have to apply for a sub-contracting license. But with this long delay in approvals, I am faced with the prospects of late delivery as well as losing the whole deal,' he said.

'The buyer will go to other countries like Indonesia or Thailand where manufacturers are able to accommodate both orders.'

Another manufacturer said, 'There is a need to have clear policy guidelines on what is required to get our applications for sub-contracting approved.'

He said this delay may be mainly due to numerous lengthy correspondences between the division and the applicant.
These obstacles do not augur well for Malaysia’s reputation as a consistent and reliable supplier,” he said, adding that at the end of the process, the application might not be approved.

Manufacturers were left in a dilemma as to why their applications were rejected, he said, adding that ‘We are left in a state of anxiety and no longer know the future of the industry.’

According to other sources, 40 per cent of the knitting companies related to the export business were badly affected.

A knitting industry source said some approvals were restricted to the old subcontractor list while new applications were rejected.

Also, some applications were approved faster, the source said, adding that they managed to obtain ‘full approval.’

The efficiency and productivity of big factories will be affected if they have big orders but there is no support from subcontractors,’ the source said. ‘Furthermore, the linkages brought about by the subcontracting between the big and smaller factories will also be affected.’

A garment manufacturer said labour shortages have made subcontracting vital in solving these problems as well as playing a major role in developing the industry.

‘Sub-contracting is a feature of the industry, and this has helped us to meet the changing fashion,’ he said. ‘"
With reference to the point of approval of raw materials to subcontractors, one of the managers interviewed highlighted the case of customs officers raiding the homes of home-based subcontractors to ask for licenses. If there is no license, all the material will be confiscated and the parent factory and the subcontractor will be charged and fined. Most subcontractors are unwilling to be exposed to such risks.

Most garment makers interviewed were concerned about the government authorities' lack of appreciation of the significance of sub-contracting including home-based ones to the industry. The manager of MM Garment explained:

"Compared to Indonesia and Thailand, our authorities are more of a hindrance than a help. The red tape and bureaucracy are overwhelming. They do not seem to understand the problems we face in the industry. There must be clearer guidelines to help us work with subcontractors especially the home-based ones. Without them, it is hard for us to stay competitive."

4.9 Conclusion

The garment industry in Malaysia grew by leaps and bounds during the period 1980 –1996. The relocation of many foreign direct investments from countries such as Singapore Japan, Taiwan and Hong Kong to Malaysia in search of low cost labour, contributed to this phenomenal rise
from 31094 workers in 1985 to 120,000 workers in 1993. This represents ten percent of the total workers in the manufacturing industry.

These manufacturers have a preference for Chinese female workers and often establish their factories in predominantly Chinese areas. Eighty five percent of their workers are female and 79 % are Chinese. This represents eleven times more than Malay workers in the garment industry.

Because of the boom the industry suffered from shortage of workers especially skilled ones. The labour intensive nature of the industry led to a heavy dependence on labour. Rather then train workers and automate manufacturing processes, most manufacturers prefer to pinch workers from others by offering higher pay. This led to rising costs. To combat this, some manufacturers relocate to new areas especially rural areas, hire foreign workers or subcontract to home-based subcontractors.

Subcontracting is vital to the industry during this period of double digit growth as it helps it to overcome labour shortage by farming out part of the production processes to other establishments or home-based workers. This accords the industry flexibility to cope with the seasonality of the industry. The home-based subcontractors are not regarded as regular workers and are paid piece-rate for the work done. It increases efficiency through improved line balancing and reducing bottlenecks and backlogs and idle machine time. By subcontracting to specialized establishments, a manufacturer reduces his overheads and increases cost efficiencies. In
utilizing the services of home-based subcontractors, garment makers are able to casualize labour and reduce fixed labour cost and transform labour into a variable cost. Thus labour can be disposed of without penalty when business is down.

By subcontracting to home-based workers, garment makers are able to reduce their overheads as the subcontractors provide the premises and machines for production without rent and help absorb some parts of the production costs such as utilities, material such as threads and transport. Thus the costs of production are externalized to some extent to the home-based subcontractors. The home-based subcontractors help the industry to stay competitive and cost-effective.
My Home, My Workplace

Source: Original Sketch by Roshani Vibha Ludher

Chinese Women Home-based Subcontractor