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Global Commodity Chains in Crisis: The Garment Industry in Malaysia

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Abstract: This paper examines the garment industry in Malaysia from the 1970s to the present. It looks at the strategies employed by manufacturers to cope with both the end of the Multi-fibre Arrangement (MFA) and the effects of the global economic crisis on the industry in Malaysia. The garment industry in Malaysia is situated on the periphery and is almost totally reliant on contracts from the United States (US) and Europe for its survival. Since the global economic recession, contraction in the consumption of garments in these countries has translated into factory closures and lay-offs in Malaysia. According to industry experts, the apparel sector is no longer competitive and unless manufacturers increase levels of technology the industry will struggle to survive. Trade associations in Malaysia and ASEAN countries argue that a regional strategy is necessary to cope with increasing levels of competition from China and other parts of the world.

Keywords: economic crisis, export manufacturing, foreign workers, global commodity chains, Malaysia

JEL classifications: L22, O14, O19

1. Introduction

The garment and textile industry in Malaysia faces high levels of competition from countries in the Asia Pacific region including China. The industry has managed to survive changes brought about by the end of the Multi-fibre Arrangement (MFA) under the World Trade Organisation (WTO) by moving up the global commodity chain to manufacture for the high-end sportswear market. However the global economic crisis (GEC) has brought new challenges to managers as the contraction in consumption in Europe and the US means reduced orders, factory closures and re-locations. In response, the Malaysian government has provided a package to lower the costs of industry imports to help manufacturers cope with the recession.[1] This is not the first time the government has stepped in to support the export industry.

The government has played a major role in promoting export-oriented manufacturing in the clothing, textile and electronic sectors and for connecting the economy to the global market in order to fast-track development (Rasiah, 1993). The government in Malaysia (following a development trajectory) embarked on a New Economic Policy (NEP) in 1971 that would eradicate Malay poverty and prevent ethnic tensions between Malays and non-Malays after emotionally charged riots occurred in 1969. Consequently the manufacturing sector prospered. This was particularly the case for the electronics sector and the textile and garment sectors and by the 1990s these accounted for 45 per cent of the Gross Domestic Product (GDP) and 82 per cent of total exports (Athukorala and Menon, 2008: 248). Malaysia had great success with export manufacturing and in attracting Foreign Direct Investment (FDI) and until the AFC in 1997-8 Malaysia was one of the fastest growing economies in the region. On the other hand, the AFC highlighted the growing income disparity and weaknesses associated with particular economic policies reliant on FDI and the export market (Ishak, 2000: 113). Although Malaysia recovered more quickly than other nations in the region, the focus on a large export industry in manufactured goods has not had long term benefits (Jomo, 2001).

Times have changed, but in the 1970s non-Malay ownership was a major problem for the newly industrialising Malaysia. The focus on enticing foreign direct investment into the export industry was to provide the state with time to cultivate Malay entrepreneurs (Gomez, 2009). By the 1980s the government favoured joint ventures with Malays and overseas interests as opposed to import-substitution ventures (Gomez, 2009: 368-70). While non-Malay small to medium enterprises (SMEs) had the capacity to foster domestically driven industrialisation, the political and social situation in Malaysia was not conducive to non-Malay capitalist development, hence the industry remained almost entirely export focussed. The globalisation of the garment industry in Malaysia then has a diversity of historical factors associated with development.

Taking historical factors into account, this article examines the export oriented garment industry in Malaysia in the post MFA and post GEC period. The globalisation of the garment industry has been examined through the lens of global commodity chain (GCC) studies.[2] In this literature there are two chains – the producer driven chain and the buyer driven chain. According to Gereffi *et al*. (2005) the clothing industry is a buyer driven chain. Brand name designers and retailers source garments along a commodity chain that extends from the design and marketing of the garments to fabric sourcing and manufacturing, and then to the selling of the garments. The GCC analyses include both forward as well as backward linkages. The business units may be subsidiaries of transnational corporations or independent companies of varying size (Gereffi and Korzeniewicz, 1995). In the buyer driven chain, the fundamental premise is that competition is lower in the core nodes while innovation is higher. This transfers the pressure of competition toward the periphery while captivating profit-producing advances in the core. The buyer is the most powerful node in the chain and the least powerful node is in the periphery.

The GCC can be used first, as a lens to show the role of the clothing sector as a stepping stone in the industrialisation of developing countries and to show how industrial upgrading in developing countries leads to further technological advances for the industry. The benefits of global commodity chain production for developing countries and workers are enhanced when levels of innovation, technology and skill are transferred resulting in full package production. This is more common in countries where manufacturers produce for the high end of the market. Countries where manufacturers produce for the mass market are more likely to face fiercer competition and workers in these factories are more likely to experience 'sweatshop' conditions. That is not to say that higher end apparel manufacturers do not exploit labour, they do, but the higher levels of technology mean the workforce is more skilful and they can bargain with the manufacturers. However, in some nation states capital labour relations are far more complex.

Second, the GCC can be used as a lens to show how power among actors in the chain changes over time. One of Gereffi's assertions regarding buyer driven commodity chains highlights the chains' governance structures (Gereffi *et al*., 2005). The most powerful manufacturers offer the buyer services, such as pattern making through to full package production from factory to retail. These manufacturers usually have computer assisted design (CAD) and computer assisted manufacture (CAM) technology as well as other technologically advanced machines. They offer niche buyers quick turnaround to compete with low cost production. The second most powerful manufacturer services retail giants such as Wal Mart and Liz Claiborne. These manufacturers must have a level of competency to mass produce, offer low costs and deliver on time. Usually situated in countries such as China and Bangladesh, they have a large labour force and make profits by economies of scale, by increasing the number of garments produced efficiently. The cut, make and sew manufacturers situated at the bottom of the ladder in the low-cost countries have the least power but they can undercut the market with cheap labour costs. These producers have little bargaining power and live in fear that the buyer will leave them for a cheaper 'bottom of the barrel' manufacturer – and in many cases they do.

The GCC is a useful lens but has been criticised over time because it privileges the role of the industry and marginalises the continued importance of state regulation (Whitely, 1996: 419; Dicken *et al*., 2001: 100). Dicken *et al*. (2001) and Smakman (2003) look at the role of globalisation discourses in the contest over government and business policy. They show that we must take seriously the ways that policy is framed. Further, Dicken *et al*. (2001) show that making the 'global' a unit of analysis produces problems of scale. The latest published collection of articles in Bair's book on global commodity chains also views major and minor problems stemming from an analysis using GCC alone and similarly argues that GCC analysis has neglected to include the role of states in development and industrial upgrading (Bair, 2009). The role of state policies in Southeast Asian (SEA) development is significant (Hewison and Rodan, 1997) and must be included in any analysis of the manufacturing sectors (Pangsapa and Smith, 2008).

Malaysia is a good case study because it has particular political and ethnic differences compared to other developing countries in the region. This paper argues that while the Malaysian industry is connected to the global market, the role of government has been important in promoting export manufacturing in Malaysia by allowing manufacturers to recruit overseas labour to solve labour shortages and offset rising labour costs instead of orchestrating industrial upgrading and training workers (Edwards, 1999). While it appears that the openness of global trade gradually becomes positive as workers are paid higher rates of pay, in Malaysia employers pressured the government to allow large numbers of foreign workers into the industry undermining further skilling and wage increases for Malaysian workers and allowing employers to become dependent on foreign workers (O'Connor, 1993; Edwards, 1999; Rasiah, 2009).

This article is divided into three parts. The first section begins with a brief history of industrial development and the quota system. The second examines the industry strategies to deal with high levels of competition and labour shortages. It questions industrial upgrading and buyer relationships in the third section and examines trade associations' new proposed strategies to deal with increasing levels of global competition in the future.

This article is part of a research project on the clothing industry in the Asia Pacific post MFA funded by the Australian Research Commission (ARC) and is based on research centred on the clothing industry in Malaysia conducted between 2006 and 2009. The research is largely concentrated in Malaysia's most developed states including Selangor, Penang, Negeri Sembilan and Johor. A number of interviews were conducted in Batu Pahat, a garment cluster town in the state of Johor which was established in the 1970s under the guidance of Taiwanese and Chinese Malaysian connections. Since then the town has attracted manufacturers and knitting factories and now produces over 40 per cent of Malaysia's textiles and garments and houses the Malaysian Knitting Manufacturers Association (MKMA) (Smakman, 2003). Johor is mostly focussed on knitted garments while Penang, in the north, is the largest producer of woven fabrics and garments.

The qualitative research methods included structured and semi structured interviews and open-ended answers with managers and market managers of five textile factories including the three largest companies in Malaysia: Penfabric/Toray (a Japanese company); Recron (a Taiwanese company taken over by the Reliance Group an Indian company); and Ramatex (a Malaysian listed company). In addition, interviews were conducted with twenty five garment manufacturers, four government personnel and four trade associations' spokespersons. Companies selected included fifteen medium to large companies and five small to medium companies manufacturing for the export market, and five small to medium factories manufacturing for the local market.[3]

The division of companies on the basis of size is important because larger manufacturers are foreign multinational companies or Malaysian Chinese owned publicly-listed companies that use state-of-the-art technology to produce for global markets. Large to medium Malaysian owned companies could also own several tiers of vertically organised suppliers and service niche markets such as Nike. Small to medium enterprises (SME) are more numerous in number and are almost solely owned by Chinese Malaysians and tend to play an important role in supporting the larger industries. They produce for both the export and domestic markets. A detailed assessment of these companies is beyond the work of this article but most of the factories are owned by Chinese Malaysians or by Singaporean, Hong Kong or Taiwanese companies. Malays control a very small percentage of the local industry, manufacturing Malay clothes and government uniforms. The garment industry in Malaysia can be divided between informal and formal sectors and between local and export industries. Of these, the largest is the formal export sector (R. Chiang, MKMA 2009, pers. comm., July).

2. The Past: Malaysia and the Quota System

The MFA, known as the quota system, was imposed on developing countries such as the East Asian Newly Industrialised countries (NICs) to stop these countries overproducing garments and flooding the developed economies. The main aim of the MFA was to protect jobs in developed countries and to give poorer nations the opportunity to 'kick' start their economies with labour intensive manufacturing. The 'Asian Tigers', however, circumvented the quota system by transferring part of the production to lesser developed countries with surplus quota (Wilson and Wong, 1999). Malaysia was one of the 'cheaper' sites to which the industry moved and was one site for the establishment of Export Processing Zones (EPZs), then considered the main 'quick fix' for attracting foreign investment (Rasiah, 1993).

During this time, the buyer-driven global commodity chain established in the late 1980s became a triangle system whereby buyers in the US and Europe sourced their goods from Japan and the NICs (Korea, Hong Kong, Singapore, Taiwan) who in turn transferred the production to lesser developed nations such as Malaysia (Smakman, 2003). It marked a turning point in garment sub-contracting because the NICs organised themselves to provide a full package production from many different locations. The brand-name buyers did the design and marketing of the garments but the full package production was orchestrated by the NICs' sub-contractors.

Malaysian manufacturers were assured of contracts under the quota system and, according to industry experts, everyone survived. But the quota system meant that garment manufacturers only focussed on manufacturing made-up garments – there was no upstream or textile development. Nevertheless Malaysia did very well under the multi-fibre and bilateral trade agreements and the industry by the 1990s was the sixth largest contributor to total earnings from manufactured exports (Crinis *et al*., 2000). Since the late 1990s, the use of East Asian intermediaries has been no longer necessary as internet technology and expertise in skills development in countries such as Malaysia means that most countries do their own full package production. This meant that the US and Europe could send their design to the factory and the finished product would be sent to the store for retailing and the middle man was cut out. Malaysia was guaranteed quotas and subsequent contracts to produce garments for the US and European fashion markets.

After the MFA ended, industry experts blamed the quota system for distortions in different countries in terms of upstream and downstream developments, and for causing high levels of competition between manufacturers (A. Hong 2009, pers. comm., 30 June). Under the quota system, East Asian companies expanded their apparel capabilities and concentrated on upgrading their products. Ironically, the quota system forced Hong Kong and other NIC producers to become first class fabric makers (Glasmeier *et al*., 1993). The NICs continued to manage large supply chains, extending from Hong Kong, Korea, Singapore and Taiwan to China, to the retailer and at the same time sold synthetic fabrics to both developed and developing countries. But the NICs did not focus on the design and retail of the garments.

According to industry experts such as Andrew Hong, chief Executive Officer of Malaysian Textile Manufacturing Association (2009, pers. comm., 30 June) countries such as Malaysia and Thailand (unlike the NICc) did not develop backward linkages. While Indonesia had some backward linkages it was not at the level of Malaysia and Thailand in the downstream, and countries such as Vietnam and Cambodia only developed downstream cut, make and sew linkages. Malaysia is weak in the upstream because, under the quota system, buyers did not want dyeing and finishing – they only wanted to buy finished goods. So for over thirty years, Malaysia did not invest in the upstream but focussed on providing the finished goods. The quota system also caused high levels of competition between manufacturers because the buyer could only buy a certain number of garments in a particular country and if one manufacturer saw the buyer talking to another manufacturer down the road he perceived that manufacturer as his competitor. According to Hong (2009, pers. comm., 30 June) during the MFA period "There was no national interest, only individual companies and profits".

3. End of the MFA: Southeast Asian Manufacturers Fear China Takeover

The quota system was phased out in 2004 under the World Trade Organisation (WTO) and Malaysian manufacturers saw this as a time to increase their output. Many buyers also saw this as a time when China would absorb a large percentage of the global industry and their fears were well grounded. Apparel exports had been important to China's export push in the 1990s, growing from $10.2 billion in 1990 to $36.1 billion in 2000 (Clark and Milberg, 2010). The ending of the MFA in 2005 provided China with new opportunities to increase its output and as a result China's garment exports to the US and European markets increased.

On the other hand, according to manufacturers interviewed in 2007 who had factories operating in China, the quality did not always meet the buyers' expectations because the garments were poorly made and wages were increasing at about 10 per cent a year. In other words, China could supply large cut, make and sew orders but China had problems supplying high-end niche markets. According to H T Leing (2007, pers. comm., May) when discussing China and the end of the MFA:

> Initially we worried that after the withdrawal China would have better income than us [that the buyers would go straight to China]. But it depends on what kind of market we are doing. If we are doing lower-end market then we are quite badly affected. For us we are doing a niche market so they do consider the quality so apparently our orders were not affected by the MFA.

Another manufacturer Y H Tan (2009 pers. comm., 19 August) explained that many importers of apparel products who moved to source all their garments in China were now switching part of their supplies back to the traditional sources in the ASEAN region for two reasons.

> Firstly the trend of outsourcing manufacturing work to China has slowed due to rising cost of production such as a higher minimum wage and tight labour supply, especially in the coastal region. And secondly there is a concern among the international brand-name owners of being too dependent on a single supplier.

Even Chinese fashion designers outsource to lower-wage south Asian countries because the cost of doing business in China is increasing (Clark and Milberg, 2010). At the same time Hong claimed that, “China has many problems. In the beginning all the factories were set up on prime land but now the government wants to sell the land and move the manufacturers” (A Hong 2009, pers. comm., 30 June). In addition, many manufacturing companies in China are producers for NICs and some of these companies are getting bigger than the buyers. In this case they are not interested in small batch orders for niche markets but prefer to manufacture for middle-of-the-road designers and discount stores for what is termed ‘economies of scale’, whereas small niche market designers prefer to be assured of good quality and delivery on time so they want high end producers. That is not to say that niche market designers do not manufacture in China, they do and many have found the quality good but, for some, it has not been successful. As an MTMA spokesperson asserted, “out of ten manufacturers that moved to China, seven returned to Malaysia crying because of the problems. They prefer to remain in Malaysia or manufacture in Vietnam and Cambodia” (A Hong 2009, pers. comm., 30 June). On the other hand, many manufacturers are shifting from servicing global brands to providing clothes for the rapidly increasing Chinese consumer demands (Clark and Milberg, 2010). So China did not turn out to be the threat it was imagined to be because, as in Malaysia, the Chinese apparel sector is at a crossroads.

4. Industry Survival Strategies: Foreign Workers and/or Re-location

The following sections are based on interviews with both manufacturers and industry trade association leaders in Malaysia. It appears from the interview data that Malaysian manufacturers are in a complex situation. There is very little available Malaysian labour to fill the needs of the industry and while most large to medium companies can afford to invest in pattern making technology such as laser cutting systems, SMEs find it difficult to accumulate capital to invest money into upgrading the technology in their factories. As one senior manager A C Boon (2006, pers. comm., May) put it, the industry has two factors (labour shortages and fabric imports) that need to be addressed before industrial upgrading:

> Firstly, in terms of the lead-time, most of our materials are still very dependable from overseas, so that hinders us from making faster deliveries. Secondly we can have a very sophisticated first class system, but if we don't have people working in it, it will fail. This is the weakness that we are facing. We need people, skilled, knowledgeable labour. So these are our weakness that we have to find ways to improve.

According to a leading industry manufacturer Y H Tan (2009 pers. comm. 19 August):

> A shortage of manpower in the country is stifling the growth of the brand name garment industry. For example my company has produced a number of new products for the luxury fashion sector and we could expand production by 30 per cent further but we are constrained by the shortage of skilled labour. Many of the brand name garment manufacturers in the country dare not commit themselves to recurring seasonal orders, lest they cannot fulfil them, due to the labour shortage. The number of people engaged in the apparel and textile manufacturing industry is estimated to be about 60,000 at present, compared with over 100,000 in the mid-1980s. It is dependent on foreign workers because locals do not want to take up jobs in the industry.

So, even for manufacturers who invest in technology, a supply of labour is still needed but, because of strong global competition, manufacturers in Malaysia find it difficult to pay higher wages to attract locals. Manufacturers have employed two strategies to survive labour shortages – manufacturers employ foreign workers or they re-locate to cheaper sites. Some do both. As Hong (2009 pers. comm., June 30) put it:

> The industry started as all labour intensive industries begin in the labour intensive sectors such as garments – not much capital needed to set up a factory but the good news for developing countries is the large number of employees needed in the industry so it helps countries with employment problems etc. As the country develops however there is less attention paid to labour intensive industries and more attention to higher value added industries. At the same time the locals become more educated and finding labour becomes a problem. The industry then divides into those that import workers to those that export their manufacturing.

In the early stages of export manufacturing, the increase in the number of factories and the need for labour prompted the government to encourage young nimble fingered Malay women from the rural areas to work in factories. When Dr Mahathir, Prime Minister for over twenty years, came to power he embarked on an import-substitution, heavy-industrialisation program involving building materials and vehicle manufacturing. This shift forced the government to register foreign workers on short term contracts in the agriculture, construction and forestry industries. In the 1990s, some two million registered foreign workers were working in these sectors freeing rural workers to embark on educational pursuits or to work in the expanding electronic, garment and textile sectors.

It was only a matter of time before labour shortages were registered and wages increased in the manufacturing sectors. During the late 1990s, garment employers asked permission to recruit foreign workers. It appears that the openness of global trade and globalisation can gradually lead to positive outcomes as workers are paid higher rates of pay, but the availability of transnational labour allows employers to avoid the wage costs associated with the high levels of competition in the global industry. Employers wanted workers who would work longer hours and, unlike local workers, did not cost the company family benefits and superannuation contributions.

Foreign workers from a number of countries have been accommodated in hostels close to factories in Malaysia. According to Smith and Pun (2006) when discussing dormitory labour in China, dormitories and hostels facilitate the temporary attachment of labour to the factory since the foreign workers do not have the same rights as citizens and must have employment to support temporary residence. The introduction of foreign labour into the Malaysian garment and textile industry under state regulation has provided manufacturers with a labour force that can be controlled within individual factories without the longer term build-up of labour institutions that would lead to better working conditions and labour solidarities.

According to a number of manufacturers, operating establishments overseas in less developed countries is another way to reduce labour costs. As one interviewee said “This is a labour intensive job, so we require more labour to work. That’s why we have to go out to different locations to start the factory there” (H T Leing 2006, pers. comm. May). Others operate vertical supply chains. One manufacturer maintained contracts with Puma by opening up a factory in Cambodia where the cost of producing garments is less than it is in Malaysia and the labour supply is plentiful. Another manufacturer, with Nike as their main buyer, services the company from a variety of countries – the head factory is in Malaysia and sister factories are in Sri Lanka and China.

According to one senior manager A C Boon (2006, pers. comm., May) of one large factory:

> We have factories all over Malaysia, in KL, Selangor, Batu Pahat, but also Cambodia and also China. In Cambodia we have embroidery and garment making, in China we have only garment making. In Cambodia we have about 8000 employees in two factories in China we have about 500 employees. The designs and styles are provided by the buyers but we do not alter any of the designs. What we do is advise on the methods of sewing and production, and we will not alter any single specification of the buyers, so because we have paper patterning and market planning here, we can actually communicate with China operations and Cambodia operations, using the internet connections.

According to another manufacturer N G Seng (2007, pers. comm., 21 November)

> This industry is not going to survive long in Malaysia due to the labour cost. So this is why now we are taking an opportunity to expand our business overseas. China is one of the places we can move to or India and Sri Lanka.

Adding that:

> The main concern to us is the labour cost. That why we are unable to compete with other low cost labour country. Because during the costing and placing the order the buyer already indicates that these are the price that they can only commit to. Something like a target price. So sometime calculating the labour cost we found it very hard to compete. This is our main concern.

The biggest challenges for the industry now are the labour costs and the shortage of manpower but the only way to deal with these pressures is for manufacturers to move up the scale to manufacture for the brand name niche market, to invest in own brand manufacturing, and/or to start a retail business to combat high levels of global competition and offset cheap labour (Y H Tan 2009, pers. comm. 19 August). Interview data from 2006-9 confirmed that the industries, especially the large to medium manufacturers, were heavily involved in producing for the high end sportswear market – three were looking at own brand design and three had moved into retailing.

5. The Present: Survivors in a Sunset Industry

Is the sun going down in Malaysia? Not according to industry experts – not as long as people continue to wear clothes. The country is still well-regarded for supplying and producing high-quality products and has a reputation for complying with environmental and human rights requirements of buyers (Tan, 2010). According to one very positive manufacturer Y H Tan (2009, pers. comm. 19 August) with facilities located in Kedah and Penang in Malaysia and Vietnam:

> While some might think that apparel manufacturing in Malaysia is becoming a sunset industry because of rising labour cost, we feel that Malaysia still provides a very viable site for the business, as international apparel brand owners still respect local manufacturers because of their reliability and trustworthiness. This helps to maintain our market share in the apparel manufacturing business, we expect to increase its 2010 output to 10 million pieces of apparel from nine million last year. We also expect to produce a higher-value range of apparels this year for customers largely based in the US. The company derives approximately 85 per cent of its revenue from sales to the United States, 10 per cent to the European Union (EU), and 5 per cent to the Asia-Pacific.

As said by another brand name manufacturer B P Lau (2007 pers. comm. May):

> Malaysia is very small country so we must be very smart and move away from the big players and capture the niche market we must avoid a head on collision with the low cost countries, avoid fighting with Bangladesh we must produce quality value for money and deliver on time.

According to the interview material these are the manufacturers that have remained strong in the industry. They had the foresight to restructure their operations before the phase-out period was over (Interviews, manufacturers, 2007-09). In a media report, one manufacturer said that "Owing to the rising operational costs in the country, garment manufacturers had to invest in original equipment manufacturing (OEM) or to engage in the production of internationally known brand apparels or both to generate higher margins and offset production costs" (Tan, 2010).

Another manufacturer reported that he could no longer do business with his usual buyers as they kept under-cutting his price, "the buyers keep asking can you cut your price but, at some stage, there is nothing more to cut – now we cannot do business anymore" (Ong Lee Yong 2007, pers. comm. May). In this competitive environment, manufacturers had to move up the ladder to higher brand names and niche markets. On the word of one manufacturer David K K Lee (2006 pers. comm. May):

> Certain brands have come to dominate the market in Malaysia at certain times but as these brands want cheaper prices there appears to be a shift whereby the company moves to other cheaper locations and the higher end of the market brand names start to contract in Malaysia. For example ten years ago Esprit was the buyer of this region, but now they have gone down and Gap has gone up. But even Gap last year has started to taper off. There are other buyers coming here, companies like Nike and Adidas. Other brands keep changing according to what the market needs and to what your workforce is capable of. We do change. Wal Mart, Starlight, Kmart are brands that have gone so cheap we cannot work with them anymore so we go up the rung to DKNY or Gap.

Another manufacturer, A C Boon (2006, pers. comm., May) stated "we are trying to have a good partnership with Nike, right now I think they are focussing on the Malaysian factories to have a centre of excellence, that means the design will be sent direct to our country and we can cut the material on the spot".

Others moved into retailing to offset the loss of orders due to increasing levels of competition: According to H Y Tan (2009 pers. comm., 19 August).

> Since 2000 I do my own brands and I sell to the local market. If I can no longer manufacture then I will be selling. I have been doing my own labels, designing and producing and importing for my shop. I am franchising a Mango store and as such I must buy their clothes as well. If a country has a label it is all over the world, things have taken on a global movement and we must adapt or else go out of business. In 2000 my export business was 80 per cent now it is 40 per cent export and 60 per cent retail.

But not all manufacturers have the capital to invest in innovative strategies such as vertical operations or retailing. Another more recent study on technical progress in 2009, shows that small to medium manufacturers are slow to adopt higher levels of technology and training (Jajri and Ismail, 2009: 207). SMEs in this instance resort to squeezing labour to solve their problems. Chinese family businesses dominate the garment and textile industry and the strengths of these businesses lie much more in cost cutting and service delivery than in innovation (Tidd and Brocklehurst, 1999: 249). Although the company employs the discourse of quality, such quality is achieved by careful training, tight control over the labour process and the use of piece rates payment. The factory is organised according to the principles of scientific management and there is no attempt to improve on quality by using employee involvement schemes (Smakman, 2003). Indeed, some manufacturers admitted that the payment system encourages workers to get it right the first time.

The government has attempted to address these problems through the introduction of a Human Resource Development Council (HRDC) in 1993. The HRDC has not been as effective as it could have been because it did not plan the training courses that would benefit manufacturing companies in different sectors. Instead it left it up to the factory managers to make their own plans for training and, due to high levels of competition between manufacturers, most employers do not communicate about industry plans or do benchmarking. In addition, the council has no system to evaluate its effectiveness and there is no gauge to measure whether the HRDC has improved either the quantity or the quality of training in Malaysia's industries (Tidd and Brocklehurst, 1999: 249). Rasiah's 2009 study also sees Malaysia at the crossroads during this post MFA period because of the high levels of competition in the global industry and the government's failure to co-ordinate the industry as a whole to move to upgrade to higher levels of value adding.

According to most of the informants in the larger factories, in line with buyers' demands factories have to invest in upgrading and study productivity to survive:

> The quality control we do ourselves. We have computerised machines and we do lean manufacturing. For the last year we are slowly changing from our old method to the new "lean" modular manufacturing method, so we have to rearrange the sewing production lines and put in different groupings. At 8 o'clock in the morning they start the operations and by 9am they can see the completed garments start coming out. They call it bundling system. We changed our sewing machines to the latest models. We have hanging systems. We have laser cutting for embroidering and we have industrial engineering teams – to study productivity (H T Leing 2007, pers. comm. May).

Despite an increase in technological capabilities in most of the large to medium factories, except for two small manufacturers the SMEs interviewed did not upgrade to the same extent as did the large manufacturers.

By 2007 energy costs increased and cracks started to appear in the industry as factories found it difficult to make a profit. In 2008 the global financial crisis caused havoc around the world. According to the experts, everyone inside and outside the industry became nervous (Khadmudin, 2010). Banks in Malaysia stopped lending money to companies in the garment and textile business and manufacturers found it difficult to raise loans and pay overdrafts. As a consequence more factories closed or relocated, or the owners stopped manufacturing and started a trading business. Garment industries in developing countries are tied to the global economy and make up the production links at the periphery of the commodity chains. In chain analysis there is a division of power and wealth between the core and the periphery – while the core holds the power through design, marketing and retailing, the periphery is dependent on the core for contracts (Gereffi *et al*., 2005). The garment industry in Malaysia is situated at the periphery and is almost totally reliant on contracts from the US and Europe for its survival and the decline in orders decreased production. In response to the decline in exports, thousands of foreign workers were laid off and deported to their country of origin. The government included the garment and textile industry in a package to protect Malaysian manufacturers but this did little to ease the situation. Some said it was a case of 'too little too late'– others complained the government is less interested in the textile and garment industry than it is in the electronic industry because of the Chinese monopoly of the clothing industry.

Another reason given is that the government is more interested in promoting the electronic industry because this 'modern' industry fits in with a newly developed country. As one manufacturer put it, "basically, we found that Malaysia government is not really focussed in this industry. Because they treat this industry as a sunset industry, so they are more focus on high tech industry" (B S Ng 2009, pers. comm., 21 November).

Interviews conducted in August 2009 highlighted low levels of confidence in the industry. However, by September 2009 some factory managers were reporting a slight increase in their current orders. These manufacturers were also concerned about replacing the foreign workers laid off during the crisis. The global economic recession has caused what industry experts call a 'big shake up' for the industry (Tan, 2010). During the recent GFC, three large companies that were interviewed in 2006 closed their doors, another re-located, and there are reports that another three are in trouble not to mention the number of SMEs struggling to survive.

6. The Future: New Directions the Regional Way

Malaysia has two main associations that play important roles mediating between the government and the industry, especially in terms of supporting the government in writing up trade agreements between Malaysia and other nations. The Malaysian Textile Manufacturers Association (MTMA) and the Malaysian Knitting Manufacturers Association (MKMA) also play a key role in promoting both the industrial knitting cluster in Batu Pahat and the industry in Malaysia. Some companies interviewed are members of both the MTMA and the MKMA. The majority of members are Chinese businessmen and businesswomen. In 2003-5 the MKMA had 162 member companies and the MTMA had 174 member companies. According to the members' directory in 2007-8, the numbers had reduced significantly and MTMA had 133 member companies and the MKMA had 134 member companies.

At present the Secretary of the MTMA and other leading industry specialists are trying to find ways to upgrade the supply chain in Southeast Asia as a whole. Firstly, instead of competing with low wage countries Malaysia and other ASEAN nations are hoping to service niche markets. According to Hong, who is also Secretary General of the ASEAN Federation of Textile Industries (AFTEX, 2009) "We have to keep in line with the social trends and capture the Niche markets. Malaysia has got a lot of weak linkages in the upstream so we need to sell ourselves as a region". The notion is still in its infancy but it is perceived that ASEAN garment association leaders will also work with the buyers to find out what regions offer the best services: "The buyers will also have to have a change of mindset. Presently the idea is being sold to New York buyers" (A. Hong 2009 pers. comm., 30 June).

The new Project's objectives are to enhance and promote ASEAN's image and reputation as a reliable full package producer of quality garments and textiles. The industry people perceive an alliance of ASEAN countries to complete orders from design to delivery to boost the industry (AFTEX, 2009). According to one interviewee, fabrics can be sourced from Indonesia, pattern designs organised in Malaysia and garments cut and made in Cambodia. The new strategy whereby buyers use a website to source and place orders will aid in the integration of suppliers in the region, using new and old supply chains and corridors. This new program will offer global buyers a one-stop shop for a full range of products and services. In other words *SourceASEAN.com*, means creating virtual vertical factories throughout the region.

When asked about the success of the new directions, industry informants were quick to add that they still had a few problems to contend with. Firstly, for *SourceASEAN.com* to be a success it had to be sold to the buyers and to manufacturers in the ASEAN nations and this may take considerable time. There are, however, many issues to contend with and while the discourse of new direction is good in theory, in practice it may be very different as the design aspect will be a problem. Designing fashion in Malaysia has a different meaning to designing fashion in countries such as Australia, Canada, Europe, Japan and the US (Weller, 2008). In the early 1990s Mytelka (1991: 130) warned about the difficulties of transferring the design processes and practices to the East Asian NICs because, unless the designers are close to the market, they do not understand fashion trends. In other words it is hard to design garments unless one understands the culture. The NICs were successful with fabric production and fabric design but they did not design garments until much later. They were successful because they mastered the knowledge intensive aspects of the global industry early in the 1980s and worked hand in hand with the designers and buyers from the West. They developed their own brand of quality fabrics. During interviews, manufacturers confirmed that brand name buyers specify that Malaysian manufacturers use Taiwanese fabrics.

Driven by economic necessity, Malaysia too is moving to the next level to manufacture for brand names from a number of sites. *SourceASEAN.com* appears to be mimicking Hong Kong, Korean and Taiwanese companies although its aim is to supply niche markets. NICs companies, on the other hand, are supply chains for large retail buyers (Appelbaum, 2008). Taiwanese companies such as Nien Hsing and Pou Chen/Yue Yuen (Nike's principal supplier) and Hong Kong companies such as Fang Bros, Luen Thai and TAL apparel are a few examples of large Asian apparel and textile companies. These companies have backward as well as forward linkages within their own companies and can supply buyers with everything including design facilities. According to Appelbaum's research, large buyers are setting up offices near these company facilities in China where the designers can work with the production managers in the factory (Appelbaum, 2008: 73).

This means, for example, that the brand name buyers such as Liz Claiborne move staff from Hong Kong and New York offices to the Luen Thai supply chain factory in Dongguan. This factory has a two million square foot facility, a three hundred room hotel and a dormitory that houses four thousand workers (Appelbaum, 2008: 73-5). It also has a production development centre. Designers, fabric consultants, production technicians, and computer information-technicians work together to design garment for the next season. Everything is done in the factory to save time. This trend cuts the costs and improves the turn-around time between orders and deliveries. There is no valuable time lost and it seems that for many large retail stores by moving all the production to China goods can roll off the factory floor and go straight to the retail store (Appelbaum, 2008: 73). It is also a cost saving strategy for the Brand name designers who can move all but the most important designers and trend setters to China and dispense with the tedious back and forth communication, fabric and design. It remains to be seen, however, if *SourceASEAN.com* will amount to anything in the future. On the other hand, if *SourceASEAN.com* does take off, the power structures between the core and the periphery will change and put a more regional focus on full package production which will include both upstream and downstream production and inputs.

Aside from *SourceASEAN.com*, Trade Associations are also excited about inter ASEAN trade and ASEAN FTA trade with countries such as India. According to an industry expert (past president of both the MTMA as well as the AFTEX group), ASEAN trade is also growing – since the MFA expired the trade between countries within the region increased. It was US$300 million in 2003 and it grew at double digit rates ranging between 19 per cent and 27 per cent from 2003 to 2007 compared to growths in global textile and apparel exports from the same countries of between 4 per cent and 12 per cent during the same period (Setiaharja, 2009).

Trade leaders are excited about the new prospects of both inter ASEAN trade and a new Free Trade Agreement (FTA) signed with India (MKMA, 2009). According to the agreement with India, duties will be eliminated on various products including textiles. Trade between India and ASEAN amounts to $40 billion each year and India has the potential market of 1.1 billion in population and ASEAN of 550 million. The size of the two combined will be much larger than China, Japan and South Korea put together. According to everyone concerned this means expanding consumer markets and more garment business for Malaysia.

7. Conclusion

This paper has highlighted changes in the Malaysian garment industry starting with a brief history of development and the quota system, the end of the MFA and the decline of the industry after the GFC. Overall however, this case study of Malaysia has highlighted that the industry is surviving but, as Rasiah (2009) argues, the industry may not be in a good position to survive the high levels of global competition for very long. The survivors and the losers can be divided into those who upgraded to higher levels of technology and servicing the high end sportswear markets, and those who failed to introduce higher levels of technology to sustain growth as costs rose against falling profit margins.

The industry strategies to deal with high levels of competition and labour shortages varied from re-locating part of their production to Cambodia and other lesser developed countries, to hiring foreign workers. Industrial upgrading and close buyer relationships were some of the strategies employed by the large manufacturers to deal with the changes but, in some cases, to little avail. The industry, however, is not giving in to the high levels of competition without taking new innovative paths to solve their problems. A newly proposed strategy adopted by the trade associations to deal with increasing levels of global competition may come to fruition in the near future depending on whether the concept can be sold to ASEAN countries and to niche brand name buyers. In addition, new markets are opening up in the Asia Pacific region and Malaysian manufacturers are hoping for some of the business.

The paper also questions the role of the state in providing a captive workforce for an industry upgrading to higher levels of garment production. Both large and small factories reconciled low paid workers against the introduction of higher levels of technology – some out of necessity because their small business did not allow further capital to be injected into the factory and others because they had little incentive to invest in industrial upgrading preferring to hire foreign workers. On the other hand, even the factories that invested in new technology and reduced the numbers of production workers still had to hire foreign workers because the wages paid to local workers were not enough to attract workers away from other employment options. In most cases the buyers in core countries are responsible for the position of the manufacturers in developing countries because buyers offer prices that cannot sustain higher wages while still making a profit. However, like the NICs who were forced under the quota system to be first class fabric makers and outsource mediators, Malaysian manufacturers will be forced to adopt new techniques and skills to meet the needs of high end production markets and tight delivery deadlines or face 'the sunset'.

Notes

[1] In 2008, the government announced a reduction of import duty for thirty two lines on textiles and accessories from a range of thirty to twenty per cent to ten to twenty per cent.

[2] For this article, globalisation is understood as brought about by trade liberalisation and technology developments which enable free movement of goods and capital. This process means that economic borders lose boundaries and the manufacture of goods along supply chains moves across the globe.

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