



# BREAKING THE CIRCUIT

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***Why Malaysia's Electronics Supply Chains Must Shift from Reactive Compliance to Proactive Prevention***

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# Introduction

In Malaysia's electronics sector, forced labour is not a hidden failure of compliance; it is a predictable outcome of commercial structures, recruitment systems, absence of decent work and governance gaps that align to create systemic and recurrent vulnerability. This second case study under The Remedy Project's Forced Labour Series explores how these structural conditions generate risk, and what a preventative approach might require in practice. Building on the white paper *Are We Fighting Forced Labour or Just Managing It?*, this case study examines whether decent work deficits alongside business model indicators, such as purchasing practices and cost pressures, offer more accurate early warning signals for preventing and managing forced labour. It contrasts these with current approaches that rely on reactive measurement of forced labour standards that are predicated on the International Labour Organization's Forced Labour ("ILO FL") Indicators.

Current assessment frameworks tend to capture only visible violations once they have materialised, leaving prevention mechanisms inadequate and remediation efforts largely reactive. Audit-based assessments in particular offer static, point-in-time snapshots that often miss risks that are structural, evolving, or embedded upstream in recruitment and commercial arrangements. As a result, these assessments tend to be reactive, detecting forced labour once it has occurred or is occurring, rather than identifying the early warning signs that could enable prevention and better-timed interventions.

In this regard, the case study also assesses whether remediation strategies anchored in these reactive approaches are effective, proportionate to the nature and severity of harm and capable of addressing underlying causes to prevent recurrence in a timely manner.

Malaysia's electronics industry presents a compelling context for testing these hypotheses. It is globalised, and reliant on complex multi-tiered supply chains characterised by rapid production cycles and intense price competition. Most notably, production relies heavily on migrant workers who are concentrated in precarious, low-paid, and often invisible shop-floor roles.<sup>1</sup> These workers frequently enter employment through informal recruitment networks, often incurring substantial debt in the process, and find themselves working under conditions that offer minimal job security, limited access to grievance mechanisms, and few protections under local labour laws.<sup>2</sup> These dynamics combine to create environments where structural vulnerabilities, rather than isolated misconduct, drive coercive labour conditions.

Finally, the study seeks to interrogate the adequacy of prevailing risk assessment models, particularly as the regulatory landscape is evolving with the Corporate Sustainability Due Diligence Directive ("CSDDD"), the EU Forced Labour Regulation ("EUFLR"), and the U.S.-Malaysia trade agreement which include provisions on forced labour import bans and labour rights compliance.<sup>3</sup> This signals a shift towards risk-led due diligence and use of global trade to enforce labour standards. It is, therefore, a pivotal moment to test whether the proposed framework can close existing gaps and promote more proactive responses to forced labour in light of the emerging regulatory expectations.

# Why Current Detection and Management Approaches are Inadequate

Given the widespread reliance on ILO FL Indicators in the design of current assessments, it is timely to critically evaluate their effectiveness as a primary risk assessment tool. While these indicators are essential for identifying situations where forced labour has already occurred, they are less effective at anticipating where risks are likely to emerge. Because these tools focus on monitoring basic labour standards, they capture only the most obvious signs of exploitation, and thereby offer only a partial understanding of how forced labour risks emerge and persist. This gap becomes especially visible in sectors where production is fragmented, cost structures are tightly controlled, and labour is sourced through intermediaries. In Malaysia's electronics sector, for instance, multi-tiered supply chains, reliance on migrant labour, and commercially driven production pressures intersect to create conditions in which forced labour risk can become systemic rather than incidental.

Current assessments capture obvious and visible signs of exploitation (unpaid wages, withheld passports, excessive hours) but fail to identify the underlying conditions that generate these violations. Multiple audits can verify policy compliance without detecting that the business model makes decent work economically unfeasible. This creates a false sense of security: policies exist on paper, audits confirm their presence, yet exploitation persists because the structural conditions enabling it remain unexamined.

Yet, most assessment tools remain focused on surface-level indicators, such as withheld wages or restriction of movement, rather than looking at the underlying structural drivers of forced labour. What are often overlooked are the business model dynamics, such as cost compression and just-in-time delivery, and the absence of decent work, such as fair wages, job security, and access to grievance mechanisms. In Malaysia, some of these structural drivers include procurement pressures and supply chain opacity, socio-economic vulnerabilities of migrant workers, decent work deficits, and regulatory and enforcement gaps.

The pattern is systematic. A chemical safety auditor admitted not knowing the health impacts of chemicals being audited, simply checking whether exposure occurred and writing reports. Auditors interview operators in controlled office settings rather than observing actual production pressure on shop floors. Workers report that audits focus on product quality and chemical safety, not working conditions, and that nothing changes thereafter. As supervisors explained, audits fail to capture issues rooted in output targets, equipment downtime, or customer-driven rush orders because production expectations remain unchanged after the audit.

This methodology is fundamentally reactive: it can only document harm that has already occurred and that presents in ways auditors know to look for. By the time violations are detected, workers have already endured exploitation for months or years. Moreover, because audits focus on point-in-time compliance rather than structural conditions, they cannot predict where risks will emerge or what interventions would prevent harm.

In light of these limitations, this case study turns to structural indicators that can reveal vulnerability before violations materialise and provide a more reliable basis for prevention.

# Structural Indicators That Predict Vulnerability

This case study demonstrates that structural indicators can reveal vulnerability before violations materialise. By examining the conditions that make exploitation likely or inevitable, rather than waiting to document harm after it occurs, businesses and regulators can shift from reactive management to proactive prevention. Prevention serves to embed resilience within supply chains, strengthening both worker protection and commercial stability.

Building on this, the case study then outlines what prevention requires in practice: recalibrating purchasing practices to reflect true labour costs, co-financing ethical recruitment where suppliers lack capacity, and embedding worker voice as continuous risk monitoring. It demonstrates how integrating worker feedback, commercial data, and supply chain mapping enables earlier risk identification, more targeted interventions, and equitable accountability mechanisms.

By transforming due diligence from compliance checking to proactive risk management using forward scenario planning, this approach strengthens both worker protection and supply chain resilience. The evidence from Malaysia shows that meaningful prevention requires shared responsibility across brands, suppliers, and regulators, acknowledging that forced labour emerges not from supplier misconduct alone, but from the intersection of purchasing practices, socio-economic vulnerabilities, and governance gaps. The below indicators proved particularly predictive in Malaysia's electronics sector:

<p>◆ <b>Procurement and Cost Structure Indicators</b></p>	<p>Just-in-time delivery models, compressed timelines, and cost-cutting imperatives create cascading pressures through supply chains.<sup>4</sup> Suppliers often operate on thin margins and in turn compress labour costs to remain profitable. They turn to mechanisms such as excessive overtime, wage deductions, and third-party recruitment systems that create more disposable workforces.<sup>5</sup></p>
	<p>Procurement pressure cascades through supply chains in predictable ways. When buyers set prices without accounting for the true cost of decent work and impose compressed delivery timelines, suppliers operating on thin margins respond by making labour costs variable and flexible. In practice, this translates into low base wages, reliance on forced or coerced overtime to meet production targets, and production flexibility achieved through pressure rather than adequate staffing or planning.</p>
	<p>At the operational level, supervisors describe being held accountable for output but having no authority over staffing levels or shift design. Overtime policies exist on paper, but when production loads increase, supervisors are instructed to extend working hours or cancel leave irrespective of worker consent. This creates a structural gap between policy and practice: a system that maintains the appearance of compliance while enabling coercive conditions on the factory floor. For workers, this pressure is experienced simultaneously as production coercion (mandatory overtime) and economic coercion (inability to survive without overtime).</p>

Current frameworks treat excessive overtime as an operational or forecasting failure, but this is a fundamental misclassification. As demonstrated in the primary research, the sharp decline in overtime availability following COVID exposed how deeply wage sufficiency relies on overtime and how quickly income collapses when production slows. This sharp decline makes clear that overtime dependency is structurally embedded, not voluntary, revealing how tightly wage sufficiency is linked to production pressure. When wages collapse the moment overtime disappears, overtime is not a scheduling issue; it is a mechanism of economic control. The related indicators (inability to resign without penalty, wage deductions for refusing overtime, retaliation through overtime withdrawal) are all manifestations of the same underlying structure: procurement terms that make decent work unaffordable. Until procurement structures change, coercion will continue to be misclassified as scheduling pressure rather than recognised as the economic control mechanism it is.

The structural indicators that would have signalled the need for this reform were already visible: suppliers facing volatile order patterns, frequent rush orders requiring extended hours, insufficient base wages, and supervisors reporting they had no authority to refuse production demands. These indicators revealed that the business model itself generated exploitation, and that remediation would remain inadequate and issues would recur unless the business model changed.



### **Recruitment and Migration Indicators**

Migrant workers in Malaysia often come from regions marked by limited economic opportunity, which may make them susceptible to coercive recruitment and employment practices.<sup>6</sup> Primary research shows that workers enter employment already burdened by significant recruitment-related debt, creating immediate pressure to accept any conditions offered. Combined with their irregular status, lack of social security, and linguistic or cultural isolation, this dynamic produces asymmetries of power that leave workers highly vulnerable to exploitative practices by employers and intermediaries. In electronics manufacturing, these vulnerabilities are compounded by dependence on employers for visa sponsorship and housing, and the absence of local support networks.<sup>7</sup>

Debt-financed migration creates immediate dependency from the moment workers are hired. Migrant workers entering employment with debt face a period during which they cannot refuse exploitative conditions without losing everything they have invested in migration. These are well-known and extensively documented risk factors, yet responses remain largely reactive and focused on addressing violations only after they occur rather than preventing the vulnerability that enables them. The indicator is not simply “recruitment fees charged”; it is the combination of debt levels relative to expected wages, repayment timelines that trap workers during their initial employment period, interest accrued on debt, lack of alternative income sources, and passport retention that restricts mobility even after debts are notionally repaid. These factors interact to create a structural trap that persists regardless of whether specific labour law violations are documented on any given audit day.

 <p><b>Decent Work and Worker Voice Indicators</b></p>	<p>The suppression of worker voice is itself an indicator of an environment in which exploitation can occur. When workers consistently report that grievance mechanisms are ineffective and complaints require exposing identity while retaliation is pervasive, it signals that grievances cannot be raised safely. When workers are explicitly excluded from union membership and organising campaigns leads to threats of deportation, it is evidence that the grievance channels are ineffective and governance mechanisms are not being upheld. Migrant workers who were interviewed described grievance mechanisms as pro-company with no genuine pathway to remedy for workers. Instances of recurrent retaliation (deportation warnings, overtime withdrawal, punitive reassessments, arbitrary deductions) enforce a hierarchy in which workers cannot safely report concerns.</p> <p>This creates a reliable indicator: where workers lack credible channels to report concerns and seek remedy without risking their livelihoods, exploitation can persist unchecked. The absence of effective worker voice, including the ability to organise, participate collectively, and be represented independently of the employer, means grievances cannot be raised safely, and systemic issues remain hidden until they escalate. Consequently, weak worker voice is both a symptom of existing exploitation and a predictor of future harm.</p>
 <p><b>Regulatory and enforcement gaps</b></p>	<p>Malaysia's electronics manufacturing hubs operate across formal and informal tiers, with governance oversight concentrated at the top of supply chains.<sup>8</sup> Even where national labour laws exist, enforcement is weak, particularly in the informal economy and among migrant workers, who are often unfamiliar with their rights.<sup>9</sup> Workers reported low confidence in grievance channels or human resource teams, and cited fear of retaliation such as withdrawal of overtime, wage deductions, suspension, and reassignment within teams.</p>

# Research Methodology

This case study adopts a mixed-method qualitative approach, combining desk-based research with field-based interviews to examine the structural and business model conditions that enable forced labour risks in Malaysia's electronics supply chain.

The research focuses on the electronics manufacturing sector and its associated labour dynamics, including an overview of the industry, key value chain actors, recruitment and employment practices, labour migration, production pressures, procurement structures, regulatory oversight, and the lived experiences of migrant workers. It draws on a range of perspectives to understand how forced labour manifests across formal and informal tiers of production, combining worker-centred inquiry with an examination of intermediary roles, including brokers and labour contractors, to analyse how employment conditions are shaped and accountability gaps emerge.

The study also explores how procurement practices cascade through supply chains to heighten risk, particularly in lower tiers, and assesses the accessibility and effectiveness of grievance mechanisms and legal protections for at-risk workers. Throughout, the research considers how emerging regulatory frameworks, such as the CSDDD and EUFLR, interact with prevailing business practices.

## Data analysis techniques

### **★ Primary Research**

Primary data has been collected through interviews with a targeted sample of 37 workers and field observations across major electronics manufacturing hubs in Shah Alam, Port Klang, Penang and the Klang Valley, encompassing both Tier 1 and lower-tier supplier sites. Key stakeholder groups include:

- Migrant production-line workers
- Factory managers and supervisors
- Worker representatives and civil society organisations
- Suppliers

All interviews were conducted anonymously, with informed consent, through local partners experienced in engaging vulnerable and migrant worker populations. Fieldwork was designed to capture tiered risks across both formal and informal supply chain settings, with a focus on recruitment journeys, working conditions, and access to remedy. Engagements with other value chain actors were done to understand how employment systems function, how remediation is provided, and where accountability gaps arise.

### **★ Secondary Research**

Secondary data was drawn from academic literature, policy analyses, industry reports, government documents, and media sources to contextualise primary findings, map business model and decent work indicators, and assess the regulatory landscape, including emerging frameworks. This research also informed the design of interview tools.

# Electronics Sector: An Overview

Electronics manufacturing is central to Asian export economies and forms a critical backbone for global technology supply chains. From semiconductor assembly to component manufacturing to consumer device production, the sector generates substantial export revenues and employment, particularly across Southeast Asia.<sup>10</sup> The industry is characterised by rapid technological change, intense price competition, and relentless pressure to reduce per-unit costs, dynamics that have profound implications for labour.<sup>11</sup>

Malaysia has long been a major electronics manufacturing hub, hosting production facilities for personal computers, semiconductor components, and mobile devices.<sup>12</sup> The sector employs hundreds of thousands of workers, with production concentrated in the Klang Valley (Selangor), Penang, and Johor.<sup>13</sup> In 2023, electronics manufacturing accounted for roughly 5.8% of Malaysia's GDP,<sup>14</sup> with exports amounting to approximately USD 120 billion and representing 40% of the country's total exports.<sup>15</sup> This economic significance makes the sector both strategically important and vulnerable to sanctions.

The electronics sector presents a compelling testing ground for the white paper's proposed framework due to several converging factors that align precisely with its emphasis on business model and decent work indicators as predictive tools for forced labour risk.

## Supply Chain Complexity

Electronics supply chains are characterised by multiple tiers, extensive subcontracting, intense price competition, and rapid production cycles that could create distinct pressure points for labour exploitation.<sup>16</sup> The sector typically operates through a tiered structure in which brands focus on product design and market strategy, while manufacturing is outsourced to large contract manufacturers.<sup>17</sup> These contract manufacturers, in turn, subcontract component production or assembly to multiple lower-tier suppliers.<sup>18</sup> This fragmentation creates an accountability gap: responsibility for working conditions is diffused across multiple actors, each claiming limited control or visibility over labour practices beyond their immediate operational scope.

The economics of this fragmentation are particularly consequential for workers. Lead firms commonly set purchase prices, delivery timelines, and order flexibility in ways that do not reflect the true cost of providing decent work.<sup>19</sup> When buyers demand low prices and rapid turnaround without adjusting commercial terms, suppliers who are operating on thin margins are incentivised to reduce labour costs wherever possible. This transfer of cost pressure downstream often manifests as excessive overtime, recruitment fee-charging, use of informal brokers, wage deductions, and denial of statutory benefits, particularly among migrant workers who are already structurally vulnerable.<sup>20</sup> A Penang wafer fabrication supervisor explained that although responsible for production output, he has "almost no authority" over staffing levels or shift design. When production spikes, supervisors are instructed to push workers to extend hours or cancel leave because they are judged on throughput, not well-being. Although internal policy caps overtime to a half-day limit, supervisors routinely require workers to work full days when production targets demand it.

Research shows that short product life cycles and fierce price competition are directly linked to low wages and forced overtime by subcontractors.<sup>21</sup> Responsible purchasing requires ensuring that commercial decisions do not undermine suppliers' ability to meet labour standards.<sup>22</sup> Where such alignment is absent, as is common in the electronics sector, labour exploitation is not incidental but structurally produced.

## Migrant Worker Dependency

The electronics sector in Malaysia employs an estimated 470,000 to 500,000 workers, making it the country's largest manufacturing employer.<sup>23</sup> The sector relies heavily on foreign contract labour to meet production targets, with workers from Nepal, Bangladesh, and Indonesia comprising up to 40% of the workforce.<sup>24</sup> These workers fill the lowest-skilled roles in assembly, maintenance, and packaging, often under contract structures that obscure direct employment accountability.<sup>25</sup>

Malaysia's current migration model in the electronics sector forces workers to incur crippling debt even before work begins.<sup>26</sup> Nepali workers described paying recruitment fees of USD 1,670-2,760 (NPR 230,000-380,000), and having no choice but to remain in exploitative conditions until debts are cleared as nearly all wages are remitted home. Indonesian workers often migrate through low or zero-cost channels such as school, social media, or peer referrals, however, they remain structurally vulnerable through dependence on overtime and exposure to workplace harassment. Across all groups, deductions for food, accommodation, and security deposits further trap workers in debt-bonded servitude and restrict mobility.<sup>27</sup>

Language operates as a critical vulnerability multiplier: Nepali workers said that they face severe barriers affecting their ability to access healthcare, interact with police, engage with HR, or lodge complaints. While Indonesian workers' ability to communicate in Bahasa Malaysia provides some protection, it does not shield them from discrimination or abuse.

Document confiscation compounds these vulnerabilities. Employers routinely confiscate identity documents and passports, which not only restricts workers' freedom of movement but also hinders their access to healthcare, banking services, and legal remedies.<sup>28</sup> Interviews reveal that Nepali workers sign consent forms for document retention, but access to passports remains conditional. This lack of original documents exposes workers to police extortion, with officers demanding payments of USD 25 (RM 100+) and refusing to accept photocopies despite legal validity. When workers seek HR support, they are told to settle the problem on their own.

## Decent Work Deficits

Living and working conditions exacerbate structural risks created through supply chain fragmentation, purchasing practices, and debt-financed migration, deepening workers' exposure to exploitation. Nepali workers in Port Klang hostels reported fear of safety due to gang/security issues. Indonesian workers described accommodation as "adequate" but noted maintenance problems, recurrent electricity cuts as punishment, and unsafe, overcrowded transport. Workers

mentioned that the whole factory shares only one bus, often arriving an hour late, overcrowded, and causing injuries from falls. Dormitories were often overcrowded and unsanitary, with reports of dozens sharing limited bathrooms and cooking in infested conditions. Workers also noted exposure to chemicals, heat stress, and inadequate protective equipment on production lines. Toilet access was restricted, with only one worker allowed at a time, and medical leave entitlements were often informally curtailed.

Most critically, wage structures create economic dependency that functions as coercion. Workers consistently reported that base wages are insufficient for subsistence and that they depend on overtime to meet basic needs. When overtime declined after COVID, it had a severe impact on monthly wages, leading to mass non-renewal of contracts and relocation. This sharp decline demonstrates that overtime dependency is structurally embedded, not voluntary, revealing how tightly wage sufficiency is linked to production pressure.

Indonesian women workers reported frequent verbal and physical sexual harassment. Their complaints are routinely dismissed or resolved in favour of Malaysian workers, leaving them susceptible to gender-based risks. Fear of retaliation further discourages workers from filing complaints; workers described threats of deportation, withdrawal of overtime, wage deductions, electricity cuts in accommodation, suspension, and punitive shift changes. One Indonesian worker described being isolated and assigned increased workloads after raising concerns.

Workers interviewed described discrimination as being explicit and systematic: when Malaysian workers raise concerns, they are taken seriously; when Indonesian workers raise identical concerns, they are dismissed. This differential treatment signals to workers that they occupy a subordinate position with diminished rights and recourse.

Workers' ability to organise collectively or voice concerns is also constrained. Migrant workers are contractually excluded from union membership, and attempts to organise are met with intimidation. Workers described being prohibited from interacting with civil society organisations and warned not to speak with union organisers. Those who attempt to organise or lodge complaints are punished through denial of overtime opportunities (on which workers depend financially).<sup>29</sup> These barriers to freedom of association reinforce existing power imbalances and leave workers without collective mechanisms to challenge poor conditions. Importantly, the lack of freedom of association further weakens access to remedy, as workers cannot rely on collective representation or union support to safely raise concerns.

## Gaps in Regulatory Enforcement

Malaysia has ratified core ILO conventions (Occupational Safety and Health Convention, the Protocol of 2014 to the Forced Labour Convention, Minimum Wage Fixing Convention, Right to Organise and Collective Bargaining Convention, Equal Remuneration Convention, et al.).<sup>30</sup> Malaysia is also advancing its first National Action Plan on Forced Labour 2021-2025, which emphasises prevention, protection, prosecution, and partnership, and has prioritised reviewing this plan with international support as the first phase concludes.<sup>31</sup>

Nationally, Malaysia maintains labour laws that prohibit many of the practices documented in electronics manufacturing: withholding of passports, non-payment of wages, excessive working hours, and debt bondage. The legal framework is anchored in the Employment Act 1955, the Industrial Relations Act 1967, Minimum Wages Orders, and Occupational Safety and Health legislation.<sup>32</sup> Recent reforms broadened coverage (including some protections for gig and contract workers), reduced the maximum workweek to 45 hours, improved paid leave, expanded the wage protection threshold, clarified anti-discrimination standards, and introduced stricter regulation of the employment of foreign workers by requiring prior approval to hire, mandatory notification of termination within 30 days, and introducing a tiered levy system to limit over-reliance on migrant labour.<sup>33</sup>

However, these formal protections rarely translate into meaningful remedy. Workers described grievance mechanisms as inaccessible or unsafe, with widespread fear of retaliation. One Nepali worker noted, "If I complain, no one cares... nothing will be done," while an Indonesian worker echoed, "We don't raise complaints because nothing changes." Civil society organisations noted that when state enforcement systems are weak or ineffective, internal company grievance mechanisms cannot succeed, because workers have no trusted or functional external point of reference for justice and therefore no confidence that raising complaints will lead to meaningful outcomes.

Audits similarly fail to detect or address structural risks. Trade union representatives estimated that "99.9% of audits produce no improvements," explaining that auditors focus on documentation and product quality rather than production pressure, recruitment dynamics, or supervisor coercion. Supervisors interviewed during field research reported that auditors do not really engage with workers, interviewing them in controlled settings rather than observing real working conditions or output-driven pressures on the factory floor. As one worker summarised: "Audits happen for certifications, not for our safety." This dynamic leaves legal prohibitions largely nominal, with violations persisting undetected.

These gaps contribute to a broader enforcement vacuum. Labour inspections remain limited in scope and frequency, and structural issues, such as informalisation, inconsistent implementation of labour laws across states, and lack of clarity on business obligations, undermine deterrence.<sup>34</sup> Provisions under the Anti-Trafficking in Persons and Anti-Smuggling of Migrants Act 2007 offer avenues for prosecution, but challenges around victim identification, limited training for officials, and ambiguous legal definitions hinder effective enforcement.<sup>35</sup> As a result, exploitative practices persist, particularly in lower-tiered suppliers where oversight is weakest.

Recent policy shifts indicate growing external pressure for accountability. A new reciprocal US-Malaysia trade agreement includes requirements for Malaysia to prohibit the import of goods produced by forced or compulsory labour, align domestic law with internationally recognised labour standards, and fully enforce these within two years.<sup>36</sup> The agreement places particular emphasis on migrant worker protections such as prohibition of recruitment fees, ensuring passport access, improving transparency in migrant worker recruitment, and allowing migrant workers to hold elected union office, along with risk-based and unannounced inspections in high-risk sectors.<sup>37</sup> Importantly, it provides the United States with mechanisms to impose trade

sanctions, including tariffs, for non-compliance. In Europe, the forthcoming EUFLR will empower authorities to investigate and remove products linked to forced labour from the European market, with implementation guidance expected in 2026.<sup>38</sup> In parallel, the CSDDD requires companies to undertake risk-based human rights and environmental due diligence across their operations and supply chains, identifying, preventing, and addressing structural drivers of harm rather than responding only to confirmed violations.<sup>39</sup>

Collectively, these developments underscore a broader transition: where domestic labour standards may be strong on paper but weak in enforcement, trade enforcement mechanisms and due diligence frameworks are becoming influential levers for driving corporate accountability. However, while these regulatory developments increase oversight and expand potential for sanctions, their effectiveness from a worker perspective ultimately depends on whether they translate into meaningful remedy, not merely penalties and product withdrawal. Enforcement mechanisms risk improving compliance on paper while leaving workers uncompensated and without access to remedy unless remediation pathways are built into these frameworks. Effective prevention must therefore be paired with remediation outcomes that restore losses, ensure safe reporting, and address the structural causes that produced harm in the first place.

# From Management to Prevention

These findings reinforce the hypothesis that procurement practices themselves function as risk indicators; they predict where and when suppliers are likely to transfer financial pressure onto workers. Preventing this requires recalibrating purchasing practices to reflect labour costs and resource remediation, including integrating minimum labour-cost benchmarks into pricing, stabilising order volumes to reduce production pressure, and establishing shared remediation funds or cost-sharing mechanisms so that corrective action does not fall solely on suppliers who lack the financial capacity to implement it.

With thousands of suppliers across multiple tiers, brands cannot rely on periodic audits to flag vulnerabilities. Instead, they need a clearer understanding of the structural conditions under which each supplier operates, including recruitment channels, workforce composition, cost pressures, and dependence on specific buyers. This is not simply a matter of detecting risk, but of assessing what form of engagement is required to manage that risk responsibly.

## Procurement Reform

Prevention through procurement reform illustrates what addressing structural drivers looks like in practice. For example, one supplier shared their experience with addressing structural drivers to prevent harm at the source. In 2013, after examining working conditions more closely, the company recognised that internal silos between procurement and operations were a key contributor to poor labour practices: procurement teams set prices and delivery timelines without visibility into how these constraints translated into labour intensity, while operations teams managed suppliers without authority to adjust commercial terms when those terms made decent work unfeasible. By strengthening collaboration between procurement and operations and improving forecasting accuracy, suppliers were able to plan production more predictably. This alignment reduced excessive overtime and improved labour standards adherence. A forward-looking approach therefore requires triangulating worker insight, commercial data, and supply chain mapping. Structural indicators, such as whether workers begin employment indebted, whether overtime is necessary to earn a living wage, or whether contract terms allow suppliers to cover labour costs, can help identify not only where risk exists, but also what level and type of support, leverage, or cost-sharing is needed.

This shift enables brands to differentiate between suppliers who need collaborative remediation support and to tailor interventions based on the level and type of risk identified. The shift from reactive to preventative approaches also enables more equitable attribution of accountability. When procurement terms create cost pressure that cascades into coercive overtime, buyers share responsibility for the resulting labour conditions. When recruitment systems generate debt bondage, brands that benefit from that labour share responsibility for reforming those systems. Prevention requires acknowledging this shared responsibility and restructuring commercial relationships accordingly, not simply auditing suppliers and requiring them to fix problems that the commercial relationship itself has generated.

In practice, this approach transforms due diligence from a compliance exercise into a form of proactive risk management. By integrating worker feedback, commercial data, and supplier performance insights, brands can identify risks earlier, prioritise interventions, and design equitable accountability mechanisms that strengthen both worker protection and supply chain resilience. A holistic approach to detecting forced labour can also support brands with risk identification, risk management and meaningful remediation.

## Recruitment Practices

Prevention requires addressing structural conditions before workers are hired. This includes maintaining approved lists of ethical recruitment agencies, conducting due diligence on recruitment corridors, requiring pre-departure worker orientation on working and living conditions, rights and grievance pathways, and co-financing fee reimbursement or ethical recruitment transitions where supplier capital is constrained. Good practice identified during interviews with suppliers included prioritisation of direct recruitment to minimise reliance on labour intermediaries and encourage subcontractors to adopt the same approach. Similarly, when the company identifies that the subcontractor is unable to reimburse recruitment fees paid by workers, it intervenes and covers costs directly. This demonstrates how cost-sharing mechanisms can ensure remediation occurs even when suppliers lack financial capacity, but more importantly, it signals that prevention requires restructuring recruitment systems rather than merely reimbursing fees after exploitation has occurred.

## Remediation & Worker Voice

Equally important is how businesses and stakeholders think about remediation. Current approaches are often limited to correcting visible violations such as returning passports, reimbursing fees, or paying arrears, but rarely extend to reforming the pricing models and procurement terms that may have created the risks in the first place. This creates several problems:

- *Inconsistent standards:* Recruitment fee reimbursement, a standard remediation approach when debt bondage is identified, is interpreted inconsistently across companies. In the absence of national standards or clear guidance, some reimburse only fees paid to licensed agencies, overlooking the often higher informal broker fees workers actually incur. Others reimburse only what they deem to be excessive fees according to undefined benchmarks, leaving workers partially indebted. Some approaches limit eligibility to recently hired workers, excluding those who endured identical exploitation in earlier recruitment cycles. Without clear standards, remediation becomes discretionary, determined more by corporate willingness than by actual harm suffered by workers.
- *Supplier capacity constraints:* Suppliers frequently lack working capital to reimburse fees at scale, especially when recruitment debts are substantial. Where repayment is stretched over 12-24 months, workers may remain tied to the same job under the same conditions, compelled to continue working until the reimbursement period ends. This can inadvertently reproduce the dependency that remediation is intended to address. While brand support can help mitigate these financial constraints, such support is uneven and often limited to isolated cases rather than embedded in standard purchasing practices.
- *Unaddressed structural vulnerabilities:* The focus on resolving surface-level findings rarely prevents recurrence or addresses systemic vulnerabilities. Workers may receive partial reimbursement yet remain trapped in the same recruitment systems that created their indebtedness. Passports may be returned, but dependence on employers for visa sponsorship, housing, and wages continues, reinforcing asymmetries of power. Wage arrears may be cleared, but procurement pressures that lead to wage suppression remain intact. The result is remediation that addresses visible symptoms while leaving workers structurally vulnerable to repeated exploitation.

In this context, remediation must move beyond correcting symptoms to addressing underlying cost structures and accountability arrangements. Where debt-financed recruitment and cost compression persist, workers remain vulnerable, even after visible violations have been resolved. Meaningful remediation therefore requires shared responsibility, including pricing that reflects the real cost of ethical recruitment, predictable order planning, and co-financing arrangements where suppliers lack capacity to remediate harms alone. Effective worker voice also functions as continuous risk monitoring. When workers can raise concerns without fear of retaliation, violations surface early before they become embedded. This requires moving beyond company-controlled grievance channels that workers do not trust. Companies must work with local civil society organisations given that audits often fail to obtain accurate information. Local organisations have built trust with workers over time, making it essential to tap into these local networks for stakeholder engagement and cooperation. This demonstrates how external partnerships can provide ongoing visibility that internal systems cannot.

# Implications for Policy and Practice

The evidence from Malaysia illustrates that prevention requires a reorientation of how value chain actors such as businesses and regulators think about risk. Current models depend on detecting symptoms once they are visible, but this leaves both workers and companies exposed. Structural indicators, such as recruitment systems, procurement practices, and business models, offer earlier and more actionable signals. Embedding these into due diligence frameworks enables businesses to prioritise which suppliers / regions warrant closer scrutiny and earlier intervention. This approach also allows using the above indicators as risk signals to transform uncertainties into manageable risks. Rather than relying on audits to verify harm after it has occurred, preventative due diligence asks where harm is likely to emerge and intervenes before exploitation becomes entrenched. Forward scenario planning is key to developing resilience.

## **The Case for Prevention: Moving from Ex-Post to Ex-Ante**

The limitations of reactive, ex-post approaches to forced labour have become increasingly evident. Research from the Bangladeshi garment sector notes that enforcement mechanisms that rely solely on detecting violations and imposing penalties, while necessary, are insufficient to address the systemic drivers of exploitation.<sup>40</sup> In Bangladesh, efforts to strengthen labour governance have shown that compliance approaches relying on voluntary employer action and capacity building must be paired with credible enforcement mechanisms if they are to produce meaningful change.<sup>41</sup> Both approaches are essential, but combining compliance and enforcement methods into a single framework is possible and beneficial. This combined model has proven more effective than relying on inspections alone, because it acknowledges that structural risks embedded in business models cannot be resolved solely through punitive oversight.

Prevention through ex-ante measures focuses on identifying and addressing risk factors before violations materialise. This approach encompasses education, capacity-building, awareness-raising, and incentive structures that encourage compliance rather than merely punishing non-compliance after harm has occurred. In Malaysia's electronics sector, such preventative measures could have identified the debt-financed recruitment systems, inadequate base wages, and suppressed worker voice that created conditions for forced labour, long before workers were trapped in coercive situations.

## **For Brands and Buyers**

For brands, this means recognising that forced labour is not simply the result of non-compliant factories, but of the economic terms on which production is organised. Procurement timelines, price pressures, and failure to account for recruitment costs generate vulnerabilities that audits cannot capture. To address this, brands can be more proactive and granular in monitoring how their own order flows translate into production pressures, working hours, and overtime practices at the supplier level, linking procurement decisions directly to labour impacts. A preventative approach requires buyers to take responsibility for these structural factors, adjusting commercial terms where necessary and sharing responsibility for financing remediation.

To shift from reactive compliance to responsible and preventative supplier engagement, brands can:

#	Recommendations	Description
1.	Align Purchasing Practices with Decent Work	<ul style="list-style-type: none"> <li><i>Pricing that reflects true labour costs:</i> Ensure pricing accounts for fair wages, safe working hours, and ethical recruitment rather than creating cost pressures that cascade into exploitation. Brands may consider designating a defined percentage of unit pricing to cover labour costs, ensuring that cost optimisation occurs in non-labour areas rather than through wage suppression or overtime coercion.</li> <li><i>Stable order forecasting:</i> Provide predictable demand patterns to reduce volatility that leads to excessive overtime and coercive production practices.</li> <li><i>Align procurement incentives with ethical performance:</i> Procurement teams should be rewarded for maintaining ethical supplier bases, not only for cost savings. Shifting KPIs to include labour rights metrics and supplier retention based on ethical performance helps rebalance internal pressures away from lowest-cost sourcing and toward long-term value and risk reduction.</li> </ul>
2.	Strengthen Ethical Recruitment Systems	<ul style="list-style-type: none"> <li><i>Approved recruitment agency lists:</i> Maintain and enforce lists of agencies that adhere to the Employer Pays Principle ("EPP"), prohibition of contract substitution or deception, and the elimination of subsequent service fees or hidden charges.</li> <li><i>Recruitment corridor due diligence:</i> Conduct due diligence on entire recruitment pathways, including fee structures and broker networks, rather than only assessing final-stage agencies. This should include forensic review of job offers, employment contracts, and pay slips to verify that the EPP is upheld, detect deception, and ensure contract terms align with original offers made to workers.</li> <li><i>Pre-departure worker orientation:</i> Resource comprehensive orientation on rights, contracts, and grievance pathways before workers leave their origin countries.</li> <li><i>Co-financing ethical recruitment:</i> Support cost-sharing of fee reimbursement or transitions to ethical recruitment where supplier capital is constrained.</li> </ul>
3.	Make Remediation Feasible	<ul style="list-style-type: none"> <li><i>Shared remediation funds:</i> Create pooled or tiered funds tied to supplier risk levels rather than leaving remediation costs entirely to suppliers.</li> <li><i>Timely remediation periods:</i> Set clear timelines that do not force workers to remain employed during repayment periods, avoiding reproduction of the dependency that remediation aims to address.</li> <li><i>Post-remediation monitoring:</i> Collaborate with local organisations to maintain contact with workers after remediation, periodically revisiting supplier sites to verify sustained compliance rather than treating remediation as a one-time fix.</li> </ul>

#	Recommendations	Description
4.	Build Worker Voice as Continuous Prevention	<p>Effective prevention requires information systems that detect risks early. Worker voice mechanisms function as continuous risk monitoring:</p> <ul style="list-style-type: none"> <li>• <i>Partnership with local civil society organisations:</i> Companies must work with local civil society organisations because audits often fail to get accurate and actionable information, as noted during a stakeholder interview with Electronics Watch. Local organisations have built trust with workers over time, making it essential to tap into these local networks.</li> <li>• <i>Accessible grievance mechanisms:</i> Beyond formal systems, prevention requires creating channels that workers trust. Promoting freedom of association can serve as a practical enabler of access to grievance mechanisms by allowing workers to leverage trade union membership for collective representation, protection, and support when raising concerns. Unions provide independent channels that workers trust, support them through complaint processes, and enable early identification of risks that internal systems overlook. Engaging unions as prevention partners strengthens ongoing monitoring and creates more credible routes to remedy.</li> <li>• <i>Protection from retaliation:</i> Grievance systems become preventative only when workers can report concerns without risking their safety and livelihoods.</li> </ul>

## For Regulators

For regulators, guidelines to the legal frameworks such as CSDDD and EUFLR provide an opportunity to institutionalise this shift toward structural prevention, particularly in contexts like Malaysia where national labour laws exist but enforcement remains weak. In this context, implementation guidelines can serve as a complementary accountability mechanism, setting expectations for purchasing companies to identify, prevent, and mitigate labour risks across their global supply chains, including in high-risk sourcing contexts such as Malaysia.

This shift from checklist-style compliance to continuous due diligence represents a fundamental reorientation in how business responsibility is defined. Current audit systems tend to capture compliance at a single point in time, producing binary assessments that fail to address structural risks embedded in pricing, production, or recruitment systems. Guidelines to the CSDDD can provide an opportunity to promote ongoing risk management by:

- Requiring procurement transparency: Encourage disclosure of order patterns, lead times, pricing assumptions, and cost structures so structural pressures become visible and manageable.
- Standardising root-cause analysis: When violations are identified, ensure investigations consider how purchasing practices contribute to harm rather than treating violations as isolated supplier failures.
- Establishing remediation standards and benchmarks: Promote clearer standards ensuring corrective and preventative measures address structural drivers of exploitation rather than solely resolving visible symptoms.

At the same time, it is critical to recognise what due diligence regulations can and cannot accomplish. As regulatory landscapes evolve, with some jurisdictions tightening requirements while others retreat or simplify requirements, businesses face a crucial strategic choice about how they approach labour risk management. Regulations can set thresholds of acceptable practice; they do not define business strategy. For both buyers and suppliers operating across globally integrated value chains, robust due diligence should never depend on where legislators temporarily set the compliance bar. Embedding responsible purchasing and human rights due diligence practices is therefore not only about avoiding harm; it is also a matter of business continuity and supply chain resilience. Companies that embed continuous, risk-led due diligence are better positioned to anticipate and avoid enforcement actions and trade disruptions, maintain workforce stability and productivity, and build more resilient supplier relationships grounded in transparency and shared responsibility. A preventative approach also requires equity across the value chain such that buyers support suppliers through fair pricing, stable forecasting, and cost-sharing where needed, enabling labour standards to be upheld without shifting commercial pressure onto workers. In this sense, robust due diligence is not simply a compliance requirement, it is a foundation for supply chain resilience, continuity, and sustainable commercial performance.

### Other Stakeholders

At a systemic level, the evidence underscores the need for shared responsibility. Forced labour is not the product of supplier conduct alone; it emerges where purchasing practices, socio-economic vulnerabilities, and governance gaps intersect. This calls for accountability not only from suppliers but also from brands, governments, and recruitment intermediaries by:

- developing industry-specific prevention frameworks identifying structural risk indicators and setting clear expectations for responsible business conduct across tiers;
- creating shared platforms for transparency on supplier performance and improvement trajectories;
- establishing cost-sharing mechanisms for challenges related to deep rooted issues of ethical recruitment and living wages;
- promoting industry-wide incentivisation through mechanisms that reward suppliers for investing in decent work, ethical recruitment, and worker representation, raising the bar collectively rather than competing on lowest labour cost; and
- supporting research on effective prevention practices and their scalability.

### Learning from Alternative Models

Social enterprises in the smartphone manufacturing sector operating under combined social-welfare and economic logics offer valuable lessons for prevention. Research comparing social enterprises with commercial firms in the smartphone industry reveals distinct approaches.<sup>42</sup>

- *Knowledge-sharing for prevention:* Social enterprises demonstrate greater transparency about progress and outcomes beyond general policies. Rather than merely publishing rules, they share specific supplier situations and collaborative processes, enabling learning across the industry.
- *Iterative development approaches:* Rather than rigid 90-day corrective action periods, social enterprises adopt mutual, iterative development stances, creating distinctive worker-driven action plans and improvement trajectories. This flexibility enables tailoring based on ongoing success, failure, and difficulties—a preventative approach that addresses root causes rather than imposing standardised fixes.

- *Multi-tier engagement*: Social enterprises directly cascade their programs through directly managing multi-tier suppliers in their extended upstream supply chain rather than relying on Tier 1 suppliers to transmit requirements downstream. This direct engagement enables better prevention by ensuring structural concerns are understood and addressed at the source.
- *Referent power over coercive power*: Social enterprises rely more heavily on informal self-enforced governance mechanisms, such as referent power based on trust and shared goals rather than threats of contract termination. This approach better supports prevention by building collaborative relationships where suppliers share concerns early rather than hiding problems until discovered.

Commercial firms can learn from these approaches without fully adopting social-welfare logics. The key insight is that prevention requires seeing suppliers as partners in risk reduction rather than potential liabilities to be monitored and punished.

# Conclusion

Forced labour in electronics is not incidental misconduct. It is structurally generated at the intersection of commercial dynamics, migrant worker vulnerabilities, and governance gaps. Current assessments may not fully account for the interplay between different factors, such as wage suppression, excessive overtime, and governance gaps, which together create conditions of exploitation. This pattern illustrates why a holistic framework that integrates business model indicators and decent-work deficits is critical. Without examining how these indicators interact, assessments risk overlooking systemic vulnerabilities that enable forced labour to persist.

A preventative framework links risk identification to structural reform. If procurement practices and recruitment systems are factored into forward-looking due diligence, brands cannot only detect risks earlier but also design remediation that addresses root causes, such as co-financing ethical recruitment, ensuring suppliers are resourced to repay debts, and embedding grievance systems that provide meaningful and timely remediation. This shift enables remediation to move from partial restitution toward more substantive and preventative outcomes, while giving businesses a more reliable basis for prioritising and managing risk across complex supply chains.

By capturing procurement dynamics, governance gaps, and worker agency, these indicators not only support prevention but also enable more equitable attribution of responsibility across brands, suppliers, and regulators. Meaningful stakeholder engagement, including collaboration with trade unions, worker representatives, and trusted local civil society organisations, is essential to ensure that prevention efforts are grounded in worker realities. These actors have built long-term trust with workers and are far better positioned than audits to understand lived realities and surface risks that factory-led reporting does not capture. Promoting freedom of association also provides a practical pathway to remedy by enabling workers to leverage union membership for independent representation and protection when raising complaints, and access grievance mechanisms without fear of retaliation. In practice, this approach strengthens risk identification, risk management, and remediation, shifting the focus from reactive harm documentation to proactive prevention.

As long as procurement dynamics, debt-financed migration, and suppressed worker voice remain intact, forced labour in Malaysia's electronics sector will continue to emerge predictably, regardless of audits, certifications, or compliance frameworks. Prevention is therefore not an optional enhancement; it is the only credible route to durable protection for workers and resilient supply chains.

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