

# Apple iPhone 5 Rollout Trapped Workers Exploited by Supply Chain

By Cam Simpson  
Bloomberg News

November 7, 2013 – Beneath the spotlight in a San Francisco performing arts theater, Apple marketing chief Phil Schiller was about to stage-manage one of the most anticipated product unveilings of 2012. It was the first post-Steve Jobs reveal of a new iPhone. Schiller was comforted by what he saw in the darkened audience. “It’s really neat to stand here and see all the Apple logos glowing,” he said of computers on the laps of journalists, analysts, and fans, all poised to send his words into the world.

The lights dimmed, and Schiller stepped backward, stage left. A glowing iPhone 5 came up from beneath the stage, rising on a pedestal. “It is an absolute jewel,” he said. Schiller, 53, then pitched the phone’s features, including an 8-megapixel camera. A photo of a quiet cove flashed on the big screen. “The ocean just looks bluer on the iPhone 5,” he said, as an image of two boys, lying on green grass and smiling into the lens, replaced the cove. “Kids look happier. They really do. And the world is just a more beautiful place when you take pictures with the iPhone 5.”

Offstage, something far more extraordinary was under way, a display of the power and reach deployed by one of the largest companies in the world, Bloomberg Businessweek reports in its



Dhong with his wife, Salome  
Photograph by Cam Simpson/Bloomberg

Nov. 11 issue. Apple Chief Executive Officer Tim Cook, 52, who oversaw the supply chain for Apple for years before succeeding Jobs, had planned what executives and analysts called the most aggressive production-and-launch schedule ever attempted by Apple – or, given its scale, speed, and complexity, possibly by any company.

## **Nine-Day Sprint**

Even though relatively few units had been produced by the time Schiller took the stage on Sept. 12, 2012, the iPhone 5 would go on the market in the U.S. and eight other countries nine days later. By year’s end it would be in the stores



A pedestrian walks past the Flextronics International Ltd. factory in Shah Alam, Selangor, Malaysia.  
Photographer: Goh Seng Chong/Bloomberg

of 240 mobile phone carriers in 100 countries. Apple would go on to sell iPhones at a rate of 3.7 million a week in the model's first three months.

Apple, of course, is a designer, not a builder – it says so right on the back of every iPhone box. The builders, such as Foxconn, get the parts for Apple's products from suppliers that are gigantic companies in their own right. One of Apple's largest suppliers is Flextronics International, a contract manufacturer based in Singapore with about 28 million square feet of factory space spread across four continents, including a plant in an industrial area south of Kuala Lumpur. That's where the cameras Schiller raved about would be made. That meant Flextronics had to crank up its own supply chain. And that required sourcing and importing people – an army of them – to man factory lines.

## Unregulated Network

Staffing production lines in Malaysia, where

28 plants run by 24 companies worked on Apple contracts last year, usually goes this way: Companies tap an informal, largely unregulated, and transnational network of thousands of recruiters. They fan out, often hiring subrecruiters, into the farm fields and impoverished cities of Indonesia, Cambodia, Myanmar, Vietnam, and even into the Himalayas in Nepal. The positions they're trying to fill are so coveted that they're not merely offered, they're sold. The brokers take fees from families, representing as much as a year or more of wages in their home country. Frequently, the fees are paid with loans that can take years to pay off.

## iPhone Rollout

For the iPhone 5 rollout, a recruiter working for Flextronics contacted four brokers in Kathmandu, Nepal's capital, in late August and early September, urgently seeking 1,500 men to make cameras, according to three of the four brokers. The pressure to move so many men so quickly was unprecedented. "The recruitment agency was telling me, 'We need these workers, you have to send them by today,?'" says Rajan Shrestha, managing director of a small company called Sharp Human Resources.

Alok Taparia, the managing director of Transworld Manpower, another of the four Nepalese brokers retained for that drive, says he was given clear instructions: Workers shouldn't be charged; Flextronics would pay the brokers. But Taparia and the other Nepalese brokers say Flextronics demanded so many men so quickly that there was no way to do it without tapping the country's network of subagents, stretching into Himalayan villages reachable only by foot. As

Apple itself has described in reports on its supply chain, the subagents always charge.

## Labor Frenzy

What ensued, according to Taparia and the others, was a frenzy. Even the Nepalese government official in charge of approving foreign-worker permits, Surya Bhandari, says he was deluged with calls from Malaysia and Nepal urging him to issue permits faster and to waive a mandated seven-day waiting period. “They pressured me,” recalls Bhandari, now retired. They also told him the men were needed to work on iPhones and that sending men to work for Apple would be good for Nepal.

The hunt reached then-27-year-old Bibek Dhong on his mobile phone, while he was packing milk crates at a Kathmandu dairy to support his wife, a newborn daughter, and his extended family. The call would change his life.

For a decade, groups such as Verité, a Massachusetts-based nonprofit, have warned about the treatment of foreign workers at electronics manufacturers in countries such as Malaysia. Largely, these concerns have been overshadowed by problems at final-assembly plants in China, such as those of Foxconn, but Verité and others have found that conditions in Malaysia can be similar, with a crucial difference: Factory managers often control the right of imported workers to leave.

## Passport Safe

Apple discovered this during an audit of a Taiwan component maker in 2008. An Apple auditor saw the passports of foreign workers stacked in a safe, according to a person familiar



Dhong with his wife, Salome  
Photograph by Cam Simpson/Bloomberg

with Apple’s audits. The manager said his workers owed money to recruiters, so he kept their passports to guarantee they paid up. Apple realized many migrants could be trapped abroad for months or even years because of seized passports, debts, and interest, says Dionne Harrison, a London-based executive for the consulting firm Impactt, which works with Apple. Apple, along with others, calls that bonded labor, a form of modern-day indentured servitude, one step removed from slavery. Apple attributes the worst abuses to companies that rely on a daisy chain of payment-demanding brokers and recruiters that reaches “all the way back [to] the worker’s home village,” as Apple put it in its 2010 supplier report.

## Widespread Practice

Because these abuses are widespread in the industry, Apple in 2009 tried barring suppliers from using workers who had been charged more than one month’s net factory wages. But by

Apple's own accounting, the practice got worse. Last year the company's audits turned up \$6.4 million in fees paid by workers beyond the company's prescribed limit – compared with \$6.7 million in the previous four years combined. And Apple audited fewer plants last year than it did in 2011. The company orders its suppliers to refund workers charged beyond its limit.

One plant where auditors found excessive fees last year was the Bukit Raja Flextronics plant south of Kuala Lumpur, where Dhong and his compatriots ended up working. Flextronics is one of Apple's top 10 suppliers, Bloomberg Industries estimates show, employing about 150,000 workers in 30 countries. Apple's iPhone may be the best-known product some of them work on, but they also build components for Lockheed Martin, Ford Motor, and more than 1,000 other customers in almost every line of business. "There's almost no customer in the electronics chain, and many outside of the electronics chain, that we don't touch," CEO Michael McNamara said at a presentation in New York on May 30. "We want to be the supply chain of everything."

## Farmhouse Leveled

After torrential rains destroyed a family farmhouse in Dhong's home village on the edge of the Kathmandu Valley, where farmers sow their crops on mountain terraces, Dhong became just the sort of recruit the global electronics industry scoops up across Asia. Tall and wiry, Dhong towers over his wife, Salome. He often seems to be struggling to repress a smile, which pushes his already high cheekbones even higher. His "love marriage" to Salome and their Christian

faith make them outsiders in a culture dominated by arranged marriages, Hinduism, and Buddhism. Like many subsistence farmers who move to the city, the couple didn't find urban life much easier than living off the land. "There is no work living here," Dhong says.

At some point, he paid \$250 to a recruiter who promised to line him up with a good foreign job. That recruiter then connected him to a broker in Kathmandu, one of more than 750 registered with the government. Dhong left his passport with the overseas broker – and waited.

## The Call

On Oct. 14, 2012, he got the call. He was told to get to Kathmandu's Tribhuvan International Airport for a flight in three hours and to bring the equivalent of \$500, or about six months of his dairy wages. There was no way Dhong could come up with that much cash, pack, and leave so quickly, so the broker told Dhong to bring as much money as he could to the office, then head to the airport at the same time the next day. Dhong and his wife borrowed about \$350 from a local lender. He gave it to the broker, saying it was all they had. The broker took the cash and told Dhong to meet yet another agent, the third link in Dhong's own personal supply chain, at the airport.

Dhong grabbed a black-and-tan backpack holding his shaving kit, a single change of clothes, two Bibles (one in Nepalese, one in English), and three family photos. He said goodbye to his crying wife and daughter, then jumped onto a microbus on a loud and dusty Kathmandu road. As promised, the third agent was at the airport, holding Dhong's passport. He demanded money, but Dhong had nothing left to

give. So the broker told Dhong to sign a debenture agreement promising to pay \$400 more. If Dhong didn't sign and if he didn't quickly pay, he would lose the job. He had yet to start work, and already he was \$1,000 in debt.

## Don't Tell

Dhong signed and got his passport and a sheaf of documents. He says all the brokers involved told him never to mention the fees, because, "If any worker reveals it to anyone, he will be sent back to Nepal immediately, and he will be charged and punished." Later that afternoon, Dhong climbed aboard a plane for the first time in his life. There were 41 others headed for Flextronics on the same flight. When the recruits landed in Kuala Lumpur on Oct. 15, a representative from Flextronics met them at the airport. He took their passports and put them on a bus that took them south of the city, then past a security gate to two high-rise towers the company rented as a hostel for the men.

## Full Swing

By the end of October, the drive to produce cameras was in full swing. Dhong and the other men on the day shift rose around 5 a.m. to get ready and line up for buses that drove them to the factory for a 7 a.m. start. The trip could take more than an hour in the crush of traffic.

When he arrived at the plant each morning, Dhong slipped into a white clean-room suit covering his body head to foot, including a tightly cinched hood. A cotton mask hid most of his face. Except for breaks, Dhong and the others stood throughout their 12-hour shifts beneath white drop-tile ceilings and fluorescent lights. Their lines were named after American states:

New Mexico and Rhode Island. About 3,000 women from Vietnam and Indonesia also worked in the plant, according to the recruiting agents in Nepal, but the Nepalese workers say they had little contact with them. Contracts for Dhong and the other Nepalese men set their base salaries for 12-hour shifts at about \$178 a month. It was the minimum monthly salary mandated by the government of Nepal for its citizens living in Malaysia.

## Better Camera

In Schiller's pitch in San Francisco, he said that even though the iPhone 5's camera was 25 percent smaller than the one in the previous version, it would deliver sharper pictures, because its lenses were precisely aligned and engineered "down to the micron level." Others made the lenses; Dhong's job was to test them. He got them in trays and placed each in a machine that checked alignment, focus, and other variables. A computer told him whether to accept or reject each lens, with rejects sorted based on more than a dozen different "fail" codes flashed on the screen. On a busy day, Dhong says he could test about four a minute.

In November, Dhong and the other men say they noticed the number of failures appeared to be growing. Production slowed to a drip by the end of the month. The recruitment agents in Nepal say they were summoned to Kuala Lumpur for a meeting on Dec. 19. They went to the offices of the Malaysian staffing agency working for Flextronics, where executives explained that Apple was rejecting about 7 out of every 10 cameras. Production was being shut down. Dhong and the other Nepalese men, unsure why their work had stopped, were sent to



The Flextronics International Ltd. factory stands in Shah Alam, Selangor, Malaysia. One of Apple's largest suppliers is Flextronics International, a contract manufacturer based in Singapore with about 28 million square feet of factory space spread across four continents, including a plant in an industrial area south of Kuala Lumpur.

Photographer: Goh Seng Chong/Bloomberg

their living quarters. They heard nothing for more than 20 days.

## **Bullhorn Announcement**

Dozens of policemen and a man the Nepalese brokers identified as a Flextronics executive came to the workers' hostel on Jan. 10, gathering them in the courtyard between the two high-rise towers. Through a bullhorn, he told them their jobs had been eliminated and they were being sent home. Each got a letter on Flextronics stationery blaming the "current economic environment," instead of the company's manufacturing process, for his termination "on grounds of redundancy." The 3,000 women also were fired, says Sharp's Shrestha.

Another letter explained that the men were getting paid for the rest of January, plus a month. It was a total of about \$600 each. Flextronics says it was more than Malaysian law required. Dhong and many others wired most of it home, as they had done for the few other paydays they'd experienced before the shutdown. Dhong

didn't know it that day, but it would be all his family would have to live on for two months. They didn't dare spend it paying off the debt he incurred buying the job he'd just lost.

## **Uncertain Weeks**

The man with the bullhorn had promised workers they'd be sent home fast, and about 200 were, say the workers and brokers. But managers kept the passports of Dhong and more than 1,300 others, instructing them not to leave the hostel. Then repatriation flights stopped. Again, the men say they were told nothing.

Days of uncertainty stretched into weeks. Flextronics had allowed Dhong's visa, and those of many others, to expire, leaving their legal status in doubt, making them feel vulnerable to arrest if they left the hostel and even afraid to question their treatment. "We were now illegals," Dhong says. "We decided not to go anywhere." Malaysian police are notorious for mistreating immigrants, even legal ones. The U.S. State Department's annual human-rights reports on the country are filled with allegations of illegal detention, torture, and rape. Some of the Flextronics recruits who dared to wander out of their hostel say police shook them down for cash.

## **Bollywood Classics**

Men started each day expecting word about their flights home or new jobs. Some passed time playing soccer. Pirated DVDs of Bollywood classics ran on an almost constant loop, blaring from television speakers in small rooms. Local television was always on, even though most of the men couldn't understand Bahasa Malaysia. Dhong discovered and embraced one show for

which the language was universal: American professional wrestling. “My favorite was John Cena,” he says.

Having wired home much of their money in anticipation of following close behind, many started running out of cash. Then they ran low on food. The first to go hungry were among a group of younger men who had relied on a local restaurant outside the hostel to give them a meal a day on credit. The owner cut them off when he found out they’d lost their jobs, Dhong says. Hunger soon spread to almost everyone.

## Stir Crazy

At night Dhong could hear some of his compatriots shouting and screaming out the windows of their high-rise towers. One man Dhong knew seemed to be going stir-crazy, muttering and shouting to himself as he paced the hostel grounds. Dhong tried to keep to himself, staying in the small room he shared with three other men and reading his English and Nepalese Bibles side by side to practice English. By late January, his food supply was down to rice flakes, which he shared with the others in his room. “We put out what we had, and mixed and ate together,” he says.

By early February, hope evaporated. Everyone seemed to be out of food and money. “We were scared,” says Hikmat Prasad Kafle, 27. “We thought, if we die here, we will die together.” Several others say they had no food for days or survived only on charity. “They treated us like dogs,” says Ramesh Kumar Parajuli, a 30-year-old subsistence farmer from eastern Nepal with a wife and two sons. “If you’re going to starve, it is better to starve in your own country.” Dhong



spoke to his wife less and less, preserving credit on his phone.

## Fear, Rage

At the end of the first week of February, fear and hunger turned to rage. Some men smashed windows. Others threw televisions from floors six or seven stories above Dhong. When Malaysian police arrived, the men say that rather than making arrests, the officers ordered the company to start sending food. The manager of the hostel, a Malaysian named Raganathu Rao Appalanaidu, dealt with police and confirmed they didn’t arrest the Nepalese men, “but negotiated with them, and then they speeded up the whole process of sending back these guys.”

Flextronics started trucking over ready-made meals, though the men say they were often spoiled and never enough. Flights resumed. Dhong was one of the last to leave. Like all of the workers interviewed for this story, he says he got his passport back on the way to the airport. It had a one-day “special pass” stamped inside. It was good to get him out of the country only on Feb. 21, the day he flew home to his wife. It had been more than two months since he last worked.

Back in Nepal, many workers still owed the money they’d borrowed to pay recruiters and brokers. Even some who managed to eliminate their debts are living precariously. Krishna Prasad

FLEXTRONICS

Date: 10 January 2013

Name : BIBEK DHONG  
Employee No : 3938468

Dear Bibek Dhong,

**Sub: RETRENCHMENT**

The current economic environment has severely impacted our company, causing loss of business opportunities and steep reduction in business volume. As such, large sections of our employees are affected by these adverse developments. The Company had taken steps to mitigate the situation through Overtime freeze, Shutdown leave, Staggered shifts etc and only after we have exhausted all options have we reached this difficult decision.

हाम्रो चर्चितकालको आर्थिक मन्दिरो कारणले गर्दा हाम्रो कर्मचारी कुनै पनि हालतमा अभावग्रस्त नभएको नभएको हुनाले हामीले कर्मचारी जन्म गर्न बाध्य भएका छौं ।

It is therefore with deep regret we inform that your position in the company has become redundant and you are hereby **terminated on grounds of redundancy**. Your last working day shall be 10<sup>th</sup> January 2013 and you will be paid up to and including 10<sup>th</sup> January 2013.

Apple spokesman, says his company will make sure “the right payments have been made” when Flextronics finishes its audit.

## Net Pay

But Apple’s standard calculation of how much is too much – more than one month’s net pay in Malaysia – is a percentage of an assumed three-year work contract. Because the Nepalese men worked only a few months, they face debts that equal, in Dhong’s case, about half of everything he earned in Malaysia. Almost all of the more than 40 Flextronics recruits interviewed in Nepal say they’re worse off today for their journey into Apple’s supply chain.

Dhong and his wife see only one escape: borrow more money and pay for another job abroad. Many other former Flextronics recruits say they will do the same. “I am scared,” Dhong says. “I am in debt already, but now I need to borrow more on top of that to be able to go away. I have paid a lot of interest on it already. So now I think I need to look for a reputable recruiter, check the demands and working conditions properly, and only then I want to go away. In which case I hope I won’t be duped.”

## Lost Billions

Apple lost billions of dollars in market value last year because it couldn’t produce enough handsets to meet record demand, one of several factors that precipitated a 20 percent decline in its share price at the end of last year. That only underscored the importance of speed in the supply chain to Apple executives, and Cook today is repeating the strategy of aggressive production-and-launch schedules, including with

Poudel, a 31-year-old subsistence farmer who flew to Malaysia on the same flight as Dhong, says he sold much of his land to pay off the principal and interest. Now his ability to provide enough food for his family is in jeopardy, he says. At least four others say they did the same or will have to, after mortgaging farms for their jobs.

## Shoe Factory

Dhong found work in a Kathmandu shoe factory that churns out \$5 sneakers sold in neighboring India. He earns \$3 a day for a 12-hour shift inspecting the glue seams on shoes before they’re shipped. It’s about half of the minimum pay he’d been promised in Malaysia. He earns less than \$90 a month and owes about \$300 in interest annually. That means almost a third of the family’s annual income goes to make the interest payments for buying a job he no longer has.

In response to Bloomberg Businessweek, Flextronics says it has commissioned an outside group to travel to Malaysia and Nepal to try to conduct a sort of forensic audit on the fees Dhong and other workers paid to buy their jobs. “As with previous practice, we will immediately reimburse any employees that have been charged excessive fees by labor agencies,” Renee Brotherton, a spokeswoman, said in an e-mail. Chris Gaither, an

the iPad Air, which started shipping on Nov. 1.

“Apple has led the industry in uncovering and preventing the abuse of migrant workers,” says spokesman Gaither. “We were the first electronics company to mandate reimbursement to employees who were charged excessive recruitment fees, and our program has helped contract workers reclaim \$16.4 million since 2008. We aggressively investigate any claims of bonded labor where Apple products are made, and our team is continuously auditing deeper into the supply chain. We recently updated our code of conduct to require our suppliers to directly interview workers who are hired through labor brokers, as another way of eliminating unethical practices. Although Flextronics’s Bukit Raja facility is no longer in Apple’s supply chain, we take these allegations extremely seriously.”

### **Workers' Fate**

Flextronics’s Brotherton declined to discuss details surrounding the fate of the 1,500 men flown to Malaysia. Brotherton added: “Please understand that Flextronics is unable to answer questions that are specific to our customers, and specific to what we do for them, due to

confidentiality agreements.” She also said Flextronics was concerned about allegations of excessive fees and improper treatment of workers and that the company is “committed to the well-being of all of our employees. ... We are thoroughly investigating the allegations to ensure that any cases of misconduct are immediately addressed and any necessary corrective actions are promptly implemented across Flextronics to avoid reoccurrences.”

When Schiller pitched the iPhone 5 last year during the frantic recruiting drive in Nepal, Cook spent little time on the stage. But he did have the last word. He said Apple had never been stronger, “because of the dedication and creativity of our employees throughout the world.” Their work, he said, “has real significance, because delivering revolutionary products makes a real difference in people’s lives.”

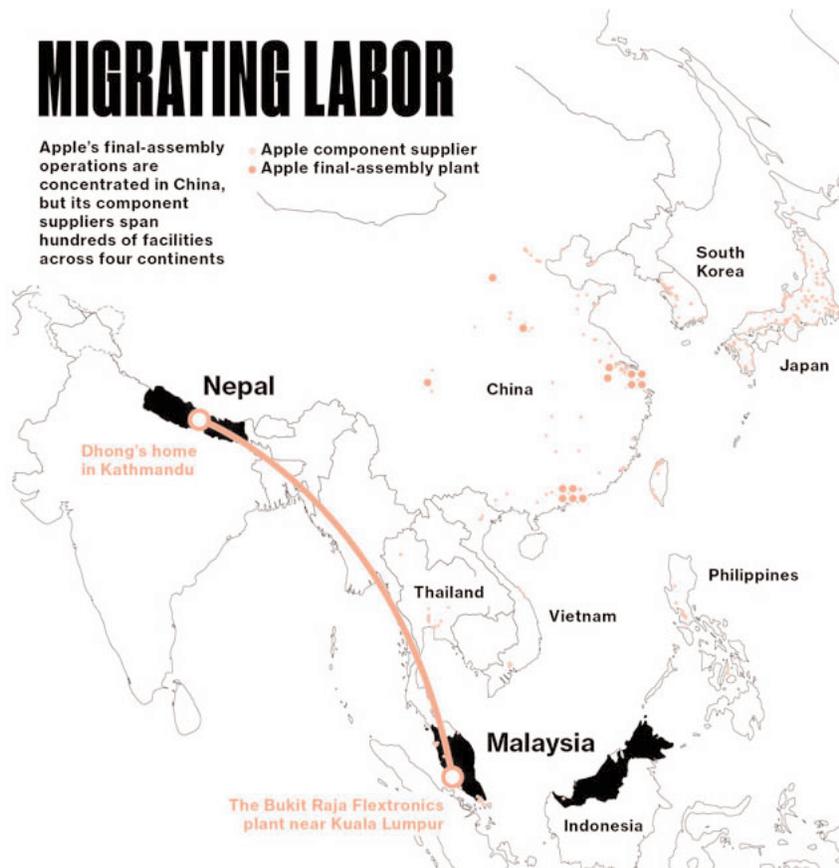
*—With assistance from Adam Satariano in San Francisco*

*—Editors: Flynn McRoberts, Bryant Urstadt, Robert L. Simison*

## MIGRATING LABOR

Apple's final-assembly operations are concentrated in China, but its component suppliers span hundreds of facilities across four continents

- Apple component supplier
- Apple final-assembly plant



GRAPHIC BY BLOOMBERG BUSINESSWEEK. DATA: APPLE COMPANY REPORTS

# A \$1,000 Debt Gets Migrant a Job Building World's Electronics

By Cam Simpson  
Bloomberg News

November 26, 2013 – Sita Magar is a single mother of four who earns whatever she can wring from six goats and the muscle of a rented water buffalo. After paved roads end, it takes four hours to reach her farm along a trail where felled trunks, like twisted balance beams, span a raging stream. Even so, a recruiter feeding migrant workers into the global electronics industry found Magar in her mountainside Nepalese village last year. He convinced her to borrow more money than she'd ever seen, about \$1,000, and pay him to get her daughter a position at a factory in Malaysia.

After a year, the girl was dismissed and sent home when a company-mandated pregnancy test came back positive, leaving the family still impoverished and with years of added debt.

Migrant workers recruited through such practices make electronic components that are critical to companies building defense and aerospace systems, medical devices, industrial technology and virtually everything else incorporating microchips and circuits, according to interviews with workers and supply-chain data compiled by Bloomberg.

An unregulated network of thousands of brokers induces workers into buying their jobs with fees



Factory workers walk along a road after disembarking from a bus in the neighborhood of Majestic Heights in Paya Terubong, Penang, Malaysia. Malaysia, following its independence from British Colonial rule in 1957, turned itself into a center for the rapidly off-shoring American technology industry.  
Photographer: Goh Seng Chong/Bloomberg

often equal to a year's wages at home. At the factories, employers often take their passports. If they want to leave, workers often have to hand over months of wages to get them back.

## Buying Jobs

The Magar family is one of tens of thousands from some of Asia's poorest corners who were sold on the idea of going deep into debt to buy jobs on production lines in Malaysia, a manufacturing hub for the global electronics industry. Interviews with 60 Nepalese workers from 22 companies showed that the transnational system for recruiting them is rife with abuses – and extend far beyond the making of consumer devices, such as Apple Inc.'s iPhone, and



The Western Digital Corp. logo is displayed outside the company's factory in the Free Industrial Zone in Bayan Lepas, Penang, Malaysia.  
Photographer: Goh Seng Chong/Bloomberg

into virtually all of the technology running the modern world.

Purna Kumar Tamang, 31, borrowed more than two years of earnings in his Himalayan village to pay a broker for a job at a Western Digital plant on the Malaysian island of Penang. Not long after he arrived, his wife grew seriously ill, trapping him between two grim options inside the hard-drive maker's factory: leaving her alone so he could stay and work off their debt, or returning to care for her and face financial ruin.

"Those days were very hard," Tamang said.

## Obama Order

The companies that rely on these workers, either directly or through suppliers, include U.S. government contractors who now may be in violation of an executive order signed by President Barack Obama last year. Titled "Strengthening Protections Against Trafficking in Persons in Federal Contracts," it bans the selling of jobs, no matter how big or small the fees, to overseas workers for companies that provide any

goods or services to the U.S. government, according to lawyers who represent federal contractors and those who help trafficking victims. It also applies to subcontractors.

While rules for enforcing the order are still being written, experts said the no-fee provision will be included and could have a dramatic effect on an industry that both touches so many products and relies so heavily on workers paying brokers for their jobs.

"The executive order says no recruitment fees," said W. Barron A. Avery, who represents government contractors and subcontractors at the Washington-based law firm Wiley Rein LLP.

Jennifer Plitsch, a partner in the government-contracts practice group at Covington & Burling LLP, agreed on the potentially widespread impact. "Most industries have long supply chains," Plitsch said, "and these rules will apply all the way down."

## Zero Enforcement

The no-fees provision of Obama's order was "a huge victory for the anti-trafficking community," said Martina Vandenberg, a former partner at Jenner & Block LLP who established the Human Trafficking Pro Bono Legal Center last year. Enforcement will be crucial, she said, adding that human trafficking provisions have been "on the books for a decade, and there has been almost zero enforcement."

Electronics makers operating in Malaysia, including Sony Corp. and the \$17.7 billion hard-drive maker Western Digital, rely almost exclusively on foreign migrant workers for production, according to interviews with workers, recruiters, and industry and Nepalese

government officials.

Many companies say they try to regulate recruiters' behavior to mitigate abuses, though interviews with the 60 factory workers show what happens when principles collide with business needs: Even companies with strict human-rights policies can create conditions that worsen the exploitation of migrant workers. As previously reported by Bloomberg News, 40 other Nepalese sent home from a Malaysian plant that made iPhone cameras experienced similar treatment.

## Off-Shoring Hub

Malaysia, following its independence from British Colonial rule in 1957, turned itself into a center for the rapidly off-shoring American technology industry. International Business Machines Corp. and other semiconductor makers were among the first to build facilities there. By last year, about one-third of the southeast Asian nation's total exports, or \$72.3 billion, came from electronics.

In the past quarter-century, the country's prosperity has reduced unemployment to 3.1 percent for Malaysian citizens. Their poverty rate sits at 1.7 percent, down from 15.5 percent in 1989. That has meant they're largely unwilling to take menial jobs, leaving the country's electronics factories to rely on foreign migrants for production. Other industries, including construction and agriculture, do as well.

## Human Exports

Nepal, one of Asia's most impoverished nations, is the second-biggest source of foreign workers in Malaysia, behind neighboring Indonesia.

Groups such as Verité, a Massachusetts-



Factory workers look out the window of a bus in the neighborhood of Majestic Heights in Paya Terubong, Penang, Malaysia.  
Photographer: Goh Seng Chong/Bloomberg

based nonprofit that conducts audits for Apple in Malaysia and Taiwan, have for years warned that debts and passport seizures can keep migrants entrapped as "bonded laborers" on factory floors.

Purna Kumar Tamang is one of them.

Last year, the promise of foreign wages from an American technology company reached his village, a three-day walk from the nearest drivable road in the Himalayan Mountains of northeastern Nepal. Tamang, his wife and two children were living on the food they could grow and the roughly \$50 he made each month doing odd jobs. That put them on the edge of what the World Bank defines as extreme poverty. It wasn't hard for a recruiter in a neighboring village to persuade him he could do better. Tamang borrowed more than \$1,300 to pay for a job at Western Digital's plant in Penang. "I had to earn some money because we're poor," he said.

## Paying Agents

The recruiters were working with a Malaysian manpower broker, which in turn was working for



A truck drives past the Sony Emcs (Malaysia) Sdn. Bhd. factory in the Prai Industrial Estate in Prai, Penang, Malaysia.  
Photographer: Goh Seng Chong/Bloomberg

Western Digital, company officials said.

Tamang was among more than two-dozen men recruited from Nepal and sent to the Penang plant in August and September 2012, according to interviews with Tamang, 13 other workers and Western Digital representatives. Each man said he paid the equivalent of \$1,300 to \$1,800 to Nepalese labor agents.

The 12-hour shifts at the plant were long, but Tamang was happy with the money he was earning. It supported his family back home, serviced the interest on his broker debt, whittled down the principal and paid some of his expenses in Malaysia. Then, earlier this year, Tamang's wife, Manika, began to suffer severe uterine pains. By the spring, doctors feared she might need a hysterectomy. She called him in Malaysia two or three times a day, often in pain, never daring to ask him to return.

### Daily Calls

"I want to be home," he said when he first met a reporter in Malaysia in late May. The only thing keeping him in Penang, Tamang said, were the debts from buying his job – fees that were

illegally excessive even under the little-enforced labor laws of Nepal.

By July, he couldn't bear his wife's daily calls any longer. He negotiated his return home with the Malaysian manpower broker, which made him pay about \$600 (1,400 MYR) for his return ticket. Now back in Nepal, Tamang still owes more than \$300, plus monthly interest payments. The principal alone is about six months of earnings in his village.

In an initial interview, Michael Meston, Western Digital's vice president for human resources in Asia, said the company had eliminated the involvement of Malaysian manpower agents in its recruitment process for the foreign workers among its 24,000 employees in Malaysia. The company also started paying all fees for foreign migrants, he said, giving Western Digital one of the strongest policies against bonded labor in the industry.

### 'Difficult Decision'

Meston then said he remembered that the company deviated from those practices after a chain of events beginning with floods in Thailand two years ago that crippled the company's plants there. Western Digital, based in Irvine, California, moved to quickly boost production for a critical component on a new line in Penang last year.

Because of a tight labor market and "the need to rapidly ramp up the manufacturing facility, we made the difficult decision to make an exception to our newly established process" at the Penang plant, he said, adding that Western Digital hired a Malaysian broker who, in turn, worked with recruiters in Nepal.

Tamang's case exemplifies what the company

wants to avoid, Meston said: “The whole reason that we adopted, why we changed our recruitment practices and our whole process for employing people from overseas, is exactly to avoid the scenario you just characterized, which is employees being charged excessive recruitment fees and effectively having them feel like they can’t leave because they have this massive debt.”

## Partial Reimbursement

Meston said the Nepalese men were supposed to have received about \$600 extra from Western Digital’s Malaysian manpower broker by the end of June – almost a year after they arrived – to reimburse a portion of the fees. He said the company also was examining whether further compensation was appropriate.

Only a handful of European and American electronics companies pay the full cost of recruiting their foreign workers and bringing them into Malaysia, said Shirley Lua, a senior marketing manager for the Kuala Lumpur-based Winbond Group. The few who do in some cases, including Western Digital, do it either because of human-rights concerns, or because they need people quickly, and no-fee offers can get workers on production lines faster, said Lua, whose firm runs worker-outsourcing and recruitment agencies for manufacturers across Malaysia.

## Everybody Pays

Much more common, Lua said, is requiring migrant workers to pay brokers in their home countries for their jobs. That way, it’s the workers themselves, not the manufacturers, who pay all costs associated with their own recruitment and



Factory workers wait for their transportation at dawn in the neighborhood of Majestic Heights in Paya Terubong, Penang, Malaysia.

Photographer: Goh Seng Chong/Bloomberg

importation, as well as the premiums collected by agents at home.

“They have to pay,” Lua said in her office this summer. “Every worker, they come, they will pay.” In Nepal, they’re recruited through more than 750 officially registered foreign-employment agencies and a vast network of unofficial channels. Each registered agency can extend its reach into remote villages through dozens, if not hundreds, of sub-agents who workers say often demand their own fees.

Such agents have helped make the Nepalese people one of their country’s top exports. Nepalis abroad wired home about \$5 billion last year, or about one-quarter of Nepal’s gross domestic product, according to World Bank estimates. Although legal caps for how much brokers can charge exist on paper in Nepal, the fees actually collected are virtually unregulated in both Nepal and Malaysia, according to a report this summer from Verité, the Amherst-based nonprofit that runs bonded-labor audits for Apple.

this story exceeded Apple's limits. For at least 49 of them, the amounts they said they paid were four times their monthly factory wages in Malaysia.

More than four of every five workers interviewed said they paid fees greater than the most generous definition of "excessive" often relied upon by the industry – the roughly \$800 maximum set by Nepal for workers heading to Malaysia. Even that amount can be a year's worth of work or more in remote villages like Tamang's.

More than 7 out of 10 electronics workers in Malaysia interviewed for this story said that in order to pay agents for their jobs, they had to borrow funds. Others used family savings.

The possibility of bonded labor across the global electronics supply chain could be especially troublesome for defense and aerospace contractors, as well as their component makers, if Obama's order is enforced. That's because weapons systems, satellites and aircraft are loaded with specially made electronics.

## Motorola Workers

Migrant workers in Malaysia for Motorola Solutions Inc., which makes walkie-talkies and other communications devices for government and private-sector clients, said they paid fees and had their passports taken. So did workers at two of its local suppliers.

Tama McWhinney, a spokeswoman for Schaumburg, Illinois-based Motorola Solutions, said it will investigate. In e-mailed statements, she said the company pays all recruitment fees for workers, and "is proud of its outstanding commitment to corporate responsibility and is committed to ensuring



A motorcyclist rides past the Plexus Corp. logo displayed outside the company's factory in the Free Industrial Zone in Bayan Lepas, Penang, Malaysia.

Photographer: Goh Seng Chong/Bloomberg

## Conduct Code

Nepal and Malaysia have no formal agreement on regulating the trade in workers. Nepal faces severe resource constraints in trying to protect its workers, as well as corruption, Verité, said in a report this year, in part citing 2010 research for the World Bank.

Almost every electronics company today has a code of conduct on the rights of workers, or it subscribes to one established by the Electronic Industry Citizenship Coalition, or EICC, based in Alexandria, Virginia. Its first provision covers "freely chosen employment" and bars "excessive fees" for workers that lead to conditions of bonded labor.

For Apple, any worker in its 250 supplier-factories who is charged more than one month's net pay is considered a bonded laborer. If violations are caught in subsequent audits, Apple pushes suppliers to compensate the workers – a policy that spokesman Chris Gaither said is tougher than any of its competitors.

## Excessive Fees

Fees paid by all but one of the 60 people working for other companies and interviewed for

that its workplaces and those of its suppliers comply with legal requirements and appropriate labor rights and standards.” She also said Motorola Solutions last year found four suppliers in violation of its policy on bonded labor, and took quick corrective actions.

### **Passports Taken**

Workers for Plexus Corp., a U.S. company with \$1.3 billion in market capitalization and four connected plants in Penang, paid some of the highest fees among workers interviewed. They also said they had their passports taken. Plexus’s manufacturing operations are anchored in Penang, which accounted for 35 percent of its revenues in 2012, according to data compiled by Bloomberg. Many of its customers sell to the U.S. government, including several whose biggest clients are federal agencies, such as Raytheon Co., General Dynamics Corp., Honeywell International, BAE Systems Plc., and Motorola Solutions, Bloomberg Industries data show.

Plexus also provides contract manufacturing for smaller firms, including Minelab Americas Inc., the U.S. unit of an Australian company that sells metal-detecting equipment to the U.S. government. On Sept. 27, 2012, two days after Obama signed his anti-human trafficking order, the U.S. State Department awarded Minelab a contract for mine-detection gear, according to federal contracting data. On Oct. 27 of this year, the company received a shipment from the Plexus Penang complex of more than four tons of “metal detectors and parts,” separate U.S. Customs records show.

### **‘Serious Problem’**

In an e-mail, Angelo Ninivaggi, a senior vice president and the chief administrative officer for

Neenah, Wisconsin-based Plexus, said, “We do not believe that any items we manufacture in Malaysia are sold under a U.S. government contract or subcontract.”

He also said that media attention to the issue “has positively raised industry awareness to a serious problem.” The use of brokers “is common in Malaysia and many other countries and, if done ethically, creates positive economic opportunity for individuals,” he said.

Plexus’s own use of labor agents has been “in compliance with laws, including U.S. laws,” Ninivaggi said. “We remain committed to principles of social responsibility, including the fair treatment of all of our workers, and we will continue with a proactive and comprehensive review of our practices in this area to ensure that abuses do not exist with any individuals working in a Plexus facility.”

### **Brothers Bound**

Among those who worked for Plexus, Dambar Adhikari, a 29-year-old father of two boys, said he paid more than \$1,400 last year for a job at a Malaysian electronics company called Natiogate Technology. So did his brother, who went with him. Shortly after arriving, the men found they were working for an outsourcing firm. Before long, they said, they were reassigned to Plexus’s complex in Penang. Other Plexus workers said they had paid fees of up to \$1,700.

Earlier this year, Adhikari’s youngest son, who is 3, was struck by a motorcycle on a roadway back home in Nepal, where streets are clogged with people, cattle, buses and scooters. After his wife pleaded with him on the phone, Adhikari said he decided to swallow his debt and return home.

He spent more than a week trying to get his passport back. The main challenge was figuring out who had it. It was a man at a firm in Penang that handled his pay for Plexus. He wouldn't release it until Adhikari paid the man's firm about \$800, Adhikari said, even though he had produced medical reports detailing his son's condition. Adhikari said his brother is now trapped in Malaysia by both of their debts.

### **Core Violation**

Under corporate and industry standards, as well as U.S. law governing federal contractors and subcontractors, taking and holding passports of foreign migrant workers is a core violation of their human rights.

Yet Lua, the senior marketing manager for Winbond, said it's standard for her firm. "Our driver will deliver the workers – 10 workers, 10 passports – through HR, to human resources," she said. Employers keep passports, Lua said, so workers don't become "runaways."

Hundreds of Sony workers from Nepal also owe debts to labor agents back home, according to interviews with seven workers and the former Nepalese labor attaché to Malaysia, Surya Bhandari, who worked with Sony. The company recruits women from Nepal to work at the Sony EMCS audio plant in northern Malaysia. They are not supposed to make up-front cash payments to get their jobs, the workers and Bhandari said.

### **Double Dipping**

Instead, each woman was required to sign a "foreign worker loan agreement" with the Nepalese manpower agency that sent her to Malaysia. In them, the women agreed "to make repayment for the loan

to the agent," even though they never received any funds from these so-called loans, according to the interviews and a copy of the agreement obtained by Bloomberg News.

Sony then automatically deducted "installment" payments for the Nepalese manpower agents from the women's monthly checks, according to the loan agreement, Sony payroll records and interviews with workers.

The deductions went up 35 percent this year, according to the workers. Even with the agreements, four of the seven Sony women interviewed for this story said the Nepalese labor recruiters double-dipped by also forcing them to pay from \$260 to \$300 before leaving.

### **Female Preference**

In an e-mailed statement, Sony spokesman George Boyd said the company was "looking into the matter" and that the company's policy is to "adopt sound labor and employment practices and to treat its employees at all times in accordance with the applicable laws and regulations of the countries and regions in which it operates."

Many factory operators in the region prefer to hire women because they are viewed "as more controllable," said Dionne Harrison, a London-based executive for Impactt, a consultancy that has worked with Apple and other companies on labor issues. "They tend to be more loyal and they make less trouble."

Women can face special indignities, including harassment and mandatory pregnancy testing that can lead to their firing, Harrison said.

In the case of the Magar family, their daughter was dismissed and sent home to her

mountainside village in July after failing a pregnancy test. That happened before her mother had a chance to repay the \$1,000 they borrowed to send her.

Because the girl was 16 and couldn't legally work in Malaysia, her mother said the recruiter persuaded her to borrow \$500 more to falsify a passport listing the girl's age as 21. Each extra year cost \$100, she said.

## Falsified Documents

The girl went to work for a Malaysian company called JCY International, records show. It has supplied hard-drive components to Samsung, Western Digital, Seagate and others.

In an e-mail, Calvin Lim, a spokesman for JCY and its financial controller, said falsified documents make it impossible for the company to detect the true age of a worker. He said the company has "a very clear policy of not hiring underage workers, and this message had been conveyed to all recruitment agents." He also said JCY would try to further tighten recruiting practices.

He also said that Malaysian immigration authorities won't allow pregnant workers to

renew their annual work permit. "We have no choice but to send her back to Nepal upon finding out that she had tested positive during her mandatory annual medical," Lim said. "We were at all times not aware that she was underage."

Lim said JCY didn't know "the exact amount foreign agents charge, and the way the workers raise their money." But he said the company would investigate and, "if there is any wrongdoing, we will ask the agent or make other necessary arrangement to refund or compensate the worker and family."

The firing of Magar's daughter, now 17, gave her a chance to finally meet the man who had bankrolled the family's broker fees. After hearing her daughter had been sent home, he showed up at their farm unannounced and demanded his money, with interest. "He threatened us," she said.

Now that her daughter isn't working, she has no idea how she'll come up with the payments.

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