# Role of cultural capital in the context of globalisation in Nepal:

## Exportable Ready-Made Garment Industry as a Case Study

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**6 June, 2004**

Paper prepared for the 18th European Conference on Modern South Asian Studies, organized by SASNET and Lund University, 6–9 July 2004

**Panel 7:** Social and political implications of economic liberalization in South Asia

# 1. Background

The exportable garments industry has been one of the most accomplished and most vilified industries in Nepal. Situated at the forefront of the country's modern economy, this industry is amongst those most influenced by globalisation; and therefore, a best candidate for the study of the local social consequences of globalisation. The industry itself is not older than the early 1980s, and the growth of the industry is directly linked with the global Multi-Fibre Agreement (1974), which assigned country-specific quotas to the ready-made garments from developing countries in the American market. Still in its formative years, the industry grew very rapidly in the 1980s and 1990s, which were the two decades during which the country underwent draconian measures of economic liberalisation.

Much of the credit of the growth of this industry also goes to the technical advice provided by the International Financial Institutions (IFIs). These agencies did not involve themselves directly in the garment industry, but dictated a series of radical changes in the country's economic policies, which in turn, allowed the garment industry to make advances that would otherwise not have been possible. At the same time, however, the process of economic liberalisation led by the IFIs is also accused for the structural insecurity and the frequent turmoil to which the industry has been vulnerable.

Within the remarkable convergence of political and economic institutions that globalisation brought in, the various cultural groups of the country undertook varied approaches to tackle the opportunities and challenges posed by this convergence. In other words, within a given national policy framework and international market scenario, each cultural/ethnic group had access to different cultural resources and each came up with innovative business strategies which resulted in differing economic returns.

With this note on what I perceive to be the point of departure for this study, I outline my research question.

*'Cultural capital' has important implications on the choices individuals make on: (i) nature of product and market, and (ii) business organisation, within the context of local, national and international economic scenario.*

The methodology of the study was two-pronged: First, owners/managers of 22 factories were interviewed following a questionnaire. It was a random sample and included factories of all sizes and systems. The factories' records on their finance, machinery and labour were reviewed in addition to the data derived from interviews. And second, findings of the questionnaire survey was validated/falsified in a broader context using materials derived from extended participatory observation made of three selected garment factories, during the fieldwork period of December 2002 to December 2003.

## 2. Introduction

The exportable garment industry has been one of the most successful and also most vilified industries in Nepal. Still in its formative years, the industry grew very rapidly in the 1980s and 1990s, which were the two decades during which the country underwent draconian transformations in its political and economic (as well as social) systems. Its significance has stemmed from the rapidity with which the industry grew and the dynamism which it transformed it into a sophisticated industry-- both occurring to a degree difficult to match at least within a Nepali context.

The industry currently has a financial net worth of 80 million US dollars with a collective turnover of 160 million US dollars a year.[i] It comprises about 212 factories each employing 200 to 1500 workers, located in two conglomerated areas: the peripheries of the Kathmandu Valley and the industrial areas of the south-eastern district of Jhapa.. The country's largest foreign currency earner, the garment industry annually contributed approximately 25 per cent of Nepal's exports between 1991/92 and 1999/00. During the peak year of 1994/95, there were 1067 registered factories in the industry. Several more were operating without official registration. Its contribution to national exports however gradually increased after 1994/95 and reached its highest of 49 per cent in 1999/00.

The garment industry represents a moderate, 2-3 per cent share of national GDP and currently employs no more than fifty thousand people. The Garment Association of Nepal (GAN), however, has estimated that in its boom years (i.e., in 1994/95), the industry employed approximately one hundred thousand workers. More than just sheer size, the primary impact of its contribution lies in the avenues it opened up for the workers belonging to the caste/ethnic groups otherwise peripheral to the modern society of Nepal. In the culturally diversified society of Nepal, this is among the few industries which is 'modern' and 'large' enough to offer a new access to people of all caste and ethnic groups including those challenged from, among others, insufficient capital, inadequate (or irrelevant) formal education and vocational skills, and caste-based disadvantages. Such aspects make the industrialists and the workers of this industry an extremely interesting group to study the cultural dynamics in the context of modernisation and globalisation.

## 3. The industry's adaptation to the global and national policies

### 3.1 External chain of event

The formal review of the industry, both by the government and international and national observers have portrayed the garment industry to be an industrial 'dowry' from India.[ii] Indeed, this is true to some extent as much as the capital, labour, raw materials, technology and machinery all initially came from India for a large segment of the industry, as a direct policy response to the US's curtailing of Indian garment products.

A system of item-specific quotas was imposed by the US for selected developing countries as a part of the 1974 global Multi-fibre Agreement (MFA). While three other South Asian countries -- Bangladesh, Pakistan and Sri Lanka, were the immediate winners in terms of quota distribution, Nepal's gains were more far-reaching. Nepal not only received the highest 'quota per capita' of 2.38 pieces, the massive redundancy in the Indian garment industry brought about by the MFA was redirected to Nepal as a 'satellite' manufacturing unit. The garment industry in Nepal was a sector with limited promotion by local businessmen, and given that Nepal shares a 1271 km long free border with India and has often given preferential treatment to Indian capital and manpower, Nepal was the obvious choice for the large segment of the Indian garment industry that was made redundant by MFA. The Indian entrepreneurs efficiently utilized Nepal to prevail over the restrictions imposed upon them. This explains the swift growth of the industry in Nepal.

The Multi-Fibre Agreement came into existence in 1974. It was conceived to be a temporary tool but it received four extensions – in 1977, 1981, 1986 and 1994 -- which increased its entrenchment and raised hope for a longer future. However, an agreement signed in Marrakesh on April 15, 1994, made the WTO effective from January 1, 1995. What this meant for MFA was that it was then replaced with Agreement on Textiles and Clothing (ATC) which is committed to rid the international textile trade of any protection that is likely to undermine the free-market apparatus, including the quota-based protection. A ten-member body under ATC is currently working for the abolition of MFA in four stages. In consequence, full phase out of existing quotas is scheduled to occur on January 1, 2005. What this means for Nepal is that it will forego the implicit cost subsidies of up to 43% (Birnbaum, 2000: 34) which had made it competitive in the global market despite its otherwise high costs of production.[iii]

The leading players in international trade have regarded the MFA/ATC phase out as a non-negotiable topic, and developing countries seem more or less resigned to this. In Nepal, 40 out of 252 garment factories, mostly those without direct contacts and stable relationships with the importers, have already left the field[iv] and others are following the trend. This gave wider space to those who stayed in an industry often referred to as a *nibhna lageko diyo* [the lamp soon to die out], indicating its short life ahead but also inferring that the lamp shines its brightest just before it goes out. While the factory owners appeared to look calm and optimistic in the onset, they (or their key employees) disclosed as I got to know them better, that the MFA phase-out was felt like a 'sword hanging over our head.' Not surprisingly, this timeframe places severe constraints upon any decisions regarding the expansion, restructuring or even day-to-day running of the factories. For example, one of my case study factories approved instalment of a new production 'chain' only after being satisfied that the cost will be recovered within two years. Various other plans of expansion and upgrade were abandoned.

European Union (EC then) has been giving Nepal and other least developing countries eligible for GSP (……………………..) status. Primary imports from these LDCs were given a duty-free status provided they were made from raw materials produced in the importing country. Some of the industries of Nepal, primarily the handicraft industry, largely benefits from this. Nevertheless, garment industry could not become a direct beneficiary because of its usage of imported raw materials. In 1970, Nepal requested for a 'derogation' from GSP status which would make Nepalese products with adequate value-added, eligible for a duty-free status regardless of the external origin of the raw materials used. In 1996, however, this privilege was threatened as a large shipment was caught in UK of garments despatched from a port in Shanghai bearing Nepalese labels. A four-person EC delegation came to Nepal in 1996 to investigate this. The procedure and paperwork for GSP was scrutinized based on the recommendations proposed by this investigation. In 2001, this policy again came under pressure for a second round of scrutiny in the procedure and authentification.

### 3.2 Internal chain of events:

The first generation garment factories were registered in Nepal in 1982. This was the year when the government took two important steps for export promotion: first, a Nine-Point Export Promotion Programme was introduced allowing exporters' access to special privileges such as concessional credit; and second, it was made mandatory that government-controlled investment entities invest in export industries. The policy move attracted about 60 factories to the industry in the following two years.

With one or two exceptions, all the garment factories were located at Baneswor, a neighbourhood with an area of less than one square kilometre, at that time fast emerging as a hub for newcomers to the Kathmandu Valley, mostly from the southern districts and beyond (See map). Almost all of these factories were 'dependent' on partnerships with manufacturers/businessmen from India. Since the capital, technical know-how and purchase orders all came exclusively from India during this period, Nepalese partners had hardly any role (Zivetz, 1992: 182). Similarly, Nepalese labour for whom the industry, its organisation and the scale were new, was scarcely represented.

Owing also to the absence of sophisticated machinery required for production, e.g., button-attaching machines, over-lock stitching machines, embroidery machines, and automatic elastic-attaching machines, these tasks were subcontracted outside the factories, mainly to

Indian nationals who had brought these machines, again, cross-border. Some of the factory owners related to me, in disbelief, that the technician (*mistry*) had to be flown from India for simple maintenance. Nevertheless, in both factions of garment manufacturing in Nepal -- core functions as well as subsidiary functions -- the industry was primarily mono-national and mono-ethnic. While this is very much the picture one gets from reading through the coverage of this industry in both the state and vernacular media, and recent policy-level and academic writings in Nepal [Shrestha (1994, p. 197), ILO SAAT (2001, p. 95), Shakya (2001, p. 36)], the industry has in fact rapidly changed.

By mid-1980, a distinct Nepalese role had emerged in this otherwise 'Indian' industry. A technology transfer (in production components) and knowledge transfer (in factory operations and trading components) to Nepalis occurred during the late 1980s. This led to a new phenomenon in which some Nepalese partners in joint-ventures with Indians assumed more active roles in factory operations. Other Nepalese broke their partnerships with Indians and started their own factories or formed partnerships with fellow Nepalese. Also, the number of people investing in this industry skyrocketed reflecting a certain degree of herd mentality rather than a pragmatic business decision. Furthermore, there were several cases of false registration of nonexistent factories with sole intention of quota hoarding. Nevertheless, the number of registered firms exceeded 700 by 1990. The Garment Association of Nepal (GAN) was formed in 1988 to deal with such issues. GAN not only took the initial measures to bring together the scattered components of the industry under one umbrella, but also developed the first coordination mechanisms for important issues such as quota-allocation and floor-pricing. At the national policy level, however, this was a period of inherent contradictions. While the government accepted policy-based lending programmes from the World Bank and IMF[v] for the first time, signalling to the international community its willingness to move towards economic liberalisation, it actually revised the 1974 national industrial policy to further intensify its protectionist measures.

Although the International Financial Institutions (IFIs) largely failed in their attempts to influence the economic policies of Nepal during this period, the multinational companies who were buying from the Nepalese manufacturers introduced important changes into the Nepalese garment industry in terms of technology upgrade and quality enhancement: (i) the Indian-made manually powered machines,[vi] which were being used in most of the factories until then, were replaced by Japanese machines; and (ii) more sophisticated machines such as over-locking stitches, flat-locking stitches and button-holing were added into the main factory premises, making the subcontractors of these functions redundant. The first move induced a significant augmentation of capital investment in the industry: while the old Indian machines cost about 40 US dollars each, the new Japanese machines[vii] cost more than 400 dollars. This transformed the garment industry from a middle-class venture to one of the elite industries in the country.[viii]

The second move in the industry, which was the incorporation of subsidiary tasks into the factory premises, brought an important change in costing and labour structure. Earlier, the over-locking, flat-locking and button-holing tasks were outside the reach of the workers because the machines were controlled by the mediators or the *thekedars* mostly from the South. Each over-locking and flat-locking machine cost about 900 dollars and the button-holing machines cost more than a thousand dollars which were large amounts by Nepalese standards. These machines were available only in India, which made it even more difficult for individuals with little capital and connections with India to invest in them. Not surprisingly, access to these machines was scarce which resulted in large surcharges for the usage of these services. Bringing them into the mainstream factory operations effectively separated the skill component from the capital required to operate these machineries. It then reduced the cost of these tasks dramatically: while the *thekedars* charged about 50% of the production wages for button-holing or *kaaj* earlier, a skilled operator would do it for a daily wage of 2 dollars after the installation of these machines in the factories. This reduced the costs of Nepalese garments substantially.

The government signed two important credit agreements with the IFIs in 1986 and 1987. In 1991 the popular movement overthrew the Panchayat regime and established a multi-party parliamentary system. These changes were well reflected in the new industrial policy that the government issued in 1992 in that it took a historical departure from the inclination towards industrial protection and trade barriers maintained under the preceding policies. A series of Acts promulgated under the new industrial policy deregulated ownership of firms whereby non-Nepali nationals were allowed to own factories in Nepal provided they have a fixed investment of more than 20 million rupees, except those related to defence, tobacco, alcohol and cottage industries. (World Bank, 1994, p. 13)

In 1992, the quota management tasks were delegated by the Ministry of Commerce to the Garment Association of Nepal (GAN), which developed a transparent system based on the principles of factory registration and first-come-first-serve. This effectively ended the quota-hoarding practices and encouraged the ‘fabricators’ to register themselves and enter the mainstream framework. GAN also introduced an incentive for exporters of non-quota products and exporters to the non-US territories. This encouraged producers of handicraft garments who were producing non-quota items and importing to Europe and Japan to register and bring themselves under the GAN umbrella.

The new industrial policy also introduced a bank-guarantee-based duty-drawback system for the import of raw materials (mainly fabrics) for export. This provided greater incentive to the producers of exclusive garments, who were functioning independently until then, to come into the framework of GAN whose documentary support was mandatory for acquisition of such facilities. This series of policies raised the number of factories registered from 757 in 1992 to 1067 in 1994.

The industry nevertheless had to adapt to developments in the international market in addition to developments in national policymaking. The international market for garments underwent two important changes between 1990 and the present day. On one hand, several international buyers merged and remerged, increasing their sizes enormously and thus improving their bargaining power. On the other hand, more and more third-world countries entered the garment manufacturing industry,[ix] instigating a cut-throat competition for the Nepalese (and South Asian) factories (Birnbaum, 2000, p. 168). As a result, manufacturers' profit margins in Nepal dropped by 20-30 percent.

Following this drastic reduction in profit margin, factories were forced to accede to the buyers' terms, which stretched beyond the price and quality of products. Owing to consumer pressure for ethnical trade, the buyers intensified their criteria relating to the manufacturers' labour policies. As a result the factories were forced to restructure their labour organisation from the conventional and ethnocentric *Juwadi* [gamblers'] system to a production-line system based on detailed job division, which was also cost-saving if done on a larger scale. Despite, and because of, this restructuring trend, many factories shut down altogether; and several others either merged with bigger factories or reduced their status to unregistered 'fabricators,' lowering their profile and saving on costs such as tax payments or better working conditions. From 1067 factories in 1994, the industry declined to 323 factories in 1995 and 212 or less from 2000 onwards. Even those that survive continue to fall prey to various chronic and emerging problems. The national political change of 1991, which intensified the labour union movements, posed new challenges to the smooth operation of factories on the owners' terms, as they had earlier enjoyed under the Panchayat system. Another severe setback was caused by the Maoist insurgency which used this industry as an important source of revenue during the insurgency and an important platform for political manoeuvring during the ceasefires. The expiration of MFA, which is scheduled to happen in December 2004, continues to haunt the industry.

## 4. The industry before 1990 and after 2000

The garment industry has come a long way in its gestation, with important changes in the size, nature of production and the structure of factories.[x] The industry, which started with about 60 experimental factories in 1984, now has 212 'seasoned' factories. Each factory had about 158 employees on average in the 1980s and early 1990s; currently there are 417

**Table 1a: The structure of factory organisation before and after liberalisation**

| Factory Indicators | Until 1990 | After 2000 |
|---|---|---|
| Average no of machines in factory | 91 | 309 |
| Type of machines | Indian single-needle machines with manual power | Japanese Juki, Brother. Single-needle, over-lock and flat-lock machines |
| Average no. of workers | 158 | 417 |
| Work management system | Subcontracted | Factory controlled chain system |
| Workers' payment | Through contractor | Daily wages - Skilled<br>Part rates - Skilled<br>Monthly salary - Adm./ Unskilled |
| Subcontracted functions | Cutting, stitching, washing/ finishing, embroidery/ screen-printing, packing | Washing, embroidery and screen-printing |

**Source:** A survey of 22 factories in Kathmandu, following semi-structured interviews, December 2003 staff/workers per factory on average. While factories started with about 100 machines on average, mostly Indian-made costing between 3 to 4 thousand Nepalese Rupees (USD 40-55), they have come to own 309 Japanese machines on average now, each costing 30 to 40 thousand Rupees (USD 400-550). Several of them even own sophisticated machines such as needle detectors, automatic elastic attaching machines and in-house washing facilities.

**Table 1b: The structure of production before and after liberalisation**

| Factory Indicators | Until 1990 | | After 2000 | |
|---|---|---|---|---|
| Production item specifics[xi] | 347, 348 (occasional cases of 335, 340, 341, 342) | US quota item codes | 347, 348<br>335, 338, 339,<br>340, 341, 342,<br>641, 642, 647,<br>648, 841, 835 | |
| Wholesale prices the factories charged to the buyers | USD 0-4<br>USD 4+ | 36%<br>64% | USD 0-4<br>USD 4+ | 55%<br>45% |
| Average size of order | 16,790 | Pcs | 80,853 | Pcs |
| Lead time required | 87.5 | Days | 77.5 | days |
| Buyers | Shah Safari, Kellwood, F.W. Woolworth, Body Drama, Jeetish, Till's, Children's Place | | GAP, Wal-mart, K-mart, Kohls, AMC, Target, PVC, Zara, Miss Erica, Colby, May Dept. Store | |
| Raw materials diversification | Mostly from India | | 63%<br>50%<br>27% | India<br>China<br>Others |

**Source:** A survey of 22 factories in Kathmandu, following semi-structured interviews, December 2003

The industry has witnessed a significant diversification of manufacturing over the past decades. All but one of the factories interviewed had started their manufacturing with production of US quota items 347/348.[xii] These remain the most important export item even now. In 2002, 347/348 remained the items receiving the largest American quota, of 1 million dozen for the year, which was fully utilised two months before the end of the year. This might give the impression that the industry has remained static, which is not true. A radical change could be seen in the cumulative production of other items by the factories. While 12 of the 22 factories interviewed said they started their factory manufacturing 347/348 exclusively, now they have diversified their production to other items. Among those who previously manufactured only 347/348, five factories now also manufacture knit/woven, cotton shirts, blouses, t-shirts, skirts and coats.[xiii] Those already manufacturing multiple items earlier, now work on 17 other items in addition to 347/348. Some of these 17 items are large value-added items such as pyjamas, children's overalls and rompers, knit/woven dresses, home accessories, etc.

Despite these positive trends, the industry has not yet achieved a (collective) full quota consumption in any of the years although it has exceeded quota in selected categories. In 2003, 347/348 was the only item with full quota utilisation, followed by 342/642 for which the utilisation was only 24 per cent of the allocated quota. Moderately-priced garments 336 (dresses) used only 10 per cent of the quota and the quota for high value-added items such as 239 (cotton infant-wear) and 359 (shawls/scarves) were virtually untouched.

While the portfolio of manufactured products has diversified over the past decade, the buyers' profile seems to be more concentrated. A large number of earlier buyers have either gone out of business or have discontinued their business in Nepal. Until the mid-nineties, most of the factories supplied a multinational buyer, Shah Safari, and some others worked for American buyers such as May Department Store, Target and Arrow. Yet others worked for India-based distribution companies of American retailers, namely Jeetish and Body Drama. Several of these have now either merged with bigger brands or have been liquidated. For example, Shah Safari, a South Indian company with a permanent buying house in Kathmandu and importing 3-4 million dozens of garments only from Nepal to sell to the American market, shut down its garments segment in 1995 and relocated to Kenya. While some American brands still operate in modified forms, others have been merged into bigger brands. Currently, most of the clients of the factories include multinational companies, such as Gap, Walmart, Kmart, Kohls, AMC, and Zara.

While most producers started with CMP (cut-make prices) terms of payment, most are heading towards FOB (free on board) or CMTP (cut-make-trim prices) which gives slightly larger scope to the manufacturers on production and trade. Only one or two factories operate under the full or partial advanced payment system which offers by far the best terms for a producer. The most important achievement of the industry from the perspective of labour has been the successful shift from subcontracting of production to a scientific, 'chain system,' providing transparent labour management and higher wages.

## 5. Looming crises: WTO and the Maoists

Currently, there is a sense of resignation among garment factory owners worldwide regarding the prospect that the MFA is destined to end on January 1, 2005. Concurrently, the US which controls the largest share of the global garment trade and appears unwilling to forego its discretionary power over the global industry, has adopted alternative trade policies in its efforts to continue to exert its authority. In 2000, the US took two legislative actions, (the African Growth and Opportunity act (AGOA) and Caribbean Basin Trade Partnership Act (CBTPA)), allowing garments from the African and Caribbean countries a duty-free status in the US until 2008.

Such global policy movements have reduced the scope for Nepalese garments. The effects have been felt primarily in the forms of declining number and size of purchase orders, cut-throat competition among the manufacturers and consequent shrinking profit margins. Technology upgrade and exploitation of economies of scale have been of little help.

During my discussions with factory owners, it came up repeatedly that they were aware of the ticking clock. Some owners were starting to make alternative business plans for the buildings they are currently operating as garment factories; others had been thinking of catering for the local market with their manufacturing; and yet others had made up mind to retire. They had some hope that the US might allow Nepal some even after 2004 as a result of a bill a Republican Senator introduced to the Senate. Nevertheless, almost all owners were aware of the financial costs the exhaustion of the MFA would induce.

The workers, both unskilled and skilled, did not share this sense of easiness regarding the unpreventable dismantling of the industry. The workers of my case study factories were hardly aware of the new developments on MFA even at the latest stage when the factory was days away from closure. They did not have alternative career plans. The majority of the labour force come from outside the capital, and only a very few of them have saved enough to maintain them intheir current residence once the source of their income dries up.

In addition to the looming threat of MFA expiration, the industry has also fallen victim to the current political crisis instigated by the Maoist insurgency. The garment industry, being one of the largest industries in the country with a large organised labour force, appears to have been a primary target of the Maoists. Not only did the Maoists levy high 'donations' from the garment industry when their guerrilla war was on, they used this as a platform for political manoeuvring during the peace talks when they were trying to win the hearts of the people. A number of factories have been physically vandalised by the Maoists and others continue to pay fees to them and give in to the strikes called by the Maoists as well as other political parties, which seriously hinders them from meeting their deadlines. This suggests the urgency of the crisis inflicted by the political agents and the vulnerability of the industry to causes which are beyond its control.

## 6. Role of cultural capital in the garment industry

Such a mammoth challenge ahead has forced the garment industry to seek alternatives to the US quota for its sustainability. My interviews with the owners of the 22 garment factories gave me a knowledge of the various business strategies being adopted in order to combat this challenge, and I chose to carry out an in-depth analysis of two factories who had developed very sound alternative strategies and to compare these with a mainstream factory following the business strategy that is most common among the garment industrialists.

My first case study is Arya-Nepal Pvt. Ltd., an Indian-Nepali collaboration, manufacturing homogenized garments for the multinational and American brands such as GAP/Old Navy, Walmart and K-mart. Arya-Nepal is the representative of the mainstream garment factories in Nepal while I found the other two to be the only of their kind. My second case study is Swakan-Chhemu Pvt. Ltd., a large-scale family-run factory owned by a Newar family, specialising on environmentally friendly fashionable garments for the English and European clothes markets. My third case study is Rongoli Pvt. Ltd., a medium-scale family-run factory owned by a Marwari family, designing, manufactiuring and exporting ethnic-contemporary garments to the higher-end markets of the North American West Coast.

Analysing the choice each of these factories make in terms of their output, production mechanism, factory organisation and the choice of partners and buyers, this paper will try to define the ‘cultural capital’ available to them, and the impacts of such a capital on profitability and sustainability of their business ventures. I use the term ‘cultural capital’ after Sen (2001) to include: (i) knowledge of production, (ii) business organisation skills, and (iii) commercial networks developed over generations, often seen to spread through family and kin-based institutions, as opposed to those acquired over a period of few years in the formal educational institutions.

### 6.1 Factory input and output

A look at the input-output structure of the three factories provides a useful point of comparison. It is also a logical starting-point for an exploration of the extent to which the factories are dependent on their cultural capital for their output and clientele selection than their fixed capital.

**Table 2: A comparison between inputs and outputs of the factories**

| Indicators | Arya-Nepal | Swakan-Chhemu | Rongoli |
|---|---|---|---|
| Total turnover (USD, in 000) | 5,760 | 1,050 | 1,680 |
| Output (no. of pieces, in 000) | 960 | 70 | 84 |
| Gross profit (USD, in 000) | 288 | 630 | 840 |
| Retail price per unit (USD) | 8-30 | 22-60 | 35-180 |
| Avg. cost per unit in the factory (USD) (fabrics, accessories and labour costs) | 2.70 | 6 | 10 |
| Average size of order (no. of pieces) | 40,000 | 600 | 700 |
| Method of payment | L/C | Adv. payment | Adv. payment |
| Fixed asset of the factory (USD, in 000) | 313 | 67 | 13 |
| No. of people working in the factory | 750 | 400 | 152 |
| **Source:** Fieldwork (Dec. 2002-Dec. 2003) | | | |

While the total output of Arya-Nepal is 11-13 times as much as the outputs of Rongoli and Swakan-Chhemu, its financial turnover is only moderately higher than others. Swakan-Chhemu earns approximately 36 per cent of Arya-Nepal and Rongoli has a financial turnover that is 58 per cent of the turnover of Arya-Nepal. However, when it comes to profit, Arya-Nepal earns only about 45 per cent of Swakan-Chhemu’s gross profits and about a third of Rongoli’s profits. This is an interesting feature. What makes it alarming, however, is the investments that have gone into making the turnovers.

Arya-Nepal employs about 750 people including the 680 skilled and unskilled floor workers and 70 administrative staff into its operations. It is housed in a modern factory complex spread in an area of 71,188 sq. ft. in the western end of Kathmandu just outside the Ring Road. Well equipped with the latest tailoring, buttoning and finishing machines from Japan and Taiwan, its fixed assets come higher than three hundred thousand US dollars, which is a massive investment by Kathmandu standards. The other two factories make much less investments than Arya-Nepal. For example, Swakan-Chhemu is a modern factory bloc spread on 10,952 sq. ft area in the newly growing suburbs of Kathmandu and is well equipped with the modern machinery. It is its moderate scale of manufacturing that places its fixed assets only as high as 67,000 US dollars. Rongoli, however, operates with old-fashioned Indian sewing machines with add-on motors that most of the Nepalese garment factories already discarded in the early 1990s. It is hidden in a narrow residential house in the crowded back-alley of the city. Its fixed asset is approximately only 13,000 US dollars.

The difference in the investment-profit ratio among the three factories is largely explained by the differences in unit costs and prices. Arya-Nepal is representative of the mainstream garment factories in Nepal. It is a joint venture with Arya-India, a garment manufacturer and exporter from Ludhiyana. It is catering mostly to the multinational and American companies such as GAP/Old Navy, Walmart, Kmart, Khol's etc through their India-based buying agents. It works under the large-scale orders for homogenised garments which are sold in the American markets for 15-30 US dollars. Arya-Nepal specialises exclusively on cotton knitwear: T-shirts and shorts/trousers (US Quota Cat. No.: 338/339 and 347/348) are its low-end manufactures which cost between two to four dollars, its high-end products include fleece and infant wear (US Quota Cat. no. 334 and 339) which cost approximately four to twelve dollars at the factory gate. The company spends about 5 US dollars in average to manufacture each unit, 30 per cent of which is spent in the fabrics and the rest in accessories and labour. Overhead costs are not included in it. The factory gate price is approximately 32% of the retail price and the rest goes to shipping and distribution.

Rongoli and Swakan-Chhemu have a very different pricing and costing to trends than Arya-Nepal. Swakan-Chhemu is closer to Rongoli than Arya-Nepal in its production strategy. It specialises on machine-made hemp fabrics from Shanghai and manufactures designer-made outfits suitable for the rough-and-tough lifestyle. The designing cycle that I closely observed, specialised in a fusion between Tibetan artwork and modern casual-wear styles of young people. Outfits that cost the factory about 6-20 dollars, inclusive of fabrics, labour and designer charges, were sold for 22-60 dollars in the markets of London and various parts of Europe through its sole distributor, Komodo-London-Bali-Kathmandu.

Rongoli caters to the high-end markets of the American west coast through a Seattle-based sole distributor, YetiWorld Pvt. Ltd. A vast majority of its products include ladies' cotton and silk jackets (US Quota Cat. No.: 335/835) involving extensive handwork such as patchwork, embroidery and beadwork. They are mostly sold at retail prices of 35 to 100 US dollars, but when the designs catch eyes of established brands such as Nordstrom (several pieces selected in for its catalogue in January, June and October 2003) Draper's & Damon's (January 2003), the retail price reaches as high as 180 dollars, for which the factory would be paid about 60 dollars per piece. The fabrics, accessories, designing and labour cumulatively only about 12-14 dollars to the factory.

### 6.2 Production mechanism

The dramatic differences in the price and profit levels of the three factories have, of course, been caused by the differences in the nature of products and the way production is carried out. While Arya-Nepal is a homogenised garment producer working with low-cost fabrics in

**Table 3: Importance of various aspects of production**

| | Arya-Nepal | Swakan-Chhemu | Rongoli |
|---|---|---|---|
| 1. Innovativeness in sampling, designing | ∉ | ΠΠΠ | ΠΠΠ |
| 2. Diversity of fabrics | ∉ | ∉ | ΠΠΠ |
| 3. Economy of fabric | ΠΠΠ | ∉ | ∉ |
| 4. Price competitiveness | ΠΠΠ | ΠΠ | ∉∉ |
| 5. Understanding of colour and textile forecasts in the market | ∉∉ | ΠΠ | ΠΠΠ |
| 6. Seasonality of production | ∉∉ | ΠΠ | ΠΠΠ |
| 7. Subcontracting of functions | ∉ | ΠΠ | ΠΠΠ |

large-scale orders, Swakan-Chhemu and Rongoli work in smaller-scales but through organic production units with primary focus on fashion trends and seasonality of their target markets. Predictably, Arya-Nepal is very process-oriented, follows a mechanical process and competes with its rivals primarily on prices, often in a 'beggar-thy-neighbour' manner. Swakan-

Chhemu and Rongoli, on the other hand, have formed strong bonds with the regular clientele that they have been serving over years, which gives them grounds for competition that are safer and more sustainable than mere prices.

Most important distinction between the two types of factories, however, is the element of innovation that is added to the production. Arya-Nepal does not bring 'creation' into production, but follows order from the buying agents which limit it to function on a rather fragile ground of price-competition. In such a situation, Nepal's comparative advantage is limited owing to an absence of forward and backward linkages, inaccessibility to ports and a relatively less productive labour. Swakan-Chhemu and Rongoli have successfully overcome this challenge by tapping on to a niche market through their reach to innovation. The table below might summarise the difference in production mechanism among the three factories.

**Table 4a: Production Mechanism in Arya-Nepal**

| Activity | Process |
|---|---|
| Purchase orders | Arya-India negotiates the order through India-based buying agents of the multinational buyers of homogenised ready-made garments. Negotiations primarily focus on the unit costs and lead time required for production |
| Sampling | Samples come from the buyers, and counter-samples are made in Arya-India who send detailed garment standard specifications (GSS) to Arya-Nepal |
| Fabrics | All fabrics for Arya-Nepal comes from Arya-Fabrics, a sister company of Arya-India |
| Cutting | Fabric spreading; spreading checking; fabric cutting; sorting, bundling & stickering; cut panel auditing |
| Stitching | Stitching; thread trimming; in-line process checking; output checking; output auditing |
| Washing | Washing and steam tumbling |
| Finishing | Primary checking; auditing; pressing; measurement checking; final checking; super final checking; auditing |
| Despatch | Folding; poly bag packing; carton packing; carton auditing; final inspection; despatch |

**Source:** Fieldwork, 2002/03

Production is comparatively scientific in Arya-Nepal and job divisions are often made on purely technical grounds (See table 4a). Every task is divided into several sub-tasks, each being assigned to different individuals and provided with very clear guidelines and terms of reference. Even abstract concepts such as 'quality' are defined in linear terms, e.g., measurement accuracy in cutting and stitching, higher number of quality-checking personnel assigned at various stages of production, etc. Such a production mechanism could be attributed to trade liberalisation which has generated industries as mobile as the ready-made garment industry which moves from one part of the globe to the other like a pendulum largely operated by the price differences. Technology transfer at this level is a direct impact of globalisation for Nepal.

**Production mechanism in Swakan-Chhemu:**
**A fusion between 'Free Tibet' theme and modern fashion designing art**

The project was commenced in January by a close observation of several fashion shows in London, France and other parts of Europe. This was followed by several rounds of clothes and fabrics shopping in London and Paris, mostly of designer labels such as Bench Hooch, M60, Fanlarina and Diesel. The designer arrived Kathmandu in April with a bulk of the fabrics and clothes samples collected. An agreement was simultaneously made with the Free Tibet Campaign office in London that Komodo will donate 10 per cent of its profit from this season to the Free Tibet campaign in return for the use of the theme and the Campaign office's mobilisation of its network to capture celebrity consumers.

The months of April and May saw industrious work in the factory. While the London- and Kathmandu-based designers worked together, the factory mobilised all its subcontractors, including embroiders, screen-printers and bead-workers to facilitate designing. The two designers worked very closely with each other often omitting the individual ownership of their sketches and designs to build a group ownership of the project. The role of the Kathmandu-based designer was a dual one. She made various contributions to designing, but in the meantime, she took on the responsibilities of transliterating the Swakan-Chhemu owners' knowledge of the Tibetan art into fashion-designing. Having been metal-craft traders for generations and a close ally of Tibet historically, the Newar owners of Swakan-Chhemu could contribute substantially to making a fusion between the symbolism of the Tibetan art and the London fashion trends. For example, a designer skirt with a wave pattern was decorated using a visible logo of the White Tara, a Tibetan deity of compassion, printed on the side along with a Free Tibet logo. By the end of May 2003, 127 different samples had been finalised, each with a symbolic touch of the Tibetan Buddhist art. A copy of the sample collection went back to London with the designer while the back-up copy stayed with Swakan-Chhemu in Kathmandu.

After several rounds of fashion shows in two succeeding months, a detailed package of feedback on the samples came back, including often minor changes in measurement, but major changes at times in the use of the fabric and screen-printing. A counter-sampling round kept the entire factory and its subcontractors busy during August and September. The second version of the samples went back to London for further feedback, based on which orders were negotiated and the deals finalised. Production started in January with delivery targets set for summer 2004.

**Source:** Fieldwork 2002-04

Although by comparison with most other industries of the kingdom, the growth of the garment industry has been promising, it is faced with the unprecedented crisis of MFA-expiry. The crisis, directly triggered by pro-liberalisation institutions such as WTO and indirectly fetched by the rather imposing economic policies of the US, 'hangs like a sword on its head.' The lesson learned from the removal of quota subsidies by the US is that such a subsidy-based competitiveness is not adequate for a long-term growth of the industry; sooner or later it will have to move beyond such dependency in order to create a niche market for itself, which is possible only by working at a subtler (and more sophisticated) aspects of production and marketing. In a geographically, vocationally and economically challenged country like Nepal, an obvious resource it has an access to is that of cultural resources. The two successful garment factories provide a good example of this. The text-box above, and the following paragraphs give an account of the production mechanism that have managed to break the vicious cycle of trade dependency and create their own niche market.

Based on the text-box below, we can infer that one important way in which Swakan-Chhemu differs from Arya-Nepal is on sampling and designing projects. While Arya-Nepal subserviently follows the samples of its buyer and specifications on fabrics, colour, measurement, packing and shipping, Swakan-Chhemu experiments extensively and keeps close eyes on the trends in the target markets through its London-based buyer/distributor. Catering the conscious consumers of UK and EU, its production begins with identification of a moral/artistic theme for the bulk designing for the year. Its sole distributor Komodo London/Bali/Kathmandu is also its designing partner. Komodo designer spends two months in April and in October, in Kathmandu in order to carry out the designing task in collaboration with the Kathmandu-based designer working for Swakan-Chhemu.

Rongoli follows a production mechanism that is similar to Swakan-Chhemu, but takes it to a higher level. While Swakan-Chhemu taps on to Tibetan-Nepali art and Nepal's image as a serene Himalayan Shangri-la, Rongoli taps on to the themes of exotic colours and brightness of a fertile land, which could be seen as an emulation of the cultural promotion of its southern neighbour India, particularly Rajasthan. Each Rongoli design is a creative handwork involving four or more different fabrics in different colours, further decorated by extensive beadwork or embroidery. In such a work, what is of major importance is the mastery of the knowledge of the finesse and art of textiles. While the designers in Rongoli apply their modern skills to come up with sketches, the owner of the factory almost always spent more time than the designers on each sketch experimenting with alternative ideas and sometimes changing the entire sketch. The owner of Rongoli himself is not a designer, neither by formal nor by family-based training, however, he comes from a family of cloth-merchants who traded cloth first on a whilesale and then on retail, for more than five generations.

**Table 4b: A rough calendar for the production schedule in Rongoli**

| Months | Tasks often carried out |
|---|---|
| January February | Designing for Fall. Production and shipping for Spring based on order that had been secured last year. |
| March April | Designing for 'holiday & resort' as well as late fall. Production and shipping for summer based on order received last year. Fashion shows in the US for fall designs in March. |
| May June | Some designing for Resort and fashion shows for 'holiday & resort' and late fall. Production and shipping for fall. |
| July August | Spring designing. Some early fashion shows. Production/shipping for fall. |
| September October | Spring and summer designing and fashion shows. |
| November December | Some designing for fall. Production and shipping for Resort. |

**Note:** Spring and summer designing was more crucial for Rongoli than winter and fall designing.

**Table 4c: Origin of textiles from India: A summary**

| City | Types of textiles manufactured |
|---|---|
| Ahmedabad | Brocades: *Amrus* (in pure silk), *Kimkhabs* (means 'little dreams; mixture of cotton and silk), *Asavali* (with richer and bigger patterns) |
| Amritsar/Ludhiana | Woolen fabrics and tweed |
| Banglore | Pure silk, dupian |
| Benaras | Brocade: *Zari jamdani* (weaved through play on weft; zari is metallic thread, gold or silver), cut-work *jamdani*, *tanchoi*; *getwa* silk; jacquard silk, *khewa*, |
| Bombay | Leather, cotton |
| Chennai | Leather |
| Delhi | Wide variety of textiles, the best 'last resort' |
| Jaipur | Leather. Tie and dye'd fabrics: *Bandhani* (geometric), *leheria* (wave-like) |
| Karnataka | Speciality cotton and silk mix, from small villages, e.g, *Ilkal* fabric, *Narayanpeeth* fabric, *Khana*, etc. |
| Kutch | Thread and materials for mirrorwork, *zalakdozi* embroidery (with a hook) and *mochi* artwork (using more distinct animal figures) |
| Lucknow | Threads and accessories for *Chikankari* embroidery |
| Nepal | Some types of cotton, silk and linen |

**Source:** Fieldwork 2002-04

Another significant difference Rongoli has with Swakan-Chhemu is its close adherence to the American fashion calendar (see table 4b), which allowed it to carry out sampling and production simultaneously, and thus making more efficient use of his staff and workers but also allowing a more dynamic manoeuvring in terms of fabrics/accessories acquisition from various parts of India. Hence, while Swakan-Chhemu could carry out only two cycles of sampling and production per year which compelled the factory to take on some side orders from other buying agents in order to give continuity to the factory operations, Rongoli has overcome this challenge successfully in that its fabric acquisition ran throughout the year keeping its contacts fresh with a vast majority of suppliers in India and Nepal, and making room for a creative multi-tasking between designing and production.

### 6.3 Labour structure: social impacts of the garment industry

Garment industry is undoubtedly one of the largest labour-intensive industries in Nepal. Until mid 1990s, the factories' labour structure followed a so-called *juwadi* system, whereupon a flexible number of skilled and semi-skilled workers made a circle as in traditional gambling set-ups, or *khals.* In these set-ups, manufacturing became more of a collective task in that less skilled members of the team did less demanding tasks, and in this process, learned the skill of garment making. Those who just joined the pool were called *chelas* [mentees] or *bakaras* [goats, or learners] and young members would be sent away as a *bakara* to an older member of the family or the broader community. A *naike* [leader] would lead a *khal.* While the system was fairly efficient in terms of productivity, it dictated that the tailor caste monopolise the task of clothes production, and hence barred entry of other caste members into the labour force for this industry. It also allowed the *naike* exert extreme controls over his *bakras.* In a non-transparent wage negotiations between the *naike* and his workers that prevailed in this system, it was often seen that the *naike* ended up taking a lion's share of labour costs.

During the mid-1990s, the *juwadi* system was replaced by a more scientific 'line' system in almost all factories which could be attributed to the global movement on corporate social responsibility. The mediating or brokering role of the *naike* was discarded and the factories were made directly responsible for the wages and working conditions of its workers (see table 5). While 90 per cent of the manufacturers of homogenized garments switched to the 'line' system, Swakan-Chhemu maintained its *juwadi* system to date. The only reason why this particular factory why this particular factory could be immune to the consumer pressure is because it keeps strong ties with its buyer who is not a big brand to take the social responsibility movement too seriously. It is an irony that the so-called manufacturer of 'ethical and environmentally friendly outfits' was itself less effective in improvement of labour welfare in its own premises.

Arya-Nepal, on the other hand, was forced to modernise its labour structure and to improve the wages and working conditions. In 2002, it shows an ethnic diversity that is almost radical, and the wage rates, which are among the highest in the country for the level of education and skills that the workers possess (see table 5).

**Table 5: Chain of Production for GAP/Old Navy Order 197866 (Stitching department)**
Line supervisors: Karki and Shrestha (monthly salary NRs. 7000 + Overtime payment)

| Work process | Persons working (caste/ethnicity, gender, and origin) | Wages (Nepalese Rupees) |
|---|---|---|
| 1. Shoulder joint | Rajbhandari (M), Jhapa | 0.40 |
| 2. Neck rib making [*tanki*] | Thapa Chhetri (F), Kathmandu | 0.25 |
| 3. Thread cutting | Basnet (F); Kathmandu<br>NEPALI (F), Kathmandu | 2250+O.T/month |
| 4. Neck rib attaching (2) | Pokhrel, Palpa<br>Chand, Baitadi | 0.70 |
| 5. Checking | Karki (F), Balaju * | |
| 6. Neck tape making | (not ready at the time of analysis) | 0.10 |
| 7. Neck tape attach piping [*kachcha*] | PARIYAR * | 0.70 |
| 8. Front neck cover stitch | Baiju, Janakpur | 0.45 |
| 9. Back neck single needle [*kachcha*] | GAYUM, Mahottari * | 0.40 |
| 10. Back tape *pakka* with label | NADAF, Mahottari * | 0.90 |
| 11. Sorting | Gurung (F), Ramechhap | OT+2250 |
| 12. Label making | Tamang (F), Ramechhap | 0.20 |
| 13. Sleeve attaching | Thapa Magar | 0.80 |
| 14. Checking/sorting | Rai (F), Ramechhap | |
| 15. Armhole cover stitch | Shrestha * | 0.60 |
| 16. Side seam overlock | Karki * | 0.80 |
| 17. Sorting | Karki (F), Kathmandu * | 2250+OT |
| 18. Bottom hemming | Mahat | 0.75 |
| 19. Sleeve hemming | Thapa | 0.90 |
| 20. Patch label *kachcha* [preliminary] | (not ready at the time of analysis) | 0.20 |
| 21. Patch label *pakka* [final] | (not ready at the time of analysis) | 0.30 |
| | | 8.45+salaries |

**Note:** Names of people from ascribed tailor castes are in CAPS and asterisks denote people whose kin are also working in the factory

**Source:** Fieldwork data, 2002-04

Rongoli never used the *juwadi* system, but worked under a so-called *kothe* [room-based] system, whereby workshop-cum-residential rooms were allocated to each worker and his team. This suited the hill migrant workers because this allowed them to form a working-cum-living team within the family and save house-renting expenses. [Terai/Soutern migrant workers very selcom travelled with their family, and hence they did not need a labour system that accommodates their whole families.] Today, when the factory has expanded enormously, family rooms have been converted to 'ethnicity-based' rooms which pool two or three people from common ethnicity into one room. While this gives the workers linguistic and cultural convenience in their workplace, it bars free interaction between the groups. Not surprisingly, this has allowed the owner to follow a differentiated wage policy whereby some workers are earning less than the market rates. It also patronized a system of income control whereby the head of the household is paid the wages for the work of his wife and younger siblings. The wage rates tend to be lower than two other factories although a high level of skill was demanded in this factory.

### 6.4 Who are the owners?

Some of the social and cultural institutions and practices aid business organisation skills of the factory owners. The choice of products, markets and business partners seem to be deeply influenced by the cultural backgrounds of the owners. This section will discuss the history and development of the factories in the context of cultural backgrounds of the owners with an aim to identify the areas of overlap between the two.

***Arya-Nepal:*** The firm has been in operation in one form or the other since 1991, although since 2000, it is a joint venture between two Brahman industrialists of Kathmandu and Punjab. Arya-Nepal is under the management of the Nepali partner who comes from an intellectual/political family of Brahman/Chhetris. While his grandfather was a priest of the village, father was an elected Mayor under the Panchayat system up until 1990. Both his brothers were medical doctors, and he is the first member in his family to enter the field of commercial business, which means he has very little to draw from the family in terms of business support and networking. Priesthood as a family occupation does not give him access to important vocational skills such as trading or manufacturing.

Brahman/Chhetris are one of the most privileged caste groups in Nepal as the rulers of the country since the Nepal unification of 1769. They are the group represented most heavily in intellectual professions, both elected and nominated governing bodies, political organisations and government-protected industries such as food and fertilizer distribution (Zivetz, 1992; World Bank, 2003). However, as traders and free-market industrialists, they own less than 10 per cent of the country's business enterprises (Zivetz, 1992). Its implications manifest directly and indirectly in the functioning of Arya-Nepal.

***Swakan-Chhemu*** was established in 1972, by a Newar Buddhist family as an extension to the handicraft export business the family was running for about a decade. The family whose traditional occupation was that of metal statuery, was a de-facto pioneer of the metal handicraft exporter from Nepal in the 1960s. The new venture also allowed him to rediscover some of the historical relations between the Newars and Tibetans in the areas of art and culture. The network he built included the leading Newar artisans, Tibetans and pro-Tibet Westerners, among whom, an important name was Heinrich Harrer, the author of the classic volume, 'Seven Years in Tibet' with whom he stayed in touch regularly, and who later on introduced them to the current Swakan-Chhemu sole distributor, Komodo: London-Bali-Kathmandu Pvt. Ltd.

As the overwhelming changes of globalisation caused proliferation of handicraft export business in Nepal in the 1970s, one of the family members decided to experiment with production of souvenir garments for the tourists. Souvenir garments was undoubtedly a fluid business and required several adaptations to changes in global fashion markets, from quilt-like clothing to ethnic-contemporary clothing and finally to eco-clothing. In 1985, the firm did a first round of sampling in collaboration with a London-based ethical garment distributor, Komodo. What brought the two together were the cultural ties with Tibet -- Komodo was launching a 'Free Tibet clothing' campaign, and Swakan Chhemu with its insights into garment production in Nepal and more importantly the cultural identity of Tibet was an ideal partner for it. Komodo, who was already selling ethnic-contemporary garments from Bali, Indonesia, chose to work on natural fabrics such as hemp and pure cotton.

Newars are the indigenous community of Kathmandu valley who are too diverse to be pooled into one ethnic category as the official Nepalese caste category tend to present (Gellner and Quigley, 1995). Before the invasion of Prithvi Naryan Shah in 1769, the Newar trader-cum-artisan subcaste which the Swakan-Chhemu owners belong to, historically traded and exchanged artefacts and daily necessary commodities with Tibet on preferential trade arrangements (Zivetz, 1992). The Newars were sidelined in the following two centuries of rule by the Shahs and Ranas after the political unification of Nepal, to the extent that the Ranas made it mandatory for the Newars to 'regain' their caste upon their return from Tibet.[xiv] This loss of cultural dignity was worsened by the Chinest invasion into Tibet in 1959 which officially closed the trade route. Currently, while the Newars continue to dominate the domestic industrial and trade ventures, their role in the governance, and thus high-class networking has been largely subdued. For an ethnic group like this, the new industry of garment gave promising prospects because it catered an entirely new market; and while their traditional trade and statuery skills were very useful tools, their disadvantages in coping with the domestic bureaucracy and the system was only minor a drawback in this business.

***Rongoli*** was established in 1971 as a readymade garment retailer near the main tourist hub of Kathmandu. Its customers included the tourists seeking souvenir-garments on their way back to Europe, Japan and the US. In 1982, the venture was turned into a wholesaling unit, which exported Kozak Monto[xv] made of locally-manufactured pure cotton to Japan. The export was first made to Kobe and in two years time to Yokohama and Khanagawa Khamgura. Although the Rongoli owner did not come from a clothes-making family, the cultural capital that became very useful to him was his insights into trade and production of various South Asian textiles from all over India and Nepal. He came from the Marwari ethnic group which is one of the most prominent entrepreneurial ethnic groups in Nepal (Zivetz, 1992). A genealogy of the owner of Rongoli upto three generations shows a concentrated focus on textile-related occupation in this family, which came to be his greatest aid in terms of his knowledge of the subtleties of textiles. This is an extremely valuable asset to him especially in a country like Nepal which clearly lacks formal training institutes that would transfer such deep insights more widely without having to depend on a kin-based channel.

The Marwaris trace back their roots to Rajasthan, whose Diaspora spreaded them throughout the northern and eastern India to form collaborations with the East India Company as the *banian*s or the Indian middlemen for the procurement of raw materials and labour, and for the marketing of finished goods (Timberg, 1978). The Marwaris entered Nepal first to collaborate with the first Rana prime minister in the mid 1860s in the opium trade with China (Shrestha, 1985), and stayed back to spread their trade network. A large number of the first generation industries in Nepal, including the jute, rice, cotton, sugar and tobacco industries were all in the forms of joint ventures between the Marwaris and the then ruling Rana leaders of Nepal. (Shrestha, 1985; Gaige, 1975; Zivetz, 1992)[xvi]

While his high-level contacts in Nepal helped the owner of Rongoli to establish the business smoothly without being hindered by the slow-functioning bureaucracy, his remaining family network in India along with his insight into the textile, help him enormously in collection of fabrics and clothes designing. This could explain why he not only sustained but also rapidly expanded his business despite a rather hostile international policy and market scenario which caused failure to several others who tried similar ventures.

## 7. Conclusions

The review of one of the modern and newly-tapped industries in Nepal, which is more-or-less consistent with other contemporary studies of the embeddedness of the economic and social changes, finds that economic liberalisation/globalisation has opened up markets in developing countries, but also brought in limitations in the forms of increased political influence over economies from far away countries.

The review also shows that the gains of liberalisation are not distributed evenly across various cultural and social groups, nor are the opportunities identical to each other. One window of opportunity that globalisation brought in for Nepal is that of manufacturing of homogenized garments. While people from all ethnicities randomly seized this new opportunity, most did not rise above to create niche markets for themselves on any of the stable grounds. Not surprisingly, this window of opportunity remained largely volatile, less-yielding and unsustainable even in a medium run. When the industry boomed, between 1985-1995, this sector underwent an expansion of scale raising high hopes, but without allowing the local industry to anchor itself stably in the rapidly changing global policy and market scenarios.

The second opportunity for the ready-made garments that globalisation brought in is far-fetching and sustainable, with promising profit margins for less demanding financial investments and with taste for the labour skills which the country is rich in. However, these opportunities involved tapping on to the indigenous knowledge and identities. Inevitably, only a selected few, all from privileged ethnic backgrounds, truly mastered the art of garment-making of this kind to be able to benefit from this opportunity.

On one hand, the growing market for cultural commodities appear to be a triumph of the local skills or knowledge over global. On the other hand, this window of opportunity is much smaller and is highly selective, and in fact is only an externality of the mainstream effect. And the most important fact is that the knowledge still follows kin- and locality-based networks for its transfer, and virtually no efforts have been made by the government to allow a wider expansion of such skills beyond genealogical and spatial lines. This clearly highlights an area where policymakers have been left behind the private sector in the race of globalisation.

The discussion also brings forward an interesting feature in labour organisation in the context of globalisation, that the hierarchy of the labour is actually twin-headed, and such a hierarchy strengthens with globalisation. The higher the level of skill required of them, the more indispensable they become to the factories. Interestingly enough, this does not necessarily raise their economic value nor derive better working conditions for them. While the lesser earning factories paid higher wages and provided better working conditions to their workers, more successful factories refrained from it. As the unravelling forces of globalisation provided the labour a relief from the excessively controlled and conservative forms of labour selection; only after three decades, the trend seem to be reversing. This highlights a painful trade-off between the capitalistic growth and social development that any growing economy has to go through and must identify a suitable balance for the growth to be positive and sustainable.

An important lesson that the specific case of MFA expiry brings forth for the developing countries is an obvious one. While the mainstream factories are being threatened, directly by launching of institutions such as WTO and indirectly by the American policy framework on globalisation, the safest and highest-yielding business strategies available to the third world to tackle this seem to be adherence to cultural assets and exploration of their potentials in the markets beyond the national borders.

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**Annex 1: A preliminary questionnaire for interviewing managers and labourers of the garment factories in Nepal**

Interviews to be carried out: 1-30 August 2003
Sample size: 22 factories, two to be visited per day

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Name of the factory:
Address:
Name of all owners:
Name and job title of the respondent:

**A. Background of the factory:**

1) In what year was this factory established?
   Year: 19..
2) Was there a direct predecessor factory?
   (a) yes (b) no If yes, describe them.
3) Which of the GAN-defined items[xvii] did you manufacture in your first year?
   a) Garment items no.:
   b) Quantity manufactured of each item:
   c) Floor prices and their retail prices in the US:
   d) Lead time required for fulfilling of each purchase order:
   e) Which buyers did you supply for?
4) Which of the GAN defined items did you manufacture in 2002?
   a) Garment items no.:
   b) Quantity manufactured of each item:
   c) Retail and gate prices of each item:
   d) Lead time required for fulfilling of each purchase order:
   e) Which buyers do you supply now?
5) What was your initial capital on establishment[xviii] and what is your capital now?
6) What was your financial turnover in the first year of establishment and what was it in 2002?

**B. Factory structure:**

7) What was the total number of workers (male/female) on establishment and now?
8) Capacity for various production units – on establishment and now
   a) Cutting:
      i) No. of machines and types
      ii) No. of workers
      iii) Are they paid on piece rates/salaries/daily wages?
   b) Stitching
      i) No. of machines (Note details, brandnames of machines)
         - over-lock - flat-lock
         - single-needle - multi-needle
         - button-hole

ii) No. of workers
   - tailors (whether on daily wages or piece rates?)
   - floor supervisors (whether on salaries or contract?)
   - helpers (whether on daily wages or monthly salaries?)
   - administrative staff

9) List international or national buyers that you supplied for, on establishment and in 2002.
10) List the names of your business partners on establishment and now.
11) Where do you import your fabrics from? List percentage of each source.
    a) India (%) – name cities (b) China (%) (c) Nepal (%) – name districts (d) other (%) – specify.
12) Are any of your (or the owners') family members, relatives or kin working in the factory? Identify them.
13) Describe the process of negotiations with your buyers on your production orders.
14) Do you get advance payment from your buyer? If not, what are your terms of L/C?
    a) nature of payment – advance payment or payment upon receipt of shipment;
    b) transportation costs – FOB or CMTP;
    c) responsibilities upon delays and accidents

*C. Distribution of roles for production*

1) Do you carry out designing (or 'sampling' as generally referred) in your factory?
2) If yes, when did you start doing it? And what benefits did you gain from it?
3) How many of your workers are involved in designing, and how many designs did you produce in 2002?
4) What are the average costs of one lot of designing?
5) How many of your designs drew orders in 2002?

6) Which of the following tasks do you subcontract, when established and now?
   a) Piloting
   b) Cutting/stitching
   c) Finishing
   d) Embroidery and screen-printing
   e) Packing/shipping
7) Who are your subcontractors? Describe them.
8) What are your terms of payment to them? How do you decide your rates?
9) How do you choose your subcontractors? Do your buyers have a role on this?
10) Have you ever repeated your subcontractors? Have you ever dropped your subcontractors? For what reasons?

*D. Nature and roles of labour* **(about 10 labourers to be interviewed randomly from various production sections. If we have a factory sample size of 50, that would be 500 workers interviewed.)**

Name:
Age and sex:
Temporary and permanent address:

Education attained:

1. How long have you worked in the garment industry?
2. What specific task do you carry out in the factory?
3. How far do you live from the factory and how big is your family?
4. Is sewing your family profession?
5. What other jobs have you done before joining the garment factory?
6. Which industries do your other family members work in?
7. How did you find job in this factory? Through friends, families, or community members?

8. Are you on daily/monthly wages or piece-rate wages?
9. How much will you get paid for the work you are currently doing?
10. How much do you earn every month? If on piece-rate wages, what have been your maximum and minimum monthly incomes?
11. Do you think you might have earned more if you were a man (or woman)?
12. Does the factory pay you directly or through a contractor?
13. How do you decide on wage rates? Have you ever disagreed with your employer on wage rates?
14. Have you or your colleagues ever used the labour unions to negotiate the wage rates?

15. Have you ever been unemployed? What was the longest duration of your unemployment?
16. How did you support your family during this period?
17. If the garment industry faces any problems, which other industry would you consider working in? Do you have any advantages for it?

18. Did you ever receive promotions or on-the-job training in this factory? Describe.
19. Do you feel the job you are doing is not physically safe? What hazards do you face? What safety measures does the factory adapt to for these?

**List of documents to be requested:**

1. A list of current managerial staff, name list of wage-earners, if possible, and the organizational structure.
2. Copy of vendor profile submitted to the buyers

Copy of buyers’ social compliance guideline, and their rating for the factory

**Annex 2: Definition of garment items and their respective pricing**

| Catalogue. No. [Cotton/Rayon/Silk] | Description | Unit of measurement | Knit or Woven | Cotton (USD) | | Rayon | | Silk blended & other vegetable fabrics | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Adult | BGC | Adult | BGC | Adult | BGC |
| 329/629/829 | Patches | | | | 12.19 | | | | |
| 337/637/837 | Playsuit, sun-suit, jump-suit, rompers, overall | kg | KT/WVN | 2.33/2.97 | 1.86/2.38 | 3.20/2.33 | 2.56/1.86 | | |
| 339/639/839 | Infant wear of cotton | piece | KT/WVN | 12.60 | - | 12.60 | - | | |
| 330/630/830 | Handkerchiefs | pc | WVN | 0.12 | 0.06 | 0.12 | 0.06 | 0.12 | 0.09 |
| 331/631/831 | Gloves | pair | KT | 0.06 | 0.05 | 0.09 | 0.06 | 0.09 | 0.06 |
| 332/632/832 | Hosiery/socks | pair | KT | 0.75/2.21 | 0.60/1.77 | 0.75/2.21 | 0.60/1.75 | 2.21 | 1.77 |
| 333/633/833 | Suit type coats MB | pc | KT/WVN | 3.20 | 2.56 | 3.20 | 2.56 | 3.20 | 2.56 |
| 334/634/834 | Other coats/jackets MB | pc | KT/WVN | 3.49/4.08 | 2.80/3.27 | 3.20 | 2.56 | 3.50 | 2.80 |
| 335/635/835 | Coat/jackets WG | pc | KT/WVN | 2.80/3.73 | 2.24/2.98 | 2.21/3.20 | 1.75/2.56 | 3.50 | 2.80 |
| 336/636/836 | Dress incl. uniforms | pc | KT/WVN | 2.80/4.08 | 2.24/3.26 | 4.08 | 3.26 | 4.08 | 3.26 |
| 338/638/838 | Shirts incl. T-shirts MB | pc | KT | 1.11 | 0.89 | 1.11 | 0.87 | 2.21 | 1.77 |
| 339/639/839 | Shirts incl. T-shirts WG | pc | KT | 1.11 | 0.89 | 1.11 | 0.87 | 2.21 | 1.77 |
| 340/640/840 | Gents shirts MB | pc | WVN | 2.94 | 2.35 | 2.56 | 2.04 | - | - |
| 341641/841 | Ladies blouses, sleeveless tank top upto one pocket | pc | WVN | 1.80-2.56 | 1.44-2.04 | 1.80-2.56 | 1.44-2.04 | 2.56-3.00 | 2.04-2.40 |
| 342/642/842 | Skirts/divided skirts, mini skirts | pc | KT/WVN | 2.04/3.73 | 1.63/2.98 | 2.21/2.56 | 1.77/2.04 | 2.80-3.75 | 2.25-3.00 |
| 343/643/843 | Suit MB | pc | KT/WVN | 2.21/3.20 | 2.20/1.63 | 2.21/3.20 | 1.75/2.56 | 2.21/3.56 | 1.77/2.85 |
| 344/644/844 | Suit WG | pc | KT/WVN | 2.21/3.20 | 1.75/2.56 | 2.21/3.20 | 1.75/2.56 | 2.21/3.56 | 1.77/2.85 |
| 345/645/845 | Sweaters MB | pc | KT | 2.80 | 2.24 | 2.21 | 1.75 | 2.21 | 1.77 |
| 646/846 | Sweaters WG | pc | KT | | 1.52/3.43 | 2.21 | 1.75 | 2.21 | 1.77 |
| 347-8/647-8/847-8 | Outer shorts, trousers, slacks, MB/WG | pc | KT/WVN | 1.90-4.29 | 1.52/1.96 | 1.81-2.33 /3.20 | 1.46/ 1.86-2.56 | 1.90-4.40 | 1.55-3.55 |
| 349/649 | Brassier | pc | KT/WVN | 2.56 | 2.04 | 2.56 | 2.04 | - | - |
| 350/650/850 | Dressing gowns, bathrobes, etc. | pc | KT/WVN | 4.66 | 3.73 | 3.20 | 2.56 | 5.00 | 4.00 |
| 351/651/851 | Pyjamas, nightwear (single) | pc | KT/WVN | 2.56 | 2.04 | 2.56 | 2.04 | 4.00 | 3.20 |
| 352/652/852 | Union suits, underwear, boxers shorts | pc | KT/WVN | 0.50-2.56 | 0.40-2.04 | 0.50-2.56 | 0.40-2.04 | 1.70-2.56 | 1.35-2.04 |
| 359/659/859 | Other apparels: scarf, apron, embroidery shawl, cap, vest, waist coat, belt, inner shorts, bakhkhu, overalls, swimming trunk and costume, shoes | kg/pc | KT/WVN | 0.75-12.19 | 1.96-8.47 | 2.45-16.70 | 1.96-8.47 | 2.45-11.05 | 1.96-8.99 |
| 362 | Bed cover, bed sheet | pc | KT/WVN | 6 | - | - | - | - | - |
| 363 | Terry towel | kg | KT/WVN | 2.40 | - | - | - | - | - |
| 666 | wall hanging, other furnishing goods | kg | KT/WVN | | | 12.19 | - | - | - |
| 369-O/669/869 | Flower boutique, cushion cover, table cloth, floor mat, place mat, napkin, pot holder, thaili/pouch, belt bag, money bag, quilted basket, window shade/curtain, cushion, rag, ball, table runner, pillowcover/case | kg/pc | | 0.95-25 | 1.96-8.47 | 12.19 | - | 11.05 | 8.99 |
| 369-S | Shop towel | kg | | 2 | - | - | - | | |
| 670 | Bags, handbags, thaili & pouches | kg | | | | 1-25 | - | | |

**NOTE:** MB – men and boys; WG – women and girls; C – children; 369-O – non-quota item; 369-S – quota item

**NOTE:** Prices are only indicative and obtained from the database of the Garment Industry of Nepal (GAN)

## Annex 4: List of factories interviewed:

1 Elina Garment Industries (P.) Ltd.
2 Shraman Apparels Pvt. Ltd
3 Lovely's Collection
4 Shah Fashion Pvt. Ltd
5 Jaya Jagadamba Fashion Pvt. Ltd.
6 Logo Ind. Nepal Pvt. Ltd.
7 Cotton Comfort Pvt. Ltd.
8 Amar Deep Garment Ind. Pvt. Ltd.
9 Binita Fashion Ind. Pvt. Ltd.
10 Siwani Fashion Garments Pvt. Ltd.
11 Rara Apparels (partnership with India)
12 Classic Casual Pvt. Ltd.
13 Vishal Garment Industries
14 Hollywood Garments
15 Bindhyabasini
16 Prajwal Fashion Ind.
17 Destination Apparels Pvt. Ltd.
18 Star
19 Roli
20 Prabha
21 Duke
22 Adam & Eve

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[i] 2002 figures, source: Garment Association of Nepal .
[ii] IDS (1981), Shrestha (1994), ILO SAAT (2001), ILO SAAT (2002), Shakya (2001, 2002), etc.
[iii] According to the rough calculations of the businessmen, manufacturing in Nepal was said to be approximately 33 per cent more expensive than manufacturing in India because of additional transportation and merchandising costs and lower labour productivity.
[iv] In 2002
[v] IMF standby credit in 1985/86 and World Bank credits – Structural Adjustment Loans (SALs) in 1987 and 1989.
[vi] Most of the workers earlier worked on *paidal* machines, operated by foot. Only few selected *kalighadhs* were given manually motored *tullu* machines.
[vii] Kansai, Juki and Brother brands
[viii] Further, since the technology upgrade occurred simultaneously in all the factories across the industry, the resale value of the old machines went even lower, forcing several factories to either give them away at token prices or pile them up as scrap. The gain however was that the Nepalese industry became capable of manufacturing garments meeting global quality standards.
[ix] African and the Caribbean countries after the AGOA and CBPTA in 2000.
[x] The information on this section was derived from a survey of 22 factories of all sizes and types within the Kathmandu Valley using semi-structured interviews based on a set of broad questions.
[xi] See annex for a description of the GAN-defined garment item numbers
[xii] Trousers, slacks for men/boys and women/girls (knit and woven)
[xiii] quota categories 338, 339, 340, 341, 342, 635, and 663
[xiv] on the ground that yak meat, a variation of the holy cow according to the Hindu tradition, was one of the main food in Tibet
[xv] A traditional Japanese jacket with long sleeves and hood

[xvi] The first modern industry in Nepal – a jute mill – was established in Bhairahawa in 1936 by Radha Kissen Chamaria, a Calcutta Marwari. This was a joint venture with the prime minister of the day, Juddha Samsher Rana. Rice, cotton and sugar mills, and a *bidi* (rolled tobacco leaf) cigarette factory followed in quick succession.

[xvii] Under the American quota provisions, each exportable garment must be assigned a standardised, specific code by the Garment Association of Nepal (GAN), based on its design, make and the fabric used. Under this code, the Ministry of Commerce will review it as to whether or not to grant it a 'visa' for export into the United States.

[xviii] The date of establishment would be the official date of registration. But when the factory had a direct predecessor with one of more owners from the previous factory, date of establishment would be the formation of the former.