NEPALISATION OF AN INDIAN INDUSTRY: THE FAST EVOLVING (AND DISMANTLING) READY-MADE GARMENT INDUSTRY OF NEPAL

Mallika Shakya

The exportable ready-made garment industry of Nepal is an industry suffering from two major fallacies. The first fallacy, which prevails in the policy and academic discourse, is the one that depicts it to be a shadow of the Indian garment industry. The second fallacy is the optimistic conviction of the majority of junior managers and workers as to its sustainability. These erroneous beliefs underestimate its contribution to Nepali society and disregard the serious implications the potential collapse of this industry may have for its managers, workers and society at large. Drawing on an ethnographic study of the industry, and in-depth interviews with the key stakeholders, this article aims to question the rhetoric about the garment industry of Nepal and its role in modern Nepali society.

Introduction

The exportable garment industry has been both one of the most accomplished and 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 radical transformations in its political and economic (as well as social) systems. This industry has remarkable economic significance, but it is its social and political significance that make it all the more important. Its significance stems from the rapidity with which the industry grew and the dynamism with which it became sophisticated – both at a degree difficult to match at least within the country.

Since the growth of the garment industry coincided with the country's comprehensive economic liberalisation programme, much of the credit also goes to technical advice provided by the International Financial Institutions (IFIs). These agencies were not involved directly in the garment industry, but

Contributions to Nepalese Studies, Vol. 31, No. 2 (July 2004), 265-291
Copyright © 2004 CNAS/TU

they dictated a series of radical changes in the country's economic policies, which in turn allowed the garment industry to make advances that otherwise would not have been possible. At the same time, however, the process of economic liberalisation led by the IFIs is also blamed by some for the structural insecurity and the frequent turmoil to which the industry has been vulnerable.

With this note on what I perceive to be the point of departure for this study, I outline my research questions. Collectively, these three questions seek to explain the current growth and forecast future (un)sustainability of the industry:

(i) To what extent is the industry's growth based on internal factors as opposed to external?
(ii) Who are the beneficiaries of its growth?
(iii) What systematic pattern can be identified from the industry's responses to crises so far?

The methodology for this study is three-tiered. First, a detailed literature review was conducted, of all newspaper and journal articles published in major Nepali and English language publications in the past three years. This review also included the studies carried out by Garment Association of Nepal, ILO, GEFONT[1] and various other institutions. Second, owners/managers of 22 factories were interviewed following a questionnaire. The sample 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. Third, the findings of the questionnaire survey were verified 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 March 2004. The third part of the research not only gave an opportunity to consistently listen to both the managers' and workers' reasoning and explanations of various events that occurred in the industry, but also allowed the researcher to observe a series of actions actually taken by them against what they said. These three approaches collectively should enable the study to form a holistic picture, without losing its nuances and subtleties.

An Ethnic Equaliser

The Nepali exportable garment industry currently has a financial net worth of 80 million US dollars with a collective turnover of 160 million US dollars a year.[2] It comprises about 215 factories each employing 200 to 1500 workers, located in two conglomerated areas: the peripheries of Kathmandu and the south-eastern district of Jhapa. The country's largest foreign currency earner, the garment industry annually contributes approximately 25 per cent of Nepal's exports. During its boom year of 1994/95, about 1067 factories were registered. Several more were already operating without official registration. Its share in national exports was 49 per cent in 1999/2000, which could be attributed to the large number of factories registered in 1994/95 if we assume the full gestation period of the factory to be four years.

The garment industry occupies a moderate 2–3 per cent share in the national GDP and currently employs no more than fifty thousand people. The Garment Association of Nepal (GAN), however, estimated that in its boom years the industry employed approximately one hundred thousand workers. In addition to the size of its labour force, the core of its contribution lies in the avenues it opened up for social pioneers from marginalized ethnic groups of society. In the imperfect markets of Nepal, this is among the few industries which has offered a decent livelihood to social or ethnic groups challenged by, among others, insufficient capital, inadequate (or irrelevant) formal education, inadequate inherited vocational skills, and caste-based disadvantages. Interestingly, most of these criteria apply equally to the managers as well as the workers of the industry. Such ethnic and social contributions, in addition to economic, are what make the garment industry a very important agent for social change.

The Garment Boom and Bust

External chain of events: The garment industry is often criticised for being an industrial 'dowry' from India. Indeed, inasmuch as the capital, labour, raw materials, technology and machinery all initially came from India as a direct policy response to the US's curtailment of imports of Indian garment products this criticism contains an element of truth.

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 got the highest 'quota per capita' in the South Asian region,[3] the massive redundancy in the Indian garment industry brought about by the MFA was redirected to Nepal as its '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 open 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 as 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 Marrakech on 15 April, 1994, made the WTO effective from January 1, 1995. What this meant for MFA was that it was then replaced with the Agreement on Textiles and Clothing (ATC), which is committed to rid the international textile trade of any protection or regulation that is likely to undermine the free-market apparatus. A ten-member body under ATC is currently working for the abolition of MFA in four stages. Subsequently, 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.[4]

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 importers, have already left the field 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*' [a lamp about 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 at the outset, as I got to know them better they (or their key employees) disclosed that the MFA phase-out was felt like a 'sword hanging over their heads.'

Internal Chain of Events: The factories interviewed suggested that outsider-led development of the garment industry has been matched by internal adaptation. This is well reflected in the changing patterns of production items, production mechanisms, and the organisational structures of the factories. While a case study that I examined very closely (shown in the chart) is a good embodiment of the trend, a generic history of the industry further validates it.

Period of Establishment (until 1985): The first generation of garment factories was registered in Nepal in the early 1980s. This was the period when the government took two important steps for export promotion: first, a Nine-Point Export Promotion Programme was introduced allowing exporters access to policy privileges such as concessional credit; and second, provisions were made that NIDC,[5] a government-controlled investment entity, compulsorily allocated 10 per cent of its investment to export industries. The policy move attracted about 60 factories within two to three years time. With rare exceptions, almost all of the garment factories were located in Baneshwor, a neighbourhood with an area of less than 1 sq. km, emerging fast at that time as a hub for newcomers to the Kathmandu Valley, mostly from the southern districts and beyond. Almost all of these factories were 'dependent' partnerships with manufacturers or businessmen from India. Since investments, technical know-how and purchase orders all came exclusively from India during this period, Nepali partners had hardly any role (Zivetz 1992: 182).

Owing to a virtual absence in Nepal of skilled labour for various production functions such as cutting, stitching and finishing, factories subcontracted these functions to traditional middlemen contractors, or *thekedars*, from India. The tasks were not scientifically defined nor were the teaching methods. Hence, only the hereditary tailors could grasp the technical skills required for this profession. In addition, the *thekedars'* were paying their employees wages much lower than the legal minimum wage, so it served them better to bring in fellow villagers and kin, often young and novice learners, to do the work. As a result, access remained blocked in this industry for those outside such spatial and social networks. A majority of the workers remained non-Nepali or at least non-local.

Owing also to an absence of sophisticated machinery required for production, e.g. of 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, across the border. In both aspects of garment manufacturing—core functions as well as subsidiary functions—the industry was primarily mono-national and mono-ethnic.

This is very much the picture one gets from reading through the coverage of this industry in both the state and vernacular media, and from several policy-level and academic writings. While this was true two decades ago, the industry has rapidly changed since then, and an absence of acknowledgement of any of the recent changes infers a stagnation of research that requires a major correction.

An Emerging Role for Nepalis (1986-1990): By the mid-1980s, Nepali industrialists had familiarised themselves with the various aspects of production and trading. This was made possible due to the inherent nature of the industry: it focused on basic and homogenised products, and production followed a linear mechanism which could be 'learned' and did not necessarily have to be 'inherited' as was the case for other export industries of the country, namely handicraft production, and to some extent, carpet-weaving. This led to a new phenomenon in which (i) some Nepali partners of the joint ventures with Indians took more active roles in factory operations; (ii) other Nepalis broke their partnership with Indians and started their own factories or formed partnership with fellow Nepalis; and (iii) the number of people investing in this industry increased dramatically, which may have been more a case of 'herd mentality' than a pragmatic business decision. Also, there were several cases of false registration of nonexistent factories with intentions of quota hoarding. Nevertheless, the number of registered firms exceeded 700 by 1990.

Policy-wise, this was a period of contradictions for Nepal. While the government accepted policy-based lending of the World Bank and IMF for the first time[6]—signalling to the international community willingness to move towards economic liberalisation—it actually revised the 1974 national industrial policy to further strengthen its protectionist measures. The formation of the Garment Association of Nepal (GAN) in 1988 had a more meaningful impact on the industry than the distant economic policies formulated at a national level. GAN not only brought together the scattered industry under one umbrella which made it possible not only to develop coordination mechanisms on important issues such as quota allocation and floor pricing but also to develop a lobbying group to influence government policies.

The global garment market underwent a quality upgrade in the early and mid 1990s. Correspondingly, there was pressure on the Nepalese garment industry for a major technology upgrade: (i) the Indian-made manually powered machines which were being used in most of the factories until then were replaced by Japanese and Taiwanese machines; and (ii) more sophisticated machines for tasks such as over-locking, flat-locking and button-holing were purchased by factories, making the subcontractors for these functions redundant.

The first move incurred a large capital augmentation in the industry: while the old Indian machines cost about 40 US dollars, new Juki and Brother machines cost more than 400 dollars. This transformed the industry from a 'middle-class business venture' to one attractive to the economic elite. Further, since the technology upgrade occurred simultaneously in all the factories, the resale value of the old machines deteriorated even more, 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 that met global quality standards.

The second move in the industry, which was incorporation of subsidiary tasks into the mainstream, brought a major change in the labour structure. Earlier, the over-locking, flat-locking and button-holing functions were outside the reach of the workers because the machines were controlled by middlemen. Each over-locking and flat-locking machine cost about 900 dollars and the button-holing machines cost more than a thousand dollars. These machines were available only from India, which made it very difficult for individuals with little capital and no connections with India to invest in them. Bringing them into mainstream factory operations therefore separated the skill component from the capital, allowing anyone interested to learn and adapt the skill. It also reduced the cost of these functions dramatically: while earlier, about 50% of production wages went to button-holing, now a skilled operator would do it for a daily wage of 2 dollars. This marked the first round of structural adjustment in the industry.

Survival of the Fittest (1991-2000): This was the most turbulent period for the garment industry. At a policy level, the government introduced a new industrial policy, which minimised protective measures for the overall economy and took a strong step towards economic liberalisation. An

Figure 1: Evoluation of the garment industry – an example from a case study

Late 1980s:Unregistered fabricator A
Located in Baneswor, an area which absorbed almost the whole of the industry at that time. Owned by a local inhabitant, the factory did the jobwork for exporters. It had 40-50 workers, all its machines were Indian manual machines, and stitching was under the *Juwadi* system.

Late 1980s: Unregistered fabricator B
In Baneswor; a partnership between two Nepalis: It was of a comparable size, did jobwork for the exporters and used comparable machines.

↓

1990: Josh Garments
The two factories merged, and got officially registered as a manufacturer/exporter exclusively producing US quota-free items 338/339 (T-shirts). It was located in Baneswor, had 73 staff and 61 piece-rate workers; and was equipped with Japanese stitching machines. It switched from juwadi to chain stitching system, as a result, the labour force consisted of madhise as well as Nepali workers.

↓

1999
The factory ran into problems of rivalry between the partners and discrepancies in overall coordination of production. Partner from the former factory A separated himself from the factory. The two remaining partners ran into a major order cancellation over quality issues. The factory went into liquidation.

↓

1999-2000
The partners made several efforts to seek a viable alternative but none of the attempts worked out. The partners failed to make bank loan repayments, and were prohibited by the bank from owning new ventures.

↓

2000: Arya-Nepal
One of the partners was hired by the former fabric-supplier of Josh Garments, a Punjabi company, to establish a new plant in Kathmandu. He then hired the son of his partner as the Production Manager and a large number of his former workers. The majority of them were Nepali because the madhises, being seasonal migrants, had left Kathmandu by then. Arya-Nepal exclusively manufactured 338/339 (T-shirts). Owing to the new policy restricting factories inside the ring road, the factory was located outside the Baneswor area. It hired about 750 employees and went on to manufacture for renowned brands such as GAP and Walmart.

important aspect of this economic liberalisation package for the garment industry was the deregulation of the ownership of firms. The government formed a more relaxed policy towards semi-ownership of the firms in Nepal by non-Nepali investors. This significantly contributed to registration of new factories, increasing the number registered from 757 in 1992 to as many as 1067 in 1994.

There then followed a period of cut-throat competition, whereby manufacturers' profit margins dropped by 20-30 percent. This was aggravated by restructuring among the garment buyers at a global level whereby smaller buyers were either substituted by or merged into bigger brands. The big brands had more sophisticated systems of transaction handling and stronger negotiation power. The impact of these transformations was two-fold for Nepal. A large number of factories shut down; and many others either merged with bigger factories or reduced their status to unregistered fabricators. From 1067 factories in 1994, the industry declined to 323 factories in 1995 and 212 or less from 2000 onwards.

Other important changes seen in the industry during this period were that: (i) production mechanism shifted from an ethnocentric 'juwadi' system to a more open and worker-friendly 'chain' system (see section 4); (ii) diversification of the source of fabrics; and (iii) strengthening of quality and social compliance. These features collectively contributed to making the garment industry one of the most transparent, organised and socially dynamic industries in the country.

Broader Challenges and Crises (2000 onwards): Internal turbulence within the garment industry seems to have diminished in mid 1990s. At least the industry avoided major policy and industrial upheavals. The number of factories remained more or less the same although the seasonality of production and internal labour problems continued to pose challenges.

The returns of a state of technical stability during this period, however, has been largely offset by the political instabilities to which the industry recently seems to have fallen prey. The industry has been taken hostage by circumstances that are beyond its control: The country is severely affected by the Maoist insurgency, which has mobilised labourers, first from the rural areas and then the urban, in armed resistance against the government. While this movement has hardly won support from the relatively privileged garment industry workers, frequent strikes and labour union activities (often imposed on the labourers without giving them much choice) have had serious repercussions on the smooth functioning of the factories. Early 2000 was marked by temporary and permanent closure of several factories whose purchase contracts were terminated owing to unforeseen delays in delivery caused by strikes and blockades in various parts of the country. Several factories suffered heavy losses through having to deliver their products by air after missing shipping deadlines.[7]

Another big hurdle the industry is currently facing is the end of the MFA-granted quota, which has been Nepal's strongest comparative advantage in the international garment market. The industrialists have only started to realise the gravity of this policy change, and strategies for addressing it are still in their infancy (see section 3A and section 5 for more discussion on this).

The Industry Then and Now

It would be fair to say that the garment industry has come quite far in its gestation. Some of the changes that are obvious are the size, nature of production and organisational structure of factories. An industry which started with 58 experimental factories in 1982 now has 212 'seasoned' factories. Each factory had about 158 employees on average in the 1980s and early 1990s whereas there are currently an average of 417 staff/workers per factory. While factories started with about 100 machines, mostly made in India in a price range of 3 to 4 thousand Nepalese Rupees (USD 40-55), they have now come to own 309 Japanese/Taiwanese machines on average, each costing 30 to 40 thousand Rupees (USD 400-550). Several of them even own sophisticated machinery such as needle detecting machines, automatic elastic attaching machines and in-house washing facilities.

The industry has witnessed a significant diversification of manufacturing in the past decades. All but one of the factories interviewed had started their manufacturing with production of US quota items 347/348.[8] This remains the most important exported item until now. Even until 2002, 347/348 remained the item to receive the largest American quota, of 1 million dozen, which was fully utilised 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, they have now diversified their production to other, more value-added, items. Among those who previously manufactured only 347/348, five factories now also manufacture knit/woven, cotton shirts, blouses, t-shirts, skirts and coats.[9] 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.

Table 1: 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 Part rates - Skilled 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

Despite such positive trends, the industry, nevertheless, continues to lag behind a full quota consumption scenario. In 2003, 347/348 was the only item with full quota utilisation. The closest to full quota utilisation was 342/642, which met 24 per cent of the allocated quota, followed by 341/641 which took up about 15 per cent of the quota. Moderately priced garments 336 (women's dresses) reached only 10 per cent of the quota and lower-value-added garment 340 used less than 20 per cent of the quota. Quota allocations for high value-added items such as 239 (cotton infant-wear) and 359 (shawls/scarves) were virtually untouched.

Table 2: The structure of production before and after liberalisation

Factory Indicators	Until 1990	After 2000
Production item as per US-assigned categories[10]	347, 348 (occasional cases of 335, 340, 341, 342)	347, 348 335, 338, 339, 340, 341, 342, 641, 642, 647, 648, 841, 835
Wholesale prices the factories charged to the buyers	USD 0-4 36% USD 4+ 64%	USD 0-4 55% USD 4+ 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	58.3% India 30.5% China 11.2% Others

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

While the portfolio of manufactured products has been diversified over the past decade, the portfolio of buyers seems to be narrowing. A large number of previous buyers have either gone out of business or have discontinued their businesses in Nepal. Until the mid-nineties, most of the factories supplied to Shah Safari, a large multinational buyer owned by ethnic Indian-Kenyans, and some worked for American buyers such as May Department Store, Target and Arrow. Yet others worked for India-based distribution companies such as Jeetish and Body Drama. Several of these have now either merged with bigger brands or have liquidated and left the field. For example, Shah Safari, which had a permanent buying house in Kathmandu and was importing 3-4 million dozens of garments only from Nepal to sell to the American market, shut down its garments wing in 1995. While some other brands still operate in reformed formats, others have been merged into bigger brands. Currently, most of the clients of the factories include multinational companies, namely Gap, Walmart, Kmart, Kohls, AMC, and Zara. Many producers started with CMP (cut-make prices) terms of payment, where the task of merchandising was assigned to the buyer, limiting the role of the manufacturer and thereby cutting their profit margins. Now, the manufacturers seek and gain a bigger role through more favourable terms of payment such as FOB (free on board) or CMTP (cut-make-trim prices).

In addition to the changes in product, production mechanism, factory organisational structure and terms of payment, the most important achievement of the industry from the labour's perspective is the successful shift from subcontracting of production to a scientific 'chain system,' providing a transparent labour management and higher wages.

A Workers' Perspective

The industry was rightly regarded as a 'dowry' from India when it came to Nepal. The first generation garment factories agreed that they started with a labour force that almost entirely consisted of 'Indians.' The term 'Indians' in colloquial terms includes Nepalis from the bordering Tarai region, which was home to a large number of garment tailors. Since the two border population groups share a common language, physical appearance and religion, it is virtually impossible to ascertain their nationalities in the absence of a strong monitoring body. In addition, since there are marital ties between the two groups, it would be even more difficult to put them exclusively into one category.

***'Juwadi'* System:** Until the mid-1990s, the production mechanism in the garment industry dictated that the tailor (s) from the south (Ansari, Mandal, Teli, etc.) initially monopolised the task of clothes production. In the formation phase of the garment industry, labour came from the same origin as capital and management -- the south. In addition to the scarcity of skill among Nepalis, what restricted labour to one ethnic group (*madhesis*) was the production mechanism followed until the early 1990s. Not only was the selection of workers biased under this system, the transfer of skills also followed a conventional kin-to-kin norm, with age acting as the basis.

Until mid-1995, production was done according to the *juwadi* system, whereby 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 more colloquially, *bakaras* [goats, or learners] and young members were sent away as *bakaras* to the older members of the family or the broader community. After 6-12 months of *bakara* experience, he would become an independent *kaligadh.* Having *bakaras* benefited the *naike* [leader] because they were only nominally paid, yet having too many of them would constrain his saleability. He often needed to answer for the personal and business conduct of not only his *bakaras* but everybody in his *khal* and took full responsibilities for any mischief his *bakaras* made. Some of the striking features of the *juwadi* system were:

The *juwadis* of one *khal* almost always belonged to one locality and many of them were affine or consanguine kin, thus it seemed to reinforce kinship/locality ties over purely occupational ties.

Most *juwadis* came from traditional sewing families. Those who entered this profession by learning the skill did not have *juwas* but worked either individually or in equal partnership with one or two fellow tailors, who stood overall at the same level in the hierarchy.

There were no non-Tarai *juwadis,* and thus no women *juwadis* because women almost never accompanied their male kin in their temporary migration to Kathmandu. The *juwadis* lived jointly during their stay in Kathmandu.

There was an apparent hierarchy among the *juwadis* because the *naike* was in control of the overall management of the task. His surcharge on the workers' wages for carrying out the supervisory responsibilities was not only nominally high, but also ethically questionable. The new *bakaras* were given only nominal pocket-money of a couple of hundred rupees a month to qualify for which they also had to take cooking and cleaning responsibilities in the *juwa* 'families,' tasks which would otherwise have been carried out by a female member. The skilled workers earned less than one hundred rupees a day, which was much lower than the salary/wages given directly by the factory.

The firm managers preferred individual workers to *juwadis* because it was believed that quality was compromised by *juwadis* either because they were giving too much space for the *bakaras* to learn,[11] or because the overall job division was poor.

All *juwadis* lived in the factory itself mostly because they did not really care much about the living conditions but also because given how little time they spent in Kathmandu (one season at a time), it would be difficult to arrange for rented properties, whereas non-*juwadi* workers tended to have their own homes or long-term rented properties.

These features explain why this system did not allow a fair and transparent competition to workers from all caste, class and geographic backgrounds, and hence the labour force in the garment industry remained predominantly 'Indian' in its formative years.

'Chain' or 'Line' system: The 'chain' or the 'line' system is a scientific and socially/ethnically inclusive system which the garment industry adopted after the mid-1990s. In this process, the factory is responsible for overall production layout, job distribution and supervision of the workers, as well as determination of wages.

The 'chain' system was conceived with a broad vision of transforming the rudimentary nature of labour organisation in Nepal into a socially responsible and economically viable system, and was clearly one of the tangible outcomes of the global movement on corporate social responsibility which had put strong pressure on the multinational garment distributors to ensure ethical monitoring of its faraway subcontractors. Owing to the consumer pressure back home, the multinational buyers put their third-world subcontractors to mandatory periodic checks on quality of the mechinary and production mechanisms used, and the working conditions and remunerations for its workers. Such pressures pulled out the garment factories from the narrow residential houses they were previously working in, to modern commercial buildings with plenty of space and more hygienic working conditions. Although there were rampant cases of non-adherence to the codes of conduct behind the buyers' back, the overall working conditions and production mechanism in the garment industry was more sensitive to workers' needs than their traditional counterparts.

Twenty out of twenty-two factories I interviewed were operating in the chain system. This system assigned a qualified task manager to develop production layout, to calculate the number of machine-operators and helpers required, and to monitor productivity. Unfortunately, it was not possible to interview a sizeable sample of their workers directly. Instead, I give here a close-up account of the working system in one of the factories that I studied in depth (See table 3). In order to manufacture 102,300 polo shirts for GAP/Old Navy, worth about three hundred thousand US dollars, a 'chain' was worked out and set up within as little as two days in this factory.

There are two main reasons to believe that production line system is more organised, transparent and beneficial to workers than the *juwadi* system. First, in this system, the overall task is simplified and then divided, rather scientifically and minimising risk and waste factors, into a series of sub-tasks whereby coordination among these sub-tasks become as important as the task. The managers in this system thus deal with 10 to 40 persons in a production line as opposed to 4 or 5 in a *juwa*. When there are multiple production lines, the number easily reaches one hundred. What this means for labour hiring then is that at such large a scale and at such short a notice, it becomes extremely difficult to restrict recruitment to kin and other personal networks. Not surprisingly, in the factory that I studied closely, the majority of the workers found their way independently to the factory and were absorbed into the 'melting pot' of the factory, which created important solidarities between work-mates that transcended the barriers of caste, ethnicity and regional identity.

One ethnic division that transcended the occupational solidarity, however, was between the 'Nepalis' and the '*madhises*[12].' The *madhises* almost never brought their women with them when they came to the garment factories in Kathmandu on their seasonal migration, which gave rise to some distrust in matters regarding sexual behaviour. Nepali women often preferred to avoid working with the *madhises* to the extent possible. Further, since the *madhises* lived in factory-provided lodgings during their stay in Kathmandu which were designed for single persons, and pursued different religious and social customs than the hill-Nepalis, the two did not intermingle very well. Nevertheless, wnen it came to purely professional matters such as sharing a production 'chain' or giving work-related references to each other, the gap between the *madhise* and Nepali workers was not significant.

Second, 'chain' systems by nature discard the role of the traditional *naike* or *thekedar* who was fully in charge of the *khal* or *juwa*. . These functions of labour supervision were consolidated instead into the overall factory

Table 3: An example of the 'chain' of Production

Product : polo shirt Buyer : GAP/Old Navy
Quantity : 102,300 Transaction value : USD 312,015
Line supervisors : Karki (M) and Shrestha (M) (monthly salary NRs. 7000+overtime payment)

	Work process	Persons working (caste/ethnicity, gender, and origin)	Wages per piece (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 NEPALI (F), Kathmandu	O.T. + 2250/month
4.	Neck rib attaching (2)	Pokhrel, Palpa 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	PARIYAR *	0.70
8.	Front neck cover stitch	Baiju, Janakpur	0.45
9.	Back neck single needle	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 *	OT+2250
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
		TOTAL	8.45+salary

Note: Names of people from ascribed tailor castes are in CAPS and asterisks denote people whose kin are also working in the factory either in this 'chain' or other chains.

Source: Field work

management and its employees. While the production line supervisors have authority over the workers' professional conduct, these are far apart from their personal lives. And since the line supervisors' conduct will be further monitored by a higher management and ultimately by the buyers, they come under ethical scrutiny.

Third—and perhaps most important from the workers' point of view—is that after omitting the role of the *naike* and his surcharge, the wages increase significantly in this system, and working conditions are far better, at least compared to some other industries in Nepal. This is a clear advantage of bringing the institution into a formal framework, which is subject to social accounting and hence must abide by local and international laws. This works as a pull factor to attract workers who might not have been traditionally affiliated with this industry.

Ethnic/social Components of the Garment Industry

There has been considerable discussion, some of it inspired by Weber's writings on Hinduism and Buddhism, of whether the existence of castes in South Asian societies constitutes a block on economic development (See Gellner, 2001: ch. 1). The study of the garment industry gives a chance to examine this proposition further. The *juwadi* system clearly intensified the concentration of one ethnic group in this industry over others. The industry however has come a long way since its formation, and the current method of production has overcome its barriers on ethnic concentration. Currently, garment-making is a learnable skill, and has provided open access to people from all ethnic groups. This is one of the most important contributions this industry has made to contemporary Nepali society.

As I came to know the workers during my study in three case-factories, I recorded their genealogies and origins. Through in-depth study of a wide corpus of about 28 individuals selected randomly, I drew the conclusion that the garment industry is among very few industries in Nepal which gave access to decent wage-earning occupation to a wide range of people regardless of their caste and origin. While the tailor castes, who pursued tailoring as their family profession for centuries, had an apparent advantage in the stitching tasks in the garment industry, it was possible for others to learn and acquire the skills, either through formal training or job experience. Table 4 indicates that various non-tailor caste and non-*madhise* ethnic groups were working in the stitching chains of the garment factories. Further, the genealogies I collected brought forth that a large number of garment workers were younger than an average industrial workers, and were those seeking change from the conventional norms. For example, a 24-year-old Newar woman from the farmer caste [*Maharjan*] was commuting across three districts of Kathmandu Valley to work in a garment factory. Her genealogy up to three generations revealed that all of her male kin were farmers and none of her female kin (except her older sister) ever had an individual profession nor possessed income-yielding vocational skills other than agriculture. And none of them had been married outside inner Bhaktapur. She started her career as an unskilled 'helper' and within six months was promoted to the position of a tailor. When I asked her why she had chosen this work, she explained that having no brothers in the family gave her a reason to seek alternatives to the traditional norms, and the high wages and relative career and personal security of the garment industry gave her an opportunity.

Several other women working in the factories had disaster stories to tell: of widowhood, of abandonment by their husbands and exclusion from their in-laws, of childlessness and thus social insecurity, antagonism of co-wives, etc. Some others had more positive accounts, for example, their families or kin had brought them into the industry. There were a large number of unskilled young men from the rural districts, who had fled to Kathmandu and joined the garment industry in order to escape recruitment by the Maoists.

The ethnic diversity of the garment labour force then leads us to ask what are the push and pull factors for people to join the garment industry, and what other alternatives are available to them? After agriculture, the industries employing large labour forces in Nepal are the handicraft, carpet-weaving and tourist industries. In a country where only 19 per cent of the total land is arable and a lion's share of the arable land is controlled by a small group of the population, mostly of the higher castes, agriculture is not too promising an occupation for the poor and low-caste workers (CBS 2002). As far as other industries are concerned, handicrafts is by nature an ethnic industry and non-artisan castes have virtually no access to it (Zivetz 1992: 82; HAN, 2003). Carpet-weaving also has an ethnic edge, at least in the ownership of the factories, in as much as the niche market for Nepal is in 'Tibetan' carpets rather than a generic weaving module (Graner 2001: 254). More importantly from the labour perspective, this industry has fallen victim to the child labour scandals, and owing to saturation of the demand, has reduced tremendously in size. Another option is tourism. But since this industry requires a certain code of behaviour, or status, the rural and low-caste people do not have easy access to employment in the tourism industry.[13]

What encouraged non-caste workers to seek career in the garment industry was the plain fact that garment wages are higher than wages in comparable industries, namely government service, domestic labour, brick kilns, and agriculture. The per capita GNP of Nepal is 240 US dollars a year, and a national wage level would be about 3000 Nepalese Rupees per month against the legal minimum wages standing at the level of 2250 Nepalese Rupees.[14] A skilled garment *kaligadh* in turn earns between 7000 to 15000 Nepalese Rupees a month. Working conditions in the garment industry are far better than in the other industries listed. In my interviews, many workers did say that they would choose to work in government offices if they had a choice, not because of the wages but for the sake of job security and status. Nevertheless, the workers were aware that it would be difficult for them to enter government service due to their lack of formal education and appropriate support networks. Under such circumstances, it would be fair to say that the garment industry continues to be a popular choice for less privileged people.

Upcoming Crises: WTO, Globalisers and the Maoists

The growth of the garment industry in Nepal has been largely overshadowed by the overall restructuring of the global policies. The WTO was formed through the Marrakech agreement in 1994, and within a year of its inception, it embarked upon the Agreement on Textiles and Clothing (ATC) to put an end to the preferential country-specific quotas levied for import into the American market.

The past three years have witnessed a growing resignation among garment factory owners globally to the prospect that the MFA is destined to end on January 1, 2005. The United States, which controls the largest share of the global garment trade, is unwilling to forego its discretionary power and has resorted to alternative trade policies which benefit Africa and the Caribbean at the cost of South and East Asia. In 2000, two American acts of legislation —AGOA (African Growth and Opportunity Act) and CBTPA (Caribbean Basin Trade Partnership Act)—have made provisions that garments originating in these regions would have a duty-free status in the US until 2008.[15]

The scope for Nepalese garments is reduced in this changed global scenario. The effects have been felt primarily in the form of a declining number and size of purchase orders, cut-throat competition among the manufacturers and hence shrinking profit margins. This study shows that despite the technology upgrade and exploitation of economies of scale, more factories now than before are manufacturing cheaper items. While 27 per cent of the factories who disclosed this information were manufacturing garments items with prices 8 US dollars or more on their inception in the early 1990s, only 14 per cent of the factories could afford to stay in this price range by 2003.

Moreover, during my discussions with the 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 factory premises after 2004; others had started manufacturing for the local market instead; and yet others had decided to retire. Almost all owners were aware of the financial costs the expiry of the MFA would incur. One of them compared this to the radical technology upgrade of the mid-1990s when the old Indian stitching machines were abruptly replaced with the Japanese machines in most factories, under the buyers' pressure to meet their quality standards. The upgrade incurred a big loss but was not disastrous because the investments had been well recovered in the succeeding years.

The workers, however, did not share anticipation for the unpreventable dismantling of the industry. Several of the workers that I spoke to were hardly aware of the new developments on MFA. They did not have alternative career plans nor did they anticipate that their current employment was facing an abrupt end. The majority of the labour force comes from outside the Kathmandu valley, and only a very few of them had saved enough to support them in their current residence for some time, in case their source of income were to dry up. Given the Maoist insurgency and the fact that the country is currently going through an economic depression, the MFA dismantling could hardly come at a worst possible time for Nepal, and might bring with it a mounting unemployment problem, which could possibly only boost either Maoist recruitment or emigration.

A Proposed Nepalese Garment Bill in the US House

Many policy makers and the owners of the garment factories had high hopes for the advocacy led by the Nepalese government to seek policy concessions in the American market. In a legislative bill tabled for discussion in the US Senate in March 2003, its sponsor, Diane Feinstein, the Democratic Senator from California, proposed the provision of duty-free status for Nepalese garments for a two-year period. For the bill to be approved as legislation, it had to be co-sponsored by one more Senator in the Senate, but in the meantime, it had to be sponsored by at least two Congressmen in the House of Representatives. The bill, however, came to a standstill after a number of unanticipated political issues took it hostage. An American merchant power company lobbied against the bill in the Senate claiming that Nepal's decision to refuse to settle its financial claims over a hydropower construction project based in Nepal was a legally erroneous one. Subsequently, Nepal also failed to address the American dissatisfaction over its handing over of some Tibetan refugees to the Chinese government in July 2003. As a reprisal, the Nepal bill was withdrawn from the US Senate. Although the Senator reinstated her support after negotiations with a Secretary-level government delegation, and a Republican Congressman from New York subsequently tabled the bill in the US House of Representatives, it never made it to legislation.

Labour Union Movements and the Maoist Crisis

Re-establishment of multi-party democracy in 1990 brought an unprecedented political upheaval among the labour force. Labour unions, which were legally prohibited along with the political parties under the Panchayat regime, were made free to expand and strengthen their organisation under the multi-party parliamentary system. While a large number of the garment factory owners played an active role in supporting the popular movement to overthrow the Panchayat regime through street protests, they soon came to develop serious concerns about the 'unconstructive' use of the labour force by the political parties. Most of the factory owners shared the opinion that the labour movements directly supported by the political parties contributed to artificial increases in wages, compromises on labour productivity and distraction of the workers to issues that were non-industrial.

Labour-related problems escalated after the Maoists strengthened their movement in the late 1990s. The garment industry, being one of the largest labour-intensive industries in the country, appears to have been a primary target of the Maoists. Owing to the Maoist problem (and also the unavoidable exhaustion of American quotas by end-2004), three of the twenty-two factories that I visited had suspended their operations, and five more were operating in a reduced capacity.

Figure 2: The cloth-makers and the Maoists:

Arya-Nepal is a large-scale producer of low-price, homogenized garments for the American market, located on the ring road of Kathmandu. Before coming into direct contact with the Maoists, the factory management was sympathetic, rather naively, to the principle that the Maoists are fighting to 'build the nation.' Initially, the factory was called to make periodic donations to the Maoists. While this created some resistance among the owners, there was no stern opposition as it was customary for the industrialists to make donations to the various political parties and charity organisations.

After the Sher Bahadur Deuba government and the Maoists announced a ceasefire between August and November 2001, the Maoists turned to organisational expansion and strengthening in the labour-intensive factories inside and outside the Kathmandu valley, including the garment factories. Contrary to the hopes of factory owners for smoother functioning, the Maoists organised a series of mass meetings and public debates in the factories. Before the industrialists had time to address this, their operations were brought to a halt. Soon after the government-Maoist talks commenced, factory owners were disillusioned: the Maoists had penetrated into their labour force and those who were perceived to be the most loyal to the factory were now organising protests imposing a series of radical labour demands. They would have been fired instantly under ordinary circumstances, but the government took a liberal approach during the ceasefire, and the factories followed suit. Given the rapid turnover among their workers it was impossible to fully know the personal and political whereabouts of the workers. Nevertheless, management just ignored the conduct of the pro-Maoists.

In about three weeks time, a labour union committee was swiftly formed which then gave the management an ultimatum, asking for, among other demands, a salary increment of up to five thousand Nepalese rupees for unskilled employees (from the existing 2250), doubling of salaries for the supervisors, and a 50 per cent rise in the piece-rate wages at all levels. The factory simply could not afford it. There were attempts to seek protection from the local representatives of the mainstream political parties, but it proved inadequate to the overwhelming Maoist force. The management then undertook a series of negotiations with the local Maoist representatives, which did not lead to conciliation. Inevitably, the factory operations came to a standstill.

In November 2001, the Government held a third round of talks with the national level Maoist leaders, and failed. Within a week, the Maoists announced resurrection of the Peoples' War and the Government declared the Maoists to be terrorists. This brought about a drastic change of scenario in Arya-Nepal. They key people who had led the uprising in the factory were nowhere to be seen. Nevertheless, a number of workers were fired. Two of the workers were arrested, and with that, the factory returned to normal operation.

When a second ceasefire was declared in September 2002, the factory went in to a state of high alert. They had by then hired the Group-4 Security Service, the best equipped security service in the country, and carefully kept track of the activities of as many suspect workers as possible.

Source: Field notes

The experience of this factory with the Maoists was a rather mild one compared to some other factories. There were cases where factories were physically vandalised by the Maoists and whose operations came to an end.

Concluding Remarks

The article attempted to explain the boom and bust in one of the largest and most modern industries in Nepal, and examine the roles of the internal and external factors in such occurrence. In doing so, the article also tried to unveil the myth that wrapped the industry, of being an 'Indian satellite' industry. Instead, it tried to address some of the most rapid changes the industry underwent in terms of its production mechanism, organisational restructuring and the use of technology.

Unlike several traditional industries which evolved slowly and hesitatingly over decades, the ready-made garment industry in Nepal, followed a short-cut to growth. The fast pace of growth and the large scale of its operations made it one of the most effective agents of economic and social change in the past two decades. During its boom years, the industry undoubtedly benefited from the neoclassical economic principles of free-market apparatus, economies of scale, and the social externalities. Nevertheless, the glow of the so-called 'industrial miracle' soon started to fade as soon as the external developments turned against Nepal for reasons that were not purely economic nor within the reach of the country.

The suspension of the 'miracle' brought forth three important aspects: First, that the sudden upheaval of the industry which had made it the darling of every investor had actually left its risk-hedging aspects immature. As a result, the industry never developed sound technical or policy mechanisms to protect itself from the external shocks. In this regard, the garment industry embodied a 'growing machine' that was never backed by adequate safety nets.

Second, the rapid growth of the industry also surpassed the pace of policy and academic discourse. While the industry had rapidly moved on to become one of the most important sources of revenue for the country, and the one that provided a livelihood for a large number of industrialists as well as skilled and unskilled labour of the country, the academic and policy discourse on this industry was frozen in its perception of the industry as an Indian satellite industry. It is an irony that the myth of 'Indian-ness' widely veiled the real character of the industry in the contemporary academic and policy studies, which only added salt to the wound by failing to provide meaningful policy support or even understanding at a time of need.

Third, the denouement of the drama brought forth important lessons as to how the economic proceedings are subject to changes in the broader political and social climates. This unfolding of events clearly highlighted the need to seek qualifications to the so-called universal economic principles of demand-supply and the 'invisible hand.' There is every reason to go beyond such economic rhetoric to seek the 'visible hands' which control the moods of the market in a world of inequalities and political interference.

Acknowledgement of these 'visible hands' then brings forth a policy dilemma for countries sharing similar strengths and drawbacks to Nepal, of availability of cheap labour, a scarcely tapped industrial base, rudimentary technology and skills, and remote access to raw materials and markets. On the one hand, integration into the global economy appeared to offer quick and attractive returns, not only to the economy of the country but also its society and polity. On the other hand, such industries tended to remain 'rootless' in terms of sustainability and risk management. At a deeper level, it became clear that the industry such as these were created purely by the conjuncture of certain external factors and that the global trade system is inherently heartless, or even just whimsical, when it comes to the ease with which large powers can simply change the rules of the game at will and make or break entire industries with little concern for the social and economic consequences in the vulnerable supplier countries. Such a reality only reinforces the need to move beyond the rhetoric of cheap labour and price competition, and seek real comparative advantages and a solid grip on niche markets.

Notes

1 GEFONT stands for General Federation of Nepalese Trade Unions
2 2002 figures, source: Garment Association of Nepal
3 The US garment quota assigned for Nepal was estimated to be 2.38 pieces per capita
4 Garment manufacturing in Nepal is considered to be 20-35 per cent more expensive than manufacturing in India because of additional transportation and merchandising costs as well as lower labour productivity.
5 Nepal Industrial Development Corporation.
6 IMF standby credit in 1985/86 and World Bank credits SAL in 1987 and 1989.
7 It costs USD 2.85 per Kg. to airlift goods from Nepal to the US whereas shipment of a 40 feet container via Calcutta costs USD 4700, which represents a huge difference in cost.
8 Trousers, slacks for men/boys and women/girls (knit and woven).
9 338, 339, 340, 341, 342, 635, and 663.
10 347/348 - trousers/shorts; 335 - coats; 338/339 - men's and women's knit-shirts; 340/341 - shirts/blouses; 342 - skirts. Codes starting with '3' denotes cotton, '6' rayon and '8' silk.
11 The *naike* preferred as many *bakaras* as he could manage because the remuneration he gave them was extremely low but in the meantime he could build a cohort of workers who would be loyal to him in future.
12 Due to cross-border marriages, common appearance and the use of common language, there is a massive overlap between the official identities both as Nepalis and Indians based on their passports. In the 26 genealogies that I collected of Tarai-based workers, 18 respondents said they had one Nepali parent and 2 respondents said they had one Nepali grandparent. I have used the term 'madhise' collectively to indicate the inhabitants of both sides of the Nepal-India border.
13 The trekking component of the tourism industry was largely controlled by the Gurungs and Sherpas, the catering and service industry mostly employed the high-caste people. The work that was open for the lower-caste workers included cleaning, gardening, building maintenance, etc, and occupied only a small share in the overall tourism industry.
14 GNP per capita is effectively per family in countries such as Nepal where women, children and retired persons are dependent on one earning family member. Hence, a national wage level would be approximately two times GNP per capita.
15 The American duty on garments ranges from 10 to 30 per cent of the product price.

References

Adhikari, M. 1999. "Integration of MFA into WTO: Its implications on Nepalese readymade garment industry," Unpublished dissertation, Dept. of Economics, Tribhuvan University.

Aldrich, H.E. and R. Waldinger. 1990. "Ethnicity and Entrepreneurship." *Annual Review of Sociology*, 16:111-35.

Bajracharya, M. 1986. "A study of readymade garment industry of Kathmandu Valley," Unpublished dissertation, Tribhuvan University.

Bista, K.B. *Garment industry in Nepal: A socio-economic study*, T.U. Centre for Economic Development and Administration (CEDA), pp. 125.

Central Bureau of Statistics (CBS) 2002. *Statistical Yearbook of Nepal.*

Centre for Governance and Development Studies (GDS) 1998. *Women in garment industry: A case study of Momento Apparels Pvt. Ltd.*, pp. 69. Kathmandu.

FNCCI newspaper database on the garment industry of Nepal, 1995-2003

Garment Association of Nepal. 2001. "Nepalese Garment Industry under Changing Global Trading Environment," pp. 56, Paper on GAN National Seminar.

Gellner, D. 2001. *The Anthropology of Buddhism and Hinduism: Weberian Themes*, ch. 1. New Delhi: Oxford University Press.

Graner, E. 2001. "Labour markets and migration in Nepal: The case of workers in Kathmandu Valley Carpet Manufactories" *Mountain Research and Development*, Vol. 21, no. 3, August 2001:253-259.

ILO SAAT. 2002. *Garment industry in South Asia: Rags or riches?* In Gopal Joshi (eds.) pp. 246.

Panta, R.K. 2002. "Challenges and prospects of Nepal's foreign trade in the context of WTO with special reference to the garment industry," Unpublished dissertation, Dept. of Economics, TU.

Poudyal, S.K. and S. Bhatta. 1988. *Employment and socio-economic status of women workers of garment industry in Kathmandu valley*. Kathmandu: Social Service National Co-ordination Council, pp. 71

Zivetz, L. 1992. *Private Enterprise and the State in Modern Nepal.* Madras: Oxford University Press.